ALLIANCE ONE INTERNATIONAL, INC.
Form 10-Q
August 05, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2014

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

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

| Virginia | 001-13684 | 54-1746567 |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

8001 Aerial Center Parkway
Morrisville, NC 27560-8417 (Address of principal executive offices)

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

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

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer o | Accelerated filer þ |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

Yes o No þ

As of July 31, 2014, the registrant had 88,313,899 shares outstanding of Common Stock (no par value) excluding 7,853,121 shares owned by a wholly owned subsidiary.

Alliance One International, Inc. and Subsidiaries

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Part I. Financial Information

Item 1. Financial Statements

Alliance One International, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended June 30, 2014 and 2013
(Unaudited)

| | Three Months Ended June 30, | |
|---|---|---|
| (in thousands, except per share data) | 2014 | 2013 |
| Sales and other operating revenues | $249,017 | $383,887 |
| Cost of goods and services sold | 213,913 | 355,393 |
| Gross profit | 35,104 | 28,494 |
| Selling, general and administrative expenses | 31,325 | 35,491 |
| Other income | 800 | 1,244 |
| Restructuring and asset impairment charges | — | 2,196 |
| Operating income (loss) | 4,579 | (7,949) |
| Debt retirement expense | — | 17 |
| Interest expense (includes debt amortization of $1,552 and $2,511 for the three months in 2014 and 2013, respectively) | 26,922 | 28,843 |
| Interest income | 1,351 | 1,986 |
| Loss before income taxes and other items | (20,992) | (34,823) |
| Income tax expense (benefit) | (2,914) | 868 |
| Equity in net loss of investee companies | (485) | (1,042) |
| Net loss | (18,563) | (36,733) |
| Less: Net income attributable to noncontrolling interests | 55 | 129 |
| Net loss attributable to Alliance One International, Inc. | $(18,618) | $(36,862) |
| | | |
| Loss per share: | | |
| Basic | $(.21) | $(.42) |
| Diluted | $(.21) | $(.42) |
| Weighted average number of shares outstanding: | | |
| Basic | 87,991 | 87,473 |
| Diluted | 87,991 | 87,473 |

See notes to condensed consolidated financial statements

Alliance One International, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Three Months Ended June 30, 2014 and 2013
(Unaudited)

| (in thousands) | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 |
|---|---|---|
| Net loss | $(18,563) | $(36,733) |
| Other comprehensive income, net of tax: | | |
| Currency translation adjustment | 208 | 749 |
| Defined benefit pension amounts reclassified to income | 414 | 522 |
| Total other comprehensive income, net of tax | 622 | 1,271 |
| Total comprehensive loss | (17,941) | (35,462) |
| Comprehensive income attributable to noncontrolling interests | 55 | 129 |
| Comprehensive loss attributable to Alliance One International, Inc. | $(17,996) | $(35,591) |

See notes to condensed consolidated financial statements

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

| (in thousands) | June 30, 2014 | June 30, 2013 | March 31, 2014 |
|---|---|---|---|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 126,199 | $ 148,804 | $ 234,742 |
| Trade and other receivables, net | 186,860 | 197,061 | 176,459 |
| Accounts receivable, related parties | 76,672 | 108,898 | 44,869 |
| Inventories | 1,014,413 | 1,134,403 | 760,607 |
| Advances to tobacco suppliers | 58,563 | 102,567 | 49,598 |
| Recoverable income taxes | 5,991 | 7,527 | 4,789 |
| Current deferred taxes | 13,376 | 21,838 | 10,013 |
| Prepaid expenses | 34,213 | 39,781 | 27,667 |
| Other current assets | 14,074 | 20,548 | 12,053 |
| Total current assets | 1,530,361 | 1,781,427 | 1,320,797 |
| Other assets | | | |
| Investments in unconsolidated affiliates | 50,927 | 23,964 | 50,876 |
| Goodwill and other intangible assets | 34,235 | 30,269 | 34,725 |
| Long-term recoverable income taxes | 5,644 | — | 5,423 |
| Deferred income taxes | 40,878 | 51,857 | 40,927 |
| Other deferred charges | 19,711 | 10,992 | 19,038 |
| Other noncurrent assets | 39,015 | 46,478 | 42,255 |
| | 190,410 | 163,560 | 193,244 |
| Property, plant and equipment, net | 258,613 | 268,765 | 261,246 |
| | $ 1,979,384 | $ 2,213,752 | $ 1,775,287 |
| | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Notes payable to banks | $ 541,199 | $ 634,671 | $ 212,669 |
| Accounts payable | 89,054 | 92,548 | 115,177 |
| Due to related parties | 8,824 | 12,893 | 63,384 |
| Advances from customers | 40,889 | 68,035 | 22,133 |
| Accrued expenses and other current liabilities | 105,518 | 109,549 | 72,694 |
| Income taxes | 9,619 | 7,410 | 10,784 |
| Long-term debt current | 4,329 | 6,350 | 4,556 |
| Total current liabilities | 799,432 | 931,456 | 501,397 |
| | | | |
| Long-term debt | 825,423 | 861,403 | 900,363 |
| Deferred income taxes | 5,752 | 6,397 | 5,788 |
| Liability for unrecognized tax benefits | 9,526 | 8,315 | 9,436 |
| Pension, postretirement and other long-term liabilities | 79,719 | 99,078 | 81,415 |
| | 920,420 | 975,193 | 997,002 |
| Commitments and contingencies | | | |

| Stockholders' equity | June 30, 2014 | June 30, 2013 | March 31, 2014 |
|---|---|---|---|
| Common Stock—no par value: | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Authorized shares | 250,000 | 250,000 | 250,000 | | | | | | |
| Issued shares | 96,167 | 95,494 | 96,012 | | 466,267 | | 461,448 | | 465,682 |
| Retained deficit | | | | | (172,606) | | (104,191) | | (153,988) |
| Accumulated other comprehensive loss | | | | | (37,479) | | (53,921) | | (38,101) |
| Total stockholders' equity of Alliance One International, Inc. | | | | | 256,182 | | 303,336 | | 273,593 |
| Noncontrolling interests | | | | | 3,350 | | 3,767 | | 3,295 |
| Total equity | | | | | 259,532 | | 307,103 | | 276,888 |
| | | | | $ | 1,979,384 | $ | 2,213,752 | $ | 1,775,287 |

