

ALLIANCE ONE INTERNATIONAL, INC.  
Form 10-Q  
November 07, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM  
10-Q

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

Non-accelerated filer

Smaller reporting company

]

(Do not check if a smaller reporting company)

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

Yes

No

As of October 31, 2016, the registrant had 8,941,875 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 Three and Six Months Ended September 30, 2016 and 2015	4
Condensed Consolidated Statements of Comprehensive Income (Loss) Three and Six Months Ended September 30, 2016 and 2015	5
Condensed Consolidated Balance Sheets September 30, 2016 and 2015 and March 31, 2016	6
Condensed Statements of Consolidated Stockholders' Equity Six Months Ended September 30, 2016 and 2015	7
Condensed Consolidated Statements of Cash Flows Six Months Ended September 30, 2016 and 2015	8
Notes to Condensed Consolidated Financial Statements	9 – 30
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	31 – 40
Item 3. Quantitative and Qualitative Disclosures about Market Risk	40
Item 4. Controls and Procedures	40 – 41
Part II. Other Information	
Item 1. Legal Proceedings	42
Item 1A. Risk Factors	42
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 3. Defaults Upon Senior Securities	42
Item 4. <u>Mine Safety Disclosures</u>	42

Item 5. Other Information	42
Item 6. Exhibits	43
Signature	44
Index of Exhibits	45

## Part I. Financial Information

## Item 1. Financial Statements

Alliance One International, Inc. and  
Subsidiaries  
CONDENSED CONSOLIDATED  
STATEMENTS OF OPERATIONS  
Three and Six Months Ended September 30,  
2016 and 2015  
(Unaudited)

	Three Months Ended September 30,	Six Months Ended September 30,		
(in thousands, except per share data)	2016	2015	2016	2015
Sales and other operating revenues	\$389,423	\$414,853	\$650,524	\$681,135
Cost of goods and services sold	339,142	359,979	566,192	596,864
Gross profit	50,281	54,874	84,332	84,271
Selling, general and administrative expenses	33,362	27,948	72,167	57,862
Other income (expense)	2,104	(1,029)	1,624	(469)
Restructuring and asset impairment charges (recovery)	577	(386)	619	2,562
	18,446	26,283	13,170	23,378

Operating income				
Interest expense (includes debt amortization of \$3,087 and \$2,383 for the three months and \$6,197 and \$4,626 for the six months in 2016 and 2015, respectively)	31,904	28,782	62,507	56,555
Interest income	2,204	1,274	4,042	2,648
Loss before income tax (1,254 )	(1,225 )	(45,295 )	(30,529 )	
and other items				
Income tax expense (benefit)	3,627	22,902	(204 )	19,687
Equity in net income (loss)	(732 )	3,004	(2,061 )	3,136
of investee companies				
Net loss	(15,613 )	(21,123 )	(47,152 )	(47,080 )

Less:  
 Net  
 income  
 (loss)  
 attributable (58 ) 11 (65 )  
 to  
 noncontrolling  
 interests  
 Net  
 loss  
 attributable  
 to  
 Alliance  
 One  
 International,  
 Inc.

Loss  
 per  
 share:  
 Basic \$1.75 ) \$(2.37 ) \$(5.29 ) \$(5.30 )  
 Diluted \$1.75 ) \$(2.37 ) \$(5.29 ) \$(5.30 )

Weighted  
 average  
 number  
 of  
 shares  
 outstanding:  
 Basic 8,883 8,914 8,873  
 Diluted 8,883 8,914 8,873

See notes to condensed consolidated financial  
 statements

Alliance One International, Inc. and Subsidiaries  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 Three and Six Months Ended September 30, 2016 and 2015  
 (Unaudited)

(in thousands)	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
Net loss	\$(15,613)	\$(21,123)	\$(47,152)	\$(47,080)
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	(585 )	(1,664 )	(2,859 )	643
Defined benefit pension amounts reclassified to income:				
Negative plan amendment/reclassified to liability	—	4,461	—	4,686
Amounts reclassified to income	460	1,000	921	2,000
Defined benefit plan adjustment	460	5,461	921	6,686
Total other comprehensive income (loss), net of tax	(125 )	3,797	(1,938 )	7,329
Total comprehensive loss	(15,738 )	(17,326 )	(49,090 )	(39,751 )
Comprehensive income (loss) attributable to noncontrolling interests	45	(58 )	11	(65 )
Comprehensive loss attributable to Alliance One International, Inc.	\$(15,783)	\$(17,268)	\$(49,101)	\$(39,686)

See notes to condensed consolidated financial statements



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

(in thousands)	September 30, 2016	September 30, 2015	March 31, 2016
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 159,297	\$ 150,825	\$ 199,720
Trade receivables, net	195,954	246,137	303,907
Other receivables	88,775	98,377	97,101
Accounts receivable, related parties	8,965	8,489	1,920
Inventories	944,012	963,390	791,340
Advances to tobacco suppliers	57,091	46,897	41,837
Recoverable income taxes	18,619	5,809	13,421
Current deferred taxes, net	—	13,742	—
Prepaid expenses	26,005	21,721	20,016
Other current assets	16,162	13,827	21,096
Total current assets	1,514,880	1,569,214	1,490,358
Other assets			
Investments in unconsolidated affiliates	55,655	54,814	58,259
Goodwill	16,463	2,794	16,463
Other intangible assets	48,402	27,304	50,571
Long-term recoverable income taxes	8,990	7,530	8,686
Deferred income taxes, net	48,144	25,247	38,773
Other deferred charges	889	6,115	3,934
Other noncurrent assets	37,634	20,688	23,629
	216,177	144,492	200,315
Property, plant and equipment, net	267,667	232,414	277,525
	\$ 1,998,724	\$ 1,946,120	\$ 1,968,198
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Notes payable to banks	\$ 581,891	\$ 504,478	\$ 475,989
Accounts payable	51,809	49,179	81,649
Due to related parties	17,357	44,121	20,490
Advances from customers	15,205	51,681	9,895
Accrued expenses and other current liabilities	72,857	93,358	74,425
Income taxes	6,114	12,934	12,022
Long-term debt current	10,355	32,894	356
Total current liabilities	755,588	788,645	674,826
Long-term debt			
	901,575	893,612	910,214
Deferred income taxes	25,349	2,740	16,924
Liability for unrecognized tax benefits	10,169	9,825	9,809
Pension, postretirement and other long-term liabilities	79,630	95,367	81,753
	1,016,723	1,001,544	1,018,700
Commitments and contingencies			
Stockholders' equity	September 30, 2016	September 30, 2015	March 31, 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	9,716	9,674	9,685	471,661	469,982	470,830
Retained deficit				(193,019	) (258,403	) (145,856 )
Accumulated other comprehensive loss				(55,786	) (59,057	) (53,848 )
Total stockholders' equity of Alliance One International, Inc.				222,856	152,522	271,126
Noncontrolling interests				3,557	3,409	3,546
Total equity				226,413	155,931	274,672
				\$ 1,998,724	\$ 1,946,120	\$ 1,968,198

