

ALLIANCE ONE INTERNATIONAL, INC.
Form 10-K
June 17, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

Alliance One International, Inc.
(Exact name of registrant as specified in its charter)
Virginia 001-13684 54-1746567
(State or other jurisdiction (Commission File Number) (I.R.S. Employer
of incorporation) Identification No.)
8001 Aerial Center Parkway
Morrisville, North Carolina 27560-8417
(Address of principal executive offices)

Telephone Number (919) 379-4300
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class Name of Exchange On Which Registered
Common Stock (no par value) New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes [] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No []

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
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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. (Check one):

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 September 30, 2012, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately \$266.3 million based on the closing sale price of the common stock as reported on the New York Stock Exchange. As of June 10, 2013, there were 87,640,640 shares of Common Stock outstanding (no par value) excluding 7,853,121 shares owned by a wholly owned subsidiary.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Shareholders (to be held August 8, 2013) of the registrant is incorporated by reference into Part III hereof.

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PART I

ITEM 1. BUSINESS

A. The Company

Alliance One is a Virginia corporation with revenues of over \$2.2 billion and operating income of approximately \$160.3 million for the year ended March 31, 2013. Our common stock has been traded on the New York Stock Exchange since 1995. Through our predecessor companies, we have a long operating history in the leaf tobacco industry with some customer relationships beginning in the early 1900s. Alliance One is one of only two global publicly held leaf tobacco merchants, each with similar global market shares. We have broad geographic processing capabilities, a diversified product offering and an established customer base, including all of the major consumer tobacco product manufacturers. Our goal is to be the preferred supplier of quality tobacco products and innovative solutions to the world's manufacturers and marketers of tobacco products.

Additional Information

We are required to file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission ("SEC"). The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file with the SEC at <http://www.sec.gov>.

Our website address is <http://www.aointl.com>. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The information contained on our website shall not be deemed part of this annual report on Form 10-K for any reason.

B. The Business

Leaf tobacco merchants purchase, process, pack, store and ship tobacco to manufacturers of cigarettes and other consumer tobacco products throughout the world. In an increasing number of markets, we also provide agronomy expertise for growing leaf tobacco. Our revenues are primarily comprised of sales of processed tobacco and fees charged for processing and related services to these manufacturers of tobacco products. Processing and other revenues are less than 5% of our total revenues. We do not manufacture cigarettes or other consumer tobacco products.

We deal primarily in flue-cured, burley, and oriental tobaccos that are used in international brand cigarettes. Several of the large multinational cigarette manufacturers have expanded their operations throughout the world, particularly in Asia, Eastern Europe and the former Soviet Union, in order to increase their access to and penetration of international brand cigarette markets. As cigarette manufacturers expand their global operations, we believe that demand will increase for local sources of leaf tobacco and local tobacco processing and distribution, primarily due to beneficial tariff rates and lower freight costs. We believe that for some large multinational cigarette manufacturers, international expansion will cause them to place greater reliance on the services of leaf tobacco merchants with the ability to source and process tobacco on a global basis and to help develop higher quality local sources of tobacco by improving local agronomic practices. For other large multinational cigarette manufacturers, international expansion also includes vertical integration of their operations, either through acquisition of the operations of existing leaf tobacco merchants, establishing new operations or contracting directly with suppliers. In recent years, Japan Tobacco, Inc. ("JTI") enhanced their direct leaf procurement capabilities with the acquisition of small leaf processors in Malawi and Brazil and the formation a joint venture for tobacco leaf in the United States. Philip Morris International, Inc. ("PMI") has also strengthened their direct leaf procurement capabilities with the acquisition of supplier contracts and the related assets from Alliance One and from another tobacco merchant in Brazil. In addition, some customers have

entered into joint venture arrangements to secure their future leaf requirements. We will continue to work with our customers to meet all their needs as their buying patterns and business models change while continuing to be a provider of quality tobacco products and innovative solutions.

Purchasing

Tobacco is primarily purchased directly from suppliers with small quantities still sold at auction. In non-auction markets, we purchase tobacco directly from suppliers and we assume the risk of matching the quantities and grades required by our customers to the entire crop we must purchase under contract. In other non-auction markets, such as China, we buy tobacco from local entities that have purchased tobacco from suppliers and supervise the processing of that tobacco by those local entities. Principal auction markets include India, Malawi and Zimbabwe and our network of tobacco operations and buyers allows us to cover the major auctions of flue-cured and burley tobacco throughout the world. In the United States and other locations, a number of our customers purchase tobacco directly from the suppliers in addition to the leaf merchants. Although our facilities process the tobacco purchased directly from suppliers by these customers, we do not take ownership of that tobacco and do not record sales revenues associated with its resale. The number of customers purchasing tobacco directly from suppliers and the locations in which they purchase tobacco directly from suppliers is expanding.

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Purchasing (continued)

Our arrangements with suppliers vary from locale to locale depending on our predictions of future supply and demand, local historical practice and availability of capital. In certain jurisdictions, we purchase seeds, fertilizer, pesticides and other products related to growing tobacco and advance them to suppliers, which represents prepaid inventory. The suppliers then utilize these inputs to grow tobacco, which we are contractually obligated to purchase. The advances of inputs for the current crop generally include the original cost of the inputs plus a mark-up and interest as it is earned. Where contractually permitted, we charge interest to the suppliers during the period the current crop advance is outstanding. We generally advance inputs at a price greater than our cost, which results in a mark-up on the inputs. We account for our advances to tobacco suppliers using a cost accumulation model, which results in us reporting our advances at the lower of cost or recoverable amounts excluding the mark-up and interest. The mark-up and interest on our advances are recognized when the tobacco is delivered as a decrease in our cost of the current crop. Upon delivery of tobacco, part of the purchase price paid to the supplier is paid in cash and part through a reduction of the advance balance. The advances applied to the delivery are reclassified out of advances and into unprocessed inventory. We advance inputs only to suppliers with whom we have purchase contracts. For example, in Brazil, we generally contract to purchase a supplier's entire tobacco crop at the market price per grade at the time of harvest based on the quality of the tobacco delivered. Pursuant to these purchase contracts, we provide suppliers with fertilizer and other materials necessary to grow tobacco and may guarantee Brazilian rural credit loans to suppliers to finance the crop. Under longer-term arrangements with suppliers, we may advance or guarantee financing on suppliers' capital assets, which are also recovered through the delivery of tobacco to us by our suppliers.

In these jurisdictions, our agronomists maintain frequent contact with suppliers prior to and during the growing and curing seasons to provide technical assistance to improve the quality and yield of the crop. As a result of various factors including weather, not all suppliers are able to settle the entire amount of advances through delivery of tobacco in a given crop year. Throughout the crop cycle, we monitor events that may impact the suppliers' ability to deliver tobacco. If we determine we will not be able to recover the original cost of the advances with deliveries of the current crop, or future crop deliveries, the unit cost of tobacco actually received is increased when unrecoverable costs are within a normal range which is based on our historical results or expensed immediately when they are above a normal range based on our historical results. We account for the unrecoverable costs in this manner to ensure only costs within a normal range are capitalized in inventory and costs that are above a normal range are expensed immediately as current period charges.

Alliance One has developed an extensive international network through which we purchase, process and sell tobacco and we hold a leading position in most tobacco growing regions in the world. We purchase tobacco in more than 35 countries. During the three years ended March 31, 2013, 2012 and 2011, approximately 30%, 27% and 35%, respectively, of our purchases of tobacco were from the South America operating segment, approximately 5%, 7% and 7%, respectively, were from the Value Added Services operating segment and approximately 65%, 66% and 58%, respectively, were from the Other Regions operating segment. Within the Other Regions operating segment, approximately 44%, 43% and 38% of our total purchases for the three years ended March 31, 2013, 2012 and 2011, respectively, were from China, the United States, Turkey and the Africa Region.

Processing

We process tobacco to meet each customer's specifications as to quality, yield, chemistry, particle size, moisture content and other characteristics. Unprocessed tobacco is a semi-perishable commodity that generally must be processed within a relatively short period of time to prevent fermentation or deterioration in quality. The processing of leaf tobacco facilitates shipping and prevents spoilage and is an essential service to our customers because the quality of processed leaf tobacco substantially affects the quality of the manufacturer's end product. Accordingly, we have located our production facilities in proximity to our principal sources of tobacco.

We process tobacco in more than 35 owned and third-party facilities around the world including Argentina, Brazil, China, Zimbabwe, Jordan, Guatemala, India, Tanzania, the United States, Malawi, Thailand, Germany, Indonesia, Macedonia, Bulgaria and Turkey. These facilities encompass all leading export locations of flue-cured, burley and oriental tobaccos. In addition, we have entered into contracts, joint ventures and other arrangements for the purchase of tobacco grown in substantially all other countries that produce export-quality flue-cured and burley

tobacco.

Upon arrival at our processing plants, flue-cured and burley tobacco is first reclassified according to grade. Most of that tobacco is then blended to meet customer specifications regarding color, body and chemistry, threshed to remove the stem from the leaf and further processed to produce strips of tobacco and sieve out small scrap. We also sell a small amount of processed but unthreshed flue-cured and burley tobacco in loose-leaf and bundle form to certain customers. Oriental tobaccos are handled and processed in a similar manner other than that the tobaccos are not threshed to remove stems.

Processed flue-cured, burley and oriental tobacco is redried to remove excess moisture so that it can be held in storage by customers or us for long periods of time. After redrying, whole leaves, bundles, strips or stems and scrap where applicable are separately packed in cases, bales, cartons or hogsheads for storage and shipment. Packed flue-cured, burley and oriental tobacco generally is transported in the country of origin by truck or rail, and exports are moved by ship. Prior to and during processing, steps are taken to ensure consistent quality of the tobacco, including the regrading and removal of undesirable leaves, dirt and other non-tobacco related material. Customer representatives are frequently present at our facilities to monitor the processing of their particular orders. Throughout the processing, our technicians use quality control laboratory test equipment to ensure that the product meets all customer specifications.

Selling

We ship tobacco to manufacturers of cigarettes and other consumer tobacco products located in approximately 90 countries around the world as designated by these manufacturers. We recognize sales revenue when persuasive evidence of an arrangement exists, the price to the customer is fixed, collectability is reasonably assured and title and risk of ownership is passed to the customer, which is upon either shipment or delivery. In certain countries we also use commissioned agents to supplement our selling efforts. Individual shipments may be large, and since the customer typically specifies shipping dates, our financial results may vary significantly between reporting periods due to timing of sales. In some markets, principally the United States, we process tobacco that is owned by our customers, and revenue is recognized when the processing is completed.

The consumer tobacco business is dominated by a relatively small number of large multinational cigarette manufacturers and by government controlled entities. Including their respective affiliates, accounting for more than 10% of our revenues were each of PMI, JTI, Imperial Tobacco Group PLC and China Tobacco International Inc. for the year ended March 31, 2013; PMI, JTI and Imperial Tobacco Group PLC for the year ended March 31, 2012; and PMI, JTI and British American Tobacco p.l.c. for the year ended March 31, 2011.

In 2013, Alliance One delivered approximately 41% of its tobacco sales to customers in Europe and approximately 19% to customers in the United States. One customer directs shipments to its Belgium storage and distribution center before shipment to its manufacturing facilities in Europe and Asia. In 2013, these Belgium sales accounted for 20% of sales to customers in Europe. The remaining sales are to customers located in Asia, Africa and other geographic regions of the world.

Seasonality

The purchasing and processing activities of our tobacco business are seasonal. Flue-cured tobacco grown in the United States is purchased, processed and marketed generally during the five-month period beginning in July and ending in November. U.S. grown burley tobacco is purchased, processed and marketed usually from late November through January or February. Tobacco grown in Brazil is usually purchased, processed and marketed from January through July and in Africa from April through September. Other markets around the world have similar purchasing periods, although at different times of the year.

During the purchasing, processing and marketing seasons, inventories of unprocessed tobacco, inventories of redried tobacco and trade accounts receivable normally reach peak levels in succession. Current liabilities, particularly advances from customers and short-term notes payable to banks, normally reach their peak in this period as a means of financing the seasonal expansion of current assets. At March 31, the end of our fiscal year, the seasonal components of our working capital reflect primarily the operations related to foreign grown tobacco.

Competition

Alliance One is one of only two global publicly held leaf tobacco merchants, with substantially similar global market shares in markets in which we both operate. We hold a leading position in most major tobacco growing regions in the world, including the principal export markets for flue-cured, burley and oriental tobacco and, as a result of our scale, global reach, and financial resources, we believe we are well-suited to serve the needs of all manufacturers of cigarettes and other consumer tobacco products.

The leaf tobacco industry is highly competitive and competition is based primarily on the price charged for products and services as well as the merchant's ability to meet customer specifications in the buying, processing, residue compliance and financing of tobacco. In addition to the primary global independent leaf tobacco merchants, there are a number of other independent global, regional or national competitors. Local independent leaf merchants with low fixed costs and overhead also supply cigarette manufacturers. Recent vertical integration initiatives and other changes in customer buying patterns have resulted in a more dynamic and competitive operating environment. There is also competition in all countries to buy the available leaf tobacco and in many areas, total leaf tobacco processing capacity exceeds demand.

Reportable Segments

The purchasing, processing, selling and storing of leaf tobacco is similar throughout our business. However, we maintain regional operating and financial management in North America, South America, Europe, Africa, Asia and beginning April 1, 2012, Value Added Services, to monitor our various operations in these areas. In reviewing these operations, we have concluded that the economic characteristics of South America and Value Added Services are dissimilar from the other operating regions. Based on this fact, we disclose South America and Value Added Services separately and aggregate the remaining four operating segments, Africa, Asia, Europe and North America into one reportable segment "Other Regions." Our financial performance is reviewed at this level and these regions represent our operating segments. See Note 14 "Segment Information" to the "Notes to Consolidated Financial Statements" for financial information attributable to our reportable segments.

C. Other

Research and Development

We routinely cooperate with both our customers and the manufacturers of the equipment used in our processing facilities to improve processing technologies. However, no material amounts are expended for research and development, and we hold no material patents, licenses, franchises, or concessions.

Alliance One Employees

Alliance One's consolidated entities employed approximately 3,330 persons, excluding seasonal employees, in our worldwide operations at March 31, 2013. In the Other Regions operating segment, Alliance One's consolidated entities employed approximately 2,360 employees at March 31, 2013 excluding approximately 6,575 seasonal employees. During processing periods, most seasonal employees as well as approximately 120 full-time factory personnel in the United States are covered by collective bargaining agreements. In the Value Added Services operating segment, Alliance One's consolidated entities employed approximately 245 persons at March 31, 2013. Of those, approximately 80 hourly paid factory workers in the United States are covered by a collective bargaining agreement. In the South America operating segment, Alliance One's consolidated entities employed approximately 725 persons, excluding approximately 4,065 seasonal employees, at March 31, 2013. We consider Alliance One's employee relations to be satisfactory.

Government Regulation and Environmental Compliance

See Item 1A. "Risk Factors" for a discussion of government regulation. Currently there are no material estimated capital expenditures related to environmental control facilities. In addition, there is no material effect on capital expenditures, results of operations or competitive position anticipated as a result of compliance with current or pending federal or state laws and regulations relating to protection of the environment.

EXECUTIVE OFFICERS OF ALLIANCE ONE INTERNATIONAL, INC.

The following information is furnished with respect to the Company's executive officers as of April 1, 2013, and the capacities in which they serve. These officers serve at the pleasure of the Board of Directors and are elected at each annual organizational meeting of the Board.

NAME	AGE	TITLE
J. Pieter Sikkel	49	President and Chief Executive Officer
J. Henry Denny	62	Executive Vice President - Business Relationship Management and Leaf
Jose Maria Costa Garcia	47	Executive Vice President - Global Operations and Supply Chain
Robert A. Sheets	58	Executive Vice President – Chief Financial Officer and Chief Administrative Officer
William L. O'Quinn, Jr.	44	Senior Vice President - Chief Legal Officer and Secretary

The business experience summaries provided below for the Company's executive officers describe positions held by the named individuals during the last five years.

J. Pieter Sikkel has served as President and Chief Executive Officer of Alliance One International, Inc., since March 1, 2013, having previously served as President from December 14, 2010 through February 28, 2013, Executive Vice President - Business Strategy and Relationship Management from April 2007 through December 13, 2010, and as Regional Director of Asia from May 2005 through April 2007.

J. Henry Denny has served as Executive Vice President - Business Relationship Management and Leaf since August 2012, having previously served as Executive Vice President - Global Operations from July 2009 through July 2012, as Regional Director of North and Central America from July 2006 through June 2009, and as Director of Leaf Purchasing for North America from May 2005 through June 2006.

Jose Maria Costa Garcia has served as Executive Vice President - Global Operations and Supply Chain since August 2012, having previously served as Regional Director - Europe from September 2008 through July 2012, and as Regional Financial Director - Europe from April 2005 through August 2008.

Robert A. Sheets has served as Executive Vice President - Chief Financial Officer and Chief Administrative Officer since December 14, 2010, having previously served as Executive Vice President - Chief Financial Officer from April 1, 2008 through December 13, 2010, and as a member of the Board of Directors and as Executive Vice President and Chief Financial Officer of a corporate predecessor, Standard Commercial Corporation, until its merger into Alliance One in May 2005.

William L. O'Quinn, Jr. has served as Senior Vice President - Chief Legal Officer and Secretary since April 1, 2011, having previously served as Senior Vice President - Secretary since January 1, 2011, and as Assistant General Counsel and Assistant Secretary from August 2005.

ITEM 1A. RISK FACTORS

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained in this Annual Report on Form 10-K. Any of the following risks could materially adversely affect our business, our operating results, our financial condition and the actual outcome of matters as to which forward-looking statements are made in this Annual Report.

We may from time to time make written or oral forward-looking statements, including statements contained in filings with the SEC, in reports to stockholders and in press releases and investor calls and webcasts. You can identify these forward-looking statements by use of words such as “strategy,” “expects,” “continues,” “plans,” “anticipates,” “believes,” “will,” “estimates,” “intends,” “projects,” “goals,” “targets” and other words of similar meaning. You can also identify them by fact that they do not relate strictly to historical or current facts.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest in or remain invested in Alliance One International, Inc. securities. In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important risk factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by us; any such statement is qualified by reference to the following cautionary statements. We elaborate on these and other risks we face throughout this document. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties. We do not undertake to update any forward-looking statement that we may make from time to time.

Risks Relating to Our Operations

Our reliance on a small number of significant customers may adversely affect our financial statements. Our customers are manufacturers of cigarette and other tobacco products. Several of these customers individually account for a significant portion of our sales in a normal year.

For the year ended March 31, 2013, each of Philip Morris International, Inc., Japan Tobacco Inc., Imperial Tobacco Group PLC and China Tobacco International Inc., including their respective affiliates, accounted for more than 10% of our revenues from continuing operations. In addition, tobacco product manufacturers are experiencing consolidation and further consolidation among our customers could decrease such customers’ demand for our leaf tobacco or processing services. The loss of any one or more of our significant customers could have a material adverse effect on our financial statements.

Continued vertical integration by our customers could materially adversely affect our financial statements. Demand for our leaf tobacco or processing services could be materially reduced if cigarette manufacturers continue to significantly vertically integrate their operations, either through acquisition of our competitors, establishing new operations or contracting directly with suppliers. In recent years, Japan Tobacco, Inc. vertically integrated operations in Malawi, Brazil and the United States. In addition, Philip Morris International, Inc. acquired supplier contracts and related assets in Brazil in order to procure leaf directly. Our results of operations were adversely affected by these initiatives. Further vertical integration by our customers could have a material adverse effect on our financial statements.

Global shifts in sourcing customer requirements may negatively impact our organizational structure and asset base. The global leaf tobacco industry is experiencing shifts in the sourcing of customer requirements for tobacco. For example, significant tobacco production volume decreases have occurred in the United States, Zimbabwe and Western Europe from historical levels. At the same time, production volumes in other sourcing origins, such as Brazil and

other areas of Africa, are stabilizing. Additional shifts in sourcing may occur as a result of currency fluctuations, including devaluation of the U.S. dollar. A shift in sourcing origins in Europe has been influenced by modifications to the tobacco price support system in the European Union (EU). Customer requirements have changed due to these variations in production, which could influence our ability to plan effectively for the longer term in Europe.

