

ALLIANCE ONE INTERNATIONAL, INC.  
Form 10-Q  
February 09, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED December 31, 2011**
- 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**  
\_\_\_\_\_  
(State or other jurisdiction of incorporation)

**001-13684**  
\_\_\_\_\_  
(Commission File Number)

**54-1746567**  
\_\_\_\_\_  
(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  Accelerated  
filer

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 February 3, 2012, the registrant had 87,372,504 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 and Nine Months Ended December 31, 2011 and 2010  
*(Unaudited)*

<i>(in thousands, except per share data)</i>	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
Sales and other operating revenues	\$ 493,888	\$ 522,144	\$1,369,983	\$ 1,572,349
Cost of goods and services sold	428,092	461,507	1,176,689	1,362,227
Gross profit	65,796	60,637	193,294	210,122
Selling, general and administrative expenses	33,877	37,415	103,234	116,207
Other income	12,052	20,318	16,173	39,960
Restructuring and asset impairment charges	67	13,385	1,583	13,385
Operating income	43,904	30,155	104,650	120,490
Debt retirement expense	-	1,141	-	4,584
Interest expense (includes debt amortization of \$2,946 and \$2,680 for the three months and \$8,409 and \$7,327 for the nine months in 2011 and 2010, respectively)	27,408	25,277	80,211	79,102
Interest income	1,999	1,660	4,776	5,579
Income before income taxes and other items	18,495	5,397	29,215	42,383
Income tax expense	5,714	8,470	20,108	12,756
Equity in net income (loss) of investee companies	(975)	1,072	198	2,266
Net income (loss)	11,806	(2,001)	9,305	31,893
Less: Net income (loss) attributable to noncontrolling interests	52	(12)	(49)	(219)
Net income (loss) attributable to Alliance One International, Inc.	\$ 11,754	\$ (1,989)	\$ 9,354	\$ 32,112
Earnings (loss) per share:				
Basic	\$ .13	\$ (.02)	\$ .11	\$ .36
Diluted	\$ .12	\$ (.02)	\$ .11	\$ .32

Weighted average number of shares outstanding:

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Basic	87,146	86,803	86,976	88,125
Diluted	110,186	86,803	110,130	111,337

*See notes to condensed consolidated financial statements*

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

<i>(in thousands)</i>	December 31, 2011	December 31, 2010	March 31, 2011
<b>ASSETS</b>			
Current assets			
			\$
Cash and cash equivalents	\$ 150,647	\$ 41,401	43,506
Trade and other receivables, net	186,849	185,042	279,904
Accounts receivable, related parties	44,536	71,167	61,981
Inventories	1,063,295	819,983	800,365
Advances to tobacco suppliers	83,149	103,715	74,556
Recoverable income taxes	9,280	2,843	7,191
Current deferred taxes	13,358	34,493	3,955
Prepaid expenses	39,186	52,301	42,319
Assets held for sale	211	439	413
Current derivative asset	51	218	2,543
Other current assets	551	516	542
Total current assets	1,591,113	1,312,118	1,317,275
Other assets			
Investments in unconsolidated affiliates	24,383	25,468	25,665
Goodwill and other intangible assets	37,081	41,510	41,205
Deferred income taxes	67,332	151,033	82,707
Other deferred charges	17,343	22,979	21,019
Other noncurrent assets	58,422	77,531	83,371
	204,561	318,521	253,967
Property, plant and equipment, net	257,232	225,711	237,088
	\$ 2,052,906	\$ 1,856,350	\$ 1,808,330
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Current liabilities			
			\$
Notes payable to banks	\$ 429,120	\$ 239,786	231,407
Accounts payable	64,441	69,969	86,103
Due to related parties	17,593	13,581	38,937
Advances from customers	113,009	92,477	17,576
Accrued expenses and other current liabilities	95,311	102,112	78,459
Current derivative liability	80	-	-
Income taxes	11,190	11,349	17,149
Long-term debt current	1,271	435	784
Total current liabilities	732,015	529,709	470,415
Long-term debt	873,332	762,617	884,371





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

<i>(in thousands)</i>	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, 2010	\$ 460,971	\$ (49,242)	\$ (3,691)	\$ (17,638)	\$ 4,522	\$ 394,922
Net income (loss)	-	32,112	-	-	(219)	31,893
Restricted stock surrendered	(585)	-	-	-	-	(585)
Exercise of employee stock options	106	-	-	-	-	106
Stock-based compensation	1,509	-	-	-	-	1,509
Shares purchased	(9,042)	-	-	-	-	(9,042)
Purchase of additional investment in subsidiary	21	-	-	-	(234)	(213)
Noncontrolling interest dividend paid	-	-	-	-	(284)	(284)
Conversion of foreign currency financial statements	-	-	795	-	(18)	777
Balance, December 31, 2010	\$ 452,980	\$ (17,130)	\$ (2,896)	\$ (17,638)	\$ 3,767	\$ 419,083
Balance, March 31, 2011	\$ 455,409	\$ (120,793)	\$ (1,376)	\$ (20,427)	\$ 3,199	\$ 316,012
Net income (loss)	-	9,354	-	-	(49)	9,305
Restricted stock surrendered	(183)	-	-	-	-	(183)
Stock-based compensation	2,429	-	-	-	-	2,429
Conversion of foreign currency financial statements	-	-	(2,794)	-	-	(2,794)
Adjustment in pensions	-	-	-	931	-	931
Balance, December 31, 2011	\$ 457,655	\$ (111,439)	\$ (4,170)	\$ (19,496)	\$ 3,150	\$ 325,700

*See notes to condensed consolidated financial statements*

Alliance One International, Inc. and Subsidiaries  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
 Nine Months Ended December 31, 2011 and 2010  
*(Unaudited)*

<i>(in thousands)</i>	December 31, 2011	December 31, 2010
<b>Operating activities</b>		
Net income	\$ 9,305	\$ 31,893
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	24,241	20,872
Debt amortization/interest	11,080	10,076
Debt retirement cost	-	4,584
Restructuring and impairment charges	792	11,547
(Gain) loss on foreign currency transactions	12,607	(10,116)
Gain on sale of property, plant and equipment	(2,504)	(2,361)
Gain on other sale of assets	(13,072)	(37,525)
Stock-based compensation	2,558	1,510
Changes in operating assets and liabilities, net	(100,274)	(131,824)
Other, net	1,537	5,394
Net cash used by operating activities	(53,730)	(95,950)
<b>Investing activities</b>		
Purchases of property, plant and equipment	(34,159)	(52,480)
Proceeds from sale of property, plant and equipment	2,617	2,882
Proceeds on other sales of assets	-	45,834
Other, net	622	1,135
Net cash used by investing activities	(30,920)	(2,629)
<b>Financing activities</b>		
Net proceeds from short-term borrowings	208,525	55,023
Proceeds from long-term borrowings	305,200	121,000
Repayment of long-term borrowings	(318,269)	(151,076)
Debt issuance cost	(6,207)	(3,717)
Debt retirement cost	-	(2,262)
Repurchase of common stock	-	(9,042)
Other, net	(82)	219
Net cash provided by financing activities	189,167	10,145
Effect of exchange rate changes on cash	2,624	97
Increase (decrease) in cash and cash equivalents	107,141	(88,337)
Cash and cash equivalents at beginning of period	43,506	129,738
Cash and cash equivalents at end of period	\$ 150,647	\$ 41,401

*See notes to condensed consolidated financial statements*



Alliance One International, Inc. and Subsidiaries  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(in thousands)*

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

Because of the seasonal nature of the Company's business, the results of operations for any fiscal quarter will not necessarily be indicative of results to be expected for other quarters or a full fiscal year. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of financial position, results of operation and cash flows at the dates and for the periods presented have been included. The unaudited information included in this Form 10-Q should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 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 \$4,864 and \$6,868 for the three months ended December 31, 2011 and 2010, respectively and \$13,478 and \$25,538 for the nine months ended December 31, 2011 and 2010, respectively.