See notes to condensed consolidated financial statements

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

| | Attributable to Alliance One International, Inc. | | | | | |
|---|---|---|---|---|---|---|
| | | | Accumulated Other Comprehensive Loss | | | |
| (in thousands) | Common Stock | Retained Deficit | Currency Translation Adjustment | Pensions, Net of Tax | Noncontrolling Interests | Total Equity |
| Balance, March 31, 2013 | $ 460,914 | $ (67,329 ) | $ (5,724 ) | $ (49,468 ) | $ 3,638 | $ 342,031 |
| Net income (loss) | — | (36,862 ) | — | — | 129 | (36,733 ) |
| Stock-based compensation | 534 | — | | — | — | 534 |
| Other comprehensive loss, net of tax | — | — | 749 | 522 | — | 1,271 |
| Balance, June 30, 2013 | $ 461,448 | $ (104,191 ) | $ (4,975 ) | $ (48,946 ) | $ 3,767 | $ 307,103 |
| Balance, March 31, 2014 | $ 465,682 | $ (153,988 ) | $ (1,640 ) | $ (36,461 ) | $ 3,295 | $ 276,888 |
| Net income (loss) | — | (18,618 ) | — | — | 55 | (18,563 ) |
| Stock-based compensation | 585 | — | — | — | — | 585 |
| Other comprehensive loss, net of tax | — | — | 208 | 414 | — | 622 |
| Balance, June 30, 2014 | $ 466,267 | $ (172,606 ) | $ (1,432 ) | $ (36,047 ) | $ 3,350 | $ 259,532 |

See notes to condensed consolidated financial statements

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Alliance One International, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended June 30, 2014 and 2013
(Unaudited)

| (in thousands) | June 30, 2014 | June 30, 2013 |
|---|---|---|
| Operating activities | | |
| Net loss | $(18,563) | $(36,733) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation and amortization | 7,500 | 8,689 |
| Debt amortization/interest | 1,889 | 3,550 |
| (Gain) loss on foreign currency transactions | (331) | 9,972 |
| Restructuring and asset impairment charges | — | 2,196 |
| Stock-based compensation | 750 | 705 |
| Changes in operating assets and liabilities, net | (339,591) | (227,805) |
| Other, net | 175 | 1,034 |
| Net cash used by operating activities | (348,171) | (238,392) |
| Investing activities | | |
| Purchases of property, plant and equipment | (8,052) | (7,471) |
| Proceeds from sale of property, plant and equipment | 409 | 492 |
| Restricted cash | (1,114) | (283) |
| Other, net | (719) | (184) |
| Net cash used by investing activities | (9,476) | (7,446) |
| Financing activities | | |
| Net proceeds from short-term borrowings | 329,572 | 275,751 |
| Proceeds from long-term borrowings | — | 105,000 |
| Repayment of long-term borrowings | (75,489) | (75,495) |
| Debt issuance cost | (4,125) | (1,682) |
| Other, net | — | (16) |
| Net cash provided by financing activities | 249,958 | 303,558 |
| Effect of exchange rate changes on cash | (854) | (942) |
| Increase (decrease) in cash and cash equivalents | (108,543) | 56,778 |
| Cash and cash equivalents at beginning of period | 234,742 | 92,026 |
| Cash and cash equivalents at end of period | $126,199 | $148,804 |
| Other information: | | |
| Cash paid for income taxes | $2,638 | $1,915 |
| Cash paid for interest | $5,380 | $6,378 |
| Cash received from interest | $(1,276) | $(3,521) |

See notes to condensed consolidated financial statements

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

## 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

Because of the seasonal nature of the Company’s business, the results of operations for any fiscal quarter will not necessarily be indicative of results to be expected for other quarters or a full fiscal year. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of financial position, results of operation and cash flows at the dates and for the periods presented have been included. Included in Operating Income (Loss) for the three months ended June 30, 2013 is a pretax charge of approximately $11,000 primarily resulting from reducing the estimate for recoveries of advances to tobacco suppliers in Zambia. The unaudited information included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

On March 26, 2014, the Company sold 51% of a Brazilian subsidiary to China Tobacco and reported its remaining 49% interest in the subsidiary under the equity method of accounting at March 31, 2014. As a result the June 30, 2014 Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Operations and Condensed Consolidated Statement of Cash Flows do not include the assets, liabilities, results of operations and cash flows of this subsidiary which were included in the June 30, 2013 financial statements.

### Taxes Collected from Customers

Certain subsidiaries are subject to value added taxes on local sales. These amounts have been included in sales and cost of sales and were $6,241 and $7,531 for the three months ended June 30, 2014 and 2013, respectively.

### Other Deferred Charges

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

### New Accounting Standards

#### Recently Adopted Accounting Pronouncements

On April 1, 2014, the Company adopted new accounting guidance on the financial presentation of an unrecognized tax benefit when a net operating loss (“NOL”) carryforward, a similar tax loss, or a tax credit carryforward exists. Companies are required to report an unrecognized tax benefit as a reduction in a deferred tax asset for a NOL or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. The adoption of this new accounting guidance had no material impact on the Company’s financial condition or results of operations.

#### Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance that outlines a single comprehensive model to use in accounting for revenue from contracts with customers. The primary objective of this accounting guidance is to recognize revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. This accounting guidance is effective for the Company on April 1, 2017. The Company is currently evaluating the impact of this new guidance and it may have a material impact on its financial condition or results of operations.

2. INCOME TAXES

Accounting for Uncertainty in Income Taxes

As of June 30, 2014, the Company's unrecognized tax benefits totaled $10,188, all of which would impact the Company's effective tax rate if recognized.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of June 30, 2014, accrued interest and penalties totaled $807 and $1,039 respectively.

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

Alliance One International, Inc. and Subsidiaries

2. INCOME TAXES (continued)

Accounting for Uncertainty in Income Taxes (continued)

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

The Company and its subsidiaries file a U.S. federal consolidated income tax return as well as returns in several U.S. states and a number of foreign jurisdictions. As of June 30, 2014, the Company's earliest open tax year for U.S. federal income tax purposes was its fiscal year ended March 31, 2009. Open tax years in state and foreign jurisdictions generally range from three to six years.