We may not be able to timely or efficiently adjust to shifts in sourcing origins, and adjusting to shifts may require changes in our production facilities in certain origins and changes in our fixed asset base. We have incurred, and may continue to incur, restructuring charges as we continue to adjust to shifts in sourcing. Adjusting our capacity and adjusting to shifts in sourcing may have an adverse impact on our ability to manage our costs, and could have an adverse effect on our financial performance.

Our financial results will vary according to growing conditions, customer indications and other factors, which reduces your ability to gauge our quarterly and annual financial performance.

Our financial results, particularly the quarterly financial results, may be significantly affected by fluctuations in tobacco growing seasons and crop sizes which affect the supply of tobacco. Crop sizes may be affected by, among other things, crop infestation and disease, the volume of annual tobacco plantings and yields realized by supplier and suppliers elections to grow crops other than tobacco. The cultivation period for tobacco is dependent upon a number of factors, including the weather and other natural events, such as hurricanes or tropical storms, and our processing schedule and results of operations for any quarterly period can be significantly altered by these factors.

Risks Relating to Our Operations (continued)

Our financial results will vary according to growing conditions, customer indications and other factors, which reduces your ability to gauge our quarterly and annual financial performance. (continued)

The cost of acquiring tobacco can fluctuate greatly due to crop sizes and increased competition in certain markets in which we purchase tobacco. For example, short crops in periods of high demand translate into higher average green prices, higher throughput costs and less volume to sell. Furthermore, large crops translate into lower average green prices, lower throughput costs and excess volume to sell.

Further, the timing and unpredictability of customer indications, orders and shipments cause us to keep tobacco in inventory, increase our risk and result in variations in quarterly and annual financial results. The timing of shipments can be materially impacted by shortages of containers and vessels for shipping as well as infrastructure and accessibility issues in ports we use for shipment. We may from time to time in the ordinary course of business keep a significant amount of processed tobacco in inventory for our customers to accommodate their inventory management and other needs. Sales recognition by us and our subsidiaries is based on the passage of ownership, usually with shipment of product. Because individual shipments may represent significant amounts of revenue, our quarterly and annual financial results may vary significantly depending on our customers' needs and shipping instructions. These fluctuations result in varying volumes and sales in given periods, which also reduces your ability to compare our financial results in different periods or in the same periods in different years.

Suppliers who have historically grown tobacco and from whom we have purchased tobacco may elect to grow other crops instead of tobacco, which affects the world supply of tobacco and may impact our quarterly and annual financial performance.

Increases in the prices for other crops have led and may in the future lead suppliers who have historically grown tobacco, and from whom we have purchased tobacco, to elect to grow these other, more profitable items instead of tobacco. A decrease in the volume of tobacco available for purchase may increase the purchase price of such tobacco. As a result, we could experience an increase in tobacco crop acquisition costs which may impact our quarterly and annual financial performance.

Our advancement of inputs to tobacco suppliers could expose us to losses.

We advance seeds, fertilizer, pesticides and other products related to growing tobacco to our suppliers, which represent prepaid inventory, in many countries to allow the suppliers to grow tobacco, which we are contractually obligated to purchase. The advances to tobacco suppliers are settled as part of the consideration paid upon the suppliers delivering us unprocessed tobacco at market prices. Two primary factors determine the market value of the tobacco suppliers deliver to us: the quantity of tobacco delivered and the quality of the tobacco delivered.

Unsatisfactory quantities or quality of the tobacco delivered could result in losses with respect to advances to our tobacco suppliers or the deferral of those advances.

When we purchase tobacco directly from suppliers, we bear the risk that the tobacco will not meet our customers' quality and quantity requirements.

In countries where we contract directly with tobacco suppliers, including Argentina, Brazil, the United States and certain African countries, we bear the risk that the tobacco delivered will not meet quality and quantity requirements of our customers. If the tobacco does not meet such market requirements, we may not be able to sell the tobacco we agreed to buy and may not be able to meet all of our customers' orders, which would have an adverse effect on our profitability and results of operations.

Weather and other conditions can affect the marketability of our inventory.

Like other agricultural products, the quality of tobacco is affected by weather and the environment, which can change the quality or size of the crop. If a weather event is particularly severe, such as a major drought or hurricane, the affected crop could be destroyed or damaged to an extent that it would be less desirable to our customers, which would result in a reduction in revenues. If such an event is also widespread, it could affect our ability to acquire the

quantity of products required by customers. In addition, other items can affect the marketability of tobacco, including, among other things, the presence of:

- non-tobacco related material;
- genetically modified organisms; and
- excess residues of pesticides, fungicides and herbicides.

A significant event impacting the condition or quality of a large amount of any of the tobacco crops we buy could make it difficult for us to sell such tobacco or to fill our customers' orders. In addition, in the event of climate change, adverse weather patterns could develop in the growing regions in which we purchase tobacco. Such adverse weather patterns could result in more permanent disruptions in the quality and size of the available crop, which could adversely affect our business.

Risks relating to Our Operations (continued)

We face increased risks of doing business due to the extent of our international operations.

We do business in more than 35 countries, some of which do not have stable economies or governments. Our international operations are subject to international business risks, including unsettled political conditions, uncertainty in the enforcement of legal obligations, including the collection of accounts receivable, expropriation, import and export restrictions, exchange controls, inflationary economies, currency risks and risks related to the restrictions on repatriation of earnings or proceeds from liquidated assets of foreign subsidiaries. These risks are exacerbated in countries where we have advanced substantial sums or guaranteed local loans or lines of credit for the purchase of tobacco from suppliers. For example, in 2006 as a result of the political environment, economic instability, foreign currency controls and governmental regulations in Zimbabwe, we deconsolidated our Zimbabwe subsidiaries.

Our international operations are in areas where the demand is for the export of lower priced tobacco. We have significant investments in our purchasing, processing and exporting operations in Argentina, Brazil, Malawi, Tanzania and Turkey.

In recent years, economic problems in certain African countries have received wide publicity related to devaluation and appreciation of the local currency and inflation. Devaluation and appreciation can affect our purchase costs of tobacco and our processing costs. In addition, we conduct business with suppliers and customers in countries that have recently had or may be subject to dramatic political regime change, such as Tunisia and Egypt. In the event of such dramatic changes in the government of such countries, we may be unable to continue to operate our business, or adequately enforce legal obligations, after the change in a manner consistent with prior practice.

We are subject to potentially inconsistent actions by the governments of certain foreign countries in which we operate which may have a significant impact on our financial results. For example, in 2006, our concession to promote tobacco production in the Chifunde district of Mozambique was terminated by the government. Thereafter, we assessed our remaining Mozambique operations without the Chifunde district and determined that it was not in our economic interest to remain in Mozambique without this strategic district. Consequently, we discontinued our operations within Mozambique after the 2006 crop.

We are subject to the Foreign Corrupt Practices Act (the "FCPA") and operate in jurisdictions that pose a high risk of potential FCPA violations.

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or other benefits. We operate in a number of jurisdictions that pose a high risk of potential FCPA violations. Although our corporate policy prohibits foreign bribery and we have adopted procedures to promote compliance, there is no assurance that our policy or procedures will work effectively all of the time or protect us against liability under the FCPA for actions taken by our agents, employees and intermediaries with respect to our business or any businesses that we acquire. Failure to comply with the FCPA, other anti-corruption laws and other laws governing the conduct of business with government entities (including local laws) could lead to criminal and civil penalties and other remedial measures (including further changes or enhancements to our procedures, policies, and controls, the imposition of a compliance monitor at our expense and potential personnel changes and/or disciplinary actions), any of which could have an adverse impact on our business, financial condition, results of operations and liquidity. Any investigation of any potential violations of the FCPA or other anti-corruption laws by U.S. or foreign authorities also could have an adverse impact on our business, financial condition and results of operations.

In 2010, we entered into settlements with the SEC and the U.S. Department of Justice to resolve their investigations regarding potential criminal and civil violations of the FCPA. The settlements resulted in the disgorgement in profits and fines totaling \$19.45 million, which have been paid. Both settlements require us to retain an independent compliance monitor for a term of three years.

Our exposure to changes in foreign tax regimes could adversely impact our business.

We do business in countries that have tax regimes in which the rules are not clear, are not consistently applied and are subject to sudden change. This is especially true with regard to international transfer pricing. Our earnings could be

reduced by the uncertain and changing nature of these tax regimes.

Fluctuations in foreign currency exchange and interest rates could adversely affect our results of operations. We conduct our business in many countries around the world. Our business is generally conducted in U.S. dollars, as is the business of the leaf tobacco industry as a whole. However, we generally must purchase tobacco in non-U.S. countries using local currency. As a result, local country operating costs, including the purchasing and processing costs for tobaccos, are subject to the effects of exchange fluctuations of the local currency against the U.S. dollar. When the U.S. dollar weakens against foreign currencies, our costs for purchasing and processing tobacco in such currencies increases. We attempt to minimize such currency risks by matching the timing of our working capital borrowing needs against the tobacco purchasing and processing funds requirements in the currency of the country where the tobacco is grown. Fluctuations in the value of foreign currencies can significantly affect our operating results.

Risks relating to Our Operations (continued)

Fluctuations in foreign currency exchange and interest rates could adversely affect our results of operations.
(continued)

In addition, the devaluation of foreign currencies has resulted and may in the future result in reduced purchasing power from customers whose capital resources are denominated in those currencies. We may incur a loss of business as a result of the devaluation of these currencies now or in the future.

Low investment performance by our defined benefit pension plan assets may increase our pension expense, and may require us to fund a larger portion of our pension obligations, thus, diverting funds from other potential uses. We sponsor defined benefit pension plans that covers certain eligible employees. Our pension expense and required contributions to our pension plan are directly affected by the value of plan assets, the projected rate of return on plan assets, the actual rate of return on plan assets, and the actuarial assumptions we use to measure the defined benefit pension plan obligations.

Due to the significant market downturn that began in 2008, plan asset values declined significantly. If plan assets perform below the assumed rate of return used to determine pension expense, future pension expense will increase. Further, as a result of the global economic instability, our pension plan investment portfolio has recently incurred greater volatility.

The proportion of pension assets to liabilities, which is called the funded status, determines the level of contribution to the plan that is required by law. In recent years, we have funded the plan in amounts as required, but changes in the plan's funded status related to the value of assets or liabilities could increase the amount required to be funded. We cannot predict whether changing market or economic conditions, regulatory changes or other factors will further increase our pension funding obligations, diverting funds we would otherwise apply to other uses.

Competition could erode our earnings.

The leaf tobacco industry is highly competitive. We are one of two global publicly held competitors in the leaf tobacco industry, each with approximately equal market share. Competition is based primarily on the prices charged for products and services as well as the merchant's ability to meet customer specifications in the buying, processing and financing of tobacco. In addition, there is competition in all countries to buy the available tobacco. The loss or substantial reduction of any large or significant customer could reduce our earnings.

In addition to the two primary global independent leaf tobacco merchants, the cigarette manufacturers increasingly buy tobacco directly from suppliers, and new independent leaf merchants are entering the leaf purchasing and processing business. We face increasing competition from new local and regional independent leaf merchants with low fixed costs and overhead and good customer connections at the local level. These new independent merchants are buying an increasing portion of the crops in certain international markets, particularly Brazil and parts of Africa, where the new entrants have been able to capitalize in the global transition to those markets. Any of these sources of new competition may result in less tobacco available for us to purchase and process in the applicable markets.

We rely on internal and externally hosted information technology systems and disruption, failure or security breaches of these systems could adversely affect our business.

We rely on information technology (IT) systems, including systems hosted by service providers. The enterprise resource planning system (SAP) we are implementing in stages throughout the company, for example, is hosted by Capgemini and our domestic employee payroll system is hosted by Ceridian. Although we have disaster recovery plans and several intrusion preventive mitigating tools and services in place, which are active inline services or are tested routinely, our portfolio of hardware and software products, solutions and services and our enterprise IT systems, including those hosted by service providers, may be vulnerable to damage or disruption caused by circumstances beyond our control, such as catastrophic events, power outages, natural disasters, computer system or network failures, computer viruses or other malicious software programs and cyber-attacks, including system hacking and other cyber-security breaches. The failure or disruption of our IT systems to perform as anticipated for any reason

could disrupt our business and result in decreased performance, significant remediation costs, transaction errors, loss of data, processing inefficiencies, downtime, litigation, and the loss of suppliers or customers. A significant disruption or failure could have a material adverse effect on our business operations, financial performance and financial condition.

We have identified material weaknesses related to our internal control in the past, and there can be no assurance that material weaknesses will not be identified in the future.

Prior to fiscal 2009, we identified certain matters involving our internal control over financial reporting that we and our independent registered public accounting firm determined to be material weaknesses under standards established by the Public Company Accounting Oversight Board. We remediated those material weaknesses in internal control over financial reporting, and we believe that our internal control over financial reporting was effective at March 31, 2013 as reported elsewhere in this Annual Report. Although we intend to continue to monitor and improve our internal controls, we cannot assure you that other material weaknesses will not occur in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could cause us to fail to meet our reporting obligations or result in misstatements in our financial statements in amounts that could be material. Inferior internal controls could cause investors to lose confidence in our reported financial information, which could have a negative effect on the value of our common stock and could also require additional restatements of our prior reported financial information.

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Risks Relating to Our Capital Structure

We may not continue to have access to the capital markets to obtain long-term and short-term financing on acceptable terms and conditions.

We access the short-term capital markets and, from time to time, the long-term markets to obtain financing. Although we believe that we can continue to access the capital markets in fiscal 2014 on acceptable terms and conditions, our access and the availability of acceptable terms and conditions are impacted by many factors, including: (i) our credit ratings; (ii) the liquidity and volatility of the overall capital markets, which has been negatively impacted by the U.S. sub-prime debt turmoil and the turmoil created by the sovereign debt crisis in Europe and elsewhere; and (iii) the current state of the economy, including the tobacco industry. There can be no assurances that we will continue to have access to the capital markets on terms acceptable to us.

We may not have access to available capital to finance our local operations in non-U.S. jurisdictions.

We have typically financed our non-U.S. local operations with uncommitted short-term operating credit lines at the local level. These operating lines are typically 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 or demand payment of outstanding loans at any time. In addition, each of these operating lines must be renewed with each tobacco crop season in that jurisdiction. Although our foreign subsidiaries are the borrowers under these lines, many of them are guaranteed by us.

As of March 31, 2013, we had approximately \$356.8 million drawn and outstanding on short-term foreign seasonal lines with maximum capacity totaling \$647.8 million subject to limitations as provided for in our Credit Agreement. Additionally against these lines there was \$14.7 million available in unused letter of credit capacity with \$4.1 million issued but unfunded. At March 31, 2013 we had \$5.2 million drawn and outstanding on foreign seasonal borrowings with maturity greater than one year with a maximum capacity of \$25.0 million subject to limitations as provided for in the agreements.

Because the lenders under these operating lines typically have the right to cancel the loan at any time and each line must be renewed with each crop season, there can be no assurance that this capital will be available to our subsidiaries. If a number of these lenders cease lending to our subsidiaries or dramatically decrease such lending, it could have a material adverse affect on our liquidity.

Failure of foreign banks in which our subsidiaries deposit funds or the failure to transfer funds or honor withdrawals may affect our results of operations.

Funds held by our foreign subsidiaries are often deposited in their local banks. Banks in certain foreign jurisdictions may be subject to a higher rate of failure or may not honor withdrawals of deposited funds. In addition, the countries in which these local banks operate may lack sufficient regulatory oversight or suffer from structural weaknesses in the local banking system. Due to uncertainties and risks relating to the political stability of certain foreign governments, these local banks also may be subject to exchange controls and therefore unable to perform transfers of certain currencies. If our ability to gain access to these funds was impaired, it could have a material adverse effect on our results of operations.

We have substantial debt which may adversely affect us by limiting future sources of financing, interfering with our ability to pay interest and principal on the senior notes and subjecting us to additional risks.

We have a significant amount of indebtedness and debt service obligations. As of March 31, 2013, we had approximately \$1,194.0 million of indebtedness. In addition, the indenture governing the senior notes allows us to incur additional indebtedness under certain circumstances. If we add new indebtedness to our current indebtedness levels, the related risks that we now face could increase.

Our substantial debt will have important consequences, including:

• that our indebtedness may make it more difficult for us to satisfy our obligations with respect to the senior notes and our other obligations;

that our indebtedness may limit our ability to obtain additional financing on satisfactory terms and to otherwise fund working capital, capital expenditures, debt refinancing, acquisitions and other general corporate requirements; that a significant portion of our cash flow from operations must be dedicated to paying interest on and the repayment of the principal of our indebtedness. This reduces the amount of cash we have available for making principal and interest payments under the senior notes and for other purposes and makes us more vulnerable to a decrease in demand for leaf tobacco, increases in our operating costs or general economic or industry conditions; that our ability to adjust to changing market conditions and to compete with other global leaf tobacco merchants may be hampered by the amount of debt we owe;

- increasing our vulnerability to general adverse economic and industry conditions;
- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- and
- restricting us from making strategic acquisitions or exploiting business opportunities.

Risks Relating to Our Capital Structure (continued)

We have substantial debt which may adversely affect us by limiting future sources of financing, interfering with our ability to pay interest and principal on the senior notes and subjecting us to additional risks. (continued)

In addition, the indenture governing the senior notes and our senior secured credit facility each contain financial and other restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt. Also, a substantial portion of our debt, including borrowings under our senior secured credit facility, bears interest at variable rates. If market interest rates increase, variable-rate debt will create higher debt service requirements, which would adversely affect our cash flow. While we may enter into agreements limiting our exposure to higher debt service requirements, any such agreements may not offer complete protection from this risk.

Despite current indebtedness levels, we may still be able to incur substantially more debt. This could exacerbate further the risks associated with our significant leverage.

We may be able to incur substantial additional indebtedness in the future. The terms of the indentures governing our publicly traded senior notes and our credit agreement restrict, but do not completely prohibit, us from doing so. Our senior secured credit facility provides for a revolving credit line of \$250.0 million. There was \$95.0 million outstanding under this facility at March 31, 2013. If new debt is added to our current debt levels, the related risks we now face could intensify.

The indentures governing the senior notes and our senior secured credit facility contain, and in the future could contain additional, covenants and tests that limit our ability to take actions or cause us to take actions we may not normally take.

The indentures governing the senior notes and our senior secured credit facility contain a number of significant covenants. These covenants limit our ability to, among other things:

- incur additional indebtedness;
- issue preferred stock;
- merge, consolidate or dispose of substantially all of our assets;
- grant liens on our assets;
- pay dividends, redeem stock or make other distributions or restricted payments;
- repurchase or redeem capital stock or prepay subordinated debt;
- make certain investments;
- agree to restrictions on the payment of dividends to us by our subsidiaries;
- sell or otherwise dispose of assets, including equity interests of our subsidiaries;
- enter into transactions with our affiliates; and
- enter into certain sale and leaseback transactions.

Our senior secured credit facility and the indentures require us to meet certain financial tests. Complying with these covenants and tests may cause us to take actions that we otherwise would not take or not take actions that we otherwise would take. The failure to comply with these covenants and tests would cause a default under the credit facility and, under the indenture, would prevent us from taking certain actions, such as incurring additional debt, paying dividends or redeeming senior notes or subordinated debt. A default, if not waived, could result in the debt under our senior secured credit facility and the indenture becoming immediately due and payable and could result in a default or acceleration of our other indebtedness with cross-default provisions. If this occurs, we may not be able to pay our debt or borrow sufficient funds to refinance it. Even if new financing is available, it may not be on terms that are acceptable to us.

We may not be able to satisfy the covenants included in our financing arrangements which could result in the default of our outstanding debt obligations.

In the recent past, we have sought and obtained waivers and amendments under our existing financing arrangements to avoid future non-compliance with financial covenants and cure past defaults under restrictive covenants. We also paid significant fees to obtain these waivers and consents. You should consider this in evaluating our ability to comply with restrictive covenants in our debt instruments and the financial costs of our ability to do so. Any future defaults for which we do not obtain waivers or amendments could result in the acceleration of a substantial portion of our indebtedness, much of which is cross-defaulted to other indebtedness.