**Other Deferred Charges**

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

**Property Exchange in Brazil**

During the quarter ended, December 31, 2011 the Company exchanged real property with a third party in Brazil. The transaction consisted of the Company exchanging real property located in Vera Cruz, Brazil and \$9,403 of cash for real property located in Venancio Aires, Brazil. The Company accounted for the transaction as a nonmonetary exchange involving monetary consideration. In accordance with U.S. GAAP, the transaction was recorded and measured at fair value as the transaction had commercial substance, the fair values of the assets exchanged were

determinable within reasonable limits, and the Company's real property was not held for sale in the ordinary course of business or for property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange. The cost of the real property received in the exchange was measured using the fair value of the assets given which equaled \$26,250 including the cash. The Company's basis in its assets given was \$13,178 and a gain of \$13,072 was recorded in Other Income in the Condensed Consolidated Statements of Operations.

## **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 that was amended in December 2011. 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, as amended, will be effective for the Company on April 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 September 2011, the FASB issued new accounting guidance on testing goodwill for impairment. The primary objective of this accounting guidance is to reduce complexity and costs by allowing an entity to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. If, after assessing qualitative factors, an entity determines that it is not more likely than not

(a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, then the two-step goodwill impairment test is unnecessary. This accounting guidance is effective for the Company in fiscal 2013 but early adoption is permitted. 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 December 2011, the FASB issued new accounting guidance on disclosures about offsetting assets and liabilities. The requirements for offsetting are different under U.S. GAAP and IFRS. Therefore, the objective of this accounting guidance is to facilitate comparison between financial statements prepared under U.S. GAAP and IFRS by enhancing disclosures of the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain assets and liabilities. This accounting guidance will be effective for the Company on April 1, 2013. 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 December 31, 2011, the Company's unrecognized tax benefits totaled \$8,790, all of which would impact the Company's effective tax rate if recognized.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of December 31, 2011, accrued interest and penalties totaled \$8,574 and \$1,365 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.

Other than the expiration of an applicable statute of limitations pertaining to an international unrecognized tax benefit of \$1,468, interest of \$7,357, and penalties of \$424, 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 related to recognized 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 December 31, 2011, the Company's earliest open tax year for U.S. federal income tax purposes was its fiscal year ended March 31, 2009. Open tax years in state and foreign jurisdictions generally range from three to six years.

### **Provision for the Nine Months Ended December 31, 2011**

The effective tax rate used for the nine months ended December 31, 2011 was 68.8% compared to an expense of 30.1% for the nine months ended December 31, 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 32.3% after absorption of discrete items.

For the nine months ended December 31, 2011, the Company recorded a specific event adjustment expense of \$13,867, bringing the effective tax rate estimated for the nine months of 21.4% to 68.8%. This specific event adjustment expense relates primarily to net exchange losses on income tax accounts and additional income tax, interest, and exchange gains related to liabilities for unrecognized tax benefits. For the nine months ended December 31, 2010, the Company recorded a specific event adjustment expense of \$4,324, bringing the effective tax rate estimated for the nine months of 19.9% to 30.1%. This specific event adjustment expense relates primarily to additional income tax, interest, and exchange losses related to liabilities for unrecognized tax benefits, reductions in foreign tax credit carryforwards and net exchange gains on income tax accounts. The significant difference in the estimated effective tax rate for the nine months ended December 31, 2011 from the statutory rate is primarily due to net exchange losses 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:

	December 31, 2011	December 31, 2010	March 31, 2011
Amounts guaranteed (not to exceed)	\$ 140,826	\$ 102,324	\$ 119,114
Amounts outstanding under guarantee	96,798	100,040	102,550
Fair value of guarantees	4,342	4,866	4,575

Of the guarantees outstanding at December 31, 2011 approximately 95% will 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 December 31, 2011 and 2010 and March 31, 2011, respectively, the Company had balances of \$358, \$301 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. As of December 31, 2011, these initiatives are substantially complete. The following table summarizes the restructuring and asset impairment charges recorded in the Company's reporting segments during the three months and nine months ended December 31, 2011 and 2010:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
<b>Restructuring and Asset Impairment Charges</b>				
Employee separation and other cash charges:				
Beginning balance	\$ 3,793	\$ -	\$ 6,193	\$ -
Period charges:				
Severance charges	67	13,181	792	13,181
Other cash charges	-	-	31	-
Total period charges	67	13,181	823	13,181
Payments through December 31	(433)	(1,838)	(3,589)	(1,838)
Ending balance December 31	\$ 3,427	\$ 11,343	\$ 3,427	\$ 11,343
Non-current asset impairment charges	-	204	760	204
Total restructuring and asset impairment charges for the period	\$ 67	\$ 13,385	\$ 1,583	\$ 13,385

Non-current asset impairment charges are primarily for non-tobacco internally developed software intangible assets and real property in Macedonia.

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 and nine months ended December 31, 2011 and 2010:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
<b>Employee Separation and Other Cash Charges</b>				
Beginning balance:				
South America	\$ 3,793	\$ -	\$ 6,193	\$ -
Other regions	545	-	1,073	-
Total beginning balance	3,248	-	5,120	-
Period charges:				
South America	\$ 67	\$ 13,181	\$ 823	\$ 13,181
Other regions	-	-	419	-
Total period charges	67	13,181	404	13,181
Payments through December 31:	\$ (433)	\$ (1,838)	\$ (3,589)	\$ (1,838)



South America	(6)	-	(953)	-
Other regions	(427)	(1,838)	\$ (2,636)	(1,838)
Ending balance December 31:	\$ 3,427	\$ 11,343	\$ 3,427	\$ 11,343
South America	538	-	538	-
Other regions	2,889	11,343	2,889	11,343

## 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.

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 and nine months December 31, 2011 and 2010:

	Goodwill		Amortizable Intangibles		Total
	Other Regions Segment	Customer Relationship Intangible	Production and Supply Contract Intangibles	Internally Developed Software Intangible	
Weighted average remaining useful life in years as of March 31, 2011	-	14	5	3	
March 31, 2010 balance:					
Gross carrying amount	\$ 2,794	\$ 33,700	\$ 7,893	\$ 14,459	\$ 58,846
Accumulated 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	-	-	-	251	251
Amortization expense	-	(422)	(22)	(740)	(1,184)
Net September 30, 2010	2,794	24,643	6,372	9,085	42,894
Amortization expense	-	(421)	(233)	(730)	(1,384)
Net December 31, 2010	2,794	24,222	6,139	8,355	41,510
Additions	-	-	-	1,057	1,057
Amortization expense	-	(421)	(194)	(747)	(1,362)
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
Impairment/other	-	-	-	(357)	(357)
Amortization expense	-	(422)	(122)	(762)	(1,306)
Net September 30, 2011	2,794	22,958	5,579	6,990	38,321

