# UNITED STATES 

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
FORM 10-Q
[X]
[ ]

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2011

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

Alliance One International, Inc.
(Exact name of registrant as specified in its charter)

| Virginia | $\mathbf{0 0 1 - 1 3 6 8 4}$ | $\mathbf{5 4 - 1 7 4 6 5 6 7}$ |
| :---: | :---: | :---: |
| (State or other jurisdiction of <br> incorporation) | (Commission File Number) | (I.R.S. Employer <br> 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 [X] 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 [X] 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 []
Accelerated
filer [X]
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 [X]

As of July 29, 2011, the registrant had $87,074,012$ shares outstanding of Common Stock (no par value) excluding $7,853,121$ shares owned by a wholly owned subsidiary.

Alliance One International, Inc. and Subsidiaries

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## Part I. Financial Information

Item 1. Financial Statements

Alliance One International, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended June 30, 2011 and 2010
(Unaudited)

| (in thousands, except per share data) | Three Months Ended June 30, |  |
| :---: | :---: | :---: |
|  | 2011 | 2010 |
| Sales and other operating revenues | \$ 361,564 | \$490,956 |
| Cost of goods and services sold | 305,316 | 410,938 |
| Gross profit | 56,248 | 80,018 |
| Selling, administrative and general expenses | 34,955 | 37,274 |
| Other income | 3,230 | 1,602 |
| Restructuring charges | 769 |  |
| Operating income | 23,754 | 44,346 |
| Debt retirement expense | - | 932 |
| Interest expense (includes debt amortization of $\$ 2,580$ and $\$ 2,221$ for the three months in 2011 and |  |  |
| 2010, respectively) | 25,776 | 26,736 |
| Interest income | 1,491 | 1,983 |
| Income (loss) before income taxes and other items | (531) | 18,661 |
| Income tax expense (benefit) | $(1,881)$ | 4,830 |
| Net income | 1,350 | 13,831 |
| Less: Net income attributable to noncontrolling | 29 | 9 |
| interests |  |  |
| Net income attributable to Alliance One |  | \$ 13,822 |
| International, Inc. | \$ 1,321 |  |
| Earnings per share: |  |  |
| Basic | \$ . 02 | \$ . 16 |
| Diluted | \$ . 02 | \$ . 13 |
| Weighted average number of shares outstanding: |  |  |
| Basic | 86,812 | 88,961 |
| Diluted | 110,082 | 112,292 |

See notes to condensed consolidated financial statements

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

|  | June 30, | June 30, | March 31, |
| :--- | ---: | ---: | ---: |
| (in thousands) | 2011 | 2010 | 2011 |
| ASSETS |  |  |  |
| Current assets | $\$ 0,386$ | $\$ 247,636$ | $\$ 43,506$ |
| Cash and cash equivalents | 172,464 | 119,080 | 279,904 |
| Trade and other receivables, net | 71,392 | 48,304 | 61,981 |
| Accounts receivable, related parties | $1,000,311$ | $1,044,406$ | 800,365 |
| Inventories | 86,120 | 82,629 | 74,556 |
| Advances to tobacco suppliers | 5,710 | 2,947 | 7,191 |
| Recoverable income taxes | 7,429 | 32,484 | 3,955 |
| Current deferred taxes | 48,729 | 61,108 | 42,319 |
| Prepaid expenses | 389 | 537 | 413 |
| Assets held for sale | 940 | 6,342 | 2,543 |
| Current derivative asset | 598 | 1,107 | 542 |
| Other current assets | $1,464,468$ | $1,646,580$ | $1,317,275$ |
| $\quad$ Total current assets |  |  |  |
|  |  |  |  |
| Other assets | 25,665 | 23,202 | 25,665 |
| Investments in unconsolidated affiliates | 39,984 | 43,827 | 41,205 |
| Goodwill and other intangible assets | 83,600 | 148,987 | 82,707 |
| Deferred income taxes | 21,264 | 27,239 | 21,019 |
| Other deferred charges | 84,154 | 105,011 | 83,371 |
| Other noncurrent assets | 254,667 | 348,266 | 253,967 |
|  |  |  |  |
| Property, plant and equipment, net | 237,569 | 198,240 | 237,088 |
|  |  |  | $\$$ |

## LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities

|  |  |  | $\$$ |  |
| :--- | ---: | ---: | ---: | ---: |
| Notes payable to banks | $\$$ | 497,453 | $\$$ | 510,562 |
| Accounts payable | 104,514 |  | 123,631 | 86,103 |
| Due to related parties | 31,386 |  | 4,337 | 38,937 |
| Advances from customers | 24,223 | 92,736 | 17,576 |  |
| Accrued expenses and other current liabilities | 92,831 | 139,723 | 78,459 |  |
| Current derivative liability | 633 | - | - |  |
| Income taxes | 15,209 | 11,395 | 17,149 |  |
| Long-term debt current | 994 | 448 | 784 |  |
| Total current liabilities | 767,243 | 882,832 | 470,415 |  |
|  |  |  |  |  |
| Long-term debt | 737,039 | 765,684 | 884,371 |  |
| Deferred income taxes | 3,538 | 4,237 | 3,816 |  |
| Liability for unrecognized tax benefits | 15,155 | 20,699 | 14,733 |  |



See notes to condensed consolidated financial statements

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

Attributable to Alliance One International, Inc.
Accumulated
Other Comprehensive Loss
Currency

| (in thousands) | Common Stock | Retained Deficit | Translation Adjustment | Pensions, Net of Tax | Noncontrolling Interests | Total Equity |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance, March 31, 2010 | \$ 460,971 | \$ (49,242) | \$ $(3,691)$ | \$ $(17,638)$ | \$4,522 | \$ 394,922 |
| Net income |  | 13,822 | - |  | 9 | 13,831 |
| Restricted stock surrendered | (340) | - | - | - | - | (340) |
| Exercise of employee stock options | 20 | - | - | - | - | 20 |
| Stock-based compensation | 494 | - | - | - | - | 494 |
| Conversion of foreign currency financial statements | - | - | $(2,697)$ | - | (66) | $(2,763)$ |
| Balance, June 30, 2010 | \$ 461,145 | \$ $(35,420)$ | \$ (6,388) | \$ $(17,638)$ | \$ 4,465 | \$ 406,164 |
| Balance, March 31, 2011 | \$ 455,409 | \$ (120,793) | \$ (1,376) | \$ $(20,427)$ | \$ 3,199 | \$ 316,012 |
| Net income |  | 1,321 |  |  | 29 | 1,350 |
| Restricted stock surrendered | (7) | - | - | - | - | (7) |
| Stock-based compensation | 1,018 | - | - | - | - | 1,018 |
| Conversion of foreign currency financial statements | - | - | 681 | - | - | 681 |
| Adjustment in pensions | - | - | - | 931 | - | 931 |
| Balance, June 30, 2011 | \$ 456,420 | \$ (119,472) | \$ (695) | \$ $(19,496)$ | \$ 3,228 | \$ 319,985 |

See notes to condensed consolidated financial statements

# Alliance One International, Inc. and Subsidiaries CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS 

Three Months Ended June 30, 2011 and 2010
(Unaudited)

| (in thousands) | $\begin{gathered} \text { June } 30, \\ 2011 \end{gathered}$ | $\begin{gathered} \text { June } 30, \\ 2010 \end{gathered}$ |
| :---: | :---: | :---: |
| Operating activities |  |  |
| Net income | \$ 1,350 | \$ 13,831 |
| Adjustments to reconcile net income to net cash used |  |  |
| by operating activities: |  |  |
| Depreciation and amortization | 7,944 | 7,094 |
| Debt amortization/interest | 3,403 | 3,216 |
| Restructuring charges | 58 | - |
| Gain on foreign currency transactions | $(3,566)$ | $(5,224)$ |
| Changes in operating assets and liabilities, net | $(81,166)$ | $(192,080)$ |
| Other, net | 160 | $(1,279)$ |
| Net cash used by operating activities | $(71,817)$ | $(174,442)$ |
| Investing activities |  |  |
| Purchases of property, plant and equipment | $(12,757)$ | $(13,111)$ |
| Proceeds from sale of property, plant and equipment | 905 | 1,465 |
| Other, net | 658 | (551) |
| Net cash used by investing activities | $(11,194)$ | $(12,197)$ |
| Financing activities |  |  |
| Net proceeds from short-term borrowings | 264,056 | 334,322 |
| Proceeds from long-term borrowings | 50,200 | - |
| Repayment of long-term borrowings | $(198,164)$ | $(24,019)$ |
| Debt issuance cost | $(4,234)$ | $(3,374)$ |
| Other, net | - | (630) |
| Net cash provided by financing activities | 111,858 | 306,299 |
| Effect of exchange rate changes on cash | $(1,967)$ | $(1,762)$ |
| Increase in cash and cash equivalents | 26,880 | 117,898 |
| Cash and cash equivalents at beginning of period | 43,506 | 129,738 |
| Cash and cash equivalents at end of period | \$ 70,386 | \$ 247,636 |

See notes to condensed consolidated financial statements

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# Edgar Filing: ALLIANCE ONE INTERNATIONAL, INC. - Form 10-Q <br> Alliance One International, Inc. and Subsidiaries <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS <br> (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 $10-\mathrm{Q}$ 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, 2011.