See notes to condensed consolidated financial statements

- 5 -

---

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

(in thousands)	Attributable to Alliance One International, Inc.					Total Equity
	Common Stock	Retained Deficit	Accumulated Other Comprehensive Loss Currency Translation Adjustment	Pensions, Net of Tax	Noncontrolling Interests	
Balance, March 31, 2015	\$468,564	\$(211,388)	\$(14,154)	\$(52,232)	\$ 3,274	\$ 194,064
Net loss	—	(47,015)	—	—	(65)	(47,080)
Acquisition of noncontrolling interest	—	—	—	—	200	200
Stock-based compensation	1,472	—	—	—	—	1,472
Restricted stock surrendered	(54)	—	—	—	—	(54)
Other comprehensive income, net of tax	—	—	643	6,686	—	7,329
Balance, September 30, 2015	\$469,982	\$(258,403)	\$(13,511)	\$(45,546)	\$ 3,409	\$ 155,931
Balance, March 31, 2016	\$470,830	\$(145,856)	\$(14,046)	\$(39,802)	\$ 3,546	\$ 274,672
Net income (loss)	—	(47,163)	—	—	11	(47,152)
Restricted stock surrendered	(14)	—	—	—	—	(14)
Stock-based compensation	845	—	—	—	—	845
Other comprehensive income (loss), net of tax	—	—	(2,859)	921	—	(1,938)
Balance, September 30, 2016	\$471,661	\$(193,019)	\$(16,905)	\$(38,881)	\$ 3,557	\$ 226,413

See notes to condensed consolidated financial statements

Alliance One International, Inc. and Subsidiaries  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 Six Months Ended September 30, 2016 and 2015  
 (Unaudited)

(in thousands)	September 30, 2016	September 30, 2015
<b>Operating activities</b>		
Net loss	\$(47,152 )	\$(47,080 )
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	17,353	13,961
Debt amortization/interest	6,987	5,339
(Gain) loss on foreign currency transactions	(4,536 )	12,676
Restructuring and asset impairment charges	619	2,562
Equity in net (income) loss of unconsolidated affiliates, net of dividends	2,252	(1,098 )
Stock-based compensation	965	1,805
Changes in operating assets and liabilities, net	(110,833 )	(346,878 )
Other, net	79	(254 )
Net cash used by operating activities	(134,266 )	(358,967 )
<b>Investing activities</b>		
Purchases of property, plant and equipment	(7,202 )	(9,852 )
Proceeds from sale of property, plant and equipment	431	662
Surrender of life insurance policies	—	1,407
Other, net	(260 )	(308 )
Net cash used by investing activities	(7,031 )	(8,091 )
<b>Financing activities</b>		
Net proceeds from short-term borrowings	108,057	183,762
Proceeds from long-term borrowings	200,000	195,000
Repayment of long-term borrowings	(200,355 )	(242 )
Debt issuance cost	(6,451 )	(5,113 )
Other, net	—	200
Net cash provided by financing activities	101,251	373,607
Effect of exchange rate changes on cash	(377 )	427
Increase (decrease) in cash and cash equivalents	(40,423 )	6,976
Cash and cash equivalents at beginning of period	199,720	143,849
Cash and cash equivalents at end of period	\$ 159,297	\$ 150,825
<b>Other information:</b>		
Cash paid for income taxes	\$4,736	\$8,589
Cash paid for interest	57,845	53,221
Cash received from interest	(4,042 )	(2,861 )

See notes to condensed consolidated financial statements



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 September 30, 2015. For the three months and six months ended September 30, 2015, cost of goods sold was adjusted by \$636. For the six months ended September 30, 2015, inventory was adjusted by \$744, recoverable income tax was adjusted by \$1,824 and retained earnings was adjusted by \$2,568. 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 six months ended September 30, 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 six months ended September 30, 2015 were not materially misstated. See Note 21 "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 \$6,406 and \$2,847 for the three months ended September 30, 2016 and 2015, respectively and \$12,591 and \$8,611 for the six months ended September 30, 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, \$10,810 and \$9,875 were reclassified from Other Deferred Charges to Long-Term Debt at September 30, 2015 and March 31, 2016, respectively. See Note 21 "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 currently evaluating the impact of this new guidance.

In August 2014, the FASB issued new accounting guidance on determining when and how to disclose going concern uncertainties in the financial statements. The primary objective of this accounting guidance is for management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. This accounting guidance is effective for the Company on March 31, 2017. The Company is currently evaluating the impact of this new guidance.

In 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 is currently evaluating the impact of this new guidance.

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 is currently evaluating the impact of this new guidance.

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 is currently evaluating the impact of this new guidance.

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.

2. INCOME TAXES



Accounting for Uncertainty in Income Taxes

As of September 30, 2016, the Company's unrecognized tax benefits totaled \$16,707, 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 September 30, 2016, accrued interest and penalties totaled \$1,507 and \$965 respectively.

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

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

## Alliance One International, Inc. and Subsidiaries

## 2. INCOME TAXES (continued)

liabilities for these positions. The Company expects the challenged positions to be settled at a time greater than twelve months from its balance sheet date.

The Company and its subsidiaries file a U.S. federal consolidated income tax return as well as returns in several U.S. states and a number of foreign jurisdictions. As of September 30, 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 Six Months Ended September 30, 2016

The effective tax rate used for the six months ended September 30, 2016 was 0.5% compared to (64.5)% for the six months ended September 30, 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 exchanges losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits.

For the six months ended September 30, 2016, the Company recorded a discrete event adjustment benefit of \$2,836, bringing the effective tax rate estimated for the six months of (5.8)% to 0.5%. This discrete event adjustment benefit relates primarily to net exchange losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits. For the six months ended September 30, 2015, the Company recorded a discrete event adjustment expense of \$9,264, bringing the effective tax rate estimated for the six months of (34.1)% to (64.5)%. This discrete event adjustment expense relates primarily to net exchange losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits. The significant difference in the estimated effective tax rate for the six months ended September 30, 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:

	September 30, 2016	September 30, 2015	March 31, 2016
Amounts guaranteed (not to exceed)	\$ 206,923	\$ 236,045	\$ 210,703
Amounts outstanding under guarantee	89,822	133,897	107,615
Fair value of guarantees	4,467	4,865	7,350

Of the guarantees outstanding at September 30, 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 September 30, 2016 and 2015, there are 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 September 30, 2016, the Company recorded \$57 for employee severance charges, \$25 for other cash charges and \$495 for impairment charges related to facilities formerly utilized by its U.S. cut rag facility. During the six months ended September 30, 2016, severance charges were \$64, other cash charges were \$60 and asset impairment charges were \$495. During the three months ended September 30, 2015, the Company recorded \$(386) for recoveries of employee severance charges. During the six months ended September 30, 2015, the Company recorded \$(11) for recoveries of employee severance charges and \$2,573 of asset impairment charges in connection with the restructuring of certain operations primarily in Africa. The \$2,573 asset impairment charges are for unrecoverable tobacco supplier advances and tobacco production property and equipment due to exiting and redefining the Company's position in certain African markets.