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Additions	-	-	-	153	153
Amortization expense	-	(421)	(227)	(745)	(1,393)
Net December 31, 2011	\$ 2,794	\$ 22,537	\$ 5,352	\$ 6,398	\$ 37,081

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

For Fiscal Years Ended	Customer Relationship Intangible	Production and Supply Contract Intangible	Internally Developed Software Intangible	Total
2012	\$ 1,685	\$ 1,173	\$ 3,029	\$ 5,887
2013	1,685	1,251	3,097	6,033
2014	1,685	1,251	1,659	4,595
2015	1,685	1,173	442	3,300
2016	1,685	1,097	312	3,094
Later	15,376	-	128	15,504
	\$ 23,801	\$ 5,945	\$ 8,667	\$ 38,413

\* Estimated amortization expense for the internally developed software is based on costs accumulated as of December 31, 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's borrowings. 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.

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 were restricted, and liabilities included in the Company's consolidated balance sheets.

Assets of Consolidated VIE	December 31, 2010	March 31, 2011
Inventory	\$ 14,269	\$ 5,195

Advances to suppliers	3,694	1,770
<b>Liabilities of Consolidated VIE</b>		
Notes payable to banks	4,764	-

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 December 31, 2011 and 2010, and March 31, 2011, the Company's investment in these joint ventures was \$23,471, \$25,144, 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 \$56, \$8,936 and \$36 at December 31, 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 \$16,115, \$16,921 and \$16,982 at December 31, 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 and nine months ended December 31, 2011 and 2010:

Three Months Ended December 31,	Nine Months Ended December 31,
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	2011	2010	2011	2010
Sales and other operating revenues:				
South America	\$ 107,648	\$ 140,491	\$ 486,373	\$ 634,645
Other regions	386,240	381,653	883,610	937,704
Total revenue	\$ 493,888	\$ 522,144	\$ 1,369,983	\$ 1,572,349
Operating income:				
South America	\$ 14,512	\$ 21,640	\$ 41,086	\$ 71,557
Other regions	29,392	8,515	63,564	48,933
Total operating income	43,904	30,155	104,650	120,490
Debt retirement expense	-	1,141	-	4,584
Interest expense	27,408	25,277	80,211	79,102
Interest income	1,999	1,660	4,776	5,579
Income before income taxes and other items	\$ 18,495	\$ 5,397	\$ 29,215	\$ 42,383

**Analysis of Segment Assets**

	December 31, 2011	December 31, 2010	March 31, 2011
Segment assets:			
South America	\$ 543,604	\$ 639,111	\$ 690,428
Other regions	1,509,302	1,217,239	1,117,902
Total assets	\$ 2,052,906	\$ 1,856,350	\$ 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 December 31, 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 4,222 at a weighted average exercise price of \$7.02 per share at December 31, 2011 and 1,222 at a weighted average exercise price of \$7.02 per share at December 31, 2010.

In connection with the offering of the Company's 5 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 December 31, 2011, the Company had purchased 2,380 shares of its common stock at a weighted average price paid per share of \$3.78. At December 31, 2011, the Company did not achieve the fixed charge coverage ratio under the indenture governing the Company's 10% Senior Notes due 2016 necessary to access the restricted payments basket for the purchase of common stock.

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The following table summarizes the computation of earnings per share for the three months and nine months ended December 31, 2011 and 2010, respectively.

<i>(in thousands, except per share data)</i>	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2011	2010	2011	2010
<b>BASIC EARNINGS (LOSS)</b>				
Net income (loss) attributable to Alliance One International, Inc.	\$ 11,754	\$ (1,989)	\$ 9,354	\$ 32,112
<b>SHARES</b>				
Weighted average number of shares outstanding	87,146	86,803	86,976	88,125
<b>BASIC EARNINGS (LOSS) PER SHARE</b>	<b>\$ .13</b>	<b>\$ (.02)</b>	<b>\$ .11</b>	<b>\$ .36</b>
<b>DILUTED EARNINGS (LOSS)</b>				
Net income (loss) attributable to Alliance One International, Inc.	\$ 11,754	\$ (1,989)	\$ 9,354	\$ 32,112
Plus interest expense on 5 1/2% convertible notes, net of tax	1,028	-*	3,083	3,083
Net income (loss) attributable to Alliance One International, Inc. as adjusted	\$ 12,782	\$ (1,989)	\$ 12,437	\$ 35,195
<b>SHARES</b>				
Weighted average number of common shares outstanding	87,146	86,803	86,976	88,125
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	168	-*	282	340
Assuming conversion of 5 1/2% convertible notes at the time of issuance	22,872	-*	22,872	22,872
Shares applicable to stock warrants	-**	-**	-**	-**
Adjusted weighted average number of common shares outstanding	110,186	86,803	110,130	111,337
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>	<b>\$ .12</b>	<b>\$ (.02)</b>	<b>\$ .11</b>	<b>\$ .32</b>

\* Assumed conversion of convertible notes at the beginning of the period has an antidilutive effect on earnings (loss) per share. For the three months ended December 31, 2010, all outstanding restricted shares and shares applicable to stock options and restricted stock units are excluded because their inclusion would have an antidilutive effect on the loss per share.

\*\* For the three months and nine months ended December 31, 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		Nine Months Ended	
	December 31,		December 31,	
	2011	2010	2011	2010
Net income (loss)	\$ 11,806	\$ (2,001)	\$ 9,305	\$ 31,893
Pension adjustment, net of tax of \$399	-	-	931	-
Equity currency conversion adjustment	(1,667)	(45)	(2,794)	777
Total comprehensive income (loss)	10,139	(2,046)	7,442	32,670
Comprehensive income (loss) attributable to noncontrolling interest	52	(15)	(49)	(237)
Total comprehensive income (loss) attributable to the Company	\$ 10,087	\$ (2,031)	\$ 7,491	\$ 32,907

## 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 \$690 and \$644 for the three months ended December 31, 2011 and 2010, respectively, and \$2,514 and \$1,509 for the nine months ended December 31, 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 and nine months ended December 31, 2011 and 2010, respectively, the Company made the following stock-based compensation awards:

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2011	2010	2011	2010
<i>(in thousands, except grant date fair value)</i>				
<b>Restricted Stock</b>				
Number Granted	-	-	-	143
Grant Date Fair Value	\$ -	\$ -	\$ -	\$ 3.34
<b>Restricted Stock Units</b>				
Number Granted	-	947	146	947
Grant Date Fair Value	\$ -	\$ 4.59	\$ 3.27	\$ 4.59
<b>Performance Shares</b>				
Number Granted	-	-	-	-
Grant Date Fair Value	\$ -	\$ -	\$ -	\$ -
<b>Performance Based Restricted Stock Units</b>				
Number Granted	-	2,048	-	2,048
Grant Date Fair Value	\$ -	\$ 4.59	\$ -	\$ 4.59

Under the terms of both the Performance Shares and Performance Based Restricted Stock Units, shares ultimately issued will be contingent upon specified business performance goals. If minimum standards are not attained, compensation paid under these awards will be zero. Alternatively, if the maximum performance levels described by the plan are attained, the awards may be 150% of the stated award.