## Taxes Collected from Customers

Certain subsidiaries are subject to value added taxes on local sales. These amounts have been included in sales and were $\$ 5,515$ and $\$ 7,655$ for the three months ended June 30, 2011 and 2010, respectively.

## Other Deferred Charges

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

## New Accounting Standards

## Recently Adopted Accounting Pronouncements

On April 1, 2011 the Company adopted new accounting guidance on accounting for multiple-deliverable revenue arrangements. The objective of this accounting guidance is to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. The Company adopted this new accounting guidance with no material impact on its financial condition or results of operations.

On April 1, 2011, the Company adopted new accounting guidance on fair value measurements and disclosures. This guidance requires reporting entities to disclose separately the amounts of significant transfers in and out of Level

1 and Level 2 fair value measurements and describe the reasons for the transfers. It also requires reporting entities to present separately information about purchases, sales, issuances, and settlements in their Level 3 fair value reconciliations. The Company adopted these new disclosure requirements with no material impact on its financial condition or results of operations. See Note 17 Fair Value Measurements for further details.

## Recent Accounting Pronouncements Not Yet Adopted

In May 2011, the FASB issued new accounting guidance on fair value measurements and disclosures. The objective of this accounting guidance is to provide consistent common fair value measurement and disclosure requirements in U.S. GAAP and IFRS such as clarifying how existing fair value measurement requirements should be applied, changing particular principles and requirements for measuring fair value and fair value measurement disclosures. This accounting guidance will be effective for the Company on January 1, 2012. The Company does not expect the impact of this new accounting guidance to have a material impact on its financial condition or results of operations.

In June 2011, the FASB issued new accounting guidance on comprehensive income. The objective of this accounting guidance is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The guidance eliminates the option to present components of other comprehensive income as part of the statement of stockholders equity and requires them to be presented in the statement of comprehensive income instead. This accounting guidance will be effective for the Company on January 1, 2012. The Company does not expect the impact of this new accounting guidance to have a material impact on its financial condition or results of operations.

## 2. INCOME TAXES

## Accounting for Uncertainty in Income Taxes

As of June 30, 2011, the Company s unrecognized tax benefits totaled $\$ 8,916$, all of which would impact the Company s effective tax rate if recognized.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of June 30, 2011, accrued interest and penalties totaled $\$ 8,254$ and $\$ 1,484$, 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.

## 2. INCOME TAXES (continued)

## Accounting for Uncertainty in Income Taxes (continued)

Other than the expiration of an applicable statute of limitations pertaining to an international unrecognized tax benefit of $\$ 130$, interest of $\$ 80$, and penalties of $\$ 98$, the Company does not foresee any reasonably possible changes in the unrecognized tax benefits in the next twelve months but must acknowledge 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 have not recorded liabilities for these positions. The Company expects the challenged positions to be settled at a time greater than twelve months from its balance sheet date.

The Company and its subsidiaries file a U.S. federal consolidated income tax return as well as returns in several U.S. states and a number of foreign jurisdictions. As of June 30, 2011, the Company s earliest open tax year for U.S. federal income tax purposes was its fiscal year ended March 31, 2008. Open tax years in state and foreign jurisdictions generally range from three to six years.

## Provision for the Three Months Ended June 30, 2011

The effective tax rate used for the three months ended June 30, 2011 was $354.2 \%$ compared to $25.9 \%$ for the three months ended June 30, 2010. The effective tax rates for these periods are based on the current estimate of full year results including the effect of taxes related to specific events which are recorded in the interim period in which they occur. The Company expects the tax rate for the year ended March 31, 2012 to be $17.0 \%$ after absorption of discrete items.

For the three months ended June 30, 2011, the Company recorded a specific event adjustment benefit of $\$ 3,914$, bringing the effective tax rate estimated for the three months of (382.9)\% to $354.2 \%$. This specific event adjustment benefit relates primarily to additional income tax, interest, and exchange losses related to liabilities for unrecognized tax benefits and net exchange gains on income tax accounts. For the three months ended June 30, 2010, the Company recorded a specific event adjustment expense of $\$ 1,227$, bringing the effective tax rate estimated for the three months of $19.3 \%$ to $25.9 \%$. This specific event adjustment expense relates primarily to additional income tax, interest, and exchange losses related to liabilities for unrecognized tax benefits, net exchange gains on income tax accounts and a tax adjustment related to the foreign currency exchange account. The significant difference in the estimated effective tax rate for the three months ended June 30, 2011 from the statutory rate is primarily due to net exchange gains on income tax accounts and foreign income tax rates lower than the U.S. rate.

## 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. The Company also guarantees bank loans to certain tobacco cooperatives to assist with the financing of their suppliers crops. 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 or tobacco cooperative default. If default occurs, the Company has recourse against the supplier or cooperative. The Company also guarantees bank loans of certain unconsolidated subsidiaries in Asia and Zimbabwe. The following table summarizes amounts guaranteed and the fair value of those guarantees:

|  | June 30, 2011 | June 30, 2010 | March 31, 2011 |
| :--- | :---: | :---: | :---: |
| Amounts guaranteed (not to exceed) | $\$ 145,223$ | $\$ 152,128$ | $\$ 119,114$ |
| Amounts outstanding under guarantee | 96,573 | 131,477 | 102,550 |
| Fair value of guarantees | 2,950 | 8,933 | 4,575 |

Of the guarantees outstanding at June 30, 2011 approximately $87 \%$ expire within one year and the remainder within five years. 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.

In Brazil, some suppliers obtain government subsidized rural credit financing from local banks that is guaranteed by the Company. The Company withholds amounts owed to suppliers related to the rural credit financing of the supplier upon delivery of tobacco to the Company. The Company remits payments to the local banks on behalf of the guaranteed suppliers. Terms of rural credit financing are such that repayment is due to local banks based on contractual due dates. As of June 30, 2011 and 2010 and March 31, 2011, respectively, the Company had balances of $\$ 32,839, \$ 49,651$ and $\$ 27,750$ that were due to local banks on behalf of suppliers. These amounts are included in Accounts Payable in the condensed consolidated balance sheets.

## 4. RESTRUCTURING CHARGES

In response to shifting supply and demand balances and the changing business models of the Company s customers, the Company began implementing several strategic initiatives during the third quarter of fiscal 2011. The initiatives will continue over the coming quarters as the Company continues to define and execute the necessary changes to support core business functions.

The following table summarizes the restructuring charges recorded in the Company s reporting segments during the three months ended June 30, 2011:
Three Months
Ended
June 30, 2011

$\$ 6,193$

738
31
769
$(1,742)$
$\$ 5,220$
$\$ 769$

## Restructuring Charges

June 30, 2011
Employee separation and other cash charges:
Beginning balance
\$ 6,193
Period charges:
Severance charges
738
Other cash charges 31
Total period charges 769
Payments through June $30 \quad(1,742)$
Ending balance June $30 \quad \$ 5,220$
Total restructuring charges for the period \$ 769

The following table summarizes the employee separation and other cash charges recorded in the Company s South America and Other Regions segments during the three months ended June 30, 2011:

Three Months

Ended

## Employee Separation and Other Cash Charges

June 30, 2011
Beginning balance: ..... \$ 6,193
South America ..... 1,073
Other regions ..... 5,120
Period charges: ..... \$ 769
South America769
Payments through June 30: ..... \$ $(1,742)$
South America ..... (80)
Other regions ..... $(1,662)$
Ending balance June 30: ..... \$ 5,220
South America ..... 993
Other regions ..... 4,227

## 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 systematic 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.