The following table summarizes the restructuring charges recorded during the three months and six months ended September 30, 2016 and 2015, respectively:

	Three Months Ended September 30, 2016		Six Months Ended September 30, 2015	
Restructuring and Asset Impairment Charges				
Employee separation and other cash charges:				
Beginning balance	\$99	\$7,216	\$398	\$8,087
Period charges:				
Severance charges (recoveries)	57	(386 )	64	(11 )
Other cash charges	25	—	60	—
Total period charges (recoveries)	82	(386 )	124	(11 )
Payments through September 30	(101 )	(5,267 )	(442 )	(6,513 )
Ending balance September 30	\$80	\$1,563	\$80	\$1,563
Asset impairment and other non-cash charges	\$495	\$—	\$495	\$2,573
Total restructuring charges (recoveries) for the period	\$577	\$(386 )	\$619	\$2,562

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 six months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016		Six Months Ended September 30, 2015	
Employee Separation and Other Cash Charges				
Beginning balance:				
North America	—	—	—	—
Other regions	99	7,216	398	8,087
Period charges:				
North America	—	—	—	—
Other regions	82	(386 )	124	(11 )
Payments through September 30	\$(101)	\$(5,267)	\$(442)	\$(6,513)
North America	—	—	—	—
Other regions	(101 )	(5,267 )	(442 )	(6,513 )
Ending balance September 30	\$80	\$1,563	\$80	\$1,563

North America	—	—	—	—
Other regions	80	1,563	80	1,563

## 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 (1)	Amortizable Intangibles			Total
		Customer Relationship Intangible	Production and Supply Contract Intangibles	Internally Developed Software Intangible	
Weighted average remaining useful life in years as of September 30, 2016	—	12.50	4.25	—	—
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	—	(421 )	(270 )	(206 )	(897 )
Net June 30, 2015	2,794	16,640	8,837	2,723	30,994
Amortization expense	—	(421 )	(272 )	(203 )	(896 )
Net September 30, 2015	2,794	16,219	8,565	2,520	30,098
Additions	13,669	24,830	—	—	38,499
Amortization expense	—	(843 )	(283 )	(437 )	(1,563 )
Net March 31, 2016	16,463	40,206	8,282	2,083	67,034
Amortization expense	—	(836 )	(110 )	(193 )	(1,139 )
Net June 30, 2016	16,463	39,370	8,172	1,890	65,895
Amortization expense	—	(834 )	(8 )	(188 )	(1,030 )
Net September 30, 2016	16,463	38,536	8,164	1,702	64,865

(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 Years Ended	Customer Relationship Intangible	Production and Supply Contract Intangible	Internally Developed Software Intangible*	Total
October 1, 2016 through March 31, 2017	\$ 1,670	\$ 1,164	\$ 467	\$ 3,301
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
	\$ 38,536	\$ 8,164	\$ 1,702	\$ 48,402

\* Estimated amortization expense for the internally developed software is based on costs accumulated as of September 30, 2016. These estimates will change as new costs are incurred and until the software is placed into service in all locations.

## 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 September 30, 2016 and 2015, and March 31, 2016, the Company's investment in these joint ventures was \$54,639, \$53,798, 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 September 30, 2016 and 2015, and March 31, 2016, respectively were \$8,965, \$5,623 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 \$94,054, \$94,602 and \$100,238 at September 30, 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 six months ended September 30, 2016 and 2015:

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2014
Sales and other operating revenues:				
North America	\$58,823	\$64,830	\$108,760	\$95,130
Other regions	330,600	350,023	541,764	586,005
Total revenue	\$389,423	\$414,853	\$650,524	\$681,135
Operating income:				
North America	\$3,659	\$5,547	\$2,681	\$6,418
Other regions	14,787	20,736	10,489	16,960
Total operating income	18,446	26,283	13,170	23,378
Interest expense	31,904	28,782	62,507	56,555
Interest income	2,204	1,274	4,042	2,648
Loss before income taxes and other items	\$(11,254)	\$(1,225)	\$(45,295)	\$(30,529)



Analysis of	September 30,	September	March 31,
Segment Assets	2016	30, 2015	2016
Segment assets:			
North America	\$ 396,413	\$400,884	\$338,833
Other regions	1,602,311	1,545,236	1,629,365
Total assets	\$ 1,998,724	\$1,946,120	\$1,968,198

## 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 September 30, 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 461 at a weighted average exercise price of \$61.09 per share at September 30, 2016 and 646 at a weighted average exercise price of \$60.49 per share at September 30, 2015.

The following table summarizes the computation of earnings per share for the three months and six months ended September 30, 2016 and 2015, respectively.

(in thousands, except per share data)	Three Months Ended		Six Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
<b>BASIC LOSS</b>				
Net loss attributable to Alliance One International, Inc.	\$(15,657)	\$(21,065)	\$(47,163)	\$(47,015)
<b>SHARES</b>				
Weighted average number of shares outstanding	8,923	8,883	8,914	8,873
<b>BASIC LOSS PER SHARE</b>	<b>\$(1.75 )</b>	<b>\$(2.37 )</b>	<b>\$(5.29 )</b>	<b>\$(5.30 )</b>
<b>DILUTED LOSS</b>				
Net loss attributable to Alliance One International, Inc.	\$(15,657)	\$(21,065)	\$(47,163)	\$(47,015)
<b>SHARES</b>				
Weighted average number of common shares outstanding	8,923	8,883	8,914	8,873
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	8,923	8,883	8,914	8,873
<b>DILUTED LOSS PER SHARE</b>	<b>\$(1.75 )</b>	<b>\$(2.37 )</b>	<b>\$(5.29 )</b>	<b>\$(5.30 )</b>

\* 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 \$528 and \$701 for the three months ended September 30, 2016 and 2015, respectively, of which \$75 and \$40, respectively were with respect to stock-based awards payable in cash, and \$965 and \$1,805 for the six months ended September 30, 2016 and 2015, respectively, of which \$120 and \$331, 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 six months ended September 30, 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 Ended September 30,		Six Months Ended September 30,	
(in thousands, except grant date fair value)	2016	2015	2016	2015
Restricted Stock				
Number Granted	7	6	13	12
Grant Date Fair Value	\$19.12	\$20.38	\$17.55	\$22.15
Restricted Stock Units				
Number Granted	56	—	56	—
Grant Date Fair Value	\$17.76	\$—	\$17.76	\$—
Performance-Based Stock Units				
Number Granted	28	—	28	—
Grant Date Fair Value	\$17.76	\$—	\$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 three months ended September 30, 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. The offer expired 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 \$4,058 and the total assessment including penalties and interest at September 30, 2016 is \$12,808. 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 \$3,157 at September 30, 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 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

Alliance One International, Inc. and Subsidiaries

10. CONTINGENCIES AND OTHER INFORMATION (continued)

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

At September 30, 2016, \$200,000 was outstanding under the senior secured revolving credit facility. 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 with certain bank lenders establishing a senior secured revolving asset-based lending 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 existing senior secured revolving credit facility. Upon such repayment, Alliance One terminated the senior secured revolving credit facility. See Note 20 "Subsequent Event" of Notes to Condensed Consolidated Financial Statements for further information.

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.

- 16 -

---

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 September 30, 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 six months ended September 30, 2016 and 2015.

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income	
		Three Months Ended September 30, 2015	Six Months Ended September 30, 2015
Foreign currency contracts	Cost of goods and services sold	\$-\$(609)	\$-\$(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.