## 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 \$7,024 and the total assessment including penalties and interest through December 31, 2011 is \$16,668. 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 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 \$34,798, 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 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 \$25,920 at December 31, 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. On September 9, 2011, the Court affirmed the Company's position regarding the IPI credit bonus which is subject to appeal. The Company does not expect resolution 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.

### **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 were assessed fines 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, lodged several appeals against the EC decisions and these cases are currently at various stages of appeal before the European Court of Justice. The outcome of the appeals is uncertain as to both timing and results. 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. has asserted claims against a subsidiary of the Company arising out of the 2004 sale of the Company's former Italian subsidiary, Dimon Italia, S.r.l., 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 \$9,552) plus interest and costs. A hearing for the disposition of this matter was held in December 2011 and the court's ruling is pending. 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 Agricultores ("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 2nd 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

The Company's liquidity requirements are affected by crop seasonality, foreign currency and interest rates, green tobacco prices, crop size and quality, as well as other factors. The Company monitors and adjusts funding sources that include cash from operations and various types of financings based on a number of industry, business, and financial market dynamics. Movement and changes between these various funding sources provides flexibility to help maximize various business opportunities, while minimizing associated costs where possible. The Company's sales patterns and timing of shipments are shifting from larger volumes shipping in the first part of the fiscal year to the second half of the fiscal year. Factors such as later crop purchasing this year in a number of regions, transportation challenges in Africa, shifts in customer timing and mix, and the impact of Hurricane Irene in North Carolina have collectively created further timing shifts to its business this year. As such, fourth quarter shipping is important to meeting full year expectations.



The Company continues monitoring turbulence in the capital markets as a result of the European debt crisis, and believes that it is well positioned with no major long-term debt maturities in the next twelve months, good availability to crop lines globally, and appropriate levels of cash on hand. As of December 31, 2011, available credit lines and cash were \$775,816, comprised of \$150,647 in cash and \$625,169 of credit lines, of which \$10,810 million was exclusively for letters of credit.

### **Senior Secured Credit Facility**

*Fourth Amendment.* On November 3, 2011, the Company closed the Fourth Amendment to the Credit Agreement that expires March 31, 2013. The amendment permits the exclusion of specified levels of restructuring and impairment charges from the financial covenants impacted by the Company's EBIT for fiscal quarters ending on or prior to March 31, 2012 and permits the exclusion of specified levels of costs and expenses associated with the commercialization, sale or dissolution of the Company's Alert business from the financial covenants impacted by the Company's EBIT for fiscal quarters ending on or prior to December 31, 2011. The amendment also extends to April 30, 2012 the period in which the Company is permitted to form one or more subsidiaries for a specified business purpose to be funded by up to \$1,000 in equity and \$30,000 in subordinated note investments by the Company, provided the subsidiary or subsidiaries receive revolving credit financing of up to \$200,000 from third parties and issue subordinated notes for an aggregate of up to \$100,000.

The senior secured credit facility under which the Company had borrowings of \$85,000 at December 31, 2011 contains various financial covenants. The Company did not meet the hurdle rate for the consolidated leverage ratio covenant on December 31, 2011; however, the Company was provided a waiver of this covenant for the period October 1, 2011 through December 31, 2011. The Company believes that it will be able to maintain compliance with each of the financial covenants over the next year and, accordingly, has classified the \$85,000 of borrowings as long-term debt at December 31, 2011. Significant changes in market conditions could adversely affect the Company's business. As a result, there can be no assurance that the Company will be able to maintain compliance with its financial covenants in the future.

### **Senior Notes**

At December 31, 2011, the Company did not achieve the ratio of consolidated EBITDA to fixed charges of at least 2.0 to 1.0 under the indenture governing the 10% Senior Notes due 2016 necessary to access the restricted payments basket for the purchase of common stock, payment of dividends and other actions under that basket. The Company from time to time may not satisfy this ratio.

### **Foreign Seasonal Lines of Credit**

The Company has typically financed its non-U.S. operations with uncommitted unsecured short-term seasonal lines of credit at the local level. These operating lines are seasonal in nature, normally extending for a term of 180 to 270 days corresponding to the tobacco crop cycle in that location. These facilities are typically uncommitted in that the lenders have the right to cease making loans and demand repayment of loans at any time. These loans are typically renewed at the outset of each tobacco season. As of December 31, 2011, the Company had approximately \$429,120 drawn and outstanding on foreign seasonal lines with maximum capacity totaling \$853,535 subject to limitations as provided for in the Credit Agreement. Additionally against these lines there was \$10,810 available in unused letter of credit capacity with \$4,316 issued but unfunded.

The following table summarizes the debt financing as of December 31, 2011 and 2010, and March 31, 2011.

	March 31, 2011	Outstanding December 31, 2010	December 31, 2011	Lines and Letters Available	December 31, 2011 Interest Rate	
Senior secured credit facility:						
Revolver <sup>(1)</sup>	\$ 148,000	\$ 28,000	\$ 85,000	\$ 205,000	6.0%	(2)
Senior notes:						
10% senior notes due 2016	611,756	610,954	614,295	-	10.0%	
8 ½% senior notes due 2012	6,000	6,000	6,000	-	8.5%	
	617,756	616,954	620,295	-		
5 ½% convertible senior subordinated notes due 2014	115,000	115,000	115,000	-	5.5%	
Other long-term debt	4,399	3,098	54,308	70	9.7%	(2)
Notes payable to banks <sup>(3)</sup>	231,407	239,786	429,120	409,289	2.9%	(2)
Total debt	\$ 1,116,562	\$ 1,002,838	\$ 1,303,723	614,359		
Short term	\$ 231,407	\$ 239,786	\$ 429,120			
Long term:						
Long term debt current	\$ 784	\$ 435	\$ 1,271			
Long term debt	884,371	762,617	873,332			
	\$ 885,155	\$ 763,052	\$ 874,593			
Letters of credit	\$ 4,859	\$ 3,699	\$ 4,316	10,810		
Total credit available				\$ 625,169		

(1) As of December 31, 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 nine months ended December 31, 2011.

(3) Primarily foreign seasonal lines of credit.

### 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 and nine months ended December 31, 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.

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

Derivatives Not Designated as Hedging Instruments:	Fair Values of Derivative Instruments			
	Assets		Liabilities	
	Balance Sheet Account	Fair Value	Balance Sheet Account	Fair Value
Foreign currency contracts				
at December 31, 2011	Current derivative asset	\$ 51	Current derivative liability	\$ 80
Foreign currency contracts				
at December 31, 2010	Current derivative asset	\$ 218	Current derivative liability	\$ -
Foreign currency contracts				
at March 31, 2011	Current derivative asset	\$ 2,543	Current derivative liability	\$ -

## 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 and nine months ended December 31, 2011 and 2010.

## Gain (Loss) Recognized in Income

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Three Months Ended December 31,		Nine Months Ended December 31,	
		2011	2010	2011	2010
Foreign currency contracts	Cost of goods and services sold	\$ 235	\$ 15	\$ 6,260	\$ 3,771
Foreign currency contracts	Selling, administrative and general expenses	22	10	(95)	100
Total		\$ 257	\$ 25	\$ 6,165	\$ 3,871

**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 which resulted in an additional liability of \$4,172 at June 30, 2011.

