

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.

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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 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)				
Interest income	31,904	28,782	62,507	56,555
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) of investee companies	(732)	3,004	(2,061)	3,136
Net loss	(15,613)	(21,123)	(47,152)	(47,080)

Less:
Net
income
(loss)
44
attributable (58) 11 (65)
to
noncontrolling
interests
Net
loss
attributable
to
Alliance
One
International,
Inc.
\$ (15,657) \$ (21,065) \$ (47,163) \$ (47,015)

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		Six Months Ended	
	September 30, 2016	2015	September 30, 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
ASSETS			
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
LIABILITIES AND STOCKHOLDERS' EQUITY			
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:			

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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

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Alliance One International, Inc. and Subsidiaries

CONDENSED STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

(Unaudited)

(in thousands)	Attributable to Alliance One International, Inc.					
	Common Stock	Retained Deficit	Accumulated Other Comprehensive Loss Currency Translation Adjustment	Pensions, Net of Tax	Noncontrolling Interests	Total Equity
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
Operating activities		
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)
Investing activities		
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)
Financing activities		
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
Other information:		
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."

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

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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, September 30, March 31,		
	2016	2015	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 Customer Relationship Intangible	Production and Supply Contract Intangibles	Internally Developed Software Intangible	Total
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 September 30,		Six Months Ended 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	September 30, 2015	September 30, 2016	September 30, 2015
BASIC LOSS				
Net loss attributable to Alliance One International, Inc.	\$(15,657)	\$(21,065)	\$(47,163)	\$(47,015)

SHARES

Weighted average number of shares outstanding	8,923	8,883	8,914	8,873
BASIC LOSS PER SHARE	\$(1.75)	\$(2.37)	\$(5.29)	\$(5.30)

DILUTED LOSS

Net loss attributable to Alliance One International, Inc.	\$(15,657)	\$(21,065)	\$(47,163)	\$(47,015)
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SHARES

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
DILUTED LOSS PER SHARE	\$(1.75)	\$(2.37)	\$(5.29)	\$(5.30)

* 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.

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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)
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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 2015		Six Months Ended September 30, 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 2015		Six Months Ended September 30, 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 \$			