## 5. GOODWILL AND INTANGIBLES (continued)

The Company has no intangible assets with indefinite useful lives. It does have other intangible assets which are being amortized. The following table summarizes the changes in the Company s goodwill and other intangibles for the three months June 30, 2011 and 2010:

|  | Goodwill | Goodwill Amortizable Intangibles |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Other <br> Regions <br> Segment | Customer <br> Relationship <br> Intangible | Production and Supply Contract Intangibles | Internally <br> Developed Software Intangible | Total |
| Weighted average remaining useful life in years as of March 31, 2011 | - | 14 | 5 | 3 |  |
| March 31, 2010 balance: Gross carrying amount Accumulated | \$ 2,794 | \$ 33,700 | \$ 7,893 | \$ 14,459 | \$ 58,846 |
| amortization | - | $(8,214)$ | $(1,452)$ | $(4,189)$ | $(13,855)$ |
| Net March 31, 2010 | 2,794 | 25,486 | 6,441 | 10,270 | 44,991 |
| Amortization expense | - | (421) | (47) | (696) | $(1,164)$ |
| Net June 30, 2010 | 2,794 | 25,065 | 6,394 | 9,574 | 43,827 |
| Additions | - | - | - | 1,308 | 1,308 |
| Amortization expense | - | $(1,264)$ | (449) | $(2,217)$ | $(3,930)$ |
| Net March 31, 2011 | 2,794 | 23,801 | 5,945 | 8,665 | 41,205 |
| Additions | - | - | - | 206 | 206 |
| Amortization expense | - | (421) | (244) | (762) | $(1,427)$ |
| Net June 30, 2011 | \$ 2,794 | \$ 23,380 | \$ 5,701 | \$ 8,109 | \$ 39,984 |

The following table summarizes the estimated intangible asset amortization expense for the next five years and beyond:

|  | Customer | Production <br> and Supply | Internally <br> Developed <br> Software |  |
| :---: | :---: | :---: | :---: | :---: |
| For Fiscal | Culationship | Contract | Intangible | Intangible |

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| 2014 | 1,685 | 1,251 | 1,757 | 4,693 |
| ---: | ---: | ---: | ---: | ---: |
| 2015 | 1,685 | 1,173 | 443 | 3,301 |
| 2016 | 1,685 | 1,097 | 281 | 3,063 |
| Later | 15,376 | - | 98 | 15,474 |
|  | $\$ 23,801$ | $\$ 5,945$ | $\$ 8,871$ | $\$ 38,617$ |

* Estimated amortization expense for the internally developed software is based on costs accumulated as of June 30, 2011. These estimates will change as new costs are incurred and until the software is placed into service in all locations.


## 6. VARIABLE INTEREST ENTITIES

## Consolidated Variable Interest Entities

The Company held a variable interest in one joint venture in which the Company was the primary beneficiary because of its power to direct activities that most significantly impacted the economic performance of the entity. The joint venture was an enterprise that served as a dedicated inventory supply source in Asia and the Company s variable interest in this joint venture related to working capital advances and guarantees of the joint venture sborrowings. The Company terminated its relationship with this entity during the three months ended June 30, 2011 with no material impact on its financial condition or results of operations.

## 6. VARIABLE INTEREST ENTITIES (continued)

## Consolidated Variable Interest Entities (continued)

As the primary beneficiary of this VIE, the entity s material assets, liabilities and results of operations were previously included in the Company s consolidated financial statements. The following table summarizes the material carrying amounts of the entity s assets, all of which are restricted, included in the Company s consolidated balance sheets.

| Assets of Consolidated VIE | June 30,2010 | March 31, 2011 |
| :--- | ---: | :---: |
| Inventory | $\$ 4,842$ | $\$ 5,195$ |
| Advances to suppliers | 2,843 | 1,770 |

Amounts presented in the table above as restricted assets relating to the consolidated VIE are adjusted for intercompany eliminations.

## Nonconsolidated Variable Interest Entities

The Company holds variable interests in four joint ventures that are accounted for under the equity method of accounting. These joint ventures procure 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 one of its joint venture s borrowings which also represent a variable interest in that joint venture. The Company is not the primary beneficiary, as it does not have the power to direct the activities that most significantly impact the economic performance of the entities as a result of the entities management and board of directors structure. Therefore, these entities are not consolidated. At June 30, 2011 and 2010, and March 31, 2011, the Company s investment in these joint ventures was $\$ 24,753, \$ 22,878$ and $\$ 24,753$, respectively and is classified as Investments in Unconsolidated Affiliates in the condensed consolidated balance sheets. The Company s advances to these joint ventures were $\$ 1,965, \$ 9,102$ and $\$ 36$ at June 30, 2011 and 2010, and March 31, 2011, respectively and are classified as Accounts Receivable, Related Parties in the condensed consolidated balance sheets. The Company guaranteed an amount to a joint venture not to exceed $\$ 19,348, \$ 16,581$ and $\$ 16,982$ at June 30,2011 and 2010, and March 31, 2011, respectively. The investments, advances and guarantee in these joint ventures represent the Company s maximum exposure to loss.

## 7. SEGMENT INFORMATION

The Company purchases, processes, sells and stores leaf tobacco. Tobacco is purchased in more than 45 countries and shipped to more than 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 purchase through sale based on the source of the product and all intercompany transactions are allocated to the region that either purchases or processes the tobacco.

The following table presents the summary segment information for the three months ended June 30, 2011 and 2010:

|  | Three Months Ended June 30 , |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2011 |  | 2010 |  |
| Sales and other operating revenues: |  |  |  |  |
| South America |  | 155,845 |  | 263,878 |
| Other regions |  | 205,719 |  | 227,078 |
| Total revenue |  | 361,564 |  | 490,956 |
| Operating income: |  |  |  |  |
| South America |  | 14,322 |  | 19,149 |
| Other regions |  | 9,432 |  | 25,197 |
| Total operating income |  | 23,754 |  | 44,346 |
| Debt retirement expense |  | - |  | 932 |
| Interest expense |  | 25,776 |  | 26,736 |
| Interest income |  | 1,491 |  | 1,983 |
| Income (loss) before income taxes and other items |  | (531) | \$ | 18,661 |

## 7. SEGMENT INFORMATION (continued)

$\begin{array}{rr}\$ & 740,715 \\ 1,215,989 \\ \$ & 1,956,704\end{array}$
\$ 941,448
1,251,638
\$ 2,193,086
\$ 690,428
1,117,902
\$ 1,808,330

## 8. EARNINGS PER SHARE

The weighted average number of common shares outstanding is reported as the weighted average of the total shares of common stock outstanding net of shares of common stock held by a wholly owned subsidiary. Shares of common stock owned by the subsidiary were 7,853 at June 30, 2011 and 2010. 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 4,413 at a weighted average exercise price of $\$ 6.06$ per share at June 30, 2011 and 1,559 at a weighted average exercise price of $\$ 7.01$ per share at June 30, 2010.

In connection with the offering of the Company s $5 \frac{1}{2} \%$ Convertible Senior Subordinated Notes due 2014, issued on July 2, 2009 (the Convertible Notes ), the Company entered into privately negotiated convertible note hedge transactions (the convertible note hedge transactions ) equal to the number of shares that underlie the Company s Convertible Notes. These convertible note hedge transactions are expected to reduce the potential dilution of the Company s common stock upon conversion of the Convertible Notes in the event that the value per share of common stock exceeds the initial conversion price of $\$ 5.0280$ per share. These shares were not included in the computation of earnings per diluted share because their inclusion would be antidilutive.

On July 28, 2010, the Company s board of directors authorized the purchase up to $\$ 40,000$ of its common stock through June 30, 2012. As of June 30, 2011, the Company had purchased 2,380 shares of its common stock at a weighted average price paid per share of $\$ 3.78$. At June 30, 2011, the Company did not achieve the necessary fixed charge coverage ratio under the indenture governing the Company s $10 \%$ Senior Notes due 2016 to access the restricted payments basket for the purchase of common stock.

The following table summarizes the computation of earnings per share for the three months ended June 30, 2011 and 2010, respectively.

## Three Months Ended June 30,

(in thousands, except per share data)
2011
BASIC EARNINGS
Net income attributable to Alliance One International, \$ 1,321 Inc.

## SHARES

Weighted average number of shares outstanding
86,812
88,961
BASIC EARNINGS PER SHARE \$ .02 \$ . 16

## DILUTED EARNINGS

Net income attributable to Alliance One International, \$ 1,321 \$ 13,822 Inc.