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

## Alliance One International, Inc. and Subsidiaries

## 13. PENSION AND POSTRETIREMENT BENEFITS (continued)

## Components of Net Periodic Benefit Cost

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

	Three Months Ended September 30, 2016		Six Months Ended September 30, 2016	
	2016	2015	2016	2015
Service cost	\$120	\$527	\$240	\$1,029
Interest expense	1,176	1,462	2,352	2,924
Expected return on plan assets	(1,403)	(1,555)	(2,806)	(3,109)
Amortization of prior service cost	10	41	20	83
Actuarial loss	524	850	1,048	1,699
Net periodic pension cost	\$427	\$1,325	\$854	\$2,626

## Employer Contributions

The Company's investment objectives are to generate consistent total investment return to pay anticipated plan benefits, while minimizing long-term costs. Financial objectives underlying this policy include maintaining plan contributions at a reasonable level relative to benefits provided and assuring that unfunded obligations do not grow to a level to adversely affect the Company's financial health. For the six months ended September 30, 2016, contributions of \$2,916 were made to pension plans for fiscal 2017. Additional contributions to pension plans of approximately \$3,544 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 September 30, 2016, contributions of \$152 were made to the plans for fiscal 2017. Additional contributions of \$222 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 Months Ended September 30, 2016		Six Months Ended September 30, 2016	
	2016	2015	2016	2015
Service cost	\$3	\$10	\$6	\$20
Interest expense	67	110	134	221
Amortization of prior service cost	(177)	(3)	(354)	(6)
Actuarial loss	104	112	208	224
Net periodic pension cost (benefit)	\$(3)	\$229	\$(6)	\$459

## 14. INVENTORIES

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

	September 30, 2016	September 30, 2015	March 31, 2016
Processed tobacco	\$ 690,805	\$ 682,564	\$ 584,158
Unprocessed tobacco	223,166	247,465	175,933
Other	30,041	33,361	31,249
	\$ 944,012	\$ 963,390	\$ 791,340

## Alliance One International, Inc. and Subsidiaries

## 15. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Currency Translation Adjustment	Pensions, Net of Tax	Accumulated Other Comprehensive Loss	
Balances, March 31, 2016	\$ (14,046 )	\$(39,802)	\$ (53,848 )	)
Other comprehensive loss before reclassifications	(2,274 )	—	(2,274 )	)
Amounts reclassified to net earnings, net of tax	—	461	461	)
Other comprehensive earnings (loss), net of tax	(2,274 )	461	(1,813 )	)
Balances, June 30, 2016	(16,320 )	(39,341 )	(55,661 )	)
Other comprehensive loss before reclassifications	(585 )	—	(585 )	)
Amounts reclassified to net earnings, net of tax	—	460	-460	)
Other comprehensive earnings (loss), net of tax	(585 )	460	(125 )	)
Balances, September 30, 2016	(16,905 )	(38,881 )	(55,786 )	)
Balances, March 31, 2015	\$ (14,154 )	\$(52,232)	\$ (66,386 )	)
Other comprehensive earnings before reclassifications	2,307	225	2,532	)
Amounts reclassified to net earnings, net of tax	—	1,000	1,000	)
Other comprehensive earnings, net of tax	2,307	1,225	3,532	)
Balances, June 30, 2015	(11,847 )	(51,007 )	(62,854 )	)
Other comprehensive earnings before reclassifications	(1,664 )	4,461	2,797	)
Amounts reclassified to net earnings, net of tax	—	1,000	1,000	)
Other comprehensive earnings, net of tax	(1,664 )	5,461	3,797	)
Balances, September 30, 2015	(13,511 )	(45,546 )	(59,057 )	)

The following table sets forth amounts by component, reclassified from accumulated other comprehensive loss to earnings for the three months and six months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016		Six Months Ended September 30, 2015	
Pension and postretirement plans (*):				
Actuarial loss	\$627	\$961	\$1,255	\$1,923
Amortization of prior service cost	(167 )	39	(334 )	77
Amounts reclassified from accumulated other comprehensive losses to net earnings	\$460	\$1,000	\$921	\$2,000

(\* ) 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 six months ended September 30, 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.

## 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 \$1,531, \$4,170, and \$9,113 as a result of the net settlement as of September 30, 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:

	September 30,		March
	2016	2015	31, 2016
Receivables outstanding in facility	\$95,030	\$101,723	\$188,764
Beneficial interest	\$29,371	\$21,792	\$40,368
Servicing liability	\$—	\$29	\$58
Cash proceeds for the three months ended June 30:			
Cash purchase price	\$246,235	\$201,161	\$585,648
Deferred purchase price	113,509	81,181	233,753
Service fees	286	298	553
Total	\$360,030	\$282,640	\$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.

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.

- 20 -

---

## Alliance One International, Inc. and Subsidiaries

## 17. FAIR VALUE MEASUREMENTS (continued)

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

**Debt**

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

	September 30, 2016	September 30, 2015	March 31, 2016
Carrying value	\$ 911,930	\$ 937,316	\$ 920,444
Estimated fair value	803,924	820,783	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 September 30, 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 September 30, 2016 by \$61 and \$123, 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.

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 September 30, 2016 would change by \$661 or \$1,302, respectively.

## Alliance One International, Inc. and Subsidiaries

## 17. FAIR VALUE MEASUREMENTS (continued)

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

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

	September 30, 2016		September 30, 2015		March 31, 2016	
	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3
	Total Assets / Liabilities at Fair Value		Total Assets / Liabilities at Fair Value		Total Assets / Liabilities at Fair Value	
<b>Assets</b>						
Securitized beneficial interests	\$29,371	\$ 29,371	\$21,792	\$ 21,792	\$40,368	\$ 40,368
Total Assets	\$29,371	\$ 29,371	\$21,792	\$ 21,792	\$40,368	\$ 40,368
<b>Liabilities</b>						
Guarantees	\$4,467	\$ 4,467	\$4,865	\$ 4,865	\$7,350	\$ 7,350
Total liabilities	\$4,467	\$ 4,467	\$4,865	\$ 4,865	\$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 September 30, 2016		Six Months Ended September 30, 2016	
	Securitized Beneficial Interests	Guarantees	Securitized Beneficial Interests	Guarantees
Beginning Balance	\$ 14,681	\$ 5,891	\$40,368	\$ 7,350
Issuances of guarantees/sales of receivables	41,651	3,122	102,856	4,125
Settlements	(26,093)	(4,518)	(112,727)	(6,980)
Losses recognized in earnings	(868)	(28)	(1,126)	(28)
Ending Balance September 30, 2016	\$29,371	\$ 4,467	\$29,371	\$ 4,467

	Three Months Ended September 30, 2015		Six Months Ended September 30, 2015	
	Securitized Beneficial Interest	Guarantees	Securitized Beneficial Interest	Guarantees
Beginning Balance	\$23,256	\$ 7,723	\$40,712	\$ 8,650
Issuances of guarantees/sales of receivables	35,986	1,812	69,767	6,369
Settlements	(36,794)	(3,762)	(87,960)	(9,246)
Losses recognized in earnings	(656)	(908)	(727)	(908)
Ending Balance September 30, 2015	\$21,792	\$ 4,865	\$21,792	\$ 4,865

The amount of unrealized losses relating to assets still held at the respective dates of September 30, 2016 and 2015 and March 31, 2016 were \$639, \$568 and \$1,521 on securitized beneficial interests.

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



## Alliance One International, Inc. and Subsidiaries

## 17. FAIR VALUE MEASUREMENTS (continued)

## Information About Fair Value Measurements Using Significant Unobservable Inputs

The following table summarizes significant unobservable inputs and the valuation techniques thereof at September 30, 2016:

	Fair Value at September 30, 2016		Unobservable Input	Range (Weighted Average)	
Securitized Beneficial Interests	\$29,371	Discounted Cash Flow	Discount Rate	3.83	%
			Payment Speed	61 days	
Tobacco Supplier Guarantees	\$918	Historical Loss	Historical Loss	9.90% to 15.92%	
Tobacco Supplier Guarantees	\$3,549	Discounted Cash Flow	Market Interest Rate	16.50% to 24.75%	

## 18. RELATED PARTY TRANSACTIONS

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

	September 30, 2016	September 30, 2015	March 31, 2016
Balances:			
Accounts receivable, related parties	\$ 8,965	\$ 8,489	\$ 1,920
Due to related parties	17,357	44,121	20,490

	Three Months Ended September 30, 2016		Six Months Ended September 30, 2015	
Transactions:				
Sales	\$21,674	\$7,947	\$38,920	\$15,510
Purchases	17,496	56,480	27,544	79,131

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 Tobacos 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 September 30, 2016, the basis difference was \$10,997.