Components of Net Periodic Benefit Cost

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

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2011	2010	2011	2010
Service cost	\$ 526	\$ 805	\$ 1,667	\$ 2,417
Interest expense	2,048	2,192	6,238	6,577
Expected return on plan assets	(1,637)	(1,428)	(4,911)	(4,284)
Amortization of prior service cost	27	6	80	17
Actuarial loss	287	335	879	1,004
Special termination benefits	-	204	-	204
Curtailment gain recognized	-	-	(4,989)	-
Net periodic pension cost (benefit)	\$ 1,251	\$ 2,114	\$ (1,036)	\$ 5,935

### 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. As of December 31, 2011, contributions of \$8,814 were made to pension plans for fiscal 2012. Additional contributions to pension plans of approximately \$3,886 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 December 31, 2011, contributions of \$555 were made to the plans for fiscal 2012. Additional contributions of \$449 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		Nine Months Ended	
	December 31,		December 31,	
	2011	2010	2011	2010
Service cost	\$ 18	\$ 20	\$ 55	\$ 60
Interest expense	167	166	500	499
Amortization of prior service cost	(411)	(410)	(1,233)	(1,232)
Actuarial loss	101	108	303	325
Net periodic pension cost (benefit)	\$ (125)	\$ (116)	\$ (375)	\$ (348)

## 15. INVENTORIES

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

	December 31, 2011	December 31, 2010	March 31, 2011
Processed tobacco	\$ 830,548	\$ 700,144	\$ 525,759
Unprocessed tobacco	196,355	79,765	230,831
Other	36,392	40,074	43,775
	\$1,063,295	\$ 819,983	\$ 800,365

## 16. SALE OF RECEIVABLES

The Company sells trade receivables to unaffiliated financial institutions under two accounts receivable securitization programs. Under the first program, the Company continuously sells a designated pool of trade receivables to a special purpose entity, which in turn sells 100% of the receivables to an unaffiliated financial institution. 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. 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. As the Company estimates the fee it receives in return for its obligation to service these receivables is at fair value, no servicing assets or liabilities are recognized. Servicing fees recognized during the three months and nine months ended December 31, 2011 and 2010 were not material and are recorded as a reduction of Selling, Administrative and General Expenses within the Condensed Consolidated Statements of Operations.

The agreement for the second securitization program was executed on September 28, 2011 between the Company and an unaffiliated financial institution. This program also allows the Company to receive a cash payment and a deferred purchase price receivable for sold receivables. This is an uncommitted program, whereby the Company offers receivables for sale to the unaffiliated financial institution, which are then subject to acceptance by the unaffiliated financial institution. Following the sale and transfer of the receivables to the unaffiliated financial institution, the receivables are isolated from the Company and its affiliates, and effective control of the receivables is passed to the unaffiliated financial institution, which has all rights, including the right to pledge or sell the receivables.

The investment limit with this financial institution is \$35,000. The Company receives no servicing fee from the unaffiliated financial institution and as a result, has established a servicing liability based upon unobservable inputs, primarily discounted cash flow. This liability is recorded in Accrued Expenses and Other Liabilities in the Condensed Consolidated Balance Sheets.

Under both programs, all of the receivables sold to the unaffiliated financial institutions 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 Consolidated Statements of Cash Flows. A portion of the purchase price for the receivables is paid by the unaffiliated financial institutions in cash and the balance is a deferred purchase price receivable, which is paid as payments on the receivables are collected from account debtors. The deferred purchase price receivable represents a continuing involvement and a beneficial interest in the transferred financial assets and is recognized at fair value as part of the sale transaction. The deferred purchase price receivables are included in accounts receivable in the Condensed Consolidated Balance Sheets and are valued using unobservable inputs (i.e., level three inputs), primarily discounted cash flow.

The difference between the carrying amount of the receivables sold under these programs and the sum of the cash and fair value of the other assets received at the time of transfer is recognized as a loss on sale of the related receivables and recorded in Other Income in the Condensed Consolidated Statements of Operations.

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

	December 31,		March 31,
	2011	2010	2011
Receivables outstanding in facility:			
As of December 31	\$ 136,196	\$ 72,642	\$ 53,156
Beneficial interest as of December 31	\$ 34,405	\$ 23,350	\$ 15,797
Servicing liability as of December 31	\$ 28	\$ -	\$ -
Impact on beneficial interest resulting from changes in discount rate:			
10%	\$ 66	\$ 33	\$ 25
20%	\$ 133	\$ 65	\$ 51
Criteria to determine beneficial interest as of December 31:			
Weighted average life in days	63 to 90	71	67
	2.54% to		
Discount rate (inclusive of 0.5% servicing fee)	3.78%	2.48%	2.46%
Unused balance fee	0 to 0.40%	0.40%	0.40%
Cash proceeds for the nine months ended December 31:			
Cash purchase price	\$ 461,237	\$ 335,065	
Deferred purchase price	217,522	163,097	
Service fees	399	399	
Total	\$ 679,158	\$ 498,561	
Loss on sale of receivables			
Three months ended December 31	\$ 967	\$ 715	
Nine months ended December 31	\$ 3,225	\$ 1,662	

## 17. FAIR VALUE MEASUREMENTS

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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.

	December 31, 2011	December 31, 2010	March 31, 2011
<b>Long-term debt</b>			
Carrying value	\$ 874,603	\$ 763,052	\$ 885,155
Estimated fair value	785,090	796,213	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.

	Derivative financial instruments	Securitized beneficial interests	Total Assets	Derivative financial instruments	Guarantees	Total Liabilities
Level 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Level 2	51	-	51	80	-	80
Level 3	-	34,405	34,405	-	4,342	4,342
Totals for December 31, 2011	\$ 51	\$ 34,405	\$ 34,456	\$ 80	\$ 4,342	\$ 4,422
Level 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Level 2	218	-	218	-	-	-
Level 3	-	23,350	23,350	-	4,866	4,866
Totals for December 31, 2010	\$ 218	\$ 23,350	\$ 23,568	\$ -	\$ 4,866	\$ 4,866
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 December 31, 2011		Nine Months Ended December 31, 2011	
	Beneficial Interest in Securitized Receivables	Guarantees	Beneficial Interest in Securitized Receivables	Guarantees
Beginning Balance	\$ 28,426	\$ 5,005	\$ 15,797	\$ 4,575
Issuance of guarantees/sales of receivables	39,920	326	141,880	4,925
Settlements	(32,974)	(989)	(120,047)	(4,807)
Changes in anticipated loss rate	-	-	-	(351)
Losses recognized in earnings	(967)	-	(3,225)	-
Ending Balance December 31, 2011	\$ 34,405	\$ 4,342	\$ 34,405	\$ 4,342

	Three Months Ended December 31, 2010		Nine Months Ended December 31, 2010	
	Beneficial Interest in Securitized Receivables	Guarantees	Beneficial Interest in Securitized Receivables	Guarantees
Beginning Balance	\$ 25,528	\$ 4,830	\$ 25,125	\$ 13,478
Issuance of guarantees/sales of receivables	51,892	512	143,178	5,791
Settlements	(53,355)	(476)	(143,291)	(14,403)
Changes in anticipated loss rate	-	-	-	-
Losses recognized in earnings	(715)	-	(1,662)	-
Ending Balance December 31, 2010	\$ 23,350	\$ 4,866	\$ 23,350	\$ 4,866

The amount of unrealized losses relating to assets still held December 31, 2011 and 2010, and March 31, 2011 was \$493, \$366 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.