Plus interest expense on $51 / 2 \%$ convertible notes, net of tax
Net income attributable to Alliance One International, Inc. as adjusted

SHARES
Weighted average number of common shares 86,812 88,961 outstanding
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 398 459
Assuming conversion of $51 / 2 \%$ convertible notes at the time of issuance 22,872 22,872
Shares applicable to stock warrants \$ 2,349
\$ 14,850

Adjusted weighted average number of common shares outstanding

110,082
112,292
DILUTED EARNINGS PER SHARE
\$ . 02
\$ . 13

* For the three months ended June 30, 2011 and 2010, the warrants were not assumed exercised because the exercise price
was more than the average price for the periods presented.


## 9. COMPREHENSIVE INCOME

The components of comprehensive income were as follows:

|  | Three Months Ended |  |
| :--- | ---: | ---: | ---: |
|  | June 30, |  |
|  | 2011 | 2010 |
| Net income | $\$ 1,350$ | $\$ 13,831$ |
| Equity currency conversion adjustment | 681 | $(2,763)$ |
| Pension adjustment, net of tax of \$399 | 931 | - |
| Total comprehensive income | 2,962 | 11,068 |
| Comprehensive income (loss) attributable to noncontrolling interests | 29 | $(57)$ |
| Total comprehensive income attributable to Alliance One International, Inc. | $\$ 2,933$ | $\$ 11,125$ |

## 10. STOCK-BASED COMPENSATION

The Company recorded stock-based compensation expense related to stock-based awards granted under its various employee and non-employee stock incentive plans of $\$ 1,018$ and $\$ 494$ for the three months ended June 30, 2011 and 2010, respectively.

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

During the three months ended June 30, 2011 and 2010, respectively, the Company did not make any stock-based compensation awards.

## 11. 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 $\$ 8,441$ and the total assessment including penalties and interest through June 30, 2011 is $\$ 19,140$. 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 assessment of $\$ 8,441$ represents intrastate trade tax credit amounts which were offset against intrastate trade tax payables as allowed under Brazilian law. At June 30, 2011, the Company also has intrastate trade tax credits from Parana with a carrying value of $\$ 5,084$, which is net of impairment charges. The Company expects to be able to recover the tax credits once the tax assessment is resolved. After the assessment, the Company has treated new expenditures for intrastate trade taxes on tobacco acquisition as a cost of inventory procurement.

The Company also has local intrastate trade tax credits in the Brazil State of Rio Grande do Sul and the State of Santa Catarina. 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 agreements with the state governments regarding the amounts and timing of credits that can be sold. The tax credits have a carrying value of $\$ 47,995$, which is net of impairment charges based on management sexpectations 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 sability to use or sell the tax credits.

In 2001, the Company s subsidiary in Brazil won a claim related to certain excise taxes ( IPI credit bonus ) for the years 1983 through 1990. The Company used this IPI credit bonus to offset federal income and other taxes until January 2005 when it received a Judicial Order to suspend the IPI compensation. In addition, the Company received an assessment in 2006 for federal income taxes that were offset by the IPI credit bonus. The assessment is valued at $\$ 31,149$ at June 30, 2011. The Company appealed the assessment and believes it has properly utilized the IPI credit bonus. No benefit for the utilization of the IPI credit bonus has been recognized as it has been recorded in Pension, Postretirement and Other Long-Term Liabilities. As a result of various legislative and judicial actions, the Company does not expect a ruling in the near future, which would directly impact the outcome of the Company s appeal of the tax assessment as well as its utilization of its remaining IPI credit bonus. No benefit for any potential future utilization of IPI credit bonus has been recognized.

## 11. CONTINGENCIES AND OTHER INFORMATION (continued)

## Other

In October 2001, the Directorate General for Competition ( DGCOMP ) of the European Commission ( EC ) began an administrative investigation into certain tobacco buying and selling practices alleged to have occurred within the leaf tobacco industry in some countries within the European Union, including Spain and Italy. In respect of the investigation into practices in Spain, in 2004, the EC fined the Company and its Spanish subsidiaries $€ 4,415$ (US $\$ 5,641$ ). In respect of the investigation into practices in Italy, in October 2005, the EC announced that the Company and its Italian subsidiaries have been assessed a fine in the aggregate amount of $€ 24,000$ (US $\$ 28,800$ ). With respect to both the Spanish and Italian investigations, the fines imposed on the Company and its predecessors and subsidiaries were part of fines assessed on several participants in the applicable industry. The Company, along with its applicable subsidiaries, has appealed the decisions of the EC with respect to Spain and Italy to the Court of First Instance of the European Commission for the annulment or modification of the decision, but the outcome of the appeals process as to both timing and results is uncertain. The Company has fully recognized the impact of each of the fines set forth above and has paid all of such fines as part of the appeal process.

Mindo, S.r.l., the purchaser in 2004 of the Company s Italian subsidiary Dimon Italia, S.r.1., has asserted claims against subsidiaries of the Company arising out of that sale transaction in an action filed before the Court of Rome on April 12 , 2007. The claim, allegedly arising from a guaranty letter issued by a consolidated subsidiary of the Company in connection with the sale transaction, seeks the recovery of $€ 7,377$ (US $\$ 10,616$ ) plus interest and costs. The Company believes the claim to be without merit and is vigorously defending it. A hearing for the disposition of this matter is scheduled for December 2011. No amounts have been reserved with respect to such claim.

On June 6, 2008, the Company s Brazilian subsidiary and a number of other tobacco processors were notified of a class action initiated by the ALPAG - Associação Lourenciana de Pequenos Agricultrores ("Association of Small Farmers of São Lourenço ). The class action sfocus is a review of tobacco supplier contracts and business practices, specifically aiming to prohibit processors from notifying the national credit agency of producers in debt, prohibiting processors from deducting tobacco suppliers debt from payments for tobacco, and seeking the modification of other contractual terms historically used in the purchase of tobacco. The case is currently before the $2^{\text {nd }}$ civil court of São Lourenço do Sul. The Company s motion to dismiss the class action is currently pending. The Company believes this claim to be without merit and is vigorously defending it. Ultimate exposure if an unfavorable outcome is received is not determinable.

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. The Company has no additional material AROs.

## 12. DEBT ARRANGEMENTS

## Senior Notes

At June 30, 2011, the Company did not achieve the ratio of consolidated EBITDA to fixed charges of at least 2.0 to 1.0 necessary under the indenture governing the $10 \%$ Senior Notes due 2016 to access the restricted payments basket for the purchase of common stock and other actions under that basket. The Company from time to time may not satisfy the required ratio.

## 13. DERIVATIVE FINANCIAL INSTRUMENTS

## Fair Value of Derivative Financial Instruments

The Company recognizes all derivative financial instruments, such as interest rate swap contracts and 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. Changes in fair values of derivatives accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive income net of deferred taxes. Changes in fair values of derivatives not qualifying as hedges are reported in income. During the three months ended June 30, 2011 and 2010, there were no qualified cash flow or fair value hedges. Estimates of fair value were determined in accordance with generally accepted accounting principles.

## 13. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

## Fair Value of Derivative Financial Instruments (continued)

The following table summarizes the fair value of the Company s derivatives by type at June 30, 2011 and 2010, and March 31, 2011.

Fair Values of Derivative Instruments
Assets
Liabilities
Derivatives Not
Designated
\(\left.$$
\begin{array}{lllll}\begin{array}{c}\text { as Hedging } \\
\text { Instruments: } \\
\text { Foreign currency } \\
\text { contracts }\end{array} & \begin{array}{c}\text { Balance Sheet } \\
\text { Account }\end{array} & \begin{array}{c}\text { Fair } \\
\text { at June 30, 2011 }\end{array} & \begin{array}{r}\text { Current derivative } \\
\text { Foreign currency }\end{array} & \text { asset }\end{array}
$$ \quad \begin{array}{c}Balance Sheet <br>

Account\end{array}\right]\)| Fair |
| :---: |
| Value |

## Earnings Effects of Derivatives

## Foreign Currency Contracts

The Company periodically enters into forward or option currency contracts to protect against volatility associated with certain non-U.S. dollar denominated forecasted transactions. When these derivatives qualify for hedge accounting treatment, they are accounted for as cash flow hedges and are recorded in other comprehensive income, net of deferred taxes.

The Company has entered into forward currency contracts to hedge cash outflows in foreign currencies around the world for green tobacco purchases and processing costs as well as selling, administrative and general 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.