Alliance One International, Inc. and Subsidiaries

## 20. SUBSEQUENT EVENT

On October 14, 2016, the Company issued \$275,000 in aggregate principal amount of its 8.500% 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 (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 its existing senior secured revolving credit facility (the “Existing Credit Facility”). Upon such repayment, Alliance One terminated the Existing Credit Facility.

### 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 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:

- 24 -

---

Alliance One International, Inc. and Subsidiaries

20. SUBSEQUENT EVENT (continued)

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.

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 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 \$180.0 million 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.

## Alliance One International, Inc. and Subsidiaries

## 21. 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 September 30, 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 September 30, 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 Three Months Ended September 30, 2015				
	As Previously Reported	Inventory and Tax Adjustments	Reclassifications	Adoption of New Accounting Guidance	As Restated
Cost of goods and services sold	\$360,615	\$ (636 )	\$	—\$	—\$359,979
Gross profit	54,238	636	—	—	54,874
Operating income	25,647	636	—	—	26,283
Income (loss) before income taxes and other items	(1,861	)636	—	—	(1,225 )
Net loss	(21,759	)636	—	—	(21,123 )
Net loss attributable to Alliance One International, Inc.	(21,701	)636	—	—	(21,065 )

(in thousands)	Condensed Consolidated Statements of Operations Six Months Ended September 30, 2015				
	As Previously Reported	Inventory and Tax Adjustments	Reclassifications	Adoption of New Accounting Guidance	As Restated
Cost of goods and services sold	\$597,500	\$ (636 )	\$	—\$	—\$596,864
Gross profit	83,635	636	—	—	84,271
Operating income	22,742	636	—	—	23,378
Income (loss) before income taxes and other items	(31,165	)636	—	—	(30,529 )
Net loss	(47,716	)636	—	—	(47,080 )
Net loss attributable to Alliance One International, Inc.	(47,651	)636	—	—	(47,015 )



## Alliance One International, Inc. and Subsidiaries

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

Condensed Consolidated Balance Sheet as of  
September 30, 2015

(in thousands)	As Previously Reported	Inventory and Tax Adjustments	Reclassifications	Adoption of New Accounting Guidance	As Restated
Total current assets	\$1,559,974	\$ (2,568 )	\$ 11,808	\$ —	\$1,569,214
Total non-current assets	155,302	—	—	(10,810)	144,492
Total assets	1,947,690	(2,568 )	11,808	(10,810)	1,946,120
Non-current liabilities	1,000,546	—	11,808	(10,810)	1,001,544
Total equity	158,499	(2,568 )	—	—	155,931
Total liabilities and equity	1,947,690	(2,568 )	11,808	(10,810)	1,946,120

## Statement of Consolidated Stockholders' Equity

(in thousands)	As Previously Reported	Inventory and Tax Adjustments	Reclassifications	Adoption of New Accounting Guidance	As Restated
Retained Deficit at March 31, 2015	\$(208,184)	\$(3,204 )	\$ —	—\$	—\$(211,388)
Net loss	(47,651 )	636	—	—	(47,015 )
Retained Deficit at September 30, 2015	(255,835 )	(2,568 )	—	—	(258,403 )

Consolidated Balance Sheet as of  
March 31, 2016

(in thousands)	As Previously Reported	Inventory and Tax Adjustments	Reclassifications	Adoption of New Accounting Guidance	As 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 six months ended September 30, 2016 is intended to provide significant highlights of the discussion and analysis that follows.

Financial Results

For the six months, volumes increased 6.8% to 150.0 million kilos this year versus last year as a result of improved full service customer requirements while sales decreased 4.5% to \$650.5 million driven by El Niño impacts on the Brazilian crop, timing of shipments, the stronger U.S. dollar, and product mix that favored by-products this year. Gross profit remained consistent at \$84.3 million despite the effect of El Niño on the Brazilian crop and \$8.7 million of lower of cost or market adjustments this year. Selling, general and administrative expense increased 24.7% to \$72.2 million mainly due to Kenyan related legal and professional fees, increased incentive compensation costs, additional audit related costs, and the inclusion of our reconsolidated Zimbabwe subsidiary's costs that were not included last year. Primarily the result of increased SG&A, operating income decreased to \$13.1 million this 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. Working capital at September 30, 2016 improved \$21.3 million when compared to the prior year, driven by trade receivables that decreased \$50.2 million to \$196.0 million and a \$19.4 million inventory reduction to \$944.0 million. The improvement is even greater when considering that this year's results include our Zimbabwe subsidiary's accounts receivable and inventory while last year's balances do not. Additionally, our uncommitted inventory continues to decrease. On October 14, 2016, the \$210.3 million revolver was refinanced with a new \$60.0 million asset-based ("ABL") revolver and \$275.0 million of 8.5% senior secured 1st lien notes. The new capital structure eliminates financial maintenance covenants that were challenging due to changes in crop timing from year to year. 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

The August 2016 report of the Food and Agriculture Organization of the United Nations highlights a return of La Niña weather patterns, which is characterized by drier weather in the tobacco growing areas of south Brazil. We anticipate this will result in a much larger 2017 crop for which plantings are currently underway and will be sold during our fiscal year ended March 31, 2018. The 2015 Brazilian crop for Virginia flue cured was approximately 570.0 million kilos and for 2016 was approximately 410.0 million kilos. The 2017 crop is anticipated to be approximately 600.0 million kilos. In addition, we continue to work with our customers to meet their dynamic requirements and are encouraging supply chain simplification strategies focused on increased utilization of our assets while driving reversal of manufacturers' more expensive partial vertical integration strategies. Further, our sustainability programs essential to our Company, our customers and local communities where we operate, continue to differentiate our company and provide further growth opportunities. Our global team is motivated, focusing on strategy and plan execution that will improve our operations and enhance our position as the preferred global supplier. We believe our balanced strategy is well measured and should improve shareholder value.