Risks Relating to Our Capital Structure (continued)

We will require a significant amount of cash to service our indebtedness. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including the notes, and to fund planned capital expenditures will depend on our ability to generate cash in the future. This is subject to general economic, financial, competitive and other factors that may be beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our senior secured credit facility or otherwise in an amount sufficient to enable us to pay our indebtedness, including the senior notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the senior notes, on or before maturity. We cannot assure you that we will be able to refinance any of our debt, including our senior secured credit facility or the senior notes, on commercially reasonable terms or at all. Additionally, to the extent permitted under our senior secured credit agreement and indentures, we may repurchase, repay or tender for our bank debt, senior notes or senior subordinated notes, which may place pressure on future cash requirements to the extent that the debt repurchased, repaid or tendered cannot be redrawn.

If we refinance our current credit facilities, we may not be able to obtain the same credit availability or at interest rates similar to our current credit facilities.

Our senior credit facility matures in April 2014. If credit market conditions worsen, it could have a material adverse impact on our ability to refinance our current credit facilities on similar or better terms than our current credit facility.

Risks Related to Global Financial and Credit Markets

Volatility and disruption of global financial and credit markets may negatively impact our ability to access financing and expose us to unexpected risks.

Global financial and credit markets exposes us to a variety of risks as we fund our business with a combination of cash from operations, short-term seasonal credit lines, our revolving credit facility, long-term debt securities and customer advances. We have financed our non-U.S. operations with uncommitted unsecured short term seasonal lines of credit at the local level. These local operating lines typically extend for a term of up to one year and are typically uncommitted in that the lenders have the right to cease making loans and demand repayment of loans at any time. As of March 31, 2013, we had approximately \$362.0 million drawn and outstanding on short-term and long-term foreign seasonal lines with maximum capacity totaling \$672.8 million. Changes in the global financial and credit markets could create uncertainty as to whether local seasonal lines will continue to be available to finance our non-U.S. operations to the extent or on terms similar to what has been available in the past and whether repayment of existing loans under these lines will be demanded prior to maturity. To the extent that local seasonal lines cease to be available at levels necessary to finance our non-U.S. operations or we are required to repay loans under the lines prior to maturity, we may be required to seek alternative financing sources beyond our existing committed sources of funding. Based on the current financial and credit markets, we cannot assure you that such alternative funding will be available to us on terms and conditions acceptable to us, or at all. In the event that we may be required to support our non-U.S. operations by borrowing U.S. dollars under our existing revolving credit line, we may be exposed to additional currency exchange risk that we may be unable to successfully hedge. Further, there is additional risk that certain banks in the U.S. revolving credit line syndicate could be unable to meet contractually obligated borrowing requests in the future if their financial condition were to deteriorate. In addition, we maintain deposit accounts with numerous financial institutions around the world in amounts that exceed applicable governmental deposit insurance levels. While we actively monitor our deposit relationships, we are subject to risk of loss in the event of the unanticipated failure of a financial institution in which we maintain deposits, which loss could be material to our results of operations and financial condition.

Derivative transactions may expose us to potential losses and counterparty risk.

We have entered into certain derivative transactions, including interest rate swaps and foreign exchange contracts. Changes in the fair value of these derivative financial instruments that are not accounted for as cash flow hedges are reported as income, and accordingly could materially affect our reported income in any period. In addition, the counterparties to these derivative transactions, and to the convertible note hedge transactions, are financial institutions or affiliates of financial institutions, and we are subject to risks that these counterparties default under these transactions. In some of these transactions, including the convertible note hedge transactions, our exposure to counterparty credit risk is not secured by any collateral. Global economic conditions over the last few years have resulted in the actual or perceived failure or financial difficulties of many financial institutions, including bankruptcy. If one or more of the counterparties to one or more of our derivative transactions not secured by any collateral becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under those transactions. We can provide no assurances as to the financial stability or viability of any of our counterparties.

Risks Relating to the Tobacco Industry

Reductions in demand for consumer tobacco products could adversely affect our results of operations.

The tobacco industry, both in the United States and abroad, continues to face a number of issues that may reduce the consumption of cigarettes and adversely affect our business, sales volume, results of operations, cash flows and financial condition.

These issues, some of which are more fully discussed below, include:

- governmental actions seeking to ascribe to tobacco product manufacturers liability for adverse health effects associated with smoking and exposure to environmental tobacco smoke;
- smoking and health litigation against tobacco product manufacturers;
- tax increases on consumer tobacco products;
- current and potential actions by state attorneys general to enforce the terms of the Master Settlement Agreement, or MSA, between state governments in the United States and tobacco product manufacturers;
- governmental and private bans and restrictions on smoking;
- actual and proposed price controls and restrictions on imports in certain jurisdictions outside the United States;
- restrictions on tobacco product manufacturing, marketing, advertising and sales;
- the diminishing social acceptance of smoking;
- increased consumer acceptance of electronic cigarettes;
- increased pressure from anti-smoking groups;
- other tobacco product legislation that may be considered by Congress, the states, municipalities and other countries;
- and
- the impact of consolidation among multinational cigarette manufacturers.

Tobacco product manufacturer litigation may reduce demand for our products and services.

Our primary customers, the leading cigarette manufacturers, face thousands of lawsuits brought throughout the United States and, to a lesser extent, the rest of the world. These lawsuits have been brought by plaintiffs, including (1) individuals and classes of individuals alleging personal injury and/or misleading advertising, (2) governments (including governmental and quasi-governmental entities in the United States and abroad) seeking recovery of health care costs allegedly caused by cigarette smoking, and (3) other groups seeking recovery of health care expenditures allegedly caused by cigarette smoking, including third-party health care payors, such as unions and health maintenance organizations. Damages claimed in some of the smoking and health cases range into the billions of dollars. There have been several jury verdicts in tobacco product litigation during the past several years. Additional plaintiffs continue to file lawsuits. The effects of the lawsuits on our customers could reduce their demand for tobacco from us.

Legislation and regulatory and other governmental initiatives could impose burdensome restrictions on the tobacco industry and reduce consumption of consumer tobacco products and demand for our services.

The Family Smoking Prevention and Tobacco Control Act extends the authority of the Food and Drug Administration (FDA) to regulate tobacco products. This act authorizes the FDA to adopt product standards for tobacco products, including the level of nicotine yield and the reduction or elimination of other constituents of the products, along with provisions for the testing of products against these standards. The act imposes further restrictions on advertising of tobacco products, authorizes the FDA to limit the sales of tobacco products to face-to-face transactions permitting the verification of the age of the purchaser, authorizes a study to determine whether the minimum age for the purchase of tobacco products should be increased and requires submission of reports from manufacturers of tobacco products to the FDA regarding product ingredients and other matters, including reports on health, toxicological, behavioral, or physiologic effects of tobacco products and their constituents. The act also mandates warning labels and requires packaging to indicate the percentage of domestically grown tobacco and foreign grown tobacco included in the product. The FDA has adopted regulations under the act establishing requirements for the sale, distribution and marketing of cigarettes, as well as package warnings and advertising limitations.

In addition, the act directs the FDA to promulgate regulations requiring that the methods used in, and the facilities and controls used for, the manufacture, preproduction design validation, packing, and storage of a tobacco product conform to current good manufacturing practice. The act does not apply to tobacco leaf that is not in the possession of a manufacturer of tobacco products, or to the producers of tobacco leaf, including tobacco suppliers, tobacco warehouses, and tobacco supplier cooperatives unless those entities are controlled by a tobacco product manufacturer. The FDA has not yet adopted regulations to implement these provisions. The full impact of these provisions of the legislation and any future regulatory action to implement these provisions is uncertain. However, if the effect of such legislation is a significant reduction in consumption of tobacco products, it could materially adversely affect our business, volume, results of operations, cash flows and financial condition.

Risks Relating to the Tobacco Industry (continued)

Legislation and regulatory and other governmental initiatives could impose burdensome restrictions on the tobacco industry and reduce consumption of consumer tobacco products and demand for our services. (continued)

Reports with respect to the harmful physical effects of cigarette smoking have been publicized for many years, and the sale, promotion and use of cigarettes continue to be subject to increasing governmental regulation. Since 1964, the Surgeon General of the United States and the Secretary of Health and Human Services have released a number of reports linking cigarette smoking with a broad range of health hazards, including various types of cancer, coronary heart disease and chronic lung disease, and recommending various governmental measures to reduce the incidence of smoking. More recent reports focus upon the addictive nature of cigarettes, the effects of smoking cessation, the decrease in smoking in the United States, the economic and regulatory aspects of smoking in the Western Hemisphere, and cigarette smoking by adolescents, particularly the addictive nature of cigarette smoking in adolescence. Numerous state and municipal governments have taken and others may take actions to diminish the social acceptance of smoking of tobacco products, including banning smoking in certain public and private locations.

A number of foreign nations also have taken steps to restrict or prohibit cigarette advertising and promotion, to increase taxes on cigarettes and to discourage cigarette smoking. In some cases, such restrictions are more onerous than those in the United States. For example, advertising and promotion of cigarettes has been banned or severely restricted for a number of years in Australia, Canada, Finland, France, Italy, Singapore and other countries. Further, in February 2005, the World Health Organization (“WHO”) treaty, the Framework Convention for Tobacco Control (“FCTC”), entered into force. This treaty, to which 176 nations were bound at March 31, 2013, requires signatory nations to enact legislation that would require, among other things, specific actions to prevent youth smoking; restrict or prohibit tobacco product marketing; inform the public about the health consequences of smoking and the benefits of quitting; regulate the content of tobacco products; impose new package warning requirements including the use of pictorial or graphic images; eliminate cigarette smuggling and counterfeit cigarettes; restrict smoking in public places; increase and harmonize cigarette excise taxes; abolish duty-free tobacco sales; and permit and encourage litigation against tobacco product manufacturers.

Due to the present regulatory and legislative environment, a substantial risk exists that past growth trends in tobacco product sales may not continue and that existing sales may decline. A significant decrease in worldwide tobacco consumption brought about by existing or future governmental laws and regulations would reduce demand for tobacco products and services and could have a material adverse effect on our results of operations.

Government actions can have a significant effect on the sourcing of tobacco. If some of the current efforts are successful, we could have difficulty obtaining sufficient tobacco to meet our customers’ requirements, which could have an adverse effect on our performance and results of operations.

The WHO, through the FCTC, created a formal study group to identify and assess crop diversification initiatives and alternatives

to leaf tobacco growing in countries whose economies depend upon tobacco production. The study group began its work in February 2007. In its initial report published later that year, the study group indicated that the FCTC did not aim to phase out tobacco growing, but the study group's focus on alternatives to tobacco crops was in preparation for its anticipated eventual decrease in demand resulting from the FCTC's other tobacco control initiatives.

If the objective of the FCTC study group were to change to seek to eliminate or significantly reduce leaf tobacco production and certain countries were to partner with the study group in pursuing this objective, we could encounter difficulty in sourcing leaf tobacco to fill customer requirements, which could have an adverse effect on our results of operations.

In addition, continued government and public emphasis on environmental issues, including climate change, conservation, and natural resource management, could result in new or more stringent forms of regulatory oversight of industry activities, which may lead to increased levels of expenditures for environmental controls, land use restrictions affecting us or our suppliers, and other conditions that could have a material adverse effect on our business, financial condition, and results of operations. For example, certain aspects of our business generate carbon emissions. Regulatory restrictions on greenhouse gas emissions have been proposed in certain countries in which we operate.

These may include limitations on such emissions, taxes or emission allowance fees on such emissions, various restrictions on industrial operations, and other measures that could affect land-use decisions, the cost of agricultural production, and the cost and means of processing and transporting our products. These actions could adversely affect our business, financial condition, and results of operations.

We have been, and continue to be, subject to governmental investigations into, and litigation concerning, leaf tobacco industry buying and other payment practices.

The leaf tobacco industry, from time to time, has been the subject of government investigations regarding trade practices. For example, we were the subject of an investigation by the Antitrust Division of the United States Department of Justice into certain buying practices alleged to have occurred in the industry, we were named defendants in an antitrust class action litigation alleging a conspiracy to rig bids in the tobacco auction markets, and we were the subject of 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, Italy, Greece and potentially other countries.

Risks Relating to the Tobacco Industry (continued)

We have been, and continue to be, subject to governmental investigations into, and litigation concerning, leaf tobacco industry buying and other payment practices. (continued)

Our subsidiaries in Spain, Italy and Greece have been subject to these investigations. In 2004, the EC fined us and our Spanish subsidiaries €4.4 million (\$5.6 million) solely relating to the investigations in Spain. In respect of the Italian investigation, in October 2005, the EC announced that we and our Italian subsidiaries have been assessed a fine in the aggregate amount of €24.0 million (\$28.8 million). Several tobacco processors, suppliers and agricultural associations that were the subject of the investigation in Italy were assessed fines in various amounts totaling €56.0 million (\$67.0 million), inclusive of the fines imposed on us and our subsidiaries. We, along with the 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. Appeals that have been concluded have not resulted in any material reduction in the amounts of the related fines. The outcome of the remaining appeals is uncertain as to both timing and results.

In March 2005, the EC informed us that it had closed its investigation in relation to the Greek leaf tobacco industry buying and selling practices. In relation to these investigations into certain tobacco buying and selling practices, the DGCOMP could decide to pursue investigations into other countries and additional fines may be assessed in those countries.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Following is a description of Alliance One's material properties as of March 31, 2013.

Corporate

Our corporate headquarters are located in Morrisville, North Carolina and are leased under an agreement that expires in May 2021.

Facilities

We own a total of 12 production facilities in 8 countries. We operate each of our tobacco processing plants for seven to nine months during the year to correspond with the applicable harvesting season. While we believe our production facilities have been efficiently utilized, we continually compare our production capacity and organization with the transitions occurring in global sourcing of tobacco. We also believe our domestic production facilities and certain foreign production facilities have the capacity to process additional volumes of tobacco if required by customer demand.

The following is a listing of the various material properties used in operations all of which are owned by Alliance One:

LOCATION	USE
SOUTH AMERICA SEGMENT	
SOUTH AMERICA	
VENANCIO AIRES, BRAZIL	FACTORY/STORAGE
ARARANGUA, BRAZIL	FACTORY/STORAGE
EL CARRIL, ARGENTINA	FACTORY/STORAGE
VALUE ADDED SERVICES	
UNITED STATES	

WILSON, N.C.	FACTORY/STORAGE
OTHER REGIONS SEGMENT	
UNITED STATES	
WILSON, N.C.	FACTORY/STORAGE
FARMVILLE, N.C.	FACTORY/STORAGE
DANVILLE, VA	STORAGE
AFRICA	
LILONGWE, MALAWI	FACTORY/STORAGE
MOROGORO, TANZANIA	FACTORY/STORAGE
EUROPE	
IZMIR, TURKEY	FACTORY/STORAGE
KARLSRUHE, GERMANY	FACTORY/STORAGE
ASIA	
NGORO, INDONESIA	FACTORY/STORAGE

ITEM 3. 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 the aggregate. In respect of the investigation into practices in Italy, in October 2005 the EC announced the assessment of fines against the Company and its Italian subsidiaries of €24.0 million (US\$28.8 million) in the aggregate. 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 with the European Court of Justice (the “ECJ”). On July 19, 2012, the ECJ denied the Company's appeal in joined cases C-628/10 and C-14/11 relating to a €1.8 million fine imposed by the EC on one of the Company's Spanish subsidiaries, and as to which the EC further imposed joint and several parent-company liability on the Company and such subsidiary's other shareholders (being a corporate predecessor of the Company, and a current subsidiary of the Company), which matter is now concluded. In appeals relating to a different Spanish subsidiary involving the remainder of the above-referenced €4.4 million in fines, a hearing before the ECJ in case C-679/11 P regarding joint and several parent-company liability was held on January 10, 2013, while the appeal in case C-668/11 P relating to the underlying liability of the relevant Spanish subsidiary is proceeding without a hearing. On December 13, 2012, the ECJ denied the Company's appeals in cases C-593/11 P and C-654/11 P, which relate to the above-referenced €24.0 million in fines assessed against the Company and its Italian subsidiaries, and those actions are now concluded. A hearing before the ECJ in case C-652/11 P relating to the appeal of one of the Company's Italian subsidiaries which had been individually fined €3.99 million (for which the Company was held jointly liable and which amount is included in the €24.0 million in fines assessed against the Company and its subsidiaries referenced above) was held on October 15, 2012, and the ECJ has referred the case back to the European General Court for further proceedings. The outcome of each of the remaining pending actions 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., the purchaser in 2004 of the Company's Italian subsidiary Dimon Italia, S.r.l., has asserted claims against a subsidiary of the Company arising out of that sale transaction in an action filed before the Court of Rome on April 12, 2007. The claim, 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\$9.5 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. Due to the uncertain legal interpretation in a foreign jurisdiction and the complexity of the matter, the Company is not able to reasonably estimate the outcome.

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 case is currently before the 2nd civil court of São Lourenço do Sul. On April 20, 2012, the Company's motion to dismiss the class action was granted in part and denied in part. Hearings with respect to the remaining claims, which relate to practices regarding the weighing and grading of tobacco, concluded on January 23, 2013. The outcome with respect to these remaining claims is uncertain as to both timing and result. Due to the broad scope of the pleading, the ultimate exposure if an unfavorable outcome is received is not estimable.

The Company was named as one of several defendants in *Hupan, et al. v. Alliance One International, Inc., et al.*, *Chalanuk, et al. v. Alliance One International, Inc., et al.* and *Rodriquez Da Silva, et al.*, which are distinct but related lawsuits respectively filed in New Castle County, Delaware state court on February 14, 2012, April 5, 2012 and October 25, 2012. The lawsuits were brought by approximately 230 individuals claiming to be tobacco farmers and their family members, all residing in Misiones Province, Argentina. The complaints sought compensatory and punitive damages from the Company, and from other multinational defendants, under U.S. and Argentine law for alleged injuries, including birth defects, purportedly caused by exposure to agricultural chemicals in connection with the production and cultivation of tobacco. In December 2012, in each of these actions the Company was dismissed without prejudice and without any cost to the Company. The Company is also aware of a complaint filed March 1,

2013 in New Castle County, Delaware state court captioned Aranda, et al. v. Alliance One International, Inc., et al., which names the Company as one of several defendants but which has not been served on the Company. Such complaint names as plaintiffs sixty-four additional individuals who are also alleged to be tobacco farmers and their family members residing in Misiones Province, Argentina, and alleges injuries and seeks remedies similar to the three actions referenced above. In May 2013, the Company was dismissed from such action without prejudice and without any cost to the Company.

ITEM 4. MINE SAFETY DISCLOSURES

N/A

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Alliance One's common stock is traded on the New York Stock Exchange, under the ticker symbol "AOI."

The following table sets forth for the periods indicated the high and low reported sales prices of our common stock as reported by the NYSE and the amount of dividends declared per share for the periods indicated.

	High	Low	Dividends Declared
Year Ended March 31, 2013			
Fourth Quarter	\$4.07	\$3.36	\$—
Third Quarter	3.71	2.96	—
Second Quarter	3.66	2.75	—
First Quarter	3.90	2.64	—
Year Ended March 31, 2012			
Fourth Quarter	\$3.85	\$2.80	\$—
Third Quarter	3.12	2.26	—
Second Quarter	3.50	2.44	—
First Quarter	4.14	2.98	—

As of March 31, 2013, there were 5,582 shareholders, including 4,749 non-objecting beneficial holders of our common stock.

The payment of dividends by Alliance One is subject to the discretion of our board of directors and will depend on business conditions, compliance with debt agreements, achievement of anticipated cost savings, financial condition and earnings, regulatory considerations and other factors. Our senior credit agreement and the indenture governing our senior notes restrict our ability to pay dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Dividends."

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES (continued)

Alliance One International, Inc. Comparison of Cumulative Total Return to Shareholders

The following line graph and table presents the cumulative total shareholder return of a \$100 investment including reinvestment of dividends and price appreciation over the last five years in each of the following: Alliance One International, Inc. (AOI) common stock, the S&P 500 Index, the S&P 600 Small Cap Index and an index of peer companies. The sole company in the peer group is Universal Corporation (UVV).