Provision for the Three Months Ended June 30, 2014

The effective tax rate used for the three months ended June 30, 2014 was 13.9% compared to (2.5)% for the three months ended June 30, 2013. The effective tax rates for these periods are based on the current estimate of full year results including the effect of taxes related to discrete events which are recorded in the interim period in which they occur. The Company expects the tax rate for the year ended March 31, 2015 to be 44.1% after absorption of discrete items.

For the three months ended June 30, 2014, the Company recorded a discrete event adjustment benefit of $1,410, bringing the effective tax rate estimated for the three months of 7.2% to 13.9%. This discrete event adjustment benefit relates primarily to net exchange losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits. For the three months ended June 30, 2013 , the Company recorded a discrete event adjustment expense of $5,610, bringing the effective tax rate estimated for the three months of 13.6% to (2.5)%. This discrete event adjustment expense relates primarily to net exchange losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits. The significant difference in the estimated effective tax rate for the three months ended June 30, 2014 from the U.S. federal statutory rate is primarily due to net exchange losses on income tax accounts, foreign income tax rates lower than the U.S. rate and certain losses for which no benefit is currently recorded.

3. GUARANTEES

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

The following table summarizes amounts guaranteed and the fair value of those guarantees:

| | June 30, 2014 | June 30, 2013 | March 31, 2014 |
|---|---|---|---|
| Amounts guaranteed (not to exceed) | $ 283,228 | $ 102,221 | $ 301,870 |
| Amounts outstanding under guarantee | 186,522 | 87,525 | 218,847 |
| Fair value of guarantees | 7,262 | 6,176 | 7,344 |

Of the guarantees outstanding at June 30, 2014, all expire within one year. The fair value of guarantees is recorded in Accrued Expenses and Other Current Liabilities in the Condensed Consolidated Balance Sheets and included in crop costs except for Zimbabwe and Brazil which are included in Accounts Receivable, Related Parties.

In Brazil, certain suppliers obtain government subsidized rural credit financing from local banks that is guaranteed by the Company. The Company withholds amounts owed to suppliers related to the rural credit financing of the supplier upon delivery of tobacco to the Company. The Company remits payments to the local banks on behalf of the guaranteed suppliers. Terms of rural credit financing are such that repayment is due to local banks based on contractual due dates. As of June 30, 2014 and 2013 and March 31, 2014, respectively, the Company had balances of $15,863, $21,269 and $26,076 that were due to local banks on behalf of suppliers. These amounts are included in Accounts Payable in the Condensed Consolidated Balance Sheets.

Alliance One International, Inc. and Subsidiaries

## 4. RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

The Company previously implemented several strategic initiatives in response to shifts in supply and demand balances and changing business models of its customers. These initiatives were substantially complete at March 31, 2014. The Company continues to focus on improving factory efficiencies and other core components of its business. As part of this focus, the Company agreed to a joint processing venture in Turkey during the three months ended June 30, 2013. As a result, the Company recorded pretax charges of $1,893 in connection with the reduction in workforce including the effect on the Company's defined benefit pension plans of $1,261. An asset impairment charge of $303 was recorded for certain processing equipment in connection with the new venture.

The following table summarizes the restructuring charges recorded in the Company’s reporting segments during the three months ended June 30, 2014 and 2013, respectively:

| | Three Months Ended June 30, | |
|---|---|---|
| Restructuring and Asset Impairment Charges | 2014 | 2013 |
| Employee separation and other cash charges: | | |
| Beginning balance | $ 397 | $ 668 |
| Period charges: | | |
| Severance charges | — | 632 |
| Total period charges | — | 632 |
| Payments through June 30 | (296) | (156) |
| Ending balance June 30 | $ 101 | $ 1,144 |
| Asset impairment and other non-cash charges | $ — | $ 1,564 |
| Total restructuring charges for the period | $ — | $ 2,196 |

| | Three Months Ended June 30, | |
|---|---|---|
| Employee Separation and Other Cash Charges | 2014 | 2013 |
| Beginning balance: | $ 397 | $ 668 |
| South America | — | — |
| Value added services | — | — |
| Other regions | 397 | 668 |
| Period charges: | $ — | $ 632 |
| South America | — | — |
| Value added services | — | — |
| Other regions | — | 632 |
| Payments through June 30 | $ (296) | $ (156) |
| South America | — | — |
| Value added services | — | — |
| Other regions | (296) | (156) |
| Ending balance June 30 | $ 101 | $ 1,144 |
| South America | — | — |
| Value added services | — | — |
| Other regions | 101 | 1,144 |

## 5. GOODWILL AND INTANGIBLES

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill is not subject to amortization, but rather is tested for impairment annually or whenever events and circumstances indicate that an impairment may have occurred. The Company has chosen the first day of the last quarter of its fiscal year as the date to perform its annual goodwill impairment test.

Alliance One International, Inc. and Subsidiaries

5. GOODWILL AND 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 three months ended June 30, 2014 and 2013:

| | | Amortizable Intangibles | | | |
|---|---|---|---|---|---|
| | Goodwill (1) | Customer Relationship Intangible | Production and Supply Contract Intangibles | Internally Developed Software Intangible | Total |
| Weighted average remaining useful life in years as of June 30, 2014 | | 10.75 | 6.50 | — | |
| March 31, 2013 balance: | | | | | |
| Gross carrying amount | $ 2,794 | $ 33,700 | $ 7,893 | $ 17,564 | $ 61,951 |
| Accumulated amortization | — | (13,269) | (3,657) | (13,554) | (30,480) |
| Net March 31, 2013 | 2,794 | 20,431 | 4,236 | 4,010 | 31,471 |
| Additions | — | — | — | 221 | 221 |
| Amortization expense | — | (421) | (196) | (806) | (1,423) |
| Net June 30, 2013 | 2,794 | 20,010 | 4,040 | 3,425 | 30,269 |
| Additions | — | — | 7,000 | 665 | 7,665 |
| Amortization expense | — | (1,264) | (899) | (1,046) | (3,209) |
| Net March 31, 2014 | 2,794 | 18,746 | 10,141 | 3,044 | 34,725 |
| Additions | — | — | — | 269 | 269 |
| Amortization expense | — | (421) | (146) | (192) | (759) |
| Net June 30, 2014 | $ 2,794 | $ 18,325 | $ 9,995 | $ 3,121 | $ 34,235 |

(1) Goodwill of $1,592 relates to the Other Regions segment and $1,202 relates to the Value Added Services segment.