## Alliance One International, Inc. and Subsidiaries

## RESULTS OF OPERATIONS:

## Condensed Consolidated Statement of Operations and Supplemental Information

(in millions, except per kilo amounts)	Three Months Ended September 30,			Six Months Ended September 30,				
	2016	Change		2015	2016	Change		2015
	\$	%			\$	%		
Kilos sold	88.8	4.0	4.7	84.8	150.0	9.5	6.8	140.5
Tobacco sales and other operating revenues:								
Sales and other operating revenues	\$358.5	\$(42.4)	(10.6 )	\$400.9	\$599.8	\$(47.3)	(7.3 )	\$647.1
Average price per kilo	4.04	(0.69 )	(14.6 )	4.73	4.00	(0.61 )	(13.2 )	4.61
Processing and other revenues	30.9	17.0	122.3	13.9	50.7	16.7	49.1	34.0
Total sales and other operating revenues	389.4	(25.4 )	(6.1 )	414.8	650.5	(30.6 )	(4.5 )	681.1
Tobacco cost of goods sold:								
Tobacco costs	294.4	(29.2 )	(9.0 )	323.6	494.6	(35.6 )	(6.7 )	530.2
Transportation, storage and other period costs	22.3	(6.3 )	(22.0 )	28.6	36.1	(5.2 )	(12.6 )	41.3
Derivative financial instrument and exchange losses (gains)	(0.3 )	(1.7 )	(121.4)	1.4	(2.3 )	(7.6 )	(143.4)	5.3
Total tobacco cost of goods sold	316.4	(37.2 )	(10.5 )	353.6	528.4	(48.4 )	(8.4 )	576.8
Average cost per kilo	3.56	(0.61 )	(14.6 )	4.17	3.52	(0.59 )	(14.4 )	4.11
Processing and other revenues cost of services sold	22.7	16.4	260.3	6.3	37.8	17.8	89.0	20.0
Total cost of goods and services sold	339.1	(20.8 )	(5.8 )	359.9	566.2	(30.6 )	(5.1 )	596.8
Gross profit	50.3	(4.6 )	(8.4 )	54.9	84.3	—	—	84.3
Selling, general and administrative expenses	33.4	5.4	19.3	28.0	72.2	14.3	24.7	57.9
Other income (expense)	2.1	3.1	310.0	(1.0 )	1.6	2.0	500.0	(0.4 )
Restructuring and asset impairment charges	0.6	1.0	250.0	(0.4 )	0.6	(2.0 )	(76.9 )	2.6
Operating income	18.4	(7.9 )	(30.0 )	26.3	13.1	(10.3 )	(44.0 )	23.4
Interest expense	31.9	3.1	10.8	28.8	62.5	6.0	10.6	56.5
Interest income	2.2	0.9	69.2	1.3	4.0	1.4	53.8	2.6
Income tax expense (benefit)	3.6	(19.3 )	(84.3 )	22.9	(0.3 )	(20.0 )	(101.3)	19.7
Equity in net income (loss) of investee companies	(0.7 )	(3.7 )	(123.3)	3.0	(2.1 )	(5.2 )	(167.7)	3.1
Loss attributable to noncontrolling interests	—	0.1	100.0	(0.1 )	—	0.1	100.0	(0.1 )
Loss attributable to Alliance One International, Inc.	\$(15.7 )	*\$5.4	*25.6	\$(21.1 )	*\$(47.2 )	*\$(0.2 )	*(0.4 )	\$(47.0 )

\* Amounts do not equal column totals due to rounding

## Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Summary. Total sales and other operating revenues decreased 6.1% to \$389.4 million and total costs of goods and services sold decreased 5.8% to \$339.1 million primarily due to lower average sales prices and tobacco costs per kilo attributable to changes in product mix, customer mix and lower prices paid to tobacco suppliers across most regions. Partially offsetting the impact of lower prices and costs per kilo was a 4.7% increase in volumes from opportunistic sales in South America and the timing of shipments in Africa and Europe. The positive impact of currency movements

on tobacco costs per kilo were offset by \$5.7 million in lower of cost or market adjustments this quarter. Processing and other revenues and processing costs increases were related to the reconsolidation of our Zimbabwe subsidiary. Mainly due to inventory cost adjustments and product mix, gross margin decreased 8.4% to \$50.3 million while gross margin as a percentage of sales decreased slightly from 13.2% to 12.9%. Selling, general and administrative expense ("SG&A") increased 19.3% primarily from increased legal and professional fees associated with matters involving the former green leaf sourcing operation in Kenya and the inclusion of costs from our reconsolidated Zimbabwe subsidiary this year. Other income increased from the non-recurrence of one-time expenses in Africa and the sale of trade tax credits in South

- 29 -

---



## 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 September 30, 2016 Compared to Three Months Ended September 30, 2015 (continued)

America. Restructuring and asset impairment charges in the current period are mainly attributable to impairment of our former U.S. cut rag facility. Our interest costs increased from the prior year primarily due to higher average borrowings on our seasonal lines of credit at higher average rates, increased amortization of debt issuance costs and the inclusion of interest costs from our reconstituted Zimbabwe subsidiary this year. Our effective tax rate was (32.2)% this year compared to (1,869.6)% 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 September 30,			
	Change			
	2016	\$	%	2015
Kilos sold	8.3	(2.5 )	(23.1 )	10.8
Tobacco sales and other operating revenues:				
Sales and other operating revenues	\$49.2	\$(6.5)	(11.7 )	\$55.7
Average price per kilo	5.93	0.77	14.9	5.16
Processing and other revenues	9.6	0.4	4.3	9.2
Total sales and other operating revenues	58.8	(6.1 )	(9.4 )	64.9
Tobacco cost of goods sold:				
Tobacco costs	39.9	(5.3 )	(11.7 )	45.2
Transportation, storage and other period costs	2.8	0.4	16.7	2.4
Derivative financial instrument and exchange losses	0.1	0.1	100.0	—
Total tobacco cost of goods sold	42.8	(4.8 )	(10.1 )	47.6
Average cost per kilo	5.16	0.75	17.0	4.41
Processing and other revenues cost of services sold	5.7	(0.2 )	(3.4 )	5.9
Total cost of goods and services sold	48.5	(5.0 )	(9.3 )	53.5
Gross profit	10.3	(1.1 )	(9.6 )	11.4
Selling, general and administrative expenses	6.1	0.3	5.2	5.8
Other income	—	—	—	—
Restructuring and asset impairment charges	0.5	0.5	100.0	—
Operating income	\$3.7	\$(1.9)	(33.9 )	\$5.6

Total sales and other operating revenues decreased 9.4% to \$58.8 million and total costs of goods and services sold decreased 9.3% to \$48.5 million from a 23.1% decrease in volumes attributable to opportunistic sales in the prior year, the timing of shipments as well as a shift in customer requirements from full service to processing. The decrease in revenues and costs were partially offset by a 14.9% increase in average sales prices per kilo and a 17.0% increase in average tobacco costs per kilo primarily due to product mix. The proportion of lamina sold increased by 16.0 percentage points when compared to the prior year. Mainly driven by decreased volumes, gross margin decreased

9.6% to \$10.3 million this year while gross margin as a percentage of sales remained consistent with the prior year. SG&A was also comparable to the prior year. Restructuring and asset impairment charges during the current year were attributable to our former U.S. cut rag facility. As a result, operating income declined \$1.9 million from the prior year.

- 30 -

---

## 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 September 30, 2016 Compared to Three Months Ended September 30, 2015 (continued)

## Other Regions

## Other Regions Supplemental Information

	Three Months Ended September 30,			
	2016	Change		2015
	\$	%		
Kilos sold	80.5	6.5	8.8	74.0
Tobacco sales and other operating revenues:				
Sales and other operating revenues	\$309.3	\$(35.9)	(10.4 )	\$345.2
Average price per kilo	3.84	(0.82 )	(17.6 )	4.66
Processing and other revenues	21.3	16.6	353.2	4.7
Total sales and other operating revenues	330.6	(19.3 )	(5.5 )	349.9
Tobacco cost of goods sold:				
Tobacco costs	254.5	(23.9 )	(8.6 )	278.4
Transportation, storage and other period costs	19.5	(6.7 )	(25.6 )	26.2
Derivative financial instrument and exchange gains (losses)	(0.4 )	(1.8 )	(128.6 )	1.4
Total tobacco cost of goods sold	273.6	(32.4 )	(10.6 )	306.0
Average cost per kilo	3.40	(0.74 )	(17.9 )	4.14
Processing and other revenues cost of services sold	17.0	16.6	4,150.0	0.4
Total cost of goods and services sold	290.6	(15.8 )	(5.2 )	306.4
Gross profit	40.0	(3.5 )	(8.0 )	43.5
Selling, general and administrative expenses	27.3	5.1	23.0	22.2
Other income (expense)	2.1	3.1	310.0	(1.0 )
Restructuring and asset impairment charges	0.1	0.5	125.0	(0.4 )
Operating income	\$14.7	\$(6.0 )	(29.0 )	\$20.7