The following table summarizes the earnings effects of derivatives in the condensed consolidated statements of operations for the three months ended June 30, 2011 and 2010.


## 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.

## 14. PENSION AND POSTRETIREMENT BENEFITS

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. In the quarter ended June 30, 2011, Malawi enacted legislation that terminated the statutorily required defined benefit plan and replaced it with a defined contribution plan. This terminated defined benefit plan resulted in a curtailment gain of $\$ 4,989$. The new statutorily required defined contribution plan will be integrated with the Company s existing defined contribution plan resulting in an additional liability of \$4,172 at June 30, 2011.

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## 14. PENSION AND POSTRETIREMENT BENEFITS (continued)

## Components of Net Periodic Benefit Cost

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

|  | Three Months Ended |  |
| :--- | ---: | ---: |
|  | June 30, |  |
|  | 2011 | 2010 |
| Service cost | 614 | 805 |
| Interest expense | 2,140 |  |
| Expected return on plan assets | $(1,637)$ | $(1,428)$ |
| Amortization of prior service cost | 27 | 6 |
| Actuarial loss | 306 | 335 |
| Curtailment gain recognized | $(4,989)$ | - |
| Net periodic pension cost (benefit) | $\$(3,539)$ | $\$ 1,910$ |

## Emplover 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. As of June 30, 2011, contributions of $\$ 2,598$ were made to pension plans for fiscal 2012. Additional contributions to pension plans of approximately $\$ 10,100$ are expected during the remainder of fiscal 2012. However, this amount is subject to change, due primarily to asset performance significantly above or below the assumed long-term rate of return on pension assets and significant changes in interest rates.

## Postretirement Health and Life Insurance Benefits

The Company also provides certain health and life insurance benefits to retired employees, and their eligible dependents, who meet specified age and service requirements. As of June 30, 2011, contributions of $\$ 194$ were made to the plans for fiscal 2012. Additional contributions of $\$ 811$ to the plans are expected during the rest of fiscal 2012. The Company retains the right, subject to existing agreements, to modify or eliminate the postretirement medical benefits.

## Components of Net Periodic Benefit Cost

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

| Three Months Ended |  |  |
| :--- | :---: | ---: |
| June 30, |  |  |
| Service cost | 2011 | 2010 |
| Interest expense | $\$ 18$ | 20 |
| Amortization of prior service cost | 167 | 166 |
| Actuarial loss | $(411)$ | $(410)$ |
| Net periodic pension (benefit) | 101 | 108 |
| $(125)$ | $\$(116)$ |  |

## 15. INVENTORIES

The following table summarizes the Company s costs in inventory:

|  | June 30, 2011 | June 30, 2010 | March 31, 2011 |
| :--- | ---: | :---: | :---: |
| Processed tobacco | $\$ 723,000$ | $\$ 724,376$ | $\$ 525,759$ |
| Unprocessed tobacco | 231,295 | 271,857 | 230,831 |
| Other | 46,016 | 48,173 | 43,775 |
|  | $\$ 1,000,311$ | $\$ 1,044,406$ | $\$ 800,365$ |

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## 16. SALE OF RECEIVABLES

The Company continuously sells a designated pool of trade receivables to special purpose entity, which in turn sells $100 \%$ of the receivables to an unaffiliated financial institution under an accounts receivable securitization program. 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 institutions 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 investment limit with this financial institution is $\$ 125,000$ and requires a minimum level of deferred purchase price to be retained by the Company in connection with the sales.

All of the receivables sold to the unaffiliated financial institution for cash are removed from the Condensed Consolidated Balance Sheet and the net cash proceeds received by the Company are included as cash provided by operating activities in the Condensed Statement of Cash Flows. A portion of the purchase price for the receivables is paid by the unaffiliated financial institution in cash and the balance is a deferred purchase price receivable, which is paid to the special purpose entity 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 accounts receivable in the Condensed Consolidated Balance Sheets and are valued using unobservable inputs (i.e., level three inputs), primarily discounted cash flow, and due to its high credit quality and short maturity their fair value approximated book value.

The Company continues to service, administer and collect the receivables on behalf of the special purpose entity and receives a servicing fee of $.5 \%$ of serviced receivables per annum. Servicing fees recognized during the three months ended June 30, 2011 and 2010 were not material and are recorded as a reduction of selling, administrative and general expenses within the Condensed Consolidated Statement of Operations. As the Company estimates the fee it receives in return for its obligation to service these receivables is at fair value, no servicing assets and liabilities are recognized.

The difference between the carrying amount of the receivables sold under this program 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 in the Condensed Consolidated Statements of Operations

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

Receivables outstanding in facility:

As of June 30
Beneficial interest as of June 30
Impact on beneficial interest resulting from changes in discount rate:

10\%
20\%
Criteria to determine beneficial interest as of June 30:
$\begin{array}{lr}\text { Weighted average life in days } & 61 \\ \text { Discount rate (inclusive of } 0.5 \% \text { servicing fee) } & 2.43 \%\end{array}$
2.43\%
0.40\%
\$ 99,977 \$ 78,368
Cash proceeds for the three months ended June 30:
Cash purchase price
Deferred purchase price
Service fees
Total
Loss on sale of receivables
Three months ended June 30
\$ 82,912 \$ 112,142
\$ 13,972 \$ 13,188

| $\$$ | 35 | $\$$ | 46 |
| :--- | :--- | :--- | :--- |
| $\$$ | 71 | $\$$ | 92 |

\$ 71
\$ 92

37,494
85
27,829
\$ 137,556 \$ 106,317
\$ 137,556 \$ 106,317
\$ 53,156
\$ 15,797

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## 17. FAIR VALUE MEASUREMENTS

The Company follows the current accounting guidance for fair value measurements for financial and non-financial assets and liabilities. The financial assets and liabilities measured at fair value include derivative instruments, securitized beneficial interests and guarantees. The non-financial assets and liabilities measured at fair value primarily include assessments of investments in subsidiaries, goodwill and other intangible assets and long-lived assets for potential impairment. The carrying value and estimated fair value of the Company s long term debt are shown in the table below.

June 30, 2011
June 30, 2010
March 31, 2011

## Long term debt

Carrying value
\$ 738,033
\$ 766,132
\$ 885,155
Estimated fair value
737,654
773,214
905,330

A three-level valuation hierarchy is used to determine fair value as follows:

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

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

Level 3 Significant inputs to the valuation model are unobservable.

The following tables present the Company s assets and liabilities measured at fair value on a recurring basis:

Guarantees

|  | Derivative financial instruments | Securitized beneficial interests | Total Assets | Derivative financial instruments |  |  |  | Total Liabilities |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Level 1 | \$ | \$ | \$ | \$ | - | \$ | - | \$ | - |
| Level 2 | 940 | - | 940 |  | 633 |  | - |  | 633 |
| Level 3 | - | 13,972 | 13,972 |  | - |  | 2,950 |  | 2,950 |
| Totals for June 30, 2011 | \$ 940 | \$ 13,972 | \$ 14,912 | \$ | 633 |  | \$ 2,950 | \$ | 3,583 |
| Level 1 | \$ | \$ | \$ | \$ | - | \$ | - | \$ | - |
| Level 2 | 6,342 | - | 6,342 |  | - |  | - |  |  |
| Level 3 |  | 13,188 | 13,188 |  | - |  | 8,933 |  | 8,933 |
| Totals for June 30, 2010 | \$ 6,342 | \$ 13,188 | \$ 19,530 | \$ | - |  | 8,933 | \$ | 8,933 |
| Level 1 | \$ | \$ | \$ | \$ | - | \$ | - | \$ |  |
| Level 2 | 2,543 | - | 2,543 |  | - |  | - |  |  |
| Level 3 | - | 15,797 | 15,797 |  | - |  | 4,575 |  | 4,575 |
| Totals for March 31, 2011 | \$ 2,543 | \$ 15,797 | \$ 18,340 | \$ | - |  | \$ 4,575 |  | 4,575 |

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

Three Months Ended

June 30, 2011
Beneficial Interest in Securitized Receivables Guarantees

Beginning Balance March 31, 2011
Issuances of guarantees/sales of receivables
Settlements
Changes in anticipated loss rate
Losses recognized in earnings
Ending Balance June 30, 2011

|  | Three Months Ended |  |
| :---: | :---: | :---: |
|  | June 30, 2011 |  |
|  | Beneficial Interest in Securitized Receivables | Guarantees |
| Beginning Balance March 31, 2011 | \$ 15,797 | \$ 4,575 |
| Issuances of guarantees/sales of receivables | 35,093 | 1,293 |
| Settlements | $(36,274)$ | $(2,398)$ |
| Changes in anticipated loss rate | - | (520) |
| Losses recognized in earnings | (644) | - |
| Ending Balance June 30, 2011 | \$ 13,972 | \$ 2,950 |

## 17. FAIR VALUE MEASUREMENTS (continued)

Beginning Balance March 31, 2010
Issuance of guarantees/sales of receivables
Settlements
Losses recognized in earnings
Ending Balance June 30, 2010

Three Months Ended
June 30, 2010
Beneficial Interest in
Securitized Receivables
\$ 25,125
17,181
$(28,888)$
\$ 13,188
\$ 8,933

The amount of unrealized losses relating to assets still held June 30, 2011 and 2010, and March 31, 2011 was $\$ 381, \$ 458$ and $\$ 288$, respectively, all relating to securitized beneficial interests. Gains and losses included in earnings are reported in Other Income in the condensed consolidated statements of operations.