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

| For Fiscal Years Ended | Customer Relationship Intangible | Production and Supply Contract Intangible | Internally Developed Software Intangible* | Total |
|---|---|---|---|---|
| July 1, 2014 through March 31, 2015 | $ 1,264 | $ 1,027 | $ 1,038 | $ 3,329 |
| 2016 | 1,685 | 2,319 | 830 | 4,834 |
| 2017 | 1,685 | 1,405 | 655 | 3,745 |
| 2018 | 1,685 | 1,403 | 426 | 3,514 |
| 2019 | 1,685 | 1,397 | 172 | 3,254 |
| Later | 10,321 | 2,444 | — | 12,765 |
| | $ 18,325 | $ 9,995 | $ 3,121 | $ 31,441 |

* Estimated amortization expense for the internally developed software is based on costs accumulated as of June 30, 2014. These estimates will change as new costs are incurred and until the software is placed into service in all locations.

6. VARIABLE INTEREST ENTITIES

The Company holds variable interests in seven joint ventures that are accounted for under the equity method of accounting. These joint ventures 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 represents a variable interest in that joint venture. The Company is not the primary beneficiary, as it does not have the power to direct the activities that most significantly impact the economic performance of the entities as a result of the entities' management and board of directors structure. Therefore, these entities are not consolidated. At June 30, 2014 and 2013, and March 31, 2014, the Company's investment in these joint ventures was $49,911, $22,944, and $49,860, respectively and is classified as Investments in Unconsolidated Affiliates in the Condensed Consolidated Balance Sheets. The Company's advances to these joint ventures at June 30, 2014 and 2013, and March 31, 2014 were $8,222, $296 and $10, respectively and are classified as Accounts Receivable, Related Parties in the Condensed Consolidated Balance Sheets. The Company guaranteed an amount to two joint ventures not to exceed $137,333, $18,764 and $142,904 at June 30, 2014 and 2013, and March 31, 2014, respectively. The investments, advances and guarantee in these joint ventures represent the Company's maximum exposure to loss.

Alliance One International, Inc. and Subsidiaries

7. SEGMENT INFORMATION

The Company purchases, processes, sells and stores leaf tobacco. Tobacco is purchased in more than 35 countries and shipped to approximately 90 countries. The sales, logistics and billing functions of the Company are primarily concentrated in service centers outside of the producing areas to facilitate access to its major customers. Within certain quality and grade constraints, tobacco is fungible and, subject to these constraints, customers may choose to fulfill their needs from any of the areas where the Company purchases tobacco.

Selling, logistics, billing, and administrative overhead, including depreciation, which originates primarily from the Company's corporate and sales offices are allocated to the segments based upon segment operating income. The Company reviews performance data from the purchase of the product or the service provided through sale based on the source of the product or service and all intercompany transactions are allocated to the operating segment that either purchases or processes the tobacco.

On March 26, 2014, the Company sold 51% of a Brazilian subsidiary to China Tobacco and reports its remaining 49% interest under the equity method of accounting at March 31, 2014. As a result the information for the three months ended June 30, 2014 does not include the assets or results of operations for this subsidiary which are included in the June 30, 2013 information.

The following table presents the summary segment information for the three months ended June 30, 2014 and 2013:

| | Three Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Sales and other operating revenues: | | |
| South America | $ 62,123 | $ 187,278 |
| Value added services | 31,443 | 31,080 |
| Other regions | 155,451 | 165,529 |
| Total revenue | $ 249,017 | $ 383,887 |
| | | |
| Operating income (loss): | | |
| South America | $ 6,647 | $ 6,852 |
| Value added services | 2,876 | 2,572 |
| Other regions | (4,994) | (17,373) |
| Total operating income (loss) | 4,579 | (7,949) |
| | | |
| Debt retirement expense | — | 17 |
| Interest expense | 26,922 | 28,843 |
| Interest income | 1,351 | 1,986 |
| Loss before income taxes and other items | $ (20,992) | $ (34,823) |

| Analysis of Segment Assets | June 30, 2014 | June 30, 2013 | March 31, 2014 |
|---|---|---|---|
| Segment assets: | | | |
| South America | $589,594 | $769,199 | $457,585 |
| Value added services | 224,242 | 223,704 | 194,562 |
| Other regions | 1,165,548 | 1,220,849 | 1,123,140 |
| Total assets | $1,979,384 | $2,213,752 | $1,775,287 |

8. EARNINGS PER SHARE

The weighted average number of common shares outstanding is reported as the weighted average of the total shares of common stock outstanding net of shares of common stock held by a wholly owned subsidiary. Shares of common stock owned by the subsidiary were 7,853 at June 30, 2014 and 2013. 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 6,859 at a weighted average exercise price of $6.04 per share at June 30, 2014 and 6,960 at a weighted average exercise price of $6.05 per share at June 30, 2013.

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8. EARNINGS PER SHARE (continued)

In connection with the offering of the Company's 5 ½% 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.

The following table summarizes the computation of earnings per share for the three months ended June 30, 2014 and 2013, respectively.

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| (in thousands, except per share data) | 2014 | | 2013 | |
| BASIC LOSS | | | | |
| Net loss attributable to Alliance One International, Inc. | $ (18,618) | | $ (36,862) | |
| | | | | |
| SHARES | | | | |
| Weighted average number of shares outstanding | 87,991 | | 87,473 | |
| | | | | |
| BASIC LOSS PER SHARE | $ (.21) | | $ (.42) | |
| | | | | |
| DILUTED LOSS | | | | |
| Net loss attributable to Alliance One International, Inc. | $ (18,618) | | $ (36,862) | |
| Plus interest expense on 5 ½ % convertible notes, net of tax | — | * | — | * |
| Net loss attributable to Alliance One International, Inc. as adjusted | $ (18,618) | | $ (36,862) | |
| | | | | |
| SHARES | | | | |
| Weighted average number of common shares outstanding | 87,991 | | 87,473 | |
| 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 | — | * | — | * |
| Assuming conversion of 5 ½ % convertible notes at the time of issuance | — | * | — | * |

| | | | | | | |
|---|---|---|---|---|---|---|
| Shares applicable to stock warrants | | — | ** | | — | ** |
| Adjusted weighted average number of common shares outstanding | | 87,991 | | | 87,473 | |
| DILUTED LOSS PER SHARE | $ | (.21 ) | | $ | (.42 ) | |

* Assumed conversion of convertible notes at the beginning of the period has an antidilutive effect on earnings 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 three months ended June 30, 2014 and 2013, the warrants were not assumed exercised because the exercise price was more than the average price for the periods presented.