### Fair Value of Nonfinancial Assets and Nonfinancial Liabilities

The Company measures certain nonfinancial assets and nonfinancial liabilities at fair value on a nonrecurring basis. These assets and liabilities include assets acquired and liabilities assumed in an acquisition or in a nonmonetary exchange and property, plant and equipment and intangible assets that are written down to fair value when they are held for sale or determined to be impaired. During the quarter ended December 31, 2011, the Company recorded property that was received in a nonmonetary exchange at fair value of \$26,250. The fair value was determined utilizing independent third party real estate appraisals.

### 18. RELATED PARTY TRANSACTIONS

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

	December 31, 2011	December 31, 2010	March 31, 2011	
Balances:				
Accounts receivable	\$ 44,536	\$ 71,167	\$ 61,981	
Accounts payable	17,593	13,581	38,937	
	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2011	2010	2011	2010
Transactions:				
Purchases	\$ 49,678	\$ 47,432	\$ 127,472	\$ 96,197

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 \$9,120 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 revenue for the quarter were impacted by shipment timing as well as lower green costs for the current crop that have been passed on to our customers. However, gross profit and gross profit as a percentage of revenues improved due to product mix, lower processing cost per kilo due to larger crops and factory efficiencies. Operating income and pretax income also improved compared to last year mainly due to enhanced margins, the non-recurrence of a reserve for a customer receivable and the substantial completion of our restructuring initiative that began last year partially offset by decreased gains on sales of assets in Brazil. Tax expense for the quarter decreased to \$5.7 million compared to \$8.5 million in the prior year resulting in \$11.8 million of net income, a \$13.8 million increase over the prior year quarter.

#### **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 that include cash from operations and various types of financings based on a number of industry, business, and financial market dynamics. Movement and changes between these various funding sources provides flexibility to help maximize various business opportunities, while minimizing associated costs where possible. We continue monitoring turbulence in the capital markets as a result of the European debt crisis, and believe that we are well positioned with no major long-term debt maturities in the next twelve months, good availability to crop lines globally, and appropriate levels of cash on hand. As of December 31, 2011, available credit lines and cash were \$775.8 million, comprised of \$150.6 million in cash and \$625.2 million of credit lines, of which \$10.8 million was exclusively for letters of credit.

#### **Outlook**

We will continue to modify our operations to meet changing market conditions. Combined with reduced crop sizes in Brazil, Africa and other parts of the world we believe the shift back towards global supply and demand equilibrium for tobacco is beginning. As stated in prior quarters, our sales patterns and timing of shipments are shifting from larger volumes shipping in the first part of our fiscal year to the second half of the fiscal year. Factors such as later crop purchasing this year in a number of regions, transportation challenges in Africa, shifts in customer timing and mix, and the impact of Hurricane Irene in North Carolina have collectively created further timing shifts to our business this year. As such, fourth quarter shipping is important to meeting our full year expectations. We believe our factory investments are reducing operating expenses and we will continue to deploy capital where our customers see value in grower sustainability and social responsibility. Combined with improved shipping schedules we

anticipate building on these positive trends as we move through the remainder of this year and into the next year.

## RESULTS OF OPERATIONS:

### Condensed Consolidated Statements of Operations

<i>(in millions)</i>	Three Months Ended December 31,				Nine Months Ended December 31,			
	2011	Change		2010	2011	Change		2010
	\$	%			\$	%		
Sales and other operating revenues	\$ 493.9	\$ (28.2)	(5.4)	\$ 522.1	\$ 1,370.0	\$ (202.3)	(12.9)	\$ 1,572.3
Gross profit	65.8	5.2	8.6	60.6	193.3	(16.8)	(8.0)	210.1
Selling, general and administrative expenses	33.9	(3.5)	(9.4)	37.4	103.2	(13.0)	(11.2)	116.2
Other income	12.1	(8.2)		20.3	16.2	(23.8)		40.0
Restructuring charges	0.1	(13.3)		13.4	1.6	(11.8)		13.4
Operating income	43.9	13.7*		30.2*	104.7	(15.8)		120.5
Debt retirement expense	-	(1.1)		1.1	-	(4.6)		4.6
Interest expense	27.4	2.1		25.3	80.2	1.1		79.1
Interest income	2.0	0.3		1.7	4.8	(0.8)		5.6
Income tax expense	5.7	(2.8)		8.5	20.1	7.3		12.8
Equity in net income (loss) of investee companies	(1.0)	(2.1)		1.1	0.2	(2.1)		2.3
Income (loss) attributable to noncontrolling interests	0.1	0.1		-	-	0.2		(0.2)
Net income (loss) attributable to Alliance One International, Inc.	\$ 11.8*	\$ 13.8*		\$ (2.0)*	\$ 9.4	\$ (22.7)		\$ 32.1

\* Amounts do not equal column totals due to rounding.

### Sales and Other Operating Revenue Supplemental Information

<i>(in millions, except per kilo amounts)</i>	Three Months Ended December 31,				Nine Months Ended December 31,			
	2011	Change		2010	2011	Change		2010
	\$	%			\$	%		
Tobacco sales and other operating revenues:								
Sales and other operating revenues	\$ 461.9	\$ (29.1)	(5.9)	\$ 491.0	\$ 1,297.5	\$ (234.9)	(15.3)	\$ 1,532.4
Kilos	99.6	(8.3)	(7.7)	107.9	275.4	(65.2)	(19.1)	340.6
Average price per kilo	\$ 4.64	\$ .09	2.0	\$ 4.55	\$ 4.71	\$ .21	4.7	\$ 4.50
	\$ 32.0	\$ 0.9	2.9	\$ 31.1	\$ 72.5	\$ 32.6	81.7	\$ 39.9

Processing and other  
revenues

Total sales and other

operating revenues                      \$ 493.9    \$ (28.2)    (5.4)    \$ 522.1                      \$ 1,370.0    \$ (202.3)    (12.9)    \$ 1,572.3

### **Three Months Ended December 31, 2011 Compared to Three Months Ended December 31, 2010**

*Summary.* Sales and other operating revenues decreased 5.4% primarily due to the timing of shipments and the impact of lower green costs for the current crop that have been passed on to our customers. Although revenues declined, gross profit increased slightly and gross profit as a percentage of sales increased from 11.6% in 2010 to 13.3% in 2011 primarily due to product mix, lower processing cost per kilo and better efficiencies from factory capital investments. Selling, general and administrative expenses decreased 9.4%. Other income in the prior year included gains primarily from the sale of tobacco supplier contracts and other assets in Brazil to PMI. Other income in the current year is primarily from asset gains related to an exchange of our land and warehouses for similar property in Brazil. Our restructuring initiative that began in the prior year is now substantially complete. As a result of improved margins and the non-recurrence of prior year costs, our operating income increased this year by 45.4% or \$13.7 million compared to the prior year. With relatively constant net interest costs, our pretax income increased \$13.1 million compared to last year.