## Valuation methodologies

The fair value of derivative financial instruments is based on third-party market maker valuation models including amounts related to the Company s own credit risk and counterparty credit risk. 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 based on the Company s historical experience, market trends and anticipated performance relative to the particular assets securitized. The fair value of guarantees is based upon the premium the Company would require to issue the same guarantee in a stand-alone arm s-length transaction with an unrelated party based upon internally developed models. Internally developed models utilize historical loss data for similar guarantees to develop an estimate of future losses under the guarantees outstanding at the measurement date.

## 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:

Balances:

| Accounts receivable | $\$ 71,392$ | $\$ 48,304$ | $\$ 61,981$ |
| :--- | ---: | ---: | ---: |
| Accounts payable | 31,386 | 4,337 | 38,937 |

Three Months Ended
June 30,
20112010
Transactions:
Purchases
\$ 30,725
\$ 12,716

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

The Company s balances due to and from related parties are primarily with its deconsolidated Zimbabwe subsidiary. The remaining related party balances and transactions relate to the Company s equity basis investments in companies located in Asia which purchase and process tobacco. The balance due from the Zimbabwe subsidiary includes a $\$ 32,094$ pledge to a bank, which has been recorded in notes payable to banks.

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

## EXECUTIVE OVERVIEW

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

## Financial Results

Sales and other operating revenues for the quarter were negatively impacted as expected by Philip Morris International, Inc. s ( PMI ) prior year purchase of our tobacco suppliers in Southern Brazil and opportunistic sales in the prior year that did not recur. In addition, product mix, continued pressures on margin due to the industry being in an oversupply situation and the exchange rate impact on foreign denominated operating costs decreased our gross margin as a percentage of sales. Cost saving initiatives initiated in fiscal 2011 are starting to benefit selling, administrative and general expenses this year despite incurring an additional $\$ 1.2$ million this quarter for our independent monitor. While pretax income decreased $\$ 19.2$ million compared to last year, it is in line with our expectations and not indicative of our anticipated results for fiscal 2012. Our effective tax rate is $354.2 \%$ primarily related to a specific event adjustment benefit related to unrecognized tax benefit liabilities and net exchange gains on income tax accounts.

## Liquidity

Our liquidity requirements are affected by crop seasonality, foreign currency and interest rates, green tobacco prices, crop size and quality, as well as other factors. We monitor and adjust funding sources based on a number of industry, business, and financial market dynamics. Movement and changes between these various funding sources enhances enterprise agility and ability to drive various business opportunities. We will continue to modify available liquidity as required to maintain appropriate business flexibility and cost controls.

## Outlook

As a result of replacing volumes lost to the semi-vertical integration efforts of Japan Tobacco International, Inc. ( JTI ) and PMI, our customer mix is changing and the timing of our fiscal year sales patterns are shifting this year. Previously, the majority of sales to JTI and PMI occurred in the early quarters. We have largely made up the lost sales but with customers who typically ship later in the fiscal year. While the global oversupply situation is impacting our current results, we do not expect the impact on our fiscal year results to be as much as we previously anticipated and early indications are that the oversupply trend may be starting to reverse. We continue to implement the various restructuring initiatives we launched in the third and fourth quarters of the last fiscal year. Initial results are positive but it will take time to get the full effect of these programs. We are committed to the successful implementation of the required changes to our business model to reposition our business.

## RESULTS OF OPERATIONS:

## Condensed Consolidated Statement of Operations

|  |  | Three Months June 30 Change |  |  |
| :---: | :---: | :---: | :---: | :---: |
| (in millions) | 2011 | \$ | \% | 2010 |
| Sales and other operating revenues | \$ 361.6 | \$ (129.4) | (26.4) | \$ 491.0 |
| Gross profit | 56.2 | (23.8) | (29.7) | 80.0 |
| Selling, administrative and general expenses | 35.0 | (2.3) | (6.2) | 37.3 |
| Other income | 3.2 | 1.6 |  | 1.6 |
| Restructuring charges | 0.8 | 0.8 |  | - |
| Operating income | 23.8* | (20.5)* |  | 44.3 |
| Debt retirement expense | - | (0.9) |  | 0.9 |
| Interest expense | 25.8 | (0.9) |  | 26.7 |
| Interest income | 1.5 | (0.5) |  | 2.0 |
| Income tax expense (benefit) | (1.9) | (6.7) |  | 4.8 |
| Income attributable to noncontrolling interests | - | - |  | - |
| Net income attributable to Alliance One |  |  |  |  |
| International, Inc. | \$ 1.3* | \$ (12.5)* |  | \$ 13.8* |

[^0]
## RESULTS OF OPERATIONS: (continued)

## Sales and Other Operating Revenue Supplemental Information

|  | Three Months Ended <br> June 30, <br> Change |  |  |  |  |
| :--- | :---: | :---: | :---: | ---: | :---: |
| (in millions, except per kilo amounts) | 2011 |  |  | $\%$ |  |

## Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

Summary. Compared to the prior year, sales and other operating revenues decreased $26.4 \%$ primarily due to the impact of PMI s purchase of our tobacco suppliers in Southern Brazil in the prior year and opportunistic sales in the prior year that did not recur. Gross profit as a percentage of sales decreased from $16.3 \%$ in 2010 to $15.5 \%$ in 2011 primarily due to product mix, continued pressures on margin due to the industry being in an oversupply situation and the exchange rate impact on foreign denominated operating costs. Cost saving initiatives resulted in decreased selling, administrative and general expenses although additional independent monitor costs of $\$ 1.2$ million were incurred this year. As expected, lower sales and margins decreased operating income $46.3 \%$ or $\$ 20.5$ million compared to the prior year. After a slight decrease in interest costs, pretax income decreased $\$ 19.2$ million compared to last year in line with our expectations.

Our effective tax rate increased from $25.9 \%$ in 2010 to $354.2 \%$ in 2011. The significant variance in the effective tax rate between 2011 and 2010 is primarily related to a specific event adjustment benefit related to unrecognized tax benefit liabilities and net exchange gains on income tax accounts.

South America Region. Tobacco revenues decreased $\$ 121.1$ million or $45.9 \%$ primarily due to a decrease of 16.4 million kilos in quantities sold and a decrease of $\$ 0.88$ per kilo in average sales prices. The decrease in volume is mainly attributable to the impact of PMI s purchase of our tobacco suppliers in Southern Brazil in the prior year. The decrease in average sales price is primarily due to lower green costs for the current crop that have been passed on to the customer. The prior crop size was smaller than normal due to weather conditions. The current crop is larger than normal and is of lower quality. As a result, green costs are lower even though exchange rates have appreciated. Partially offsetting lower tobacco revenues are increased processing and other revenues of $\$ 13.2$ million primarily from previously announced long-term processing agreements with PMI and JTI that begin with this year s crop.

Gross profit decreased $\$ 4.5$ million however gross margin as a percentage of sales increased $5.6 \%$ compared to the prior year primarily due to product mix, gains on derivative financial instruments and recoveries of prior unrecovered tobacco supplier advances as a result of the larger crop size this year.

Other Regions. Tobacco revenues decreased $\$ 22.0$ million or $9.9 \%$ primarily as a result of a decrease of 17.8 million kilos in quantities sold partially offset by an increase of $\$ 0.85$ per kilo in average sales prices. Processing and other revenues increased slightly by $\$ 0.5$ million. Gross profits decreased $\$ 19.3$ million and gross margin as a percentage of sales decreased $7.2 \%$ in 2011 compared to 2010.