9. STOCK-BASED COMPENSATION

The Company recorded stock-based compensation expense related to stock-based awards granted under its various employee and non-employee stock incentive plans of $750 and $705 for the three months ended June 30, 2014 and 2013, respectively.

The Company's shareholders approved amendments to the 2007 Incentive Plan (the "2007 Plan") at its Annual Meeting of Shareholders on August 11, 2011 and August 6, 2009. The 2007 Plan is an omnibus plan that provides the flexibility to grant a variety of equity awards including stock options, stock appreciation rights, stock awards, stock units, performance awards and incentive awards to officers, directors and employees of the Company.

Alliance One International, Inc. and Subsidiaries

9. STOCK-BASED COMPENSATION (continued)

During the three months ended June 30, 2014 and 2013, respectively, the Company made the following stock-based compensation awards:

| (in thousands, except grant date fair value) | Three Months Ended June 30, 2014 | | 2013 | |
|---|---|---|---|---|
| Restricted Stock Units | | | | |
| Number Granted | | 220 | | 643 |
| Grant Date Fair Value | $ | 2.72 | $ | 3.85 |
| Cash-Settled Restricted Stock Units | | | | |
| Number Granted | | 436 | | — |
| Grant Date Fair Value | $ | 2.72 | $ | — |
| Performance Based Stock Units | | | | |
| Number Granted | | 220 | | 643 |
| Grant Date Fair Value | $ | 2.72 | $ | 3.85 |
| Cash-Settled Performance Based Stock Unites | | | | |
| Number Granted | | 436 | | — |
| Grant Date Fair Value | $ | 2.72 | $ | — |

Under the terms of the Performance Based Stock Units, shares ultimately issued will be contingent upon specified business performance goals.

10. CONTINGENCIES AND OTHER INFORMATION

Non-Income Tax

The government in the Brazilian State of Parana ("Parana") issued a tax assessment on October 26, 2007 with respect to local intrastate trade tax credits that result primarily from tobacco transferred between states within Brazil. The assessment for intrastate trade tax credits taken is $5,981 and the total assessment including penalties and interest at June 30, 2014 is $16,207. The Company believes it has properly complied with Brazilian law and will contest any assessment through the judicial process. Should the Company lose in the judicial process, the loss of the intrastate trade tax credits would have a material impact on the financial statements of the Company.

The Company also has local intrastate trade tax credits in the Brazilian State of Rio Grande do Sul and the State of Santa Catarina. These jurisdictions permit the sale or transfer of excess credits to third parties, however approval must be obtained from the tax authorities. The Company has agreements with the state governments regarding the amounts and timing of credits that can be sold. The tax credits have a carrying value of $11,426, which is net of impairment charges based on management's expectations about future realization. The intrastate trade tax credits will continue to be monitored for impairment in future periods based on market conditions and the Company's ability to use or sell the tax credits.

In 1969, the Brazilian government created a tax credit program that allowed companies to earn IPI tax credits ("IPI credits") based on the value of their exports. The government began to phase out this program in 1979, which resulted in numerous lawsuits between taxpayers and the Brazilian government. The Company has a long legal history with respect to credits it earned while the IPI credit program was in effect. In 2001, the Company won a claim related to certain IPI credits it earned between 1983 and 1990. The Brazilian government appealed this decision and numerous rulings and appeals were rendered on behalf of both the government and the Company from 2001 through 2013. Because of this favorable ruling, the Company began to use these earned IPI credits to offset federal taxes in

2004 and 2005, until it received a Judicial Order to suspend the IPI offsetting in 2005. The value of the federal taxes offset in 2004 and 2005 was $24,142 and the Company established a reserve on these credits at the time of offsetting as they were not yet realizable due to the legal uncertainty that existed. Specifically, the Company extinguished other federal tax liabilities using IPI credits and recorded a liability in Pension, Postretirement and Other Long-Term Liabilities to reflect that the credits were not realizable at that time due to the prevalent legal uncertainty. On March 7, 2013, the Brazilian Supreme Court rendered a final decision in favor of the Company that recognized the validity of the IPI credits and secured the Company's right to benefit from the IPI credits earned from March 1983 to October 1990. This final decision expressly stated the Company has the right to the IPI credits. The Company estimated the total amount of the IPI credits to be approximately $94,316 at March 31, 2013. Since the March 2013 ruling definitively (without the government's ability to appeal) granted the Company the ownership of the IPI credits generated between 1983 and 1990 the Company believed the amount of IPI credits that were used to offset other federal taxes in 2004 and 2005 were realizable beyond a reasonable doubt. Accordingly, and at March 31, 2013, the Company recorded the $24,142 IPI credits it realized in the Statements of Consolidated Operations in Other Income. No further benefit has been recognized pending the outcome of the judicial procedure to ascertain the final amount as those amounts have not yet been realized.

Alliance One International, Inc. and Subsidiaries

10. CONTINGENCIES AND OTHER INFORMATION (continued)

Other
Mindo, S.r.l., the purchaser in 2004 of the Company's Italian subsidiary Dimon Italia, S.r.l., asserted claims against a subsidiary of the Company arising out of that sale transaction in an action filed before the Court of Rome on April 12, 2007. The claim involved a guaranty letter issued by a consolidated subsidiary of the Company in connection with the sale transaction. On November 11, 2013, the court issued its judgment in favor of the Companys subsidiary, rejecting the claims asserted by Mindo, S.r.l., and awarding the Companys subsidiary legal costs of €48. The period for appeal of the courts judgment is pending, and it is uncertain whether Mindo S.r.l. will pursue an appeal.