Our effective tax rate decreased from 156.9% in 2010 to 30.9% in 2011. The significant variance in the effective tax rate between 2011 and 2010 is primarily related to specific event adjustment expense in the prior year due to reductions in foreign tax credit carryforwards.

South America Region. Tobacco revenues decreased \$33.1 million or 23.6% primarily due to a decrease of 1.5 million kilos in quantities sold and a decrease of \$1.04 per kilo in average sales prices. The decrease in volume is mainly attributable to a smaller Argentine crop this year and shipments in earlier quarters this year compared to last year. The decrease in average sales price is primarily related to product mix and the impact of lower green costs for the current crop in Brazil that have been passed on to the customer. The current crop is larger than normal but of lower quality. As a result, green costs are lower than the prior year even though exchange rates have appreciated. Processing and other revenues increased by \$.5 million compared to the prior year.

Gross profit decreased \$4.8 million and gross profit as a percentage of sales decreased almost two percentage points compared to the prior year primarily due to product mix, continued pressures on margin and the negative exchange rate.

Other Regions. Tobacco revenues increased slightly by \$4.0 million or 1.2% primarily from an increase of \$.43 per kilo in average sales prices due to product mix. Partially offsetting the impact of increased average sales prices is a decrease of 6.8 million kilos in quantities sold due to the timing of shipments that occurred earlier in the current year compared to the prior year. Processing and other revenues increased by \$.4 million. Gross profits increased \$10.0 million and gross margin as a percentage of sales increased over two percentage points in 2011 compared to 2010 due to product mix, improved factory efficiencies and the positive exchange rate impact on foreign denominated operating costs.

### **Nine Months Ended December 31, 2011 Compared to Nine Months Ended December 31, 2010**

*Summary.* Compared to the prior year, sales and other operating revenues decreased 12.9% primarily due to the impact of PMI's purchase of our tobacco suppliers in Southern Brazil in the prior year, lower green costs for the current crop that have been passed on to the customer and opportunistic sales in the prior year that did not recur. While gross profit decreased accordingly, our gross profit as a percentage of sales for the nine months increased slightly from 13.4% to 14.1%. Selling, general and administrative expenses decreased 11.2% primarily in compensation costs and a prior year reserve for a customer receivable partially offset by independent monitor costs of \$2.1 million this year. Other income in the prior year were gains primarily from our sale of tobacco supplier contracts and other assets in Brazil to PMI compared to asset gains primarily from our exchange of property in Brazil this year. Our restructuring initiative that began in the prior year is now substantially complete. Operating income decreased 13.1% compared to the prior year as lower sales and margins and decreased Brazilian asset gains were substantially offset by the non-recurrence of prior year costs. Pretax income decreased \$13.2 million compared to last year in line with our expectations.

Our effective tax rate increased from 30.1% in 2010 to 68.8% in 2011. The significant variance in the effective tax rate between 2011 and 2010 is primarily related to a specific event adjustment expense due to net exchange losses on income tax accounts.

South America Region. Tobacco revenues decreased \$168.5 million or 26.6% primarily due to a decrease of 24.4 million kilos in quantities sold and a decrease of \$.39 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 \$20.9 million primarily from previously announced long-term processing agreements with PMI and JTI that began with this year's crop.

Gross profit decreased \$14.8 million however gross margin as a percentage of sales increased slightly by one half of a percentage point compared to the prior year primarily due to product mix and recoveries of prior unrecovered tobacco supplier advances as a result of the larger crop size this year.

Other Regions. Tobacco revenues decreased \$66.4 million or 7.4% primarily as a result of a decrease of 40.8 million kilos in quantities sold partially offset by an increase of \$.53 per kilo in average sales prices. Processing and other revenues increased \$11.7 million. Gross profits decreased \$2.0 million however gross margin as a percentage of sales increased approximately one percentage point due to product mix and improved factory efficiencies.

Average sales prices increased primarily due to product mix. The prior year included higher volumes of Chinese byproducts that have returned to more normalized levels this year. Decreased revenues were primarily due to prior year opportunistic Asian sales, a smaller oriental crop in Turkey this year, a later start to the processing season in many markets and the impact of lower green costs for the current crop across many regions that have been passed on to the customer.

## **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. On November 3, 2011, we closed the Fourth Amendment to the Credit Agreement. See Note 12 Debt Arrangements to the Notes to Condensed Consolidated Financial Statements for further information. Effective December 31, 2011, we did not achieve the fixed charge coverage ratio under the indenture governing our Senior Notes due 2016 necessary to access the restricted payments basket for the purchase of common stock, the payment of dividends and other actions under that basket. From time to time we may not satisfy this ratio.

As of December 31, 2011, we are in the process of repaying our South American related crop lines as we continue to ship inventory and collect receivables. In Africa, we continue to ship product which should continue into the first quarter of fiscal year 2013 as well as the purchase of the new crop which should begin mid-March. In Asia, the Indian Mysore and Indonesian crops are approaching the end of the processing and shipping is in full force. Europe continues shipping of the current crop and is preparing to purchase the new crop during the fourth fiscal quarter. North America has completed flue cured processing with shipping winding down and has commenced the purchasing, processing and shipping of the burley crop which should continue into the fourth fiscal quarter, seasonally elevating its working capital requirements. Depreciation of the U.S. dollar versus many of the currencies in which we have costs may continue to have an impact on our working capital requirements, as such, we will monitor and hedge foreign currency costs prudently, and as needed on a currency by currency basis.

**Working Capital**

Our working capital increased from \$846.9 million at March 31, 2011 to \$859.1 million at December 31, 2011. Our current ratio was 2.2 to 1 at December 31, 2011 compared to 2.8 to 1 at March 31, 2011. Working capital increased as a result of decreased accounts payable partially offset by the net increase in cash on hand at December 31, 2011 from the collection of accounts receivable. The seasonal increase in notes payable and advances from customers for the purchasing and processing of tobacco in the United States and Africa as well as the financing of crops in South America and in Europe is primarily offset by related increases in inventories and advances to tobacco suppliers.

The following table is a summary of items from the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Cash Flows. Approximately \$14.7 million of our outstanding cash balance at December 31, 2011 was held in foreign jurisdictions. As a result of our cash needs abroad, it is our intention to permanently reinvest these funds in foreign jurisdictions regardless of the fact that, due to the valuation allowance on foreign tax credit carryovers, the cost of repatriation would not have a material financial impact.

<i>(in millions except for current ratio)</i>	As of		March 31, 2011
	December 31, 2011	2010	
Cash and cash equivalents	\$ 150.6	\$ 41.4	\$ 43.5
Net trade receivables	186.8	185.0	279.9
Inventories and advances to tobacco suppliers	1,146.4	923.7	874.9



Total current assets	1,591.1	1,312.1	1,317.3
Notes payable to banks	429.1	239.8	231.4
Accounts payable	64.4	70.0	86.1
Advances from customers	113.0	92.5	17.6
Total current liabilities	732.0	529.7	470.4
Current ratio	2.2 to 1	2.5 to 1	2.8 to 1
Working capital	859.1	782.4	846.9
Total long term debt	873.3	762.6	884.4
Stockholders' equity attributable to Alliance One International, Inc.	322.6	415.3	312.8
Net cash provided (used) by:			
Operating activities	(53.7)	(96.0)	(183.0)
Investing activities	(30.9)	(2.6)	(15.9)
Financing activities	189.2	10.1	113.0

### Operating Cash Flows

Net cash used by operating activities decreased \$42.3 million in 2011 compared to 2010. The decrease in cash used was primarily due to more cash provided from trade receivables as a result of the timing of cash receipts, more advances from customers for the current crop and less cash used for payables and accrued expenses. These increases in cash flow were partially offset by increased inventories and advances to tobacco suppliers due to larger crops and delays in processing and shipping.