Cumulative Total Return

	3/31/2008	3/31/2009	3/31/2010	3/31/2011	3/31/2012	3/31/2013
Alliance One International, Inc.	\$ 100.00	\$ 63.58	\$ 84.27	\$ 66.56	\$ 62.42	\$ 64.40
Custom Peer Group	\$ 100.00	\$ 47.65	\$ 88.05	\$ 76.02	\$ 85.23	\$ 106.67
S&P 500 Index	\$ 100.00	\$ 61.91	\$ 92.72	\$ 107.23	\$ 116.39	\$ 132.64
S&P Small Cap 600 Index	\$ 100.00	\$ 61.94	\$ 101.58	\$ 127.25	\$ 133.64	\$ 155.21

ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR FINANCIAL STATISTICS

Alliance One International, Inc. and Subsidiaries

(in thousands, except per share amount, ratio and number of stockholders)	Years Ended March 31,				
	2013	2012	2011	2010	2009
Summary of Operations					
Sales and other operating revenues	\$2,243,816	\$2,150,767	\$2,094,062	\$2,308,299	\$2,258,219
Restructuring and asset impairment charges (recoveries)	(55	) 1,006	23,467	—	591
Operating income	160,272	154,813	132,874	223,814	204,462
Debt retirement expense (1)	1,195	—	4,584	40,353	954
Income (loss) from continuing operations	24,712	29,191	(72,148	) 79,946	132,830
Income from discontinued operations	—	—	—	—	407
Net income (loss)	24,712	29,191	(72,148	) 79,946	133,237
Net income (loss) attributable to Alliance One International, Inc.	24,013	29,451	(71,551	) 79,167	132,558
Per Share Statistics					
Basic Earnings (Loss) Per Share:					
Income (loss) from continuing operations	\$0.27	\$0.34	\$(0.81) \$0.89	\$1.50
Income from discontinued operations	—	—	—	—	—

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Net income (loss) attributable to Alliance One International, Inc.	0.27	0.34	(0.81) 0.89	1.50
Diluted Earnings (Loss) Per Share:					
Income (loss) from continuing operations	\$0.25	\$0.30	\$(0.81	) \$0.78	\$1.49
Income from discontinued operations	—	—	—	—	—
Net income (loss) attributable to Alliance One International, Inc. (2)	0.25	0.30	(0.81	) 0.78	1.49
Cash dividends paid	—	—	—	—	—
Balance Sheet Data					
Working capital	\$843,803	\$828,681	\$846,860	\$795,229	\$608,179
Total assets	1,911,579	1,949,845	1,808,330	1,911,199	1,758,519
Long-term debt	830,870	821,453	884,371	788,880	652,584
Stockholders' equity attributable to Alliance One International, Inc.	338,393	327,482	312,813	390,400	326,661
Other Data					
Ratio of earnings to fixed charges	1.43	1.49	1.30	1.63	2.07
Common shares outstanding at year end (3)	87,641	87,381	87,085	89,113	88,974
Number of stockholders at year end (4)	5,582	6,380	8,849	7,716	6,754

(1) For the year ended March 31, 2013, the Company terminated a long-term foreign seasonal borrowing which resulted in

accelerated recognition of related deferred financing costs. For the year ended March 31, 2010, the Company refinanced its

credit facility and long-term debt which resulted in recognition of significant costs to retire existing debt and accelerated

recognition of related deferred financing costs and original issue discounts.

(2) For the year ended March 31, 2011, 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 year ended

March 31, 2011, assumed conversion of convertible notes at the beginning of the period has an antidilutive effect on

the loss per share.

(3) Excluding 7,853 shares owned by a wholly owned subsidiary.

(4) Includes the number of stockholders of record and non-objecting beneficial owners.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management evaluates performance of our reportable segments principally on the basis of revenues and gross profit. Beginning April 1, 2012, management began evaluating the performance of our Value Added Services business as a separate operating segment from our five geographic operating segments. Value Added Services is comprised of our cut rolled expanded stem (CRES), cut rag, toasted burley and other specialty products and services. The economic characteristics of the Value Added Services segment are dissimilar from the other operating segments. Therefore, effective April 1, 2012, our reportable segments are Value Added Services, South America Region and Other Regions.

The following discussions should be read in conjunction with the other sections of this report, including the consolidated financial statements and related notes contained in Item 8 of this Form 10-K:

Executive Overview

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

Financial Results

Fiscal 2013 continued to show growth in revenues with marginally lower gross profit and increased operating income of \$160.3 million. The current year crop sizes, particularly in Africa, were significantly smaller than in fiscal 2012. This resulted in higher prices paid to tobacco suppliers and higher sales prices to customers but also caused increased tobacco and processing costs on a per kilo basis that were not fully passed on to the customer. Also negatively impacting our gross profit and gross profit as a percentage of sales was \$14.3 million of foreign exchange hedging expense primarily due to significant Brazilian Real depreciation during the first quarter compared to \$6.0 million of hedging income in the prior year. Lower gross profit in 2013 was offset by lower restructuring and selling, general and administrative costs. Other income included a \$24.1 million Brazilian excise tax benefit due to a court ruling in March 2013 compared to a \$13.7 million gain for a Brazilian property exchange in 2012. The change in these one time events increased our operating income 3.6% in 2013 compared to 2012. As a result of higher average borrowings at higher average rates, increases in interest expense resulted in a 5.7% decrease in pretax earnings. While we are encouraged by our sales improvements this year, there remain significant opportunities to improve our performance and we have further objectives to meet as part of reaching our goals.

Liquidity

Our liquidity requirements are affected by crop seasonality, foreign currency and interest rates, green tobacco prices, crop size and quality, and customer mix, 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, good availability to crop lines globally, and appropriate levels of cash on hand. As of March 31, 2013, available credit lines and cash were \$554.8 million, comprised of \$92.0 million in cash and \$462.8 million of credit lines, of which \$10.6 million was exclusively for letters of credit.

Outlook

Strategic investment remains a primary focus and this year we invested \$39.9 million to further improve factory efficiencies and enhance our supply chain. Investment in farmer agronomy programs that support secure, compliant and sustainable supply as embraced by our customers remains a key component of our plans. Demand for tobacco is stable while supply continues to be tight in burley and higher quality tobaccos. Our balance sheet is well positioned with inventories at year end of \$903.9 million, and uncommitted inventory well within our stated range of \$50.0 million to \$150.0 million. We are now executing on the next level of our longer term plan that should further increase volume, revenue and earnings, and should ultimately deliver enhanced shareholder value.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Results of Operations

Consolidated Statement of Operations

(in millions)	Twelve Months Ended March 31,						
	2013	Change		2012	Change		2011
	\$	%		\$	%		
Sales and other operating revenues	\$2,243.8	\$93.0	4.3	\$2,150.8	\$56.7	2.7	\$2,094.1
Gross profit	285.2	(2.5)	(0.9)	287.7	10.9	3.9	276.8
Selling, general and administrative expenses	145.8	(1.8)	(1.2)	147.6	(10.3)	(6.5)	157.9
Other income	20.7	5.0		15.7	(21.7)		37.4
Restructuring and asset impairment charges (recoveries)	(0.1)	(1.1)		1.0	(22.5)		23.5
Operating income	160.3	* 5.5	*	154.8	21.9	*	132.9
Debt retirement expense	1.2	1.2		—	(4.6)		4.6
Interest expense	114.6	7.8		106.8	4.1		102.7
Interest income	6.5	0.4		6.1	(1.2)		7.3
Income tax expense	28.0	3.0		25.0	(82.5)		107.5
Equity in net income of investee companies	1.6	1.5		0.1	(2.4)		2.5
Income (loss) attributable to noncontrolling interests	0.7	1.0		(0.3)	0.3		(0.6)
Net income (loss) attributable to the Company	\$24.0	* \$(5.5)*		\$29.5	\$101.1		\$(71.6)*

* Amounts do not equal column totals due to rounding.

Sales and Other Operating Revenue Supplemental Information

(in millions, except per kilo amounts)	Change						
	2013	\$	%	2012	\$	%	2011
Tobacco sales and other operating revenues:							
Sales and other operating revenues	\$2,148.7	\$94.1	4.6	\$2,054.6	\$21.2	1.0	\$2,033.4
Kilos	424.2	(2.7)	(0.6)	426.9	(12.2)	(2.8)	439.1
Average price per kilo	\$5.07	\$0.26	5.4	\$4.81	\$0.18	3.9	\$4.63
Processing and other revenues	\$95.1	\$(1.1)	(1.1)	\$96.2	\$35.5	58.5	\$60.7
Total sales and other operating revenues	\$2,243.8	\$93.0	4.3	\$2,150.8	\$56.7	2.7	\$2,094.1

Comparison of the Year Ended March 31, 2013 to the Year Ended March 31, 2012

Summary

Total sales and other operating revenues increased \$93.0 million compared to the prior year. Our tobacco sales increased \$94.1 million primarily due to higher green costs from smaller crop sizes in Africa and Brazil for the fiscal 2013 crop which were passed on to the customer. Processing and other revenues decreased \$1.1 million due to the smaller crop size in Brazil. Gross profit decreased 0.9% and gross profit as a percentage of sales decreased from 13.4% to 12.7% primarily due to higher processing costs on a per kilo basis from the smaller African crop sizes that were not able to be fully passed on to the customer and \$20.3 million in increased derivative financial instrument

losses. Selling, general and administrative expenses (“SG&A”) decreased 1.2% compared to the prior year primarily from reduced building rent and professional fees. Other operating income was \$20.7 million in 2013 primarily related to a non-cash benefit of \$24.1 million for Brazilian excise taxes based on a court ruling on March 7, 2013. Other operating income was \$15.7 million in 2012 primarily from asset gains in Brazil related to an exchange of real property. Primarily as a result of the change in other operating income, operating income increased 3.6% compared to the prior year.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Results of Operations (continued)

Comparison of the Year Ended March 31, 2013 to the Year Ended March 31, 2012 (continued)

Summary (continued)

Our interest costs increased 7.3% from the prior year related to higher average borrowings and higher average rates which reduced our pretax results for the year. Our effective tax rate increased from 46.2% in 2012 to 54.8% in 2013. Our effective rates in both years vary significantly from the statutory tax rate due to foreign income tax rates that are lower than the U.S. rate, changes in exchange rates, changes to valuation allowance on deferred tax assets and changes in unrecognized tax benefits.

South America Region

Tobacco revenues increased \$64.5 million or 10.8% primarily due to a 9.7 million kilo increase in quantities sold and an increase of \$0.13 per kilo in average sales prices. The increase in volume is mainly attributable to opportunistic sales of old crop in the current year. The increase in the average sales price is primarily due to higher prices paid to tobacco suppliers and increased processing costs resulting from a smaller crop this year. Partially offsetting the increase in tobacco revenues is a \$2.6 million decrease in processing and other revenues due to the smaller Brazilian crop this year.

Improved sales prices and volumes, customer mix and product mix resulted in a gross profit increase of \$20.0 million after absorbing \$19.6 million in increased derivative financial instrument losses. Gross margin as a percentage of sales increased 1.8 percentage points compared with the prior year.

Value Added Services

Tobacco revenues decreased \$25.7 million or 17.6% primarily as a result of a decrease of 5.7 million kilos in quantities sold due to processing delays that was partially offset by an increase of \$0.12 per kilo in average sales price. The processing delays decreased gross profit by \$6.5 million and gross profit as a percentage of sales decreased 0.9 percentage points in 2013 compared to 2012.

Other Regions

Tobacco revenues increased \$55.3 million or 4.2% primarily as a result of a \$0.32 per kilo increase in average sales prices partially offset by a 6.7 million kilo decrease in quantities sold. Average sales prices increased primarily due to higher prices paid to tobacco suppliers and increased operating costs in Africa as a result of the smaller crop sizes this year that were passed on to the customer. Decreased volumes were primarily byproducts from Asia. Processing and other revenues increased \$1.5 million primarily as a result of North America processing volumes returning to normal levels after the impact on 2012 volumes due to Hurricane Irene.

Gross profits decreased \$16.0 million and gross profit as a percentage of sales decreased 1.6 percentage points in 2013 compared to 2012 primarily due to the impact of higher operating costs on a per kilo basis from smaller African crop sizes this year.

Comparison of the Year Ended March 31, 2012 to the Year Ended March 31, 2011

Summary

Total sales and other operating revenues increased \$56.7 million compared to the prior year. Our tobacco sales increased \$21.2 million despite lower green costs for the fiscal 2012 crop which were passed on to the customer and lower volumes primarily from the prior year assignment of approximately 20% of our tobacco suppliers in Brazil to PMI. Processing and other revenues increased \$35.5 million from long-term processing agreements in Brazil and other countries as customers increasingly source their leaf supply directly. Gross profit increased 3.9% primarily due to

improved factory efficiencies, product mix and the non-recurrence of lower of cost or market inventory adjustments from the prior year. Gross profit as a percentage of sales increased marginally from 13.2% in 2011 to 13.4% in 2012. SG&A decreased 6.5% compared to the prior year primarily from reduced compensation costs as a result of our restructuring initiatives in the prior year and the non-recurrence of significant reserves on customer receivables in the prior year. Offsetting decreased SG&A was independent monitor costs of \$6.1 million, an increase of \$2.7 million over the prior year. Other operating income (expense) was \$15.7 million in 2012 and \$37.4 million in 2011 primarily from asset gains in Brazil. In the prior year, we began several strategic initiatives in response to shifting supply and demand balances and the changing business models of customers. While substantially complete, these initiatives resulted in restructuring and asset impairment charges of \$1.0 million in 2012 and \$23.5 million in the prior year. As a result of increased sales and margins and lower SG&A costs, operating income increased 16.5% or \$21.9 million compared to the prior year.

Our net debt retirement and interest costs were consistent with the prior year. As a result, our pretax income increased 65.2% from \$32.8 million in 2011 to \$54.2 million in 2012.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Results of Operations (continued)

Comparison of the Year Ended March 31, 2012 to the Year Ended March 31, 2011 (continued)

Summary (continued)

Our effective tax rate decreased from 327.1% in 2011 to 46.2% in 2012. Our effective rates in both years vary significantly from the statutory tax rate due to foreign income tax rates that are lower than the U.S. rate, permanent differences related to local goodwill amortization, exchange gains and losses and currency translation adjustments, and changes to valuation allowance on deferred tax assets. The significant decrease in the tax rate in 2012 is primarily due to a prior year increase in the valuation allowance on U.S. deferred tax assets of \$108.5 million. The effective tax rate varied from the statutory rate in 2012 primarily due to increases in unrecognized tax benefits, exchange effects and currency translation.

South America Region

Tobacco revenues decreased \$111.5 million or 15.7% primarily due to an 8.5 million kilo decrease in quantities sold and a decrease of \$.54 per kilo in average sales prices. The change in volume is mainly attributable to the assignment of tobacco suppliers in Brazil in the prior year and a change in customer mix that resulted in sales commitments for the fiscal 2012 crop that will not be shipped until next year. The decrease in average sales price is primarily due to lower green costs for the fiscal 2012 crop that have been passed on to the customer. The fiscal 2012 crop is larger than normal but of lower quality which lowered green costs even though exchange rates have appreciated. Partially offsetting the decrease in tobacco revenues is a \$20.1 million increase in processing and other revenues primarily from additional long-term processing contracts.

Gross profit decreased \$13.2 million primarily due to lower revenues from lower green costs passed on to the customer, product mix and the exchange rate impact on foreign denominated processing costs. Partially offsetting the decrease in gross margin is the non-recurrence of lower of cost or market inventory adjustments in the prior year and recoveries of prior unrecovered tobacco supplier advances as a result of the larger crop size this year. Gross margin as a percentage of sales remained consistent with the prior year.

Value Added Services

Tobacco revenues increased \$8.6 million or 6.3% primarily as a result of a 3.2 million kilo increase in quantities sold partially offset by a \$.29 per kilo decrease in average sales prices. The increase in volumes is primarily in our cut rag operations related to customer demand while the decrease in average sales prices is primarily from our toasted burley operations related to product mix. Processing and other revenues decreased \$.7 million primarily as a result of decreased customer requirements.

Gross profits decreased \$1.4 million in 2012 compared to 2011 primarily due to the impact of exchange rates on foreign denominated operating costs which lowered gross profit as a percentage of sales by 2.0 percentage points.

Other Regions

Tobacco revenues increased \$124.1 million or 10.5% primarily as a result of a \$.55 per kilo increase in average sales prices partially offset by a 6.9 million kilo decrease in quantities sold. Although lower green costs in Africa were passed on to the customer, average sales prices increased overall primarily due to product mix and the decreased sales of Asian byproducts that were sold in the prior year due to market opportunities. Volume decreases, primarily Asian, were partially offset by larger African crops and shipments in the current year that had been delayed from the prior year. Processing and other revenues increased \$16.1 million primarily as a result of increased customer requirements in North America.

Gross profits increased \$25.5 million in 2012 compared to 2011 primarily due to non-recurring lower of cost or market inventory adjustments, improved factory efficiencies and the impact of exchange rates on foreign denominated

processing costs. Gross profit as a percentage of sales remained comparable with the prior year.

Liquidity and Capital Resources

Overview

Historically we have needed capital in excess of cash flow from operations to finance accounts receivable, inventory and advances to suppliers for tobacco crops in certain foreign countries. Purchasing, processing and selling activities of our business are seasonal and our need for capital fluctuates with corresponding peaks where outstanding indebtedness may be greater or less as a result. Our long-term borrowings consist of unsecured senior and convertible senior subordinated notes as well as a senior secured revolving credit facility. We also have short-term lines of credit available with a number of banks throughout the world that finances seasonal working capital and corresponds to regional peak requirements. Consistent with last year, as a result of the shift in sales patterns from shipping larger volumes in the first half of our fiscal year to the second half, debt, net of cash, remains similar at \$1,102.0 million as of March 31, 2013 when compared to \$1,083.3 million as of March 31, 2012. A major portion of our debt is long term in nature with a significant portion of maturities extending out to 2016.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Liquidity and Capital Resources (continued)

Overview (continued)

At March 31, 2013, we had \$92.0 million in cash on our balance sheet, \$362.0 million outstanding under short-term and long-term foreign lines with an additional \$296.1 million available under those lines and \$3.0 million outstanding of other debt for a total of \$544.2 million of debt availability and cash on hand around the world, excluding \$4.1 million in issued but unfunded letters of credit with \$10.6 million available. Another source of liquidity as of March 31, 2013 was \$142.6 million funded under our accounts receivable sale programs. Additionally, customer advances were \$16.8 million in 2013 compared to \$14.9 million in 2012. To the extent that these customers do not provide this advance funding, we must provide financing for their inventories. Should customers pre-finance less in the future for committed inventories, this action could impact our short-term liquidity. We believe that the sources of capital we have access to are sufficient to fund our anticipated needs for fiscal year 2014. Effective March 31, 2013, we did not meet the fixed charge coverage ratio of 2.0 to 1.0 required under the indenture governing our senior notes to permit us to access the restricted payments basket for the purchase of common stock and other actions under that basket. From time to time we may not satisfy the required ratio. See Note 7 "Short-term Borrowing Arrangements" and Note 17 "Sale of Receivables" to the "Notes to Consolidated Financial Statements" for further information.

Seasonal liquidity beyond cash flow from operations is provided by our revolving credit facility, seasonal working capital lines throughout the world, advances from customers and sale of accounts receivable. For the years ended March 31, 2013 and 2012, our average short-term borrowings, aggregated peak short-term borrowings outstanding and weighted-average interest rate on short-term borrowings were as follows:

(dollars in millions)	2013	2012	
Average short-term borrowings	\$395.0	\$448.9	
Aggregated peak short-term borrowings outstanding	\$593.7	\$680.7	
Weighted-average interest rate on short-term borrowings	4.33	%2.91	%

Aggregated peak borrowings for 2013 were during the first quarter of 2013 compared to during the second quarter for 2012. The earlier delivery and processing of the higher priced South America crops resulted in our reaching our seasonally adjusted high for our South America crop lines in the first quarter of 2013 as we are shipping inventory and collecting receivables. Peak borrowings for 2013 and 2012 were repaid with cash provided by operating activities.