In accordance with generally accepted accounting principles, the Company records all known asset retirement obligations (ARO) for which the liability can be reasonably estimated. Currently, it has identified an ARO associated with one of its facilities that requires it to restore the land to its initial condition upon vacating the facility. The Company has not recognized a liability under generally accepted accounting principles for this ARO because the fair value of restoring the land at this site cannot be reasonably estimated since the settlement date is unknown at this time. The settlement date is unknown because the land restoration is not required until title is returned to the government, and the Company has no current or future plans to return the title. The Company will recognize a liability in the period in which sufficient information is available to reasonably estimate its fair value.

11. DEBT ARRANGEMENTS

Notes Payable to Banks increased $328,530 from March 31, 2014 due to the seasonal financing for the purchasing and processing of the South America and Africa crops.

On April 15, 2014, the Company’s senior secured credit facility with a syndicate of banks automatically reduced to approximately $210,300 from approximately $303,900 per the amended and restated agreement dated August 1, 2013. At June 30, 2014, borrowings under the senior secured credit facility were $100,000. The Company continuously monitors its compliance with the covenants of its senior secured credit facility and its senior notes. Significant changes in market conditions or other factors could adversely affect the Company's business and future debt covenant compliance thereunder. As a result, the Company may not be able to maintain compliance with the covenants over the next twelve months. If the Company were unable to maintain compliance with the covenants in the Senior Secured Credit Facility agreement, as amended from time-to-time, the Company would seek modification to the existing agreement to further amend covenants and extend maturities. If the Company were unable to obtain modification, in a scenario where it is required, the Company could decide to pay off outstanding amounts and terminate the agreement. In such case, the liquidity provided by the agreement would not be available and the Company believes that it has sufficient liquidity from operations and other available funding sources to meet future requirements.

As amended, the senior secured credit facility restricts the Company from paying any dividends during the remaining term of the facility. In addition, the indenture governing the Company's senior notes contains similar restrictions and also prohibits the payment of dividends and other distributions if the Company fails to satisfy a ratio of consolidated EBITDA to fixed charges of at least 2.0 to 1.0. At June 30, 2014, the Company did not satisfy this fixed charge coverage ratio. The Company may from time to time not satisfy this ratio.

12. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value of Derivative Financial Instruments
The Company recognizes all derivative financial instruments, such as foreign exchange contracts at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in shareholders’ equity as a component of other comprehensive income depending on whether the derivative financial

instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or a cash flow hedge. The Company has elected not to offset fair value amounts recognized for derivative instruments with the same counterparty under a master netting agreement. See Note 17 “Fair Value Measurements” to the “Notes to Condensed Consolidated Financial Statements” for further information on fair value methodology.

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12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair Value of Derivative Financial Instruments (continued)

The following table summarizes the fair value of the Company's derivatives by type at June 30, 2014 and 2013, and March 31, 2013.

| | Fair Values of Derivative Instruments | | | | | |
|---|---|---|---|---|---|---|
| | Assets | | | Liabilities | | |
| Derivatives Not Designated as Hedging Instruments: | Balance Sheet Account | | Fair Value | Balance Sheet Account | | Fair Value |
| Foreign currency contracts at June 30, 2014 | Other Current Assets | $ | 1,550 | Accrued Expenses and Other Current Liabilities | $— | |
| Foreign currency contracts at June 30, 2013 | Other Current Assets | $ | 127 | Accrued Expenses and Other Current Liabilities | $ | — |
| Foreign currency contracts at March 31, 2014 | Other Current Assets | $ | — | Accrued Expenses and Other Current Liabilities | $ | 169 |

Earnings Effects of Derivatives

The Company periodically enters into forward or option currency contracts to protect against volatility associated with certain non-U.S. dollar denominated forecasted transactions. These contracts are for green tobacco purchases and processing costs as well as selling, general and administrative costs as the Company deems necessary. These contracts do not meet the requirements for hedge accounting treatment under generally accepted accounting principles, and as such, all changes in fair value are reported in income each period.

The following table summarizes the earnings effects of derivatives in the Condensed Consolidated Statements of Operations for the three months ended June 30, 2014 and 2013.

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income | Gain (Loss) Recognized in Income for the Three Months Ending June 30, | | | |
|---|---|---|---|---|---|
| | | | 2014 | | 2013 |
| Foreign currency contracts | Cost of goods and services sold | $ | 2,072 | $ | (3,280) |

Credit Risk

Financial instruments, including derivatives, expose the Company to credit loss in the event of non-performance by counterparties. The Company manages its exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties, and procedures to monitor concentrations of credit risk. If a counterparty fails to meet the terms of an arrangement, the Company's exposure is limited to the net amount that would have been received, if any, over the arrangement's remaining life. The Company does not anticipate non-performance by the counterparties and no material loss would be expected from non-performance by any one of such counterparties.

13. PENSION AND POSTRETIREMENT BENEFITS

The Company has multiple benefit plans at several locations. The Company has a defined benefit plan that provides retirement benefits for substantially all U.S. salaried personnel based on years of service rendered, age and compensation. The Company also maintains various other Excess Benefit and Supplemental Plans that provide additional benefits to (1) certain individuals whose compensation and the resulting benefits that would have actually been paid are limited by regulations imposed by the Internal Revenue Code and (2) certain individuals in key positions. The Company funds these plans in amounts consistent with the funding requirements of federal law and regulations.

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

The Company experienced a special termination benefit and curtailment loss of $1,261 during the quarter ended June 30, 2013 in connection with restructuring in its Turkey location, which was recorded in Restructuring and Asset Impairment Charges.