Total sales and other operating revenues decreased 5.5% to \$330.6 million and total costs of goods and services sold decreased 5.2% to \$290.6 million primarily due to a 17.6% decrease in average sales prices with average tobacco costs per kilo decreasing 17.9%. The decrease in prices and costs per kilo were primarily driven by product mix, customer mix and lower prices paid to tobacco suppliers in Africa and South America. Partially offsetting the decrease in prices and costs per kilo was an 8.8% increase in volumes related to opportunistic sales in South America and the timing of shipments in Africa and Europe. The positive impact of currency movements in Africa and South America on average tobacco costs per kilo was offset by \$5.7 million of lower of cost or market adjustments. Processing and other revenues and processing costs increases were related to the reconsolidation of our Zimbabwe subsidiary. As a result, gross margin decreased 8.0% to \$40.0 million while gross margin as a percentage of sales remained consistent with the prior year. Increases in SG&A are primarily associated with increased Kenya-related legal and professional fees and the inclusion of costs from our reconsolidated Zimbabwe subsidiary this year. Decreases in operating income were partially offset by increased other income from the non-recurrence of one-time expenses in Africa and the sale of trade tax credits in South America. As a result, operating income declined 29.0% to \$14.7 million this 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)

## Six Months Ended September 30, 2016 Compared to Six Months Ended September 30, 2015

Summary. Total sales and other operating revenues decreased by 4.5% to \$650.5 million primarily due to lower average sales prices attributable to product mix and lower prices paid to tobacco suppliers across most regions. Partially offsetting the impact of lower prices is a 6.8% increase in volumes from increased customer demand, opportunistic sales in Africa and the timing of shipments in North America and Africa. Changes in product mix, lower prices paid to tobacco suppliers in most regions as well as the positive impact of currency movements in most regions lowered average tobacco costs on a per kilo basis that were partially offset by \$8.7 million in lower of cost or market adjustments this year. Processing and other revenues and processing costs increases were related to the reconsolidation of our Zimbabwe subsidiary. Gross margin remained consistent with the prior year mainly due to increased volumes which also improved gross margin as a percentage of sales from 12.4% to 13.0%. SG&A increased 24.7% 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. Increases in SG&A costs were partially offset by increased other income from the non-recurrence of one-time expenses in Africa and the sale of trade tax credits in South America as well as the non-recurrence of restructuring and asset impairment charges in the prior year that were primarily attributable to impairment of advances to tobacco suppliers and real property in Africa. Restructuring and asset impairment charges in the current year are mainly related to our former U.S. cut rag facility. 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 0.5% this year compared to (64.5)% 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 benefits.

## North America Region

## North America Region Supplemental Information

	Six Months Ended			
	September 30,		Change	
	2016	\$	%	2015
Kilos sold	20.8	4.1	24.6	16.7
Tobacco sales and other operating revenues:				
Sales and other operating revenues	\$95.7	\$13.1	15.9	\$82.6
Average price per kilo	4.60	(0.35 )	(7.1 )	4.95
Processing and other revenues	13.0	0.5	4.0	12.5
Total sales and other operating revenues	108.7	13.6	14.3	95.1
Tobacco cost of goods sold:				
Tobacco costs	77.2	\$10.8	16.3	66.4
Transportation, storage and other period costs	5.6	1.5	36.6	4.1
Derivative financial instrument and exchange losses	0.1	(0.6 )	(85.7 )	0.7
Total tobacco cost of goods sold	82.9	11.7	16.4	71.2
Average cost per kilo	3.99	(0.27 )	(6.3 )	4.26

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

Processing and other revenues cost of services sold	7.8	—	—	7.8
Total cost of goods and services sold	90.7	11.7	14.8	79.0
Gross profit	18.0	1.9	11.8	16.1
Selling, general and administrative expenses	14.8	5.1	52.6	9.7
Other income	—	—	—	—
Restructuring and asset impairment charges	0.5	0.5	100.0	—
Operating income	\$2.7	\$(3.7)	(57.8)	\$6.4

Total sales and other operating revenues increased 14.3% to \$108.7 million and total costs of goods and services sold increased 14.8% to \$90.7 million from a 24.6% increase in volumes attributable to increased customer demand and the timing of shipments.

- 32 -

---

## 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)

## Six Months Ended September 30, 2016 Compared to Six Months Ended September 30, 2015 (continued)

## North America Region (continued)

The increase in revenues and costs were partially offset by a 7.1% decrease in average sales prices per kilo and a 6.3% decrease in average tobacco costs per kilo due to product mix. Mainly driven by increased volumes, gross margin increased 11.8% to \$18.0 million this year while gross margin as a percentage of sales declined slightly from 16.9% to 16.6%. Increases in SG&A were attributable to allocations for general corporate services due to its increased relative contribution to consolidated sales and other operating revenues. Restructuring and asset impairment charges during the current year were attributable to our former U.S. cut rag facility. The increase in SG&A and asset impairment charges more than offset the increase in gross margin and operating income declined \$3.7 million from the prior year.

## Other Regions

## Other Regions Supplemental Information

	Six Months Ended September 30,			
	2016	\$	%	2015
Kilos sold	129.2	5.4	4.4	123.8
Tobacco sales and other operating revenues:				
Sales and other operating revenues	\$504.1	\$(60.4)	(10.7 )	\$564.5
Average price per kilo	3.90	(0.66 )	(14.5 )	4.56
Processing and other revenues	37.7	16.2	75.3	21.5
Total sales and other operating revenues	541.8	(44.2 )	(7.5 )	586.0
Tobacco cost of goods sold:				
Tobacco costs	417.4	(46.4 )	(10.0 )	463.8
Transportation, storage and other period costs	30.5	(6.7 )	(18.0 )	37.2
Derivative financial instrument and exchange gains	(2.4 )	(7.0 )	(152.2)	4.6
Total tobacco cost of goods sold	445.5	(60.1 )	(11.9 )	505.6
Average cost per kilo	3.45	(0.63 )	(15.4 )	4.08
Processing and other revenues cost of services sold	30.0	17.8	145.9	12.2
Total cost of goods and services sold	475.5	(42.3 )	(8.2 )	517.8
Gross profit	66.3	(1.9 )	(2.8 )	68.2
Selling, general and administrative expenses	57.4	9.2	19.1	48.2
Other income (expense)	1.6	2.0	500.0	(0.4 )
Restructuring and asset impairment charges	0.1	(2.5 )	(96.2 )	2.6
Operating income	\$10.4	\$(6.6 )	(38.8 )	\$17.0

Total sales and other operating revenues decreased 7.5% to \$541.8 million primarily due to a 14.5% decrease in average sales prices driven by product mix and lower prices paid to tobacco suppliers in Africa and South America. Volumes increased as opportunistic sales of old crop and the timing of shipments in Africa that resulted from the overbooking of shipping vessels at March 31, 2016 were partially offset by the timing of shipments in Asia. Average tobacco costs per kilo decreased 15.4% from product mix, lower prices paid to tobacco suppliers in Africa and South America as well as the positive impact of currency movements in Africa and South America that were partially offset by \$8.3 million of lower of cost or market adjustments. Processing and other revenues and processing costs increases

were related to the reconsolidation of our Zimbabwe subsidiary. As a result, gross margin decreased slightly by 2.8% to \$66.3 million while gross margin as a percentage of sales increased from 11.6% to 12.2% that was primarily attributable to currency movement. 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 increased allocations for general corporate services to the North America region. Increases in SG&A costs were partially offset by increased other income from the non-recurrence of one-time expenses in Africa and the sale of trade tax credits in South America as well as the non-recurrence of restructuring and asset impairment charges in the prior year that were primarily attributable to impairment of advances to tobacco suppliers and real property in Africa. As a result, operating income declined 38.8% to \$10.4 million this year.