As of March 31, 2013, we are in our working capital build. In South America we are in the process of purchasing and processing the most recent crop, while the peak tobacco sales season for South America is at its beginning stages. Africa is also in the middle of its buying, processing and selling season and is utilizing working capital funding as well. North America and Europe are still selling and planning for the next crop that is now being grown.

Working Capital

Our working capital increased from \$828.6 million at March 31, 2012 to \$843.8 million at March 31, 2013. Our current ratio was 2.4 to 1 at March 31, 2013 compared to 2.3 to 1 at March 31, 2012. The increase in working capital is primarily related to the decrease in notes payable to banks due to earlier shipments of the South American crop and resulting collection of accounts receivable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Liquidity and Capital Resources (continued)

Working Capital (continued)

The following table is a summary of items from the Consolidated Balance Sheets and Consolidated Statements of Cash Flows. Approximately \$27.8 million of our outstanding cash balance at March 31, 2013 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.

(in millions except for current ratio)	As of March 31,			Change			2011
	2013	\$	%	2012	\$	%	
Cash and cash equivalents	\$92.0	\$(27.7)	)(23.1)	)\$119.7	\$76.2	175.2	\$43.5
Net trade receivables	224.2	(78.9)	)(26.0)	)303.1	23.2	8.3	279.9
Inventories and advances to tobacco suppliers	1,013.5	84.2	9.1	929.3	54.4	6.2	874.9
Total current assets	1,464.8	(13.0)	)(0.9)	)1,477.8	160.5	12.2	1,317.3
Notes payable to banks	356.8	(17.7)	)(4.7)	)374.5	143.1	61.8	231.4
Accounts payable	135.3	15.2	12.7	120.1	34.0	39.5	86.1
Advances from customers	16.8	1.9	12.8	14.9	(2.7)	)(15.3)	)17.6
Total current liabilities	621.0	(28.2)	)(4.3)	)649.2	178.8	38.0	470.4
Current ratio	2.4 to 1			2.3 to 1			2.8 to 1
Working capital	843.8	15.2	1.8	828.6	(18.3)	)(2.2)	)846.9
Total long term debt	830.9	9.4	1.1	821.5	(62.9)	)(7.1)	)884.4
Stockholders' equity attributable to Alliance One International, Inc.	338.4	10.9	3.3	327.5	14.7	4.7	312.8
Net cash provided (used) by:							
Operating activities	\$(1.6)	)(60.6)	)	\$59.0	\$242.0		\$(183.0)
Investing activities	(13.2)	)51.9		(65.1)	)(49.2)	)	(15.9)
Financing activities	(14.1)	)(95.0)	)	80.9	(32.1)	)	113.0

Operating Cash Flows

Net cash provided by operating activities decreased \$60.6 million in 2013 compared to 2012 which increased \$242.0 million compared to 2011. The increase in cash used in 2013 compared to 2012 is due to increased inventory and advances to suppliers due to the higher green costs and processing costs of this year's crop. Cash used also increased due to lower accounts payable and accrued expenses but was offset by increased collections of accounts receivable. The increase in cash provided in 2012 compared to 2011 is primarily due to less cash used for receivables and customer funding for the current crop compared to the prior year as well as increased payables and accrued expenses compared to the prior year. Partially offsetting these increases are higher levels of inventories and advances to tobacco suppliers.

Investing Cash Flows

Net cash used by investing activities decreased \$51.9 million in 2013 compared to 2012 which increased \$49.2 million compared to 2011. The decrease in cash used in 2013 compared to 2012 is the release of restrictions on cash balances that had been required by certain long-term foreign seasonal lines of credit which were repaid as of March 31, 2013.

The increase in cash used in 2012 compared to 2011 is primarily a result of prior year events that didn't recur in the current year. In 2011, proceeds from the sale of assets primarily related to the assets sold to PMI in Brazil are partially offset by decreased capital expenditures primarily due to the construction of our new processing facility in Brazil last year. Net cash used by investing activities also increased in 2012 compared to 2011 due to restricted cash deposits in accordance with long-term foreign seasonal lines of credit agreements entered into in 2012.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Liquidity and Capital Resources (continued)

Financing Cash Flows

Net cash provided (used) by financing activities was \$(14.1) million in 2013 compared to \$80.9 million in 2012 and \$113.0 million in 2011. The increase in cash used in 2013 compared to 2012 is primarily related to the net change in short-term borrowings as a result of the timing and volumes of our South American shipments in the fourth quarter. Partially offsetting the increase in cash used is less repayment of our revolver during the year due to the balance outstanding at year end. The decrease in cash provided in 2012 compared to 2011 is primarily related to the repayment of our revolver balance that was outstanding in the prior year partially offset by the net change in short-term borrowings as a result of the timing and volumes of our fourth quarter shipments.

All debt agreements contain certain cross-default or cross-acceleration provisions. The following table summarizes our debt financing as of March 31, 2013:

(in millions)	Outstanding		March 31, 2013 Lines and		Long Term Debt Repayment Schedule by Fiscal Year						
	March 31, 2012	March 31, 2013	Letters Available	Interest Rate	2014	2015	2016	2017	2018	Later	
Senior secured credit facility:											
Revolver ⁽¹⁾	\$—	\$95.0	\$155.0	6.0	% ⁽²⁾	\$—	\$95.0	\$—	\$—	\$—	\$—
Senior notes:											
10% senior notes due 2016 ⁽⁴⁾	615.2	619.0	—	10.0	%	—	—	—	619.0	—	—
8 ½% senior notes due 2012	6.0	—	—	8.5	%	—	—	—	—	—	—
5 ½% convertible senior subordinated notes due 2014	621.2	619.0	—	—	—	—	—	—	619.0	—	—
115.0	115.0	—	5.5	%	—	115.0	—	—	—	—	—
Long-term foreign seasonal borrowings	88.2	5.2	19.8	3.9	% ⁽²⁾	5.2	—	—	—	—	—
Other long-term debt	4.1	3.0	1.1	7.2	% ⁽²⁾	1.1	0.9	0.4	0.3	—	0.3
Notes payable to banks ⁽³⁾	374.5	356.8	276.3	4.3	% ⁽²⁾	—	—	—	—	—	—
Total debt	\$1,203.0	\$1,194.0	452.2			\$6.3	\$210.9	\$0.4	\$619.3	\$—	\$0.3
Short-term	\$374.5	\$356.8									
Long-term:											
Long-term debt current	\$7.0	\$6.3									
Long-term debt	821.5	830.9									
	\$828.5	\$837.2									
Letters of credit	\$7.2	\$4.1	10.6								
Total credit available			\$462.8								

(1) As of March 31, 2013, 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 twelve months ended March 31, 2013.

(3) Primarily foreign seasonal lines of credit.

(4) Repayment of \$619.0 million is net of original issue discount of \$16.0 million. Total repayment will be \$635.0 million.

Senior Secured Credit Facility

On July 2, 2009, the Company replaced its previous credit agreement by entering into a Credit Agreement (the "Credit Agreement"), with a syndicate of banks that provided for a senior secured credit facility (the "Credit Facility") of a three and one-quarter year \$270.0 million revolver (the "Revolver") which initially accrued interest at a rate of LIBOR plus 2.50%. The interest rate for the Revolver may increase or decrease according to a consolidated interest coverage ratio pricing matrix as defined in the Credit Agreement, plus an applicable percentage. As of April 7, 2010, the Company increased the Revolver to \$290.0 million.

First Amendment. On August 24, 2009, the Company closed the First Amendment to the Credit Agreement which included allowing the issuance of up to an additional \$100.0 million of Senior Notes due 2016 within 90 days of the First Amendment Effective Date, amending the definition of Consolidated Total Senior Debt to exclude the Existing Senior Notes 2005, amending the definition of applicable percentage to clarify the effective date of the change in the applicable percentage and modifications to several schedules within the Credit Agreement.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Liquidity and Capital Resources (continued)

Senior Secured Credit Facility (continued)

Second Amendment. On June 9, 2010, the Company closed the Second Amendment to the Credit Agreement, which included adding back the Foreign Corrupt Practices Act estimate of \$19.45 million to Consolidated Net Income for the period ended March 31, 2010 and increasing the Maximum Consolidated Leverage Ratio to 5.25 to 1.00 for the period ending September 30, 2010 and to 5.00 to 1.00 for the period ending March 31, 2011. The Second Amendment also allowed a subsidiary of the Company to incur indebtedness of up to \$25.0 million after ceasing to be a wholly owned subsidiary, a guarantee by the Company of that indebtedness, the issuance of up to 30% equity interests in the subsidiary to officers, employees, directors, advisory boards and/or its third parties investors and allow certain restricted payments by the subsidiary.

Third Amendment. On June 6, 2011, the Company closed the Third Amendment to the Credit Agreement whereby the lenders agreed to extend the term of the facility to March 31, 2013. In addition, the Third Amendment modified certain financial covenants under the Credit Agreement, including establishing the financial maximum consolidated leverage ratio for each fiscal quarter through maturity, reducing the minimum consolidated interest coverage ratio for the quarter ended March 31, 2011 and the first three quarters of the fiscal year ending March 31, 2012, permitting the exclusion of the effect of specified levels of restructuring and impairment charges for the fiscal year ended March 31, 2011 and the fiscal year ending March 31, 2012 for the financial covenants impacted by the Company's EBIT, and excluding the effect of noncash deferred compensation expense up to \$2.2 million for the quarter ended March 31, 2011 for these same covenants. The Third Amendment also increased the basket for capital expenditures for the year ending March 31, 2012 by \$15.0 million and permitted the Company to form a subsidiary for a specified business purpose to be funded by up to \$1.0 million in equity and \$30.0 million in subordinated note investments by the Company, provided the subsidiary receives either revolving credit financing of up to \$200.0 million from third parties or issues subordinated notes for an aggregate not to exceed \$100.0 million. The Third Amendment increased the interest rates on base rate and LIBOR loans by 1.0 percentage point and the commitment fee on unborrowed amounts under the facility by 0.25 of a percentage point. In addition, pursuant to the Third Amendment, the Company agreed to grant the lenders a security interest on certain U.S. real estate.

Fourth Amendment. On November 3, 2011, the Company closed the Fourth Amendment to the Credit Agreement that expired March 31, 2013. The amendment permitted 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 permitted 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 extended 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 \$1.0 million in equity and \$30.0 million in subordinated note investments by the Company, provided the subsidiary or subsidiaries receive revolving credit financing of up to \$200.0 million from third parties and issue subordinated notes for an aggregate of up to \$100.0 million.

Fifth Amendment. On June 13, 2012, the Company closed the Fifth Amendment to the Credit Agreement whereby the lenders agreed to reduce the Revolving Committed Amount by \$40.0 million to \$250.0 million and to extend the term of the facility to April 15, 2014. In addition, the amendment modified certain financial covenants under the Credit Agreement, including modifying the Minimum Consolidated Interest Coverage Ratio for the quarter ended June 30, 2012 and thereafter; modifying the Maximum Consolidated Leverage Ratio for each fiscal quarter through maturity, establishing a Minimum Consolidated EBITDA ratio for each fiscal quarter through maturity, increasing the

basket related to Permitted Foreign Subsidiary credit lines to \$.675 million with a reduction to \$.5 million for each March 31 and eliminating the basket for future Restricted Payments as well as the exception permitting Restricted Payments used to acquire the Company's Senior Notes.

Financial Covenants. Certain financial covenants are based on a rolling twelve month basis and required financial ratios adjust over time in accordance with schedules in the Credit Agreement. After giving effect to all amendments to the Credit Agreement, the requirements of those covenants and financial ratios at March 31, 2013 are as follows:

• a minimum consolidated interest coverage ratio of not less than 1.90 to 1.00 (1.70 for the quarter ending June 2012 and 1.90 for the quarter ending September 30, 2012 to maturity);

• a maximum consolidated leverage ratio in an amount not more than a ratio specified for each fiscal quarter as set forth in a schedule, which ratio is 5.90 for the quarter ended March 31, 2013 (7.25 for the quarter ending June 30, 2012, 7.40 for the quarter ending September 30, 2012 and 6.50 for the quarter ending December 31, 2012);

• a maximum consolidated total senior debt to working capital amount ratio of not more than 0.80 to 1.00; and

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Liquidity and Capital Resources (continued)

Senior Secured Credit Facility (continued)

Financial Covenants. (continued)

maximum annual capital expenditures of \$59.4 million during fiscal year ending March 31, 2013 and \$40.0 million during any fiscal year thereafter, in each case with a one-year carry-forward for capital expenditures in any fiscal year below the maximum amount.

The Company continuously monitors its compliance with the covenants. At March 31, 2013 and during the fiscal year, the Company was in compliance with the covenants (as revised by the Fifth Amendment). 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 for the next twelve months. The Company records all fees and third-party costs associated with the Credit Agreement, including amendments thereto, in accordance with accounting guidance for changes in line of credit or revolving debt arrangements.

Senior Notes

On July 2, 2009, the Company issued \$570.0 million of 10% Senior Notes due 2016 (the "Senior Notes") at a price of 95.177% of the face value. On August 26, 2009, the Company issued an additional \$100.0 million tranche of 10% Senior Notes due 2016 at a price of 97.500% of the face value. These additional notes form part of the same series as the Senior Notes issued on July 2, 2009. The Senior Notes are required to be guaranteed by any "material domestic subsidiaries" of the Company as defined in the indenture governing the Senior Notes. The Company does not have a "material domestic subsidiary" at March 31, 2013. Commencing July 15, 2013, the Senior Notes may be redeemed by the Company at a price equal to 105% of the aggregate principal amount thereof.

During fiscal 2011, the Company purchased \$35.0 million of these notes on the open market. All purchased securities were cancelled leaving \$635.0 million of the 10% senior notes outstanding at March 31, 2011. Associated cash premiums and other costs paid were \$1.6 million. Deferred financing costs and amortization of original issue discount of \$2.0 million were accelerated.

Convertible Senior Subordinated Notes

On July 2, 2009, the Company issued \$100.0 million of 5 1/2% Convertible Senior Subordinated Notes due 2014 (the "Convertible Notes"). The initial purchasers of the Convertible Notes were granted an option to purchase up to an additional \$15.0 million of Convertible Notes solely to cover over-allotments which was exercised on July 15, 2009. Holders may surrender their Convertible Notes, in integral multiples of \$1,000 principal amount, for conversion into shares of the Company's common stock at the then-applicable conversion rate until the close of business on the second scheduled trading day immediately preceding the maturity date. The initial conversion rate for the Convertible Notes is 198.8862 shares of common stock per \$1,000 principal amount of Convertible Notes. The conversion rate is subject to adjustments based on certain events as described in the indenture governing the Convertible Notes. In addition, holders of these notes have certain rights and entitlements upon the occurrence of certain fundamental changes (as defined in the indenture governing the Convertible Notes).

Other Senior Notes and Senior Subordinated Notes

During fiscal 2011, the Company purchased \$23.6 million of its 8 1/2% Senior Notes due 2012 on the open market. All purchased securities were cancelled leaving \$6.0 million of the 8 1/2% senior notes outstanding at March 31, 2011. Associated cash premiums and other costs paid were \$0.7 million. Deferred financing costs and amortization of original issue discount of \$0.3 million were accelerated. During fiscal 2013, the remaining \$6.0 million of the 8 1/2% senior notes matured and were repaid.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Liquidity and Capital Resources (continued)

Convertible Note Hedge and Warrant Transactions

In connection with the offering of the Convertible Notes, the Company entered into privately negotiated convertible note hedge transactions with three counterparties ("hedge counterparties") to cover, subject to customary anti-dilution adjustments, the number of shares of the Company's common stock that initially underlie the Convertible Notes and expire on the last day that any Convertible Notes remain outstanding. The Company also entered separately into privately negotiated warrant transactions relating to the same number of shares of the Company's common stock with the hedge counterparties. The convertible note hedge transactions are expected to reduce the potential dilution with respect to the common stock of the Company upon conversion of the Convertible Notes in the event that the value per share of common stock, as measured under the convertible note hedge transactions, during the applicable valuation period, is greater than the strike price of the convertible note hedge transactions, which corresponds to the \$5.0280 per share initial conversion price of the Convertible Notes and is similarly subject to customary anti-dilution adjustments. If, however, the price per share of the Company's common stock, as measured under the warrants, exceeds the strike price of the warrant transactions during the applicable valuation period, there would be dilution from the issuance of common stock pursuant to the warrants. The warrants have a strike price of \$7.3325 per share, which is subject to customary anti-dilution adjustments and the maximum number of shares that could be issued under the warrant transactions is 45,743,836. The warrants expire in daily installments commencing on October 15, 2014 and ending on April 8, 2015. Both the convertible note hedge transactions and the warrant transactions require physical net-share settlement and are accounted for as equity instruments.

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 March 31, 2013, the Company had approximately \$356.8 million drawn and outstanding on foreign seasonal lines with maximum capacity totaling \$647.8 million subject to limitations as provided for in the Credit Agreement. Additionally, against these lines there was \$10.6 million available in unused letter of credit capacity with \$4.1 million issued but unfunded.

Long-Term Foreign Seasonal Borrowings

The Company has foreign seasonal borrowings with original maturities greater than one year. At March 31, 2013 and 2012, approximately \$5.2 million and \$88.2 million was drawn and outstanding with maximum capacity totaling \$25.0 million and \$125.0 million, respectively. During fiscal 2013, the Company terminated a long-term foreign seasonal borrowing which resulted in accelerated recognition of \$1.2 million of related deferred financing costs. Certain of these foreign seasonal borrowings are secured by certain of the subsidiary borrowers' accounts receivable and inventories and restrict the payment of dividend by the subsidiary borrower during the term of the agreement. The Company records outstanding borrowings under its foreign seasonal revolver agreement as long-term as the Company intends to extend repayment terms to the maturity date in accordance with the agreement.

Dividends

The Fifth Amendment to the Credit Agreement eliminated the basket for restricted payments for the term of the Credit Agreement and accordingly, we may not pay any dividends under the Credit Agreement for its remaining term. In addition, the indenture governing the Senior Notes contains similar restrictions and also prohibits the payment of dividends and other distributions if we fail to satisfy a ratio of consolidated EBITDA to fixed charges of at least 2.0 to

1.0. At March 31, 2013, we did not satisfy this fixed charge coverage ratio. We may from time to time not satisfy this ratio.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Liquidity and Capital Resources (continued)

Aggregate Contractual Obligations and Off-Balance Sheet Arrangements

We have summarized in the table below our contractual cash obligations and other commercial commitments as of March 31, 2013.

(in millions)	Total	Payments / Expirations by Period			
		2014	Years 2015-2016	Years 2017-2018	After 2018
Long-Term Debt Obligations*	\$1,315.8	\$88.0	\$587.9	\$639.5	\$0.4
Capital Lease Obligations*	0.1	0.1	—	—	—
Other Long-Term Obligations**	57.6	10.3	9.8	9.6	27.9
Operating Lease Obligations	51.0	12.5	18.0	10.4	10.1
Capital Expenditure Commitments	1.6	1.6	—	—	—
Tobacco Purchase Obligations	978.5	978.5	—	—	—
Beneficial Interest in Receivables Sold	32.0	32.0	—	—	—
Amounts Guaranteed for Tobacco Suppliers	125.6	118.5	7.1	—	—
Total Contractual Obligations and Other Commercial Commitments	\$2,562.2	\$1,241.5	\$622.8	\$659.5	\$38.4

* Long-Term Debt Obligations and Capital Lease Obligations include projected interest for both fixed and variable rate debt. We assume that there will be no drawings on the senior secured revolving credit facility in these calculations. The variable rate used in the projections is the rate that was being charged on our variable rate debt as of March 31, 2013. These calculations also assume that there is no refinancing of debt during any period. These calculations are on Long-Term Debt Obligations and Capital Lease Obligations only.