Alliance One International, Inc. and Subsidiaries

13. PENSION AND POSTRETIREMENT BENEFITS (continued)

Components of Net Periodic Benefit Cost
Net periodic pension cost for continuing operations consisted of the following:

| | Three Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Service cost | $510 | $548 |
| Interest expense | 1,693 | 1,722 |
| Expected return on plan assets | (1,677) | (1,519) |
| Amortization of prior service cost | 48 | 53 |
| Actuarial loss | 557 | 757 |
| Curtailment loss | — | 77 |
| Special termination benefit | — | 1,184 |
| Net periodic pension cost | $1,131 | $2,822 |

Employer Contributions
The Company's investment objectives are to generate consistent total investment return to pay anticipated plan benefits, while minimizing long-term costs. Financial objectives underlying this policy include maintaining plan contributions at a reasonable level relative to benefits provided and assuring that unfunded obligations do not grow to a level to adversely affect the Company's financial health. As of June 30, 2014, contributions of $2,134 were made to pension plans for fiscal 2015. Additional contributions to pension plans of approximately $9,529 are expected during the remainder of fiscal 2015. However, this amount is subject to change, due primarily to asset performance significantly above or below the assumed long-term rate of return on pension assets and significant changes in interest rates.

Postretirement Health and Life Insurance Benefits
The Company also provides certain health and life insurance benefits to retired employees, and their eligible dependents, who meet specified age and service requirements. As of June 30, 2014, contributions of $182 were made to the plans for fiscal 2015. Additional contributions of $720 to the plans are expected during the rest of fiscal 2015. The Company retains the right, subject to existing agreements, to modify or eliminate the postretirement medical benefits.

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

| | Three Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Service cost | $11 | $17 |
| Interest expense | 134 | 142 |
| Amortization of prior service cost | (303) | (410) |
| Actuarial loss | 111 | 123 |
| Net periodic pension (benefit) | $(47) | $(128) |

14. INVENTORIES

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

| | June 30, 2014 | June 30, 2013 | March 31, 2014 |
|---|---|---|---|
| Processed tobacco | $650,180 | $776,149 | $404,683 |
| Unprocessed tobacco | 317,713 | 316,128 | 309,570 |
| Other | 46,520 | 42,126 | 46,354 |
| | $1,014,413 | $1,134,403 | $760,607 |

Alliance One International, Inc. and Subsidiaries

## 15. OTHER COMPREHENSIVE INCOME (LOSS)

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

| | Currency Translation Adjustment | Pensions, Net of Tax | Accumulated Other Comprehensive Loss |
|---|---|---|---|
| Balances, March 31, 2014 | $ (1,640) | $ (36,461) | $ (38,101) |
| Other comprehensive earnings before reclassifications | 208 | — | 208 |
| Amounts reclassified to net earnings, net of tax | — | 414 | 414 |
| Other comprehensive earnings, net of tax | 208 | 414 | 622 |
| Balances, June 30, 2014 | $ (1,432) | $ (36,047) | $ (37,479) |
| | | | |
| Balances, March 31, 2013 | $ (5,724) | $ (49,468) | $ (55,192) |
| Other comprehensive losses before reclassifications | 749 | — | 749 |
| Amounts reclassified to net earnings, net of tax | — | 522 | 522 |
| Other comprehensive losses, net of tax | 749 | 522 | 1,271 |
| Balances, June 30, 2013 | $ (4,975) | $ (48,946) | $ (53,921) |

The following table sets forth amounts by component, reclassified from accumulated other comprehensive loss to earnings for the three months ended June 30, 2014 and 2013:

| | Three Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Pension and postretirement plans (*): | | |
| Actuarial loss | $ 669 | $ 879 |
| Amortization of prior service cost | (255) | (357) |
| | $ 414 | $ 522 |
| | | |
| Amounts reclassified from accumulated other comprehensive losses to net earnings | $ 414 | $ 522 |

(*) Amounts are included in net periodic benefit costs for pension and postretirement plans. See Note 13 "Pension and Postretirement Benefits" to the "Notes to Condensed Consolidated Financial Statements" for further information.

## 16. SALE OF RECEIVABLES

The Company sells trade receivables to unaffiliated financial institutions under three accounts receivable securitization programs. Under the first program, the Company continuously sells a designated pool up to $250,000 trade receivables to a special purpose entity, which in turn sells 100% of the receivables to an unaffiliated financial institution. This program allows the Company to receive a cash payment and a deferred purchase price receivable for sold receivables. Following the sale and transfer of the receivables to the special purpose entity, the receivables are isolated from the Company and its affiliates, and upon the sale and transfer of the receivables from the special purpose entity to the unaffiliated financial institution effective control of the receivables is passed to the unaffiliated financial institution, which has all rights, including the right to pledge or sell the receivables. This program requires a minimum level of deferred purchase price to be retained by the Company in connection with the sales. The Company services, administers and collects the receivables on behalf of the special purpose entity and receives a servicing fee of .5% of serviced receivables per annum. As the Company estimates the fee it receives in return for its obligation to service these receivables at fair value, no servicing assets or liabilities are recognized. Servicing fees recognized were not material and are recorded as a reduction of Selling, General and Administrative Expenses within the Condensed Consolidated Statements of Operations.

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16. SALE OF RECEIVABLES (continued)

The agreements for the second and third securitization programs also allow the Company to receive a cash payment and a deferred purchase price receivable for sold receivables. These are uncommitted programs, whereby the Company offers receivables for sale to the respective unaffiliated financial institution, which are then subject to acceptance by the unaffiliated financial institution. Following the sale and transfer of the receivables to the unaffiliated financial institution, the receivables are isolated from the Company and its affiliates, and effective control of the receivables is passed to the unaffiliated financial institution, which has all rights, including the right to pledge or sell the receivables. The Company receives no servicing fee from the unaffiliated financial institution and as a result, has established a servicing liability based upon unobservable inputs, primarily discounted cash flow. This liability is recorded in Accrued Expenses and Other Current Liabilities in the Condensed Consolidated Balance Sheets. The investment limits under these agreements are $35,000 and $100,000.

Under the programs, all of the receivables sold for cash are removed from the Condensed Consolidated Balance Sheets and the net cash proceeds received by the Company are included as cash provided by operating activities in the Condensed Consolidated Statements of Cash Flows. A portion of the purchase price for the receivables is paid by the unaffiliated financial institutions in cash and the balance is a deferred purchase price receivable, which is paid as payments on the receivables are collected from account debtors. The deferred purchase price receivable represents a continuing involvement and a beneficial interest in the transferred financial assets and is recognized at fair value as part of the sale transaction. The deferred purchase price receivables are included in Trade and Other Receivables, Net in the Condensed Consolidated Balance Sheets and are valued using unobservable inputs (i.e., level three inputs), primarily discounted cash flow. As servicer of these facilities, the Company may receive funds that are due to the unaffiliated financial institutions which are net settled on the next settlement date. Trade and Other Receivables, Net in the Condensed Consolidated Balance Sheets has been reduced by $13,721, $4,659 and $16,575 as a result of the net settlement as of June 30, 2014 and 2013 and March 31, 2014, respectively. See Note 17 "Fair Value Measurements" to the "Notes to Condensed Consolidated Financial Statements" for further information.