- 33 -

---



## 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 September 30, 2016, we reached a seasonally adjusted high for our South American crop lines as we are shipping inventory and collecting receivables. In Africa, purchasing is almost complete and processing and shipping will peak in the third quarter. In Asia, the Thai crop has been processed, packed and is shipping, while Indian Mysore is being purchased, with processing and shipping scheduled to occur during the third quarter. Indonesian purchasing also began in August, and we are processing and beginning to ship. Europe has almost completed processing, and shipping will follow during the third and fourth quarters. North America has commenced flue cured purchasing and processing, with shipping scheduled to occur in full effect during the third quarter, seasonally elevating working capital requirements. Depreciation of the U.S. dollar versus many of the currencies in which we have costs may continue to have an impact on our working capital requirements, as such, we will monitor and hedge foreign currency costs prudently, and as needed on a currency-by-currency basis.

## Working Capital

Our working capital decreased from \$815.5 million at March 31, 2016 to \$759.3 million at September 30, 2016. Our current ratio was 2.0 to 1 at September 30, 2016 and 2.2 to 1 at March 31, 2016. The decrease in working capital is primarily related to decreased accounts receivables resulting from the timing of sales and collections in accordance with terms combined with the seasonal increase of notes payable to finance the purchase and processing of the of the Africa and South America crops partially offset by the related seasonal buildup of South American and African inventories and advances to tobacco suppliers.

The following table is a summary of items from the Condensed Consolidated Balance Sheets and Condensed Statements of Consolidated Cash Flows. Approximately \$146.2 million of our outstanding cash balance at September 30, 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		
	September 30,	2015	March 31,
(in millions except for current ratio)	2016	2015	2016
Cash and cash equivalents	\$159.3	\$150.8	\$199.7
Trade and other receivables, net	284.7	344.5	401.0
Inventories and advances to tobacco suppliers	1,001.1	1,010.3	833.2
Total current assets	1,514.9	1,569.2	1,490.4
Notes payable to banks	581.9	504.5	476.0
Accounts payable	51.8	49.2	81.6
Advances from customers	15.2	51.7	9.9
Total current liabilities	755.6	788.6	674.8
Current ratio	2.0 to 1	2.0 to 1	2.2 to 1
Working capital	759.3	780.6	815.5
Long-term debt	901.6	893.6	910.2

Stockholders' equity attributable to Alliance One International, Inc.	222.9	152.5	271.1
Net cash provided (used) by:			
Operating activities	(134.3 )	(359.0 )	(135.3 )
Investing activities	(7.0 )	(8.1 )	(13.5 )
Financing activities	101.3	373.6	193.6

- 34 -

---

Alliance One International, Inc. and Subsidiaries

LIQUIDITY AND CAPITAL RESOURCES: (continued)

Operating Cash Flows

Net cash used by operating activities decreased \$224.7 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 \$1.1 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 \$272.3 million in 2016 compared to 2015. This decrease is primarily due to the timing of cash flows from our revolver borrowings resulting in less proceeds this year as well as 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.

Debt Financing

We continue to finance our business with a combination of short-term and long-term seasonal credit lines, a senior secured revolving credit facility, long-term debt securities, customer advances and cash from operations when available. At September 30, 2016, we had cash of \$159.3 million and total debt outstanding of \$1,493.8 million comprised of \$591.9 million of short-term and long-term notes payable to banks, \$200.0 million of borrowings under our senior secured revolving credit facility, \$701.0 million of 9.875% senior secured second lien notes, and \$0.9 million of other long-term debt. The \$105.9 million seasonal increase in notes payable to banks from March 31, 2016 to September 30, 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 September 30, 2016 and 2015, respectively, were \$688.7 million at a weighted average interest rate of 5.8% and \$596.0 million at a weighted average interest rate of 4.7%. Aggregated peak borrowings by facility occurring at any time during the three months ended September 30, 2016 and 2015 were repaid with cash provided by operating activities. Available credit as of September 30, 2016 was \$305.6 million comprised of \$10.3 million under our senior secured revolving credit facility, \$282.1 million of notes payable to banks and \$13.2 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.

No cash dividends were paid to shareholders during the quarter ended September 30, 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.

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 existing senior secured revolving credit facility. Upon such repayment, we terminated our then-existing senior secured revolving credit facility. See Note 20 "Subsequent Event" of Notes to Condensed Consolidated Financial Statements for further information.



## Alliance One International, Inc. and Subsidiaries

## LIQUIDITY AND CAPITAL RESOURCES: (continued)

## Debt Financing (continued)

All debt agreements contain certain cross-default or cross-acceleration provisions. The following table summarizes our debt financing as of September 30, 2016:

	Outstanding		September 30, 2016	
	March 31, 2016	September 30, 2016	Lines and Letters Available	Interest Rate
Senior secured credit facility:				
Revolver <sup>(1)</sup>	\$200.0	\$200.0	10.3	5.2 %
Senior notes:				
9.875% senior second lien notes due 2021 <sup>(3)</sup>	699.3	701.0	—	9.9 %
Long-term foreign seasonal borrowings	10.0	10.0	—	4.6 %
Other long-term debt	1.3	0.9	—	6.9 % <sup>(2)</sup>
Notes payable to banks <sup>(4)</sup>	476.0	581.9	282.1	5.7 % <sup>(2)</sup>
Total debt	\$1,386.6	\$1,493.8	292.4	
Short term	\$476.0	\$581.9		
Long term:				
Long term debt current	\$0.4	\$10.3		
Long term debt	910.2	901.6		
	\$910.6	\$911.9		
Letters of credit	\$4.7	\$6.9	13.2	
Total credit available			\$305.6	

(1) As of September 30, 2016 pursuant to Section 2.1 (A) (iv) of the Credit Agreement, the full \$210.3 million Revolving Committed Amount was available based on the calculation of the lesser of the Revolving Committed Amount and the Working Capital Amount.

(2) Weighted average rate for the six months ended September 30, 2016.

(3) 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.

(4) Primarily foreign seasonal lines of credit

## Foreign Seasonal Lines of Credit

We have typically financed our non-U.S. operations with uncommitted unsecured short-term seasonal lines of credit at the local level. These operating lines are seasonal in nature, normally extending for a term of 180 to 270 days corresponding to the tobacco crop cycle in that location. These facilities are typically uncommitted in that the lenders have the right to cease making loans and demand repayment of loans at any time. These loans are typically renewed at

the outset of each tobacco season. As of September 30, 2016, we had approximately \$581.9 million drawn and outstanding on foreign seasonal lines with maximum capacity totaling \$884.1 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 \$6.9 million issued but unfunded.

The Company also has foreign seasonal borrowings with a maturity greater than one year. As of September 30, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 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 is being 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 September 30, 2016 and 2015 are fairly presented, in all material respects, in accordance with US GAAP.

- 38 -

---

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.

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

Item 1A. Risk Factors

None.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

N/A

Item 5. Other Information

None.

Alliance One International, Inc. and Subsidiaries

Item 6. Exhibits.

- 10.01 Alliance One International, Inc. 2016 Incentive Plan (incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A filed by Alliance One International, Inc. on July 15, 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  
Vice President - Controller  
(Principal Accounting Officer)

Date: November 7, 2016

- 41 -

---

Alliance One International, Inc. and Subsidiaries

Index of Exhibits

Exhibits

- 10.01 Alliance One International, Inc. 2016 Incentive Plan (incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A filed by Alliance One International, Inc. on July 15, 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)