**Other long-term obligations consist of accrued pension and postretirement costs. Contributions for funded pension plans are based on the Pension Protection Act and tax deductibility and are not reasonably estimable beyond one year. Contributions for unfunded pension plans and postretirement plans captioned under "After 2018" include obligations during the next five years only. These obligations are not reasonably estimable beyond ten years. In addition, the following long-term liabilities included on the consolidated balance sheet are excluded from the table above: accrued postemployment costs, income taxes and tax contingencies, and other accruals. We are unable to estimate the timing of payments for these items.

We do not have any other off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources, as defined under the rules of SEC Release No. FRR-67, Disclosure in Management's Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations.

Lease Obligations

We have both capital and operating leases. In accordance with accounting principles generally accepted in the United States, operating leases are not reflected in the accompanying Consolidated Balance Sheet. The operating leases are for land, buildings, automobiles and other equipment; the capital leases are primarily for production machinery and equipment. The capitalized lease obligations are payable through 2015. Operating assets that are of long-term and continuing benefit are generally purchased.

Tobacco Purchase Obligations

Tobacco purchase obligations result from contracts with suppliers, primarily in the United States, Brazil and Turkey, to buy either specified quantities of tobacco or the supplier's total tobacco production. Amounts shown as tobacco

purchase obligations are estimates based on projected purchase prices of the future crop tobacco. Payment of these obligations is net of our advances to these suppliers. Our tobacco purchase obligations do not exceed our projected requirements over the related terms and are in the normal course of business.

Beneficial Interest in Receivables Sold

We sell accounts receivable under three revolving trade accounts receivable securitization programs. Under the agreements, we receive either 80% or 90% of the face value of the receivable sold, less contractual dilutions which limit the amount that may be outstanding from any one particular customer and insurance reserves that also have the effect of limiting the risk attributable to any one customer. Our beneficial interest is subordinate to the purchaser of the receivables. See Note 17 "Sale of Receivables" to the "Notes to Consolidated Financial Statements" for further information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Liquidity and Capital Resources (continued)

Aggregate Contractual Obligations and Off-Balance Sheet Arrangements (continued)

Amounts Guaranteed for Tobacco Suppliers

In Brazil and Malawi, we provide guarantees to ensure financing is available to our tobacco suppliers. In the event these suppliers should default, we would be responsible for repayment of the funds provided to these suppliers. We also provide guarantees for financing by certain unconsolidated subsidiaries in Asia and Zimbabwe. See Note 1 “Significant Accounting Policies – Advances to Tobacco Suppliers” to the “Notes to Consolidated Financial Statements” for further information.

Planned Capital Expenditures

We have projected a total of \$40.9 million in capital investments for our 2014 fiscal year of which \$1.6 million is under contract at March 31, 2013. We forecast our capital expenditure needs for routine replacement of equipment as well as investment in assets that will add value to the customer or increase efficiency.

Tax and Repatriation Matters

We are subject to income tax laws in each of the countries in which we do business through wholly owned subsidiaries and through affiliates. We make a comprehensive review of the income tax requirements of each of our operations, file appropriate returns and make appropriate income tax planning analyses directed toward the minimization of our income tax obligations in these countries. Appropriate income tax provisions are determined on an individual subsidiary level and at the corporate level on both an interim and annual basis. These processes are followed using an appropriate combination of internal staff at both the subsidiary and corporate levels as well as independent outside advisors in review of the various tax laws and in compliance reporting for the various operations.

We consider unremitted earnings of certain subsidiaries operating outside the United States to be invested indefinitely. No U.S. income taxes or foreign withholding taxes are provided on such permanently reinvested earnings, in accordance with ASC 740. We regularly review the status of the accumulated earnings of each of our foreign subsidiaries and reassess this determination as part of our overall financing plans. Following this assessment, we provide deferred income taxes, net of any foreign tax credits, on any earnings that are determined to no longer be indefinitely invested. We did not record any deferred income taxes for 2013. See Note 12 “Income Taxes” to the “Notes to Consolidated Financial Statements” for further information.

Critical Accounting Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States (GAAP) requires the use of estimates and assumptions that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental disclosures including information about contingencies, risk and financial condition.

Critical accounting estimates are defined as those that are reflective of significant judgments and uncertainties and potentially yield materially different results under different assumptions or conditions. Given current facts and circumstances, we believe that our estimates and assumptions are reasonable, adhere to GAAP and are consistently applied. Our selection and disclosure of our critical accounting policies and estimates has been reviewed with our Audit Committee. Following is a review of the more significant assumptions and estimates and the accounting policies and methods used in the preparation of our consolidated financial statements. For all of these estimates, we caution that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. See Note 1 “Significant Accounting Policies” to the “Notes to Consolidated Financial Statements” which discusses the significant

accounting policies that we have adopted.

Inventories

Costs included in inventory include processed tobacco inventory, unprocessed tobacco inventory and other inventory costs.

Inventories are valued at the lower of cost or market (“LCM”), which requires us to make significant estimates in assessing our inventory balances for potential LCM adjustments. We evaluate our inventories for LCM adjustments by country and type of inventory. Therefore, processed tobacco and unprocessed tobacco are evaluated separately for LCM purposes.

We compare the cost of our processed tobacco to market values based on recent sales of similar grades when evaluating those balances for LCM adjustments. We also consider whether our processed tobacco is committed to a customer, whereby the expected sales price would be utilized in determining the market value for committed tobacco. We also review data on market conditions in performing our LCM evaluation for our unprocessed tobacco.

See Note 1 “Significant Accounting Policies - Inventories” and Note 2 “Inventories” to the “Notes to Consolidated Financial Statements” for further information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Critical Accounting Estimates (continued)

Income Taxes

Our annual tax rate is based on our income, statutory tax rates, exchange rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions including evaluating uncertainties under ASC 740. We review our tax positions quarterly and adjust the balances as new information becomes available.

Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely heavily on estimates. To provide insight, we use our historical experience and our short and long-range business forecasts. We believe it is more likely than not that a portion of the deferred income tax assets may expire unused and have established a valuation allowance against them. Although realization is not assured for the remaining deferred income tax assets, we believe it is more likely than not the deferred tax assets will be fully recoverable within the applicable statutory expiration periods. However, deferred tax assets could be reduced in the near term if our estimates of taxable income are significantly reduced. See Note 12 "Income Taxes" and Note 16 "Contingencies and Other Information" to the "Notes to Consolidated Financial Statements" for further information.

Advances to Tobacco Suppliers

We evaluate our advances to tobacco suppliers, which represent prepaid inventory, for recoverability by crop and country. Our recoverability assessment for our advances to tobacco suppliers and our LCM evaluation for our inventories achieve a similar objective. We reclass the advances at the time suppliers deliver tobacco. The purchase price for the tobacco delivered by the suppliers is based on market prices. Two primary factors determine the market value of the tobacco suppliers deliver to us: the quantity of tobacco delivered and the quality of the tobacco delivered. Therefore, and at the time of delivery, we ensure our advances to tobacco suppliers are appropriately stated at the lower of cost or their recoverable amounts.

Upon delivery of tobacco, part of the purchase price to the supplier is paid in cash and part through a reduction of the advance balance. If a sufficient value of tobacco is not delivered to allow the reduction of the entire advance balance, then we first determine how much of the deficiency for the current crop is recoverable through future crops. This determination is made by analyzing the suppliers' ability-to-deliver a sufficient supply of tobacco. This analysis includes historical quantity and quality of production with monitoring of crop information provided by our field service technicians related to flood, drought and disease. The remaining recoverable advance balance would then be classified as noncurrent. Any increase in the estimate of unrecoverable advances associated with the noncurrent portion is charged to cost of goods and services sold in the income statement when determined.

Amounts not expected to be recovered through current or future crops are then evaluated to determine whether the yield is considered to be normal or abnormal. If the yield adjustment is normal, then we capitalize the applicable variance in the current crop of inventory. If the yield adjustment is considered abnormal, then we immediately charge the applicable variance to cost of goods and services sold in the income statement. A normal yield adjustment is based on the range of unrecoverability for the previous three years by country. Our normal yield adjustment in the South America region is 5.0% to 7.0%.

We account for our advances to tobacco suppliers using a cost accumulation model, which results in reporting our advances at the lower of cost or recoverable amounts exclusive of the mark-up and interest. The mark-up and interest on our advances are recognized upon delivery of tobacco as a decrease in our cost of the current crop.

The following table illustrates the amounts of favorable and unfavorable variances on current crop advances to tobacco suppliers (prepaid inventory) that will be capitalized into inventory when the crop has been purchased as of March 31, 2013, 2012 and 2011. The current crop is primarily sold in the next fiscal year when the net favorable / (unfavorable) variance is recognized through cost of sales. See Note 1 “Significant Accounting Policies – Advances to Tobacco Suppliers” for further information on the various components noted below. Variances on advances serve to state the tobacco inventory at cost by accumulating actual total cash expended and allocating it to the tobacco received during the crop cycle.

(in millions)	2013	2012	2011
Favorable variances (including mark-up)	\$14.5	\$21.1	\$25.0
Unfavorable variances (including unrecoverable advances)	(13.4	)(13.7	)(15.2
Net favorable variance in crop cost in inventory	\$1.1	\$7.4	\$9.8

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Critical Accounting Estimates (continued)

Advances to Tobacco Suppliers (continued)

South America Region

The price, and the resulting mark-up, of the inputs we advance is determined at the beginning of each season and depends on various market considerations. The interest rate charged on advances depends on market conditions as well. We purchase and advance the inputs in the currency of the local market. The favorable variance for 2013 has been negatively impacted by the change in market conditions for 2013 compared to prior years. Governmental interest rates have decreased 125 basis points which impacted the interest rate we charged our tobacco suppliers. Market prices for agricultural products declined which impacted the price we charged our tobacco suppliers and therefore our mark-up percentage. In addition, exchange rates appreciated approximately 26% which impacted the U.S. dollar results of our favorable variances. We believe the favorable variances relating to the 2013, 2012 and 2011 crops are representative of average favorable variance percentages based on market conditions and currency rates in each year.

We base our estimate of the unrecoverable advances on numerous factors, including, but not limited to our expectations of the quantity and quality of tobacco our suppliers will deliver to us.

Value Added Services Region

The Company generally purchases tobacco that has already been processed and reprocesses it according to customer specifications. Therefore, the Value Added Services operating segment does not generally provide advances to tobacco suppliers.

Other Regions

Within the Other Regions, Africa and Guatemala are the primary areas where we advance some inputs to suppliers for the coming crop. Advances to tobacco suppliers in most other areas are primarily cash advances to third party commercial suppliers. The Company did not incur substantial net variances within the Other Regions operating segments for 2013, 2012 and 2011 that were absorbed into inventory.

Asset Impairment

Long-lived assets, including recoverable intrastate trade tax credits, are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which undiscounted cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. We derive the required undiscounted cash flow estimates from our historical experience and our internal business plans. To determine fair value, we use our internal cash flow estimates discounted at an appropriate interest rate, quoted market prices when available and independent appraisals, as appropriate. Accordingly, the fair value of an asset could be different using different estimates and assumptions in these valuation techniques which would increase or decrease the impairment charge.

Other Intangible Assets

We have no other intangible assets with indefinite useful lives. We test other identified intangible assets with defined useful lives and subject to amortization whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. We perform this test by initially comparing the carrying amount to the sum of undiscounted cash flows expected to be generated by the asset. If the carrying amount of an intangible asset exceeds its estimated future undiscounted cash flows, then an impairment loss would be indicated. The amount of the impairment loss to be recorded would be based on the excess of the carrying amount of the intangible asset over its

discounted future cash flows. We use judgment in assessing whether the carrying amount of our intangible assets is not expected to be recoverable over their estimated remaining useful lives. See Note 5 “Goodwill and Other Intangibles” to the “Notes to Consolidated Financial Statements” for further information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Critical Accounting Estimates (continued)

Pensions and Postretirement Health Care and Life Insurance Benefits

The valuation of our pension and other postretirement health care and life insurance plans requires the use of assumptions and estimates that are used to develop actuarial valuations of expenses, assets and liabilities. These assumptions include discount rates, investment returns, projected salary increases and benefits and mortality rates. The significant assumptions used in the calculation of pension and postretirement obligations are:

Discount rate: The discount rate is based on investment yields available at the measurement date on high-quality fixed income obligations, such as those included in the Moody's Aa bond index.

Salary increase assumption: The salary increase assumption reflects our expectations with respect to long-term salary increases of our workforce. Historical pay increases, expectations for the future, and anticipated inflation and promotion rates are considered in developing this assumption.

Cash Balance Crediting Rate: Interest is credited on cash balance accounts based on the yield on one-year Treasury Constant Maturities plus 1%. The assumed crediting rate thus considers the discount rate, current treasury rates, current inflation rates, and expectations for the future.

Mortality Rates: Mortality rates are based on gender-distinct group annuity mortality (GAM) tables.

Expected return on plan assets: The expected return reflects asset allocations, investment strategy and our historical actual returns.

Termination and Retirement Rates: Termination and retirement rates are based on standard tables reflecting past experience and anticipated future experience under the plan. No early retirement rates are used since benefits provided are actuarially equivalent and there are not early retirement subsidies in the plan.

Management periodically reviews actual demographic experience as it compares to the actuarial assumptions. Changes in assumptions are made if there are significant deviations or if future expectations change significantly. Based upon anticipated changes in assumptions, pension and postretirement expense is expected to increase by \$0.9 million in the fiscal year ended March 31, 2014 as compared to March 31, 2013. We continually evaluate ways to better manage benefits and control costs. The cash contribution to our employee benefit plans in fiscal 2013 was \$10.7 million and is expected to be \$10.3 million in fiscal 2014.

The effect of actual results differing from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense in such future periods. Changes in other assumptions and future investment returns could potentially have a material impact on our pension and postretirement expenses and related funding requirements.

The effect of a change in certain assumptions is shown below:

	Estimated Change in Projected Benefit Obligation Increase (Decrease) (in 000's)	Estimated Change in Annual Expense Increase (Decrease) (in 000's)
Change in Assumption (Pension and Postretirement Plans)		
1% increase in discount rate	\$(19,790) \$(528)

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1% decrease in discount rate	\$24,301	\$739	
1% increase in salary increase assumption	\$1,296	\$236	
1% decrease in salary increase assumption	\$(1,183)	) \$(223)
1% increase in cash balance crediting rate	\$1,422	\$268	
1% decrease in cash balance crediting rate	\$(1,272)	) \$(239)
1% increase in rate of return on assets		\$(853)
1% decrease in rate of return on assets		\$853	

Changes in assumptions for other post retirement benefits are no longer applicable as the benefit is capped and no longer subject to inflation. See Note 13 “Employee Benefits” to the “Notes to Consolidated Financial Statements” for further information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (continued)

Recent Accounting Pronouncements Not Yet Adopted

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.

In January 2013, the FASB issued new accounting guidance to clarify the scope of the guidance issued in December 2011 regarding disclosures for offsetting assets and liabilities and address any unintended consequences. The scope of the guidance applies to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending that are offset in accordance with existing accounting guidance or subject to an enforceable master netting arrangement or similar agreement. 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.

In February 2013, the FASB issued new accounting guidance to improve the reporting of reclassifications out of accumulated other comprehensive income. Companies will be required to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified to net income in its entirety. For amounts not required to be reclassified in their entirety to net income in the same reporting period, a company is required to cross-reference other disclosures required that provide additional detail about those amounts. 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.

In February 2013, the FASB issued new accounting guidance to increase comparability among users of financial statements related to the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date and for which no specific guidance exists. The guidance will require a company to measure the obligation as the sum of the amount the company agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the company expects to pay on behalf of its co-obligors. A company will also be required to disclose the nature and amount of the obligation as well as other information about those obligations. This accounting guidance will be effective for the Company on April 1, 2014. 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 March 2013, the FASB issued new accounting guidance to resolve the diversity in practice related to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity as compared to when a parent no longer holds a controlling financial interest in a subsidiary or group of assets that is within a foreign entity. In addition, the guidance resolves the diversity in practice for the treatment of business combinations achieved in stages (also called step acquisitions) involving a foreign entity. This accounting guidance will be effective for the Company on April 1, 2014. 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivatives policies: Hedging interest rate exposure using swaps and hedging foreign exchange exposure using forward contracts are specifically contemplated to manage risk in keeping with management's policies. We may use derivative instruments, such as swaps or forwards, which are based directly or indirectly upon interest rates and currencies to manage and reduce the risks inherent in interest rate and currency fluctuations.

We do not utilize derivatives for speculative purposes, and we do not enter into market risk sensitive instruments for trading purposes. Derivatives are transaction specific so that a specific debt instrument, contract, or invoice determines the amount, maturity, and other specifics of the hedge.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (continued)

Foreign exchange rates: Our business is generally conducted in U.S. dollars, as is the business of the tobacco industry as a whole.

However, local country operating costs, including the purchasing and processing costs for tobaccos, are subject to the effects of exchange fluctuations of the local currency against the U.S. dollar. We attempt to minimize such currency risks by matching the timing of our working capital borrowing needs against the tobacco purchasing and processing funds requirements in the currency of the country where the tobacco is grown. Also, in some cases, our sales pricing arrangements with our customers allow adjustments for the effect of currency exchange fluctuations on local purchasing and processing costs. Fluctuations in the value of foreign currencies can significantly affect our operating results. In our cost of goods and services sold, we have recognized exchange gains (losses) of \$3.5 million, \$1.2 million and \$(0.01) million for the fiscal years ended March 31, 2013, 2012 and 2011, respectively. We recognized exchange gains (losses) of \$(9.1) million, \$(10.0) million and \$8.4 million related to tax balances in our tax expense for the fiscal years ended March 31, 2013, 2012 and 2011, respectively. In addition, foreign currency fluctuations in the Euro and (U.K.) Sterling can significantly impact the currency translation adjustment component of accumulated other comprehensive income. We recognized gains (losses) of \$(2.8) million, \$(1.5) million and \$2.3 million in 2013, 2012, and 2011, respectively, as a result of fluctuations in these currencies.

Our consolidated SG&A expenses denominated in foreign currencies are subject to translation risks from currency exchange fluctuations. These foreign denominated expenses accounted for approximately 29.6% or \$43.1 million of our total SG&A expenses for the twelve months ended March 31, 2013. A 10% change in the value of the U.S. dollar relative to those currencies would have caused the reported value of those expenses to increase or decrease by approximately \$4.3 million.