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

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

| | June 30, | | March 31, |
|---|---|---|---|
| | 2014 | 2013 | 2014 |
| Receivables outstanding in facility | $70,506 | $60,774 | $204,364 |
| Beneficial interest | $24,883 | $21,349 | $35,559 |
| Servicing liability | $43 | $43 | $69 |
| Cash proceeds for the three months ended June 30: | | | |
| Cash purchase price | $41,637 | $80,278 | |
| Deferred purchase price | 38,502 | 43,465 | |
| Service fees | 172 | 93 | |
| Total | $80,311 | $123,836 | |

17. FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. A three-level valuation hierarchy based upon observable and non-observable inputs is utilized. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

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

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

Level 3 - Significant inputs to the valuation model are unobservable.

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

Following are descriptions of the valuation methodologies the Company uses to measure different assets or liabilities at fair value.

Alliance One International, Inc. and Subsidiaries

17. FAIR VALUE MEASUREMENTS (continued)

Debt

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

| | June 30, 2014 | June 30, 2013 | March 31, 2014 |
|---|---|---|---|
| Carrying value | $829,752 | $867,753 | $904,919 |
| Estimated fair value | 864,938 | 892,423 | 919,435 |

Derivative financial instruments

The Company's derivatives consist of foreign currency contracts. The fair value of the derivatives are determined using a discounted cash flow analysis on the expected future cash flows of each derivative. This analysis utilizes observable market data including forward yield curves and implied volatilities to determine the market's expectation of the future cash flows of the variable component. The fixed and variable components of the derivative are then discounted using calculated discount factors developed based on the LIBOR swap rate and are netted to arrive at a single valuation for the period. The Company also incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. As of June 30, 2014 and 2013 and March 31, 2014 the inputs used to value the Company's derivatives fall within Level 2 of the fair value hierarchy. However, credit valuation adjustments associated with its derivatives could utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. Should the use of such credit valuation adjustment estimates result in a significant impact on the overall valuation, this would require reclassification to Level 3.

Securitized beneficial interests

The fair value of securitized beneficial interests is based upon a valuation model that calculates the present value of future expected cash flows using key assumptions for payment speeds and discount rates. The assumptions for payment speed are based on the Company's historical experience. The discount rates are based upon market trends and anticipated performance relative to the particular assets securitized which have been assumed to be commercial paper rate plus a margin or LIBOR plus a margin. Due to the use of the Company's own assumptions and the uniqueness of these transactions, securitized beneficial interests fall within Level 3 of the fair value hierarchy. Since the discount rate and the payment speed are components of the same equation, a change in either by 10% or 20% would change the value of the recorded beneficial interest at June 30, 2014 by $23 and $46, respectively.

Guarantees

The Company guarantees funds issued to tobacco suppliers by third party lending institutions and also guarantees funds borrowed by a deconsolidated subsidiary. The fair value of guarantees is based upon either the premium the Company would require to issue the same inputs or historical loss rates and as such these guarantees fall into Level 3 of the fair value hierarchy.

Tobacco supplier guarantees - The Company provides guarantees to third parties for indebtedness of certain tobacco suppliers to finance their crops. The fair value of these guarantees is determined using historical loss rates on both guaranteed and non-guaranteed tobacco supplier loans. Should the loss rates change 10% or 20%, the fair value of the guarantee at June 30, 2014 would change by $338 or $676, respectively.

Deconsolidated subsidiary guarantees - The fair value of these guarantees is determined using a discounted cash flow model based on the differential between interest rates available with and without the guarantees. The fair value of these guarantees is most closely tied to the theoretical interest rate differential. Should interest rates used in the model change by 10% or 20%, the fair value of the guarantee, at June 30, 2014 would change by $388 or $776, respectively.

Alliance One International, Inc. and Subsidiaries

17. FAIR VALUE MEASUREMENTS (continued)

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

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

| | June 30, 2014 | | | June 30, 2013 | | | March 31, 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Level 2 | Level 3 | Total Assets / Liabilities at Fair Value | Level 2 | Level 3 | Total Assets / Liabilities at Fair Value | Level 2 | Level 3 | Total Assets / Liabilities at Fair Value |
| Assets | | | | | | | | | |
| Derivative financial instruments | $ 1,550 | $ — | $ 1,550 | $ 127 | $ — | $ 127 | $ — | $ — | $ — |
| Securitized beneficial interests | — | 24,883 | 24,883 | — | 21,349 | 21,349 | — | 35,559 | 35,559 |
| Total Assets | $ 1,550 | $ 24,883 | $ 26,433 | $ 127 | $ 21,349 | $ 21,476 | $ — | $ 35,559 | $ 35,559 |
| Liabilities | | | | | | | | | |
| Guarantees | $ — | $ 7,262 | $ 7,262 | $ — | $ 6,176 | $ 6,176 | $ — | $ 7,344 | $ 7,344 |
| Derivative financial instruments | — | — | — | — | — | — | 169 | — | 169 |
| Total liabilities | $ — | $ 7,262 | $ 7,262 | $ — | $ 6,176 | $ 6,176 | $ 169 | $ 7,344 | $ 7,513 |

Reconciliation of Change in Recurring Level 3 Balances

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

| | Three Months Ended June 30, 2014 | |
|---|---|---|
| | Securitized Beneficial Interests | Guarantees |
| Beginning Balance March 31, 2014 | $35,559 | $7,344 |
| Issuances of guarantees/sales of receivables | 21,513 | 4,281 |
| Settlements | (31,725) | (4,363) |
| Losses recognized in earnings | (464) | — |
| Ending Balance June 30, 2014 | $24,883 | $7,262 |

Three Months Ended
June 30, 2013