Average sales prices increased primarily due to product mix as substantial sales of lower priced byproducts were in the prior year. Decreased revenues were due to the non-recurrence of other opportunistic sales as well as the delay of shipments from Asia to next quarter. Partially offsetting these decreases were higher sales in the current quarter from Africa that had been delayed due to congestion and other logistical issues at the port of Beira. Gross profit percentage decreases were attributable to product mix, continued pressures on margin due to the oversupply of tobacco, losses on derivative financial instruments and the exchange rate impact on foreign denominated operating costs.

## 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. Effective June 30, 2011, we did not achieve the necessary fixed charge coverage ratio under the indenture governing our Senior Notes due 2016 to access the restricted payments basket for the purchase of common stock and other actions under that basket. From time to time we may not satisfy the required ratio.

As of June 30, 2011, we are approaching the seasonally adjusted high for our South American crop lines as we are completing purchasing and processing in these markets with shipping stepping into full mode. In Africa, purchasing will continue through August in most sourcing areas while processing and consequently shipping will peak in the second and third quarters. In Asia, the Chinese crop is fully processed and the Thai crops are fully purchased, with significant shipping still to come, while some Indian traditional crop is still left to purchase and process. The Indonesian purchasing season begins in August. Europe has completed purchases of the 2011 crop and is finishing processing with most shipping to come. North America is preparing to begin flue cured purchasing in August with processing and shipping to follow, which will commence its seasonally elevated working capital needs. 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 actively, and as needed on a currency by currency basis.

## Working Capital

Our working capital decreased from $\$ 846.9$ million at March 31, 2011 to $\$ 697.3$ million at June 30, 2011. Our current ratio was 1.9 to 1 at June 30, 2011 compared to 2.8 to 1 at March 31, 2011. The decrease in working capital is primarily related to increased notes payable to banks and decreased net trade receivables partially offset by increased inventories and advances to tobacco suppliers. These changes are attributable to the impact of a global oversupply of tobacco and the related financing, the purchasing and processing of tobacco in Africa and Brazil as well as the timing of trade receivable collections in accordance with credit terms.

The following table is a summary of items from the Condensed Consolidated Balance Sheet and Condensed Consolidated Statements of Cash Flows.

|  | As of |  |  |
| :--- | ---: | ---: | ---: | ---: |
|  | June 30, |  | March 31, |
| (in millions except for current ratio) | 2011 | 2010 | 2011 |
| Cash and cash equivalents | $\$ 70.4$ | $\$ 247.6$ | $\$ 43.5$ |
| Net trade receivables | 172.5 | 119.1 | 279.9 |
| Inventories and advances to tobacco |  |  |  |
| suppliers | $1,086.4$ | $1,127.0$ | 874.9 |
| Total current assets | $1,464.5$ | $1,646.6$ | $1,317.3$ |
| Notes payable to banks | 497.5 | 510.6 | 231.4 |
| Accounts payable | 104.5 | 123.6 | 86.1 |
| Advances from customers | 24.2 | 92.7 | 17.6 |
| Total current liabilities | 767.2 | 882.8 | 470.4 |
| Current ratio | 1.9 to 1 | 1.9 to 1 | 2.8 to 1 |
| Working capital | 697.3 | 763.8 | 846.9 |
| Total long term debt | 737.0 | 765.7 | 884.4 |
| Stockholders equity attributable to Alliance One International, |  |  |  |
| Inc. | 316.8 | 401.7 | 312.8 |
| Net cash provided (used) by: |  |  |  |
| $\quad$ Operating activities | $(71.8)$ | $(174.4)$ | $(183.0)$ |
| $\quad$ Investing activities | $(11.2)$ | $(12.2)$ | $(15.9)$ |
| $\quad$ Financing activities | 111.9 | 306.3 | 113.0 |

## Operating Cash Flows

Net cash used by operating activities decreased $\$ 102.6$ million in 2011 compared to 2010. The decrease in cash used was primarily due to more cash provided from trade receivables and advances from customers as a result of the timing of cash receipts. In addition, less cash was needed for inventories and advances to tobacco suppliers and less cash was used for payables and accrued expenses due to the timing of purchases at the end of the quarter.

## LIQUIDITY AND CAPITAL RESOURCES (continued)

## Investing Cash Flows

Net cash used by investing activities decreased $\$ 1.0$ million in 2011 compared to 2010. The decrease in cash used was primarily attributable to the collection of trade taxes in the current year compared to down payments in the previous year for long-term rents and other assets. Decreases in proceeds from the sale of assets were primarily offset by decreases in purchases of property, plant and equipment.

## Financing Cash Flows

Net cash provided by financing activities decreased $\$ 194.4$ million in 2011 compared to 2010. This decrease was primarily due to an increase in net repayment of long-term debt primarily due to repayment of our revolver borrowings in the current year that were outstanding at year end as well as the change in net proceeds from short-term borrowings. We continuously monitor and adjust our funding sources based on business dynamics in order to enhance business flexibility and reduce costs.

## Debt Financing

We continue to finance our business with a combination of short-term seasonal credit lines, our revolving credit facility, long-term debt securities, customer advances and cash from operations. At June 30, 2011we had cash of $\$ 70.4$ million and total debt outstanding of $\$ 1,235.5$ million comprised of $\$ 497.5$ million of notes payable to banks, $\$ 4.4$ million of other long-term debt, $\$ 612.6$ million of $10 \%$ senior notes, $\$ 6.0$ million of $8.5 \%$ senior notes and $\$ 115.0$ million of $5 \frac{1}{2} \%$ convertible senior subordinated notes. The $\$ 266.1$ million seasonal increase in notes payable to banks from March 31, 2011 to June 30, 2011 results from anticipated seasonal fluctuation to account for the current purchase and processing of African and Brazilian tobaccos. Aggregated peak borrowings by facility occurring at anytime during the three months ended June 30, 2011 and 2010, respectively, were $\$ 540.0$ million at a weighted average interest rate of $3.00 \%$ and $\$ 523.8$ million at a weighted average interest rate of $3.87 \%$. Aggregated peak borrowings by facility occurring at anytime during the three months ended June 30, 2011 and 2010 were repaid with cash provided by operating activities. Available credit as of June 30, 2011 was $\$ 710.3$ million comprised of $\$ 290.0$ million under our revolver, $\$ 411.0$ million of notes payable to banks and $\$ 9.3$ million of availability exclusively for letters of credit. We expect to incur $\$ 15.0$ million to $\$ 18.0$ million of maintenance capital expenditures during fiscal year 2012. We may also decide to deploy additional discretionary amounts to enhance future business prospects, but only if stringent management return thresholds are likely to be achieved. No cash dividends were paid to stockholders during the quarter ended June 30, 2011. We believe that these sources of liquidity versus our requirements will be sufficient to fund our anticipated needs for the remainder of fiscal year 2012.

The following table summarizes our debt financing as of June 30, 2011:

|  |  |  | June 30, 2011 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Outstanding |  | Lines and Letters | Interest Rate |  |
|  | March 31, $2011$ | June 30, 2011 |  |  |  |
| Senior secured credit facility: |  |  |  |  |  |
| Revolver ${ }^{(1)}$ | \$ 148.0 | \$ | \$ 290.0 |  |  |
| Senior notes: |  |  |  |  |  |
| 10\% senior notes due 2016 | 611.8 | 612.6 | - | 10.00\% |  |
| $81 / 2 \%$ senior notes due 2012 | 6.0 | 6.0 | - | 8.50\% |  |
|  | 617.8 | 618.6 | - |  |  |
| $5 \frac{1}{2} \%$ convertible senior |  |  |  |  |  |
| subordinated notes due 2014 | 115.0 | 115.0 | - | 5.50\% |  |
| Other long-term debt | 4.4 | 4.4 | - | 7.2\% | (2) |
| Notes payable to banks ${ }^{(3)}$ | 231.4 | 497.5 | 411.0 | 3.3\% | (2) |
| Total debt | \$ 1,116.6 | \$ 1,235.5 | 701.0 |  |  |
| Short term | \$ 231.4 | \$ 497.5 |  |  |  |
| Long term: |  |  |  |  |  |
| Long term debt current | \$ 0.8 | \$ 1.0 |  |  |  |
| Long term debt | 884.4 | 737.0 |  |  |  |
|  | \$ 885.2 | \$ 738.0 |  |  |  |
| Letters of credit | \$ 4.9 | \$ 4.2 | 9.3 |  |  |
| Total credit available |  |  | \$ 710.3 |  |  |