### Investing Cash Flows

Net cash used by investing activities increased \$28.3 million in 2011 compared to 2010. The increase in cash used was primarily attributable to the non-recurrence of prior year events. The prior year included proceeds from the sale of assets to PMI in Brazil partially offset by increased purchases of property, plant and equipment related to the construction of our new facility in Brazil. The current year includes more normalized levels of property, plant and equipment purchases and proceeds from sales of fixed assets.

### Financing Cash Flows

Net cash provided by financing activities increased \$179.1 million in 2011 compared to 2010. This increase was primarily due to the change in net proceeds from short-term borrowings due to delays in processing and shipping that have resulted in longer financing periods for the current crop. Additional cash inflows also resulted from an increase in net proceeds from our long-term revolver borrowings and the repurchase of common stock in the prior year. 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 December 31, 2011, we had cash

of \$150.6 million and total debt outstanding of \$1,303.7 million comprised of \$85.0 million of revolver borrowings, \$429.1 million of notes payable to banks, \$54.3 million of other long-term debt, \$614.3 million of 10% senior notes, \$6.0 million of 8.5% senior notes and \$115.0 million of 5 ½% convertible senior subordinated notes. The \$197.7 million seasonal increase in notes payable to banks from March 31, 2011 to December 31, 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 December 31, 2011 and 2010, respectively, were \$559.5 million at a weighted average interest rate of 2.92% and \$527.3 million at a weighted average interest rate of 3.33%. Aggregated peak borrowings by facility occurring at anytime during the nine months ended December 31, 2011 and 2010 were repaid with cash provided by operating activities. Available credit as of December 31, 2011 was \$625.2 million comprised of \$205.0 million under our revolver, \$409.4 million of notes payable to banks and \$10.8 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 December 31, 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 December 31, 2011:

	Outstanding		Lines and Letters Available	December 31, 2011	
	March 31, 2011	December 31, 2011		Interest Rate	
Senior secured credit facility:					
Revolver <sup>(1)</sup>	\$ 148.0	\$ 85.0	\$ 205.0	6.0%	(2)
Senior notes:					
10% senior notes due 2016	611.8	614.3	-	10.0%	
8 ½% senior notes due 2012	6.0	6.0	-	8.5%	
	617.8	620.3	-		
5 ½% convertible senior subordinated notes due 2014	115.0	115.0	-	5.5%	
Other long-term debt	4.4	54.3	0.1	9.7%	(2)
Notes payable to banks <sup>(3)</sup>	231.4	429.1	409.3	2.9%	(2)
Total debt	\$ 1,116.6	\$ 1,303.7	614.4		
Short term	\$ 231.4	\$ 429.1			
Long term:					
Long term debt current	\$ 0.8	\$ 1.3			
Long term debt	884.4	873.3			
	\$ 885.2	\$ 874.6			
Letters of credit	\$ 4.9	\$ 4.3	10.8		
Total credit available			\$ 625.2		

(1) As of December 31, 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 nine months ended December 31, 2011.

(3) Primarily foreign seasonal lines of credit.

### **Foreign Seasonal Lines of Credit**

We have typically financed our non-U.S. operations with uncommitted unsecured short-term seasonal lines of credit at the local level. These operating lines are seasonal in nature, normally extending for a term of 180 to 270 days corresponding to the tobacco crop cycle in that location. These facilities are typically uncommitted in that the lenders have the right to cease making loans and demand repayment of loans at any time. These loans are typically renewed at the outset of each tobacco season. As of December 31, 2011, we had approximately \$429.1 million drawn and outstanding on foreign seasonal lines with maximum capacity totaling \$853.5 million subject to limitations as provided for in the Credit Agreement. Additionally against these lines there was \$10.8 million available in unused letter of credit capacity with \$4.3 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 that was amended in December 2011. 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, as amended, will be effective for the Company on April 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 September 2011, the FASB issued new accounting guidance on testing goodwill for impairment. The primary objective of this accounting guidance is to reduce complexity and costs by allowing an entity to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. If, after assessing qualitative factors, an entity determines that it is not more likely than not (a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, then the two-step goodwill impairment test is unnecessary. This accounting guidance is effective for the Company in fiscal 2012 but early adoption is permitted. Therefore, the Company plans to adopt this guidance on January 1, 2012 which is the date of its fiscal 2012 annual goodwill testing. 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 December 2011, the FASB issued new accounting guidance on disclosures about offsetting assets and liabilities. The requirements for offsetting are different under U.S. GAAP and IFRS. Therefore, the objective of this accounting guidance is to facilitate comparison between financials statements prepared under U.S. GAAP and IFRS by enhancing disclosures of the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain assets and liabilities. This accounting guidance will be effective for the Company on April 1, 2013. 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 nature. Forward-looking 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 December 31, 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 December 31, 2011.

## 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 December 31, 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 Macedonia 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 Macedonia operations discussed above there were no changes that occurred during the three months ended December 31, 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 were assessed fines 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, lodged several appeals against the EC decisions and these cases are currently at various stages of appeal before the European Court of Justice. The outcome of the appeals is uncertain as to both timing and results. 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. has asserted claims against a subsidiary of the Company arising out of the 2004 sale of the Company's former Italian subsidiary, Dimon Italia, S.r.l., 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 \$9.6 million) plus interest and costs. A hearing for the disposition of this matter was held in December 2011 and the court's ruling is pending. 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 Agricultores ("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 2nd 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.

Item 1A. Risk Factors

As of the date of this report, there are no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended March 31, 2011. In evaluating our risks, readers should carefully consider the risk factors discussed in our Annual Report on Form 10-K, which could materially affect our business, financial condition or operating results, in addition to the other information set forth in this report and in our other filings with the Securities and Exchange Commission.

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.

- 10.01 Fourth Amendment to Credit Agreement dated as of November 3, 2011 among Alliance One International, Inc., Intabex Netherlands B.V., Alliance One International AG, the lenders from time to time parties thereto, and Deutsche Bank Trust Company Americas, as Administrative Agent, incorporated by reference to Exhibit 10.01 to the Quarterly Report on Form 10-Q of Alliance One International, Inc. for the period ended September 30, 2011, filed on November 3, 2011 (SEC File No. 1-3684).
- 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 December 31, 2011, formatted in XBRL: (i) Condensed Consolidated Statements of Operations for the three months and nine months ended December 31, 2011 and December 31, 2010; (ii) Condensed Consolidated Balance Sheets as of December 31, 2011, December 31, 2010 and March 31, 2011; (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2011 and December 31, 2010; and (iv) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text (submitted herewith)

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: February 9, 2012

/s/ Hampton R. Poole,  
Jr.

Hampton R. Poole, Jr.  
Vice President - Controller  
(Chief Accounting Officer)

Index of Exhibits

Exhibits

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