Interest rates: We manage our exposure to interest rate risk through the proportion of fixed rate and variable rate debt in our total debt portfolio. A 1% change in variable interest rates would increase or decrease our reported interest cost by approximately \$6.1 million. A substantial portion of our borrowings are denominated in U.S. dollars and bear interest at commonly quoted rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

STATEMENTS OF CONSOLIDATED OPERATIONS

Alliance One International, Inc. and Subsidiaries

(in thousands, except per share data)	Years Ended March 31,		
	2013	2012	2011
Sales and other operating revenues	\$2,243,816	\$2,150,767	\$2,094,062
Cost of goods and services sold	1,958,570	1,863,115	1,817,243
Gross profit	285,246	287,652	276,819
Selling, general and administrative expenses	145,750	147,558	157,920
Other income	20,721	15,725	37,442
Restructuring and asset impairment charges (recoveries)	(55	) 1,006	23,467
Operating income	160,272	154,813	132,874
Debt retirement expense	1,195	—	4,584
Interest expense	114,557	106,804	102,696
Interest income	6,547	6,149	7,255
Income before income taxes and other items	51,067	54,158	32,849
Income tax expense	27,992	25,039	107,460
Equity in net income of investee companies	1,637	72	2,463
Net income (loss)	24,712	29,191	(72,148)
Less: Net income (loss) attributable to noncontrolling interests	699	(260	) (597)
Net income (loss) attributable to Alliance One International, Inc.	\$24,013	\$29,451	\$(71,551)
Earnings (loss) per share:			
Basic	\$0.27	\$0.34	\$(0.81)
Diluted	\$0.25	\$0.30	\$(0.81)

See notes to consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Alliance One International, Inc. and Subsidiaries

(in thousands)	Years Ended March 31,		
	2013	2012	2011
Net income (loss)	\$ 24,712	\$ 29,191	\$(72,148)
Other comprehensive income (loss), net of tax:			
Currency translation adjustment	(2,802	)(1,546	) 2,297
Defined benefit pension amounts reclassified to income, net of tax of \$1,229 in 2013, \$420 in 2012 and \$26 in 2011	(13,717	)(15,324	) (2,789)
Total other comprehensive income (loss), net of tax	(16,519	)(16,870	) (492)
Total comprehensive income (loss)	8,193	12,321	(72,640)
Comprehensive income (loss) attributable to noncontrolling interests	699	(260	) (615)
Comprehensive income (loss) attributable to Alliance One International, Inc.	\$ 7,494	\$ 12,581	\$(72,025)

See notes to consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

CONSOLIDATED BALANCE SHEETS

Alliance One International, Inc. and Subsidiaries

(in thousands)	March 31, 2013	March 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$92,026	\$119,743
Trade and other receivables, net	224,222	303,090
Accounts receivable, related parties	55,696	32,316
Inventories	903,947	839,902
Advances to tobacco suppliers	109,520	89,378
Recoverable income taxes	8,980	9,592
Current deferred taxes	16,776	23,855
Prepaid expenses	36,811	45,097
Current derivative asset	3,145	312
Other current assets	13,632	14,562
Total current assets	1,464,755	1,477,847
Other assets		
Investments in unconsolidated affiliates	25,169	24,530
Goodwill and other intangible assets	31,471	35,865
Deferred income taxes	56,045	73,378
Other deferred charges	12,971	12,467
Other noncurrent assets	50,190	66,079
	175,846	212,319
Property, plant and equipment, net	270,978	259,679
	\$1,911,579	\$1,949,845
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes payable to banks	\$356,836	\$374,532
Accounts payable	135,260	120,148
Due to related parties	26,084	37,520
Advances from customers	16,817	14,876
Accrued expenses and other current liabilities	69,508	78,742
Current derivative liability	644	16
Income taxes	9,454	16,282
Long-term debt current	6,349	7,050
Total current liabilities	620,952	649,166
Long-term debt		
Deferred income taxes	830,870	821,453
Liability for unrecognized tax benefits	6,396	9,494
Pension, postretirement and other long-term liabilities	8,617	18,183
	102,713	121,128
	948,596	970,258
Commitments and contingencies		
Stockholders' equity		
Common stock—no par value:		
250,000 authorized shares, 95,494 issued and outstanding (95,234 at March 31, 2012)	460,914	457,497

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Retained deficit	(67,329) (91,342)
Accumulated other comprehensive loss	(55,192) (38,673)
Total stockholders' equity of Alliance One International, Inc.	338,393	327,482	
Noncontrolling interests	3,638	2,939	
Total equity	342,031	330,421	
	\$1,911,579	\$1,949,845	

See notes to consolidated financial statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

Alliance One International, Inc. and Subsidiaries

(in thousands)	Attributable to Alliance One International, Inc.					Total Stockholders' Equity
	Common Stock	Retained Deficit	Currency Translation Adjustment	Accumulated Other Comprehensive Income Pensions, Net of Tax	Noncontrolling Interest	
Balance, March 31, 2010	\$460,971	\$(49,242)	\$(3,691)	\$(17,638)	\$4,522	\$394,922
Net loss	—	(71,551)	—	—	(597)	(72,148)
Restricted stock surrendered	(582)	—	—	—	—	(582)
Exercise of employee stock options	130	—	—	—	—	130
Stock-based compensation	3,888	—	—	—	—	3,888
Shares purchased	(9,042)	—	—	—	—	(9,042)
Noncontrolling interest dividend paid	—	—	—	—	(284)	(284)
Purchase of additional investment in subsidiary	44	—	—	—	(424)	(380)
Other comprehensive income (loss), net of tax	—	—	2,315	(2,789)	(18)	(492)
Balance, March 31, 2011	\$455,409	\$(120,793)	\$(1,376)	\$(20,427)	\$3,199	\$316,012
Net income (loss)	—	29,451	—	—	(260)	29,191
Restricted stock surrendered	(198)	—	—	—	—	(198)
Stock-based compensation	2,286	—	—	—	—	2,286
Other comprehensive loss, net of tax	—	—	(1,546)	(15,324)	—	(16,870)
Balance, March 31, 2012	\$457,497	\$(91,342)	\$(2,922)	\$(35,751)	\$2,939	\$330,421
Net income	—	24,013	—	—	699	24,712
Restricted stock surrendered	(159)	—	—	—	—	(159)
Stock-based compensation	3,576	—	—	—	—	3,576
Other comprehensive loss, net of tax	—	—	(2,802)	(13,717)	—	(16,519)
Balance, March 31, 2013	\$460,914	\$(67,329)	\$(5,724)	\$(49,468)	\$3,638	\$342,031

See notes to consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

STATEMENTS OF CONSOLIDATED CASH FLOWS

Alliance One International, Inc. and Subsidiaries

(in thousands)	Years Ended March 31,		
	2013	2012	2011
Operating activities			
Net income (loss)	\$ 24,712	\$ 29,191	\$(72,148)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	33,811	33,143	28,216
Debt amortization/interest	15,303	14,024	12,959
Debt retirement cost	1,195	—	4,584
Restructuring and asset impairment charges (recovery)	(55)	(415)	10,323
(Gain) loss on foreign currency transactions	5,662	8,810	(8,387)
Gain on disposition of fixed assets	(1,310)	(4,500)	(4,355)
Gain on other sales of assets	—	(13,667)	(37,765)
Bad debt expense (recovery)	(44)	477	3,002
Stock-based compensation	4,520	2,618	4,609
Changes in operating assets and liabilities, net:			
Trade and other receivables	49,401	(5,563)	(100,711)
Inventories and advances to tobacco suppliers	(97,324)	(48,806)	60,123
Deferred items	(29,797)	(12,981)	99,646
Recoverable income taxes	(396)	7,759	(535)
Payables and accrued expenses	5	47,676	(95,239)
Advances from customers	2,201	(1,926)	(84,832)
Current derivative asset	(2,833)	2,232	(16)
Income taxes	(7,040)	(776)	(1,416)
Other operating assets and liabilities	1,090	(406)	(1,299)
Other, net	(735)	2,080	224
Net cash provided (used) by operating activities	(1,634)	58,970	(183,017)
Investing activities			
Purchases of property, plant and equipment	(39,860)	(43,846)	(69,525)
Intangibles, including internally developed software costs	(977)	(862)	(648)
Proceeds from sale of property, plant and equipment	1,770	6,212	6,649
Proceeds on other sales of assets	—	—	46,074
Proceeds from notes receivable	—	402	1,331
Change in restricted cash	25,955	(26,642)	(30)
Other, net	(99)	(334)	248
Net cash used by investing activities	(13,211)	(65,070)	(15,901)

Financing activities			
Net proceeds (repayments) of short-term borrowings	\$ (11,524	) \$ 149,914	\$ 37,214
Proceeds from long-term borrowings	357,337	343,426	347,300
Repayment of long-term borrowings	(352,436	)(403,497	)(256,093)
Debt issuance cost	(7,372	)(8,820	)(3,722)
Debt retirement cost	—	—	(2,262)
Repurchase of common stock	—	—	(9,042)
Other, net	(66	)(84	)(445)
Net cash provided (used) by financing activities	(14,061	) 80,939	112,950
Effect of exchange rate changes on cash	1,189	1,398	(264)
Increase (decrease) in cash and cash equivalents	(27,717	) 76,237	(86,232)
Cash and cash equivalents at beginning of year	119,743	43,506	129,738
Cash and cash equivalents at end of year	\$ 92,026	\$ 119,743	\$ 43,506
Other information:			
Cash paid during the year:			
Interest	\$ 102,101	\$ 89,183	\$ 91,108
Income taxes	20,771	17,242	12,921

See notes to consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 – Significant Accounting Policies

Description of Business

The Company is principally engaged in purchasing, processing, storing, and selling leaf tobacco. The Company purchases tobacco primarily in the United States, Africa, Europe, South America and Asia for sale to customers primarily in the United States, Europe and Asia.

Basis of Presentation

The accounts of the Company and its consolidated subsidiaries are included in the consolidated financial statements after elimination of intercompany accounts and transactions. The Company uses the cost or equity method of accounting for its investments in affiliates that are owned 50% or less and are not variable interest entities where the Company is the primary beneficiary.

The Company accounts for its investment in the Zimbabwe operations on the cost method and has been reporting it in Investments in Unconsolidated Affiliates in the Consolidated Balance Sheets since March 31, 2006. During fiscal year 2007, the Company wrote its investment in the Zimbabwe operations down to zero, however the Company continues to make advances and guarantees seasonal lines of credit on behalf of this entity. See Note 19 “Related Party Transactions” to the “Notes to Consolidated Financial Statements” for further information.

Beginning April 1, 2012, the Company’s management began evaluating the performance of its Value Added Services business as a separate operating segment from the Company’s five geographic operating segments. Value Added Services is comprised of the Company’s cut rolled expanded stem (“CRES”), cut rag, toasted burley and other specialty products and services. The economic characteristics of the Value Added Services segment are dissimilar from the other operating segments. Therefore, effective April 1, 2012, the Company’s reportable segments are Value Added Services, South America Region and Other Regions.

Investments in Unconsolidated Affiliates

The Company’s equity method investments and its cost method investments, including its Zimbabwe operations, are non-marketable securities. The Company reviews such investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recovered. For example, the Company would test such an investment for impairment if the investee were to lose a significant customer, suffer a large reduction in sales margins, experience a major change in its business environment, or undergo any other significant change in its normal business. In assessing the recoverability of equity or cost method investments, the Company uses discounted cash flow models. If the fair value of an equity investee is determined to be lower than its carrying value, an impairment loss is recognized. The preparation of discounted future cash flow analysis requires significant management judgment with respect to future operating earnings growth rates and the selection of an appropriate discount rate. The use of different assumptions could increase or decrease estimated future operating cash flows, and the discounted value of those cash flows, and therefore could increase or decrease any impairment charge.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities. They also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates, and changes in these estimates are recorded when known. Estimates are used in accounting for, among other things, pension and postretirement health care benefits, inventory market values,

allowances for doubtful accounts and advances, bank loan guarantees to suppliers and an unconsolidated subsidiary, useful lives for depreciation and amortization, future cash flows associated with impairment testing for long-lived assets, deferred tax assets and uncertain income tax positions, intrastate tax credits in Brazil and fair value determinations of financial assets and liabilities including derivatives, securitized beneficial interests and counterparty risk. Changes in market and economic conditions, local tax laws, and other related factors are considered each reporting period, and adjustments to the accounts are made based on the Company's best judgment.

Revenue Recognition

The Company recognizes revenue from the sale of tobacco when persuasive evidence of an arrangement exists, the price to the customer is fixed or determinable, collectibility is reasonably assured and title and risk of ownership is passed to the customer, which is upon shipment or delivery. The Company requires that all customer-specific acceptance provisions be met at the time title and risk of ownership passes to the customer. Furthermore, the Company's sales history indicates customer returns and rejections are not significant.

The Company also processes tobacco owned by its customers and revenue is recognized based on contractual terms as the service is provided. The revenue and cost associated with processing is recorded gross in the Statements of Consolidated Operations. The Company's history indicates customer requirements for processed tobacco are met upon completion of processing. In addition, advances from customers are deferred and recognized as revenue upon shipment or delivery.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Taxes Collected from Customers

Certain subsidiaries are subject to value added taxes on local sales. These amounts have been included in sales and were \$26,040, \$22,927 and \$31,043 for the years ended March 31, 2013, 2012 and 2011, respectively.

Shipping and Handling

Shipping and handling costs are included in cost of goods and services sold in the statement of operations.

Other Income

Other Income consists primarily of gains on sales of property, plant and equipment and assets held for sale. This caption also includes expenses related to the Company's sale of receivables. See Note 17 "Sale of Receivables" to the "Notes to Consolidated Financial Statements" for further information. During fiscal 2013, the Company recognized a non-cash benefit of \$24,142 for a Brazilian excise tax the Company used to offset Brazilian federal taxes payable in 2004 and 2005. The benefit recorded is based on a Brazilian court ruling on March 7, 2013. See Note 16 "Contingencies" to the "Notes to Consolidated Financial Statements" for further information. During fiscal 2012, 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 \$26,845 including the cash. The Company's basis in its assets given was \$13,178 and a gain of \$13,667 was recorded in Other Income in the Statements of Consolidated Operations. During fiscal 2011, the Company recorded a gain of \$37,765 on the assignment of approximately 9,000 tobacco suppliers in Southern Brazil and the sale of related assets to the Brazilian affiliate of Philip Morris International, Inc. ("PMI"). The Company continues to supply processed tobacco to PMI and to process tobacco for PMI's Brazilian affiliate under a long-term processing agreement.

The following table summarizes the significant components of Other Income.

	Years Ending March 31,		
	2013	2012	2011
Malawi other property sales	\$—	\$2,400	\$1,975
Brazil factory and other property sales to PMI's affiliate	—	—	37,765
Brazil property exchange and other property sales	—	15,967	—
Brazil excise tax benefit	24,142	—	—
Other sales of assets and expenses	4,892	2,491	97
Losses on sale of receivables	(8,313)	(5,133)	(2,395)
	\$20,721	\$15,725	\$37,442

Cash and Cash Equivalents

Cash equivalents are defined as temporary investments of cash with original maturities of less than 90 days. At March 31, 2013 and 2012, cash and cash equivalents included \$271 and \$579 of customer funding that was restricted for

social responsibility programs maintained by the Company. At March 31, 2013 and 2012, respectively, \$511 and \$302 of cash held on deposit as a compensating balance for short-term borrowings was included in Other Current Assets. During fiscal 2012, the Company entered into certain foreign seasonal borrowings with maturities greater than one year that required restricted cash deposits of \$13,000 be maintained during the terms of the borrowings. These restricted cash deposits were recorded as Other Noncurrent Assets at March 31, 2012. Additional cash accounts, and the activity therein, were restricted, as to use and access, per certain of the foreign seasonal borrowing agreements. At March 31, 2012, the balance of these accounts was \$13,665 and was recorded as Other Current Assets. At March 31, 2013, only one foreign seasonal borrowing remained with a maturity now less than twelve months. The restricted cash deposit for this borrowing is \$500 and is included in Other Current Assets.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Trade and Other Receivables

Trade and other receivables consist of \$217,583 of trade receivables and \$6,639 of other receivables at March 31, 2013. The balances at March 31, 2012 were \$286,992 and \$16,098 for trade receivables and other receivables, respectively.

Trade receivables are amounts owed to the Company from its customers. Trade receivables are recorded at invoiced amounts and primarily have net 30 day terms. The Company extends credit to its customers based on an evaluation of a company's financial condition and collateral is generally not required.

The Company maintains an allowance for doubtful accounts for estimated uncollectible accounts receivable. The allowance is based on the Company's assessment of known delinquent accounts, other currently available evidence of collectibility and the aging of accounts receivable. The Company's allowance for doubtful accounts was \$3,164 and \$3,878 at March 31, 2013 and 2012, respectively. The provision for doubtful accounts was \$(163), \$221 and \$3,086 for the years ending March 31, 2013, 2012 and 2011, respectively and is reported in Selling, General and Administrative Expenses in the Statements of Consolidated Operations.

Other receivables consist primarily of value added tax (VAT) receivables of \$2,792 and \$12,505 at March 31, 2013 and 2012, respectively.

Other Deferred Charges

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

Sale of Accounts Receivable

The Company is engaged in three revolving trade accounts receivable securitization arrangements to sell receivables. The Company records the transaction as a sale of receivables, removes such receivables from its financial statements and records a receivable for the beneficial interest in such receivables. The losses on the sale of receivables are recognized in Other Income. As of March 31, 2013 and 2012, respectively, accounts receivable sold and outstanding were \$156,633 and \$182,856. See Note 17 "Sale of Receivables" and Note 18 "Fair Value Measurements" to the "Notes to Consolidated Financial Statements" for further information.

Inventories

Costs in inventory include processed tobacco inventory, unprocessed tobacco inventory and other inventory. Costs of unprocessed tobacco inventories are determined by the average cost method, which include the cost of green tobacco. Costs of processed tobacco inventories are determined by the average cost method, which include both the cost of unprocessed tobacco, as well as direct and indirect costs that are related to the processing of the product. Costs of other non-tobacco inventory are determined by the first-in, first-out method, which include costs of packing materials, non-tobacco agricultural products and agricultural supplies including seed, fertilizer, herbicides and pesticides.

Inventories are valued at the lower of cost or market ("LCM"). The Company evaluates its inventories for LCM adjustments by country and type of inventory. Therefore, processed tobacco and unprocessed tobacco are evaluated separately for LCM purposes. The Company compares the cost of its processed tobacco to market values based on recent sales of similar grades when evaluating those balances for LCM adjustments. The Company also considers whether its processed tobacco is committed to a customer, whereby the expected sales price would be utilized in determining the market value for committed tobacco. The Company also reviews data on market conditions in performing its LCM evaluation for unprocessed tobacco.

See Note 2 "Inventories" to the "Notes to Consolidated Financial Statements" for further information.

Advances to Tobacco Suppliers

The Company purchases seeds, fertilizer, pesticides and other products related to growing tobacco and advances them to suppliers, which represents prepaid inventory and is recorded as advances to tobacco suppliers. The advances of current crop inputs generally include the original cost of the inputs plus a mark-up and interest as it is earned. Where contractually permitted, the Company charges interest to the suppliers during the period the current crop advance is outstanding. The Company generally advances the inputs at a price that is greater than its cost, which results in a mark-up on the inputs. The suppliers then utilize these inputs to grow tobacco, which the Company is contractually obligated to purchase. Upon delivery of tobacco, part of the purchase price to the supplier is paid in cash and part through a reduction of the advance balance. The advances applied to the delivery are reclassified out of advances and into unprocessed inventory. Advances to tobacco suppliers are accounted for utilizing a cost accumulation methodology.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note 1 - Significant Accounting Policies (continued)

Advances to Tobacco Suppliers (continued)

The Company has current and noncurrent advances to tobacco suppliers. The current advances represent the cost of the seeds, fertilizer and other materials that are advanced for the current crop of inventory. The noncurrent advances generally represent the cost of advances to suppliers for infrastructure, such as curing barns, which is also recovered through the delivery of tobacco to the Company by the suppliers. As a result of various factors in a given crop year (weather, etc.) not all suppliers are able to settle the entire amount of advances that are due that year. In these situations, the Company may allow the suppliers to deliver tobacco over future crop years to recover its advances. The advance balances that are deferred over future crop years are also classified as noncurrent.

Advances to tobacco suppliers are carried at cost and evaluated for recoverability. The realizability evaluation process is similar to that of the LCM evaluation process for inventories. The Company evaluates its advances for recoverability by crop and country. The Company reclasses the advance to inventory at the time suppliers deliver tobacco. The purchase price for the tobacco delivered by the suppliers is based on market prices. Two primary factors determine the market value of the tobacco suppliers deliver: the quantity of tobacco delivered and the quality of the tobacco delivered. Therefore, the Company ensures its advances are appropriately stated at the lower of cost or estimated recoverable amounts.

Upon delivery of tobacco, part of the purchase price to the supplier is paid in cash and part through a reduction of the advance balance. If a sufficient value of tobacco is not delivered to allow the reduction of the entire advance balance, then the Company first determines how much of the deficiency for the current crop is recoverable through future crops. This determination is made by analyzing the suppliers' ability-to-deliver a sufficient supply of tobacco. This analysis includes historical quantity and quality of production with monitoring of crop information provided by field service technicians related to flood, drought and disease. The remaining recoverable advance balance would then be classified as noncurrent. Any increase in the estimate of unrecoverable advances associated with the noncurrent portion is charged to cost of goods and services sold in the income statement when determined. Amounts not expected to be recovered through current or future crops are then evaluated to determine whether the yield is considered to be normal or abnormal. If the yield adjustment is normal, then the Company capitalizes the applicable variance in the current crop of inventory. If the yield adjustment is considered abnormal, then the Company immediately charges the applicable variance to cost of goods and services sold in the income statement. A normal yield adjustment is based on the range of unrecoverability for the previous three years by country.