(1) As of June 30, 2011 pursuant to Section 2.1 (A) (iv) of the Credit Agreement, the full Revolving Committed Amount was available based on the calculation of the lesser of the Revolving Committed Amount and the Working Capital Amount.
(2) Weighted average rate for the three months ended June 30, 2011.
(3) Primarily foreign seasonal lines of credit

Alliance One International, Inc. and Subsidiaries

## LIQUIDITY AND CAPITAL RESOURCES (continued)

## Foreign Seasonal Lines of Credit

We have typically financed our non-U.S. operations with uncommitted unsecured short-term seasonal lines of credit at the local level. These operating lines are seasonal in nature, normally extending for a term of 180 to 270 days corresponding to the tobacco crop cycle in that location. These facilities are typically uncommitted in that the lenders have the right to cease making loans and demand repayment of loans at any time. These loans are typically renewed at the outset of each tobacco season. As of June 30, 2011, we had approximately $\$ 497.5$ million drawn and outstanding on foreign seasonal lines with maximum capacity totaling $\$ 922.0$ million subject to limitations as
provided for in the Credit Agreement. Additionally against these lines there was $\$ 9.3$ million available in unused letter of credit capacity with $\$ 4.2$ million issued but unfunded.

## RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED:

In May 2011, the FASB issued new accounting guidance on fair value measurements and disclosures. The objective of this accounting guidance is to provide consistent common fair value measurement and disclosure requirements in U.S. GAAP and IFRS such as clarifying how existing fair value measurement requirements should be applied, changing particular principles and requirements for measuring fair value and fair value measurement disclosures. This accounting guidance will be effective for the Company on January 1, 2012. The Company does not expect the impact of this new accounting guidance to have a material impact on its financial condition or results of operations.

In June 2011, the FASB issued new accounting guidance on comprehensive income. The objective of this accounting guidance is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The guidance eliminates the option to present components of other comprehensive income as part of the statement of stockholders equity and requires them to be presented in the statement of comprehensive income instead. This accounting guidance will be effective for the Company on January 1, 2012. The Company does not expect the impact of this new accounting guidance to have a material impact on its financial condition or results of operations.

## FACTORS THAT MAY AFFECT FUTURE RESULTS:

Readers are cautioned that the statements contained in this report regarding expectations of our performance or other matters that may affect our business, results of operations or financial condition are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements, which are based on current expectations of future events, may be identified by use of words such as strategy, expects, continues, plan anticipates, believes, will, estimates, intends, projects, goals, targets and other words of similar r 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, 2011 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, 2011. 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, 2011.

## Item 4. Controls and Procedures

## Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act )) designed to provide reasonable assurance that the information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that this information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. It should be noted that, because of inherent limitations, our disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the disclosure controls and procedures are met.

In connection with the preparation of this Quarterly Report on Form 10-Q, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as required by Rule 13a-15(b) of the Exchange Act), as of June 30, 2011. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) were effective to provide reasonable assurance as of June 30, 2011.

## Item 4. Controls and Procedures (continued)

## Changes in Internal Control Over Financial Reporting

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

The Company is currently implementing an ERP system using SAP applications. The implementation is part of a multi-year plan to install SAP at certain operations throughout the world to improve the Company s business processes and deliver enhanced operational and financial performance. During the three months ended June 30, 2011, further developments to the financial reporting process were implemented for operations that have previously implemented SAP and the Company substantially completed the process of implementing SAP in its Indonesia operations. This phase of the project has involved changes to certain internal controls over financial reporting, which the Company believes were material.

Other than the financial reporting developments for the Company s operations that have previously implemented SAP and implementation of SAP in its Indonesia operations discussed above there were no changes that occurred during the three months ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

## Part II. Other Information

Item 1. Legal Proceedings

In October 2001, the Directorate General for Competition ( DGCOMP ) of the European Commission ( EC ) began an administrative investigation into certain tobacco buying and selling practices alleged to have occurred within the leaf tobacco industry in some countries within the European Union, including Spain and Italy. In respect of the investigation into practices in Spain, in 2004, the EC fined the Company and its Spanish subsidiaries $€ 4.4$ million (US\$5.6 million). In respect of the investigation into practices in Italy, in October 2005, the EC announced that the Company and its Italian subsidiaries have been assessed a fine in the aggregate amount of $€ 24.0$ million (US $\$ 28.8$ million). With respect to both the Spanish and Italian investigations, the fines imposed on the Company and its predecessors and subsidiaries were part of fines assessed on several participants in the applicable industry. The Company, along with its applicable subsidiaries, has appealed the decisions of the EC with respect to Spain and Italy to the Court of First Instance of the European Commission for the annulment or modification of the decision, but the
outcome of the appeals process as to both timing and results is uncertain. The Company has fully recognized the impact of each of the fines set forth above and has paid all of such fines as part of the appeal process.

Mindo, S.r.l., the purchaser in 2004 of the Company s Italian subsidiary Dimon Italia, S.r.1., has asserted claims against subsidiaries of the Company arising out of that sale transaction in an action filed before the Court of Rome on April 12, 2007. The claim, allegedly arising from a guaranty letter issued by a consolidated subsidiary of the Company in connection with the sale transaction, seeks the recovery of $€ 7.4$ million (US $\$ 10.6$ million) plus interest and costs. A hearing for the disposition of this matter is scheduled for December 2011.

On June 6, 2008, the Company's Brazilian subsidiary and a number of other tobacco processors were notified of a class action initiated by the ALPAG - Associação Lourenciana de Pequenos Agricultrores ("Association of Small Farmers of São Lourenço ). The class action s focus is a review of tobacco supplier contracts and business practices, specifically aiming to prohibit processors from notifying the national credit agency of producers in debt, prohibiting processors from deducting tobacco suppliers debt from payments for tobacco, and seeking the modification of other contractual terms historically used in the purchase of tobacco. The case is currently before the $2^{\text {nd }}$ civil court of São Lourenço do Sul. The Company s motion to dismiss the class action is currently pending. The Company believes this claim to be without merit and is vigorously defending it. Ultimate exposure if an unfavorable outcome is received is not determinable.

Alliance One International, Inc. and Subsidiaries

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. Removed and Reserved

Item 5. Other Information

None.

Item 6. Exhibits.

First Amendment to Amended and Restated Employment Agreement dated as of April 7, 2011 between Alliance One International, Inc. and Henry
C. Babb, Jr., incorporated by
reference to Exhibit 10.1 to Alliance One International, Inc. s Current Report of Form
8-K, filed April 12, 2011
(SEC File No. 1-13684)
Certification of Chief
Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

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

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

The following materials from the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011, formatted in XBRL:
(i) Condensed Consolidated

Statements of Operations for the three months ended June 30, 2011 and June 30, 2010;
(ii) Condensed Consolidated

Balance Sheets as of June 30, 2011, June 30, 2010 and March 31, 2011; (iii) Condensed Consolidated Statements of Cash Flows for the three months ended June 30, 2011 and June 30, 2010; and (iv) Notes to Consolidated Financial Statements, tagged as blocks of text (submitted herewith)

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Alliance One International, Inc. and Subsidiaries

## SIGNATURE

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

Alliance One International, Inc.

Date: August 4, 2011
/s/ Hampton R. Poole, Jr.
Hampton R. Poole, Jr. Vice President - Controller (Chief Accounting Officer)

Index of Exhibits

Exhibits

| 10.01 | First Amendment to Amended and Restated Employment Agreement dated as of April 7, 2011 between Alliance One International, Inc. and Henry C. Babb, Jr., incorporated by reference to Exhibit 10.1 to Alliance One International, Inc. s Current Report of Form 8-K, filed April 12, 2011 (SEC File No. 1-13684) |
| :---: | :---: |
| 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 | The following materials from the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011, formatted in XBRL: (i) Condensed Consolidated Statements of Operations for the three months ended June 30, 2011 and June 30, 2010; (ii) Condensed Consolidated Balance Sheets as of June 30, 2011, June 30, 2010 and March 31, 2011; (iii) Condensed Consolidated Statements of Cash Flows for the three |

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months ended June 30, 2011 and June 30, 2010; and (iv) Notes
to Consolidated Financial Statements, tagged as blocks of text (submitted herewith)


[^0]:    * Amounts do not equal column totals due to rounding