The Company accounts for its advances to tobacco suppliers using a cost accumulation model, which results in the reporting of its advances at the lower of cost or recoverable amounts exclusive of the mark-up and interest. The mark-up and interest on its advances are recognized upon delivery of tobacco as a decrease in the cost of the current crop. The mark-up and interest capitalized or to be capitalized into inventory for the current crop was \$14,464 and \$21,139 as of March 31, 2013 and 2012, respectively. Unrecoverable advances and other costs capitalized or to be capitalized into the current crop was \$13,347 and \$13,746 at March 31, 2013 and 2012, respectively. The following table reflects the classification of advances to tobacco suppliers:

	March 31, 2013	March 31, 2012
Current	\$109,520	\$89,378
Noncurrent	6,421	5,613
	\$115,941	\$94,991

Noncurrent advances to tobacco suppliers are recorded in Other Noncurrent Assets in the Consolidated Balance Sheets.

Unrecovered amounts expensed directly to cost of goods and services sold in the income statement for abnormal yield adjustments or unrecovered amounts from prior crops were \$1,750 and \$1,350 for the years ended March 31, 2013 and 2011, respectively. There were no abnormal yield adjustments for the year ended March 31, 2012. Normal yield adjustments are capitalized into the cost of the current crop and are expensed as cost of goods and services sold as that crop is sold.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Guarantees

The Company and certain of its foreign subsidiaries guarantee bank loans to suppliers to finance their crops. Under longer-term arrangements, the Company may also guarantee financing on suppliers' construction of curing barns or other tobacco production assets. Guaranteed loans are generally repaid concurrent with the delivery of tobacco to the Company. The Company is obligated to repay any guaranteed loan should the supplier default. If default occurs, the Company has recourse against the supplier. The Company also guarantees bank loans of certain unconsolidated subsidiaries in Asia and Zimbabwe. The following table summarizes amounts guaranteed and the fair value of those guarantees:

	March 31, 2013	March 31, 2012
Amounts guaranteed (not to exceed)	\$ 125,623	\$ 127,132
Amounts outstanding under guarantee	98,689	105,403
Fair value of guarantees	6,367	5,265

Of the guarantees outstanding at March 31, 2013, approximately 94% 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 Consolidated Balance Sheets and included in crop costs except for Zimbabwe which is included in Accounts Receivable, Related Parties.

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 March 31, 2013 and 2012, respectively, the Company had balances of \$45,843 and \$27,619 that were due to local banks on behalf of suppliers. These amounts are included in Accounts Payable in the Consolidated Balance Sheets.

Goodwill and Other Intangibles

Goodwill represents the excess of purchase price over fair value of net assets acquired, and is allocated to the appropriate reporting unit when acquired. Goodwill is not amortized; rather it is evaluated for impairment annually or whenever events or changes in circumstances indicate that the value of the asset may be impaired. Goodwill is evaluated for impairment by determining the fair value of the related reporting unit. Fair value is measured based on a discounted cash flow method or relative market-based approach. If the carrying amount of goodwill exceeds its fair value, an impairment charge is recorded.

The Company has no intangible assets with indefinite useful lives. It does have other intangible assets, production and supply contracts and a customer relationship intangible asset as well as internally developed software that is capitalized into intangibles. These intangible assets are stated at amortized cost and tested for impairment whenever factors indicate the carrying amount may not be recoverable. Supply contracts are amortized based on the expected realization of the benefit over the term of the contracts ranging from 3 to 5 years. Production contracts and the customer relationship intangible are both amortized on a straight-line basis ranging from five to ten years and twenty years, respectively. The amortization period is the term of the contract or, if no term is specified in the contract, management's best estimate of the useful life based on past experience. Internally developed software is amortized on a straight-line basis over five years once the software testing is complete. Events and changes in

circumstance may either result in a revision in the estimated useful life or impairment of an intangible resulting in revaluation of the asset value to its fair value. See Note 5 "Goodwill and Other Intangibles" to the "Notes to Consolidated Financial Statements" for further information.

Other Noncurrent Assets

For the year ended March 31, 2013, other noncurrent assets consist primarily of long-term VAT and intrastate tax receivables of \$19,368, long-term advances to suppliers of \$6,421 and cash surrender value of life insurance of \$10,201. For the year ended March 31, 2012, other noncurrent assets consist primarily of long-term VAT and intrastate tax receivables of \$23,217, long-term advances to suppliers of \$5,613, long-term restricted cash of \$13,000 and cash surrender value of life insurance of \$9,622.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment at March 31, 2013 and 2012, are summarized as follows:

	2013	2012
Land	\$28,752	\$27,991
Buildings	196,601	202,153
Machinery and equipment	207,717	187,026
Total	433,070	417,170
Less accumulated depreciation	162,092	157,491
Total property, plant and equipment, net	\$270,978	\$259,679

Property, plant and equipment is stated at cost less accumulated depreciation. Provisions for depreciation are computed on a straight-line basis at annual rates calculated to amortize the cost of depreciable properties over their estimated useful lives. Buildings and machinery and equipment are depreciated over ranges of 20 to 30 years and 3 to 10 years, respectively. The consolidated financial statements do not include fully depreciated assets. Depreciation expense recorded in Cost of Goods and Services Sold for the years ended March 31, 2013, 2012 and 2011 was \$25,939, \$24,712 and \$20,699, respectively. Depreciation expense recorded in Selling, General and Administrative Expense for the years ended March 31, 2013, 2012 and 2011 was \$3,112, \$3,717 and \$2,915, respectively. Total property and equipment purchases, including internally developed software intangibles, were \$42,803 for the year ended March 31, 2013 of which \$2,743 was unpaid at March 31, 2013 and included in Accounts Payable; \$42,347 for the year ended March 31, 2012 of which \$776 was unpaid at March 31, 2012 and included in Accounts Payable; and \$70,608 for the year ended March 31, 2011 of which \$3,141 was unpaid at March 31, 2011 and included in Accounts Payable. Included in fiscal 2011 purchases is \$43,775 for a new tobacco processing facility in the State of Santa Catarina by the Company's subsidiary in Brazil.

Estimated useful lives are periodically reviewed and changes are made to the estimated useful lives when necessary. Long-lived assets are reviewed for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows. An impairment loss would be recognized when estimated undiscounted future cash flows from the use of the asset and its eventual disposition are less than its carrying amount. Measurement of an impairment loss would be based on the excess of the carrying amount of the asset over its fair value. Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties and may be estimated using a number of techniques, including quoted market prices or valuations, present value techniques based on estimates of cash flows, or multiples of earnings or revenue performance measures.

Derivative Financial Instruments

The Company uses forward or option currency contracts to protect against volatility associated with certain non-U.S. dollar denominated forecasted transactions. The contracts do not qualify for hedge accounting as defined by generally accepted accounting principles. As a result, the Company has recorded income (loss) of \$(14,287), \$6,033 and \$5,679 in its Cost of Goods and Services Sold for the years ended March 31, 2013, 2012 and 2011, respectively. The Company has also recorded income (loss) of \$(39) and \$95 in its Selling, General and Administrative Expenses for the years ended March 31, 2012 and 2011, respectively. No income or loss was recorded in Selling, General and Administrative Expenses for the year ended March 31, 2013. See Note 6 "Derivative and Other Financial Instruments" to the "Notes to Consolidated Financial Statements" for further information.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Income Taxes

The Company uses the asset and liability method to account for income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the income tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

The Company's annual tax rate is based on its income, statutory tax rates and tax planning opportunities available to it in the various jurisdictions in which it operates. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions, including evaluating uncertainties. The Company reviews its tax positions quarterly and adjusts the balances as new information becomes available.

Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. The Company evaluates the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely on estimates. The Company uses historical experience and short and long-range business forecasts to provide insight. The Company believes it is more likely than not that a portion of the deferred income tax assets may expire unused and has established a valuation allowance against them. Although realization is not assured for the remaining deferred income tax assets, the Company believes it is more likely than not the deferred tax assets will be fully recoverable within the applicable statutory expiration periods. However, deferred tax assets could be reduced in the near term if estimates of taxable income are significantly reduced or available tax planning strategies are no longer viable. See Note 12 "Income Taxes" and Note 16 "Contingencies and Other Information" to the "Notes to Consolidated Financial Statements" for further information.

Stock-Based Compensation

The Company expenses the fair value of grants of various stock-based compensation programs at fair value over the vesting period of the awards. The fair value of stock options is estimated at the date of grant using the Black-Scholes-Merton option valuation model which was developed for use in estimating the fair value of exchange traded options that have no vesting restrictions and are fully transferable. Option valuation methods require the input of highly subjective assumptions, including the expected stock price volatility. See Note 11 "Stock-Based Compensation" to the "Notes to Consolidated Financial Statements" for further information.

New Accounting Standards

Recently Adopted Accounting Pronouncements

On April 1, 2012, the Company adopted new accounting guidance, as amended, on comprehensive income. The objective of this accounting guidance is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The guidance eliminates the option to present components of other comprehensive income as part of the statement of stockholders' equity and requires them to be presented in the statement of comprehensive income instead. The Company adopted this new accounting guidance and is reporting other comprehensive income in a separate financial statement.

On January 1, 2013, the Company adopted 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. The Company adopted this new accounting guidance with no material impact on its financial condition or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Adopted

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.

In January 2013, the FASB issued new accounting guidance to clarify the scope of the guidance issued in December 2011 regarding disclosures for offsetting assets and liabilities and address any unintended consequences. The scope of the guidance applies to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending that are offset in accordance with existing accounting guidance or subject to an enforceable master netting arrangement or similar agreement. 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.

In February 2013, the FASB issued new accounting guidance to improve the reporting of reclassifications out of accumulated other comprehensive income. Companies will be required to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified to net income in its entirety. For amounts not required to be reclassified in their entirety to net income in the same reporting period, a company is required to cross-reference other disclosures required that provide additional detail about those amounts. 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.

In February 2013, the FASB issued new accounting guidance to increase comparability among users of financial statements related to the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date and for which no specific guidance exists. The guidance will require a company to measure the obligation as the sum of the amount the company agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the company expects to pay on behalf of its co-obligors. A company will also be required to disclose the nature and amount of the obligation as well as other information about those obligations. This accounting guidance will be effective for the Company on April 1, 2014. 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 March 2013, the FASB issued new accounting guidance to resolve the diversity in practice related to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity as compared to when a parent no longer holds a controlling financial interest in a subsidiary or group of assets that is within a foreign entity. In addition, the guidance resolves the diversity in practice for the treatment of business combinations achieved in stages (also called step acquisitions) involving a foreign entity. This accounting guidance will be effective for the Company on April 1, 2014. 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Computation of Earnings (Loss) Per Common Share

(in thousands, except per share data)	Years Ended March 31,		
	2013	2012	2011
BASIC EARNINGS (LOSS)			
Net income (loss) attributable to Alliance One International, Inc.	\$24,013	\$29,451	\$(71,551)
SHARES			
Weighted Average Number of Shares Outstanding	87,374	87,023	87,799
BASIC EARNINGS (LOSS) PER SHARE	\$0.27	\$0.34	\$(0.81)
DILUTED EARNINGS (LOSS)			
Net income (loss) attributable to Alliance One International, Inc.	\$24,013	\$29,451	\$(71,551)
Plus interest expense on 5 ½% convertible notes, net of tax	4,100	4,111	— *
Net income (loss) attributable to Alliance One International, Inc. as adjusted	\$28,113	\$33,562	\$(71,551)
SHARES			
Weighted average number of shares outstanding	87,374	87,023	87,799
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	356	282	— *
Assuming conversion of 5 ½% convertible notes	22,872	22,872	— *
Shares applicable to stock warrants	—	** —	** — **
Adjusted weighted average number of shares outstanding	110,602	110,177	87,799
DILUTED EARNINGS (LOSS) PER SHARE	\$0.25	\$0.30	\$(0.81)

Assumed conversion of convertible notes at the beginning of the period has an antidilutive effect on earnings (loss) *per share. 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 year ended March 31, 2013, 2012 and 2011, the warrants were not assumed exercised because the exercise price was more than the average price for the period.

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 March 31, 2013 and 2012. 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 7,010 at a weighted average exercise price of \$6.05 per share at March 31, 2013 and 4,191 at a weighted average exercise price of \$6.03 per share at March 31, 2012.

In connection with the offering of the Company's 5.50% 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. The Company purchased 2,380 shares of its common stock at a weighted average price paid per share of \$3.78.

Concentration of Credit Risk

The Company may potentially be subject to a concentration of credit risks due to tobacco supplier advances and trade receivables relating to customers in the tobacco industry as well as cash which is deposited with high-credit-quality financial institutions. See Note 14 "Segment Information" to the "Notes to Consolidated Financial Statements" for further information of particular concentrations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Preferred Stock

The Board of Directors is authorized to issue shares of Preferred Stock in series with variations as to the number of shares in any series. The Board of Directors also is authorized to establish the rights and privileges of such shares issued, including dividend and voting rights. At March 31, 2013, 10,000 shares of preferred stock were authorized and no shares had been issued.

Note 2 – Inventories

	March 31, 2013	March 31, 2012
Processed tobacco	\$549,738	\$555,341
Unprocessed tobacco	310,164	240,811
Other	44,045	43,750
	\$903,947	\$839,902

See Note 1 “Significant Accounting Policies - Inventories” to the “Notes to Consolidated Financial Statements” for further information on the costs that comprise the inventory balances and the LCM testing methodologies.

The Company recorded LCM adjustments of \$966 and \$15,443 for the years ended March 31, 2013 and 2011, respectively. No LCM adjustment was recorded for the year ended March 31, 2012.

Note 3 – 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 March 31, 2013 and 2012, the Company’s investment in these joint ventures was \$23,986 and \$23,346, respectively and is classified as Investments in Unconsolidated Affiliates in the Consolidated Balance Sheets. The Company’s advances to these joint ventures were \$9 at March 31, 2012 and is classified as Accounts Receivable, Related Parties in the Consolidated Balance Sheets. There were no advances at March 31, 2013. The Company guaranteed an amount to a joint venture not to exceed \$19,363 and \$19,712 at March 31, 2013 and 2012, respectively. The investments, advances and guarantee in these joint ventures represent the Company’s maximum exposure to loss.

Note 4 – Restructuring and Asset Impairment 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 in fiscal 2011. The Company began realigning the organization by transitioning the United Kingdom finance and logistics functions to the United States and closing the Netherlands office. In December 2010, new leadership was appointed to better position the Company for the future. In addition, origin and corporate operations were reviewed and initiatives were implemented to increase operational

efficiency and effectiveness. As a result, total charges (recoveries) of \$(55), \$246 and \$14,824 were incurred in connection with the reduction in the global workforce for the years ended March 31, 2013, 2012 and 2011, respectively, including an impact on the Company's pension plans of \$1,271 in fiscal 2011. Non-current asset impairment charges of \$760 incurred in fiscal 2012 are primarily for non-tobacco internally developed software intangible assets and real property in Macedonia. Other restructuring charges of \$8,643 incurred in fiscal 2011 primarily relate to the relocation of factory equipment in Brazil. As of March 31, 2013, these initiatives are substantially complete.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note 4 – Restructuring and Asset Impairment Charges (continued)

The following table summarizes the restructuring actions as of March 31, 2013, 2012 and 2011:

Restructuring and Asset Impairment Charges	Years Ended March 31,		
	2013	2012	2011
Employee separation and other cash charges:			
Beginning balance	\$1,960	\$6,193	\$—
Period Charges:			
Employee separation charges (recoveries)	(55	) 215	13,474
Other cash charges	—	31	5,863
Total employee separation and other cash charges (recoveries)	(55	) 246	19,337
Payments through March 31	(1,237	) (4,479	) (13,144
Ending balance March 31	\$668	\$1,960	\$6,193
Asset impairment and other non-cash charges	—	760	4,130
Total restructuring and asset impairment charges (recoveries)	\$(55	) \$1,006	\$23,467

The following table summarizes cash payments for employee separation and other cash charges (recoveries) for the years ended March 31, 2013, 2012 and 2011.

Cash Payments by Year	Year Ending March 31,			Total Payments
	2013	2012	2011	
Employee separation and other cash charges (recoveries)	\$(55	) \$246	\$19,337	
Cash paid 2011	—	—	(13,144	) \$(13,144
Cash paid 2012	—	(62	) (4,417	) \$(4,479
Cash paid 2013	—	(184	) (1,053	) \$(1,237
Adjustment	55	—	(55)
Balances at March 31, 2013	\$—	\$—	\$668	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note 4 – Restructuring and Asset Impairment Charges (continued)

April 1, 2012, the Company revised its reportable segments. See Note 1 "Significant Accounting Policies - Basis of Presentation" to the "Notes to Consolidated Financial Statements" for further information. The following table summarizes the employee separation and other cash charges recorded in the Company's South America, Value Added Services and Other Regions segments as of March 31, 2013, 2012 and 2011:

	Years Ended March 31,		
	2013	2012	2011
Employee Separation and Other Cash Charges			
Beginning balance:	\$1,960	\$6,193	\$—
South America	183	1,073	—
Value added services	—	—	—
Other regions	1,777	5,120	—
Period charges:	\$(55)	)\$246	\$19,337
South America	(143)	)75	7,589
Value added services	—	—	—
Other regions	88	171	11,748
Payments through March 31:	\$(1,237)	)\$4,479	)\$13,144
South America	(40)	)965	)6,516
Value added services	—	—	—
Other regions	(1,197)	)3,514	)6,628
Ending balance March 31:	\$668	\$1,960	\$6,193
South America	—	183	1,073
Value added services	—	—	—
Other regions	668	1,777	5,120

Non-cash charges related to the South America segment were \$2,860 during the year ended March 31, 2011. Non-cash charges related to the Other Regions segment were \$760 and \$1,270 during the years ended March 31, 2012 and 2011, respectively.

Note 5 – Goodwill and Other Intangibles

The Company tests the carrying amount of goodwill annually as of the first day of the last quarter of the fiscal year and whenever events or circumstances indicate that impairment may have occurred. The Company evaluated its goodwill for impairment during fiscal 2013, 2012 and 2011 and determined that the fair value of each reporting unit is substantially in excess of its carrying value including goodwill.

The carrying value of other intangible assets as of March 31, 2013 represents customer relationship, production and supply contracts and internally developed software. These intangible assets were determined by management to meet the criterion for recognition apart from goodwill and have finite lives. The Company uses judgment in assessing whether the carrying amount of its intangible assets is not expected to be recoverable over their estimated remaining useful lives. Amortization expense associated with these intangible assets was \$5,370, \$5,804 and \$5,094 for the years ended March 31, 2013, 2012 and 2011, respectively and is recorded in Selling, General and Administrative Expenses.

The Company began implementing a new ERP system in fiscal 2008 and capitalized certain costs into tangible assets within the consolidated balance sheet in accordance with generally accepted accounting principles. As of March 31, 2013, the Company has implemented the ERP system in most of the operations subsidiaries around the world and incurred \$16,919 of capitalizable costs associated with the implementation. Amortization of the final

accumulated costs of each implemented location is over a five year useful life. There was an additional \$642 of capitalizable costs related to other internally developed software projects that were subsequently written off in fiscal 2012 due to impairment.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note 5 – Goodwill and Other Intangibles (continued)

The Company has no intangible assets with indefinite useful lives. It does have intangible assets which are amortized. The following table summarizes the changes in the Company's goodwill and other intangibles for the years ended March 31, 2013, 2012 and 2011.

Goodwill and Intangible Asset Rollforward:

	Unamortizable Goodwill (1)	Amortizable Intangibles			Total
		Customer Relationship Intangible	Production and Supply Contract Intangibles	Internally Developed Software Intangible	
Weighted average remaining useful life in years as of March 31, 2013		12	3	1	
March 31, 2011 balance:					
Gross carrying amount	\$2,794	\$33,700	\$7,893	\$15,767	\$60,154
Accumulated amortization	—	(9,899)	(1,948)	(7,102)	(18,949)
Net March 31, 2011 balance	2,794	23,801	5,945	8,665	41,205
Additions	—	—	—	821	821
Impairment / other	—	—	—	(357)	(357)
Amortization expense					