ALLIANCE ONE INTERNATIONAL, INC.
Form 10-Q/A
June 21, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

[X]	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)** **OF THE SECURITIES EXCHANGE ACT OF 1934** **FOR THE QUARTERLY PERIOD ENDED September 30, 2006**
[ ]	**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)

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 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, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated Filer [X] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

As of November 1, 2006, the registrant had 95,336,000 shares outstanding of Common Stock (no par value), including 7,853,000 shares owned by a wholly-owned subsidiary.

Explanatory Note

The purpose of this amendment on Form 10-Q/A to the Quarterly Report on Form 10-Q of Alliance One International, Inc. for the quarter ended September 30, 2006 is to restate our unaudited Condensed Consolidated Statements of Operations, Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Cash Flows, for the three months and six months ended September 30, 2006 to correct income tax errors as described in Note 16 to the Condensed Consolidated Financial Statements.

No attempt has been made in this Form 10-Q/A to modify or update other disclosures presented in the original report on Form 10-Q, except as required to reflect the effects of the restatement. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-Q on November 9, 2006. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-Q, including any amendments to those filings. The following items have been amended as a result of the restatement:

- *Part I Item 1 Financial Statements*
- *Part I Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations*
- *Part I Item 4 Controls and Procedures*

As a result of the restatement described above, the Company's Chief Executive Officer and Chief Financial Officer, with the assistance of other members of management, have re-evaluated the effectiveness of the Company's internal controls over financial reporting as of September 30, 2006, and, based on this re-evaluation, have determined that a material weakness in internal control over financial reporting existed as of September 30, 2006 with respect to accounting for income taxes. This revised assessment is included under Part 1, Item 4 in this document.

Alliance One International, Inc. and Subsidiaries

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Part I. Financial Information
Item 1. Financial Statements.

Alliance One International, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Three and Six Months Ended September 30, 2006 and 2005

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2006	2005	2006	2005
(in thousands, except per share amounts)	As Restated, See Note 16		As Restated, See Note 16	

Sales and other operating revenues	$593,630	$613,157	$1,087,115	$1,016,306
Cost of goods and services sold	489,793	546,275	905,774	905,446
Gross profit	103,837	66,882	181,341	110,860
Selling, administrative and general expenses	40,985	45,544	80,232	83,902
Other income	2,878	332	3,521	487
Restructuring and asset impairment costs	20,856	1,798	22,554	16,963
Operating income	44,874	19,872	82,076	10,482
Debt retirement expense	-	1,567	-	66,474
Interest expense	29,585	30,800	55,144	55,500
Interest income	2,832	2,760	2,847	3,917
Derivative financial instruments income	-	2,701	290	2,784
Income (loss) before income taxes and other items	18,121	(7,034)	30,069	(104,791)
Income tax expense (benefit)	9,317	(519)	12,844	(20,089)
Equity in net income of investee companies	156	81	228	100
Minority interests (income)	(173)	(121)	(347)	(303)
Income (loss) from continuing operations	9,133	(6,313)	17,800	(84,299)
Loss from discontinued operations, net of tax	(833)	(14,235)	(4,627)	(16,907)
Cumulative effect of accounting changes, net of income taxes	-	-	(252)	-
Net income (loss)	$ 8,300	$ (20,548)	$ 12,921	$ (101,206)
Basic earnings (loss) per share				
Net income (loss) from continuing operations	$ .11	$(.07)	$ .20	$(1.10)
Loss from discontinued operations	(.01)	(.17)	(.05)	(.22)
Net income (loss)	$ .10	$(.24)	$ .15	$(1.32)
Diluted earnings (loss) per share				
Net income (loss) from continuing operations	$ .10	$(.07)	$ .20	$(1.10)
	(.01)	(.17)	(.05)	(.22)

Loss from discontinued operations				
Net income (loss)	$ .09	$(.24)	$ .15	$(1.32)
Average number of shares outstanding				
Basic	86,284	85,902	86,208	76,414
Diluted	87,390	85,902	87,361	76,414
Cash dividends per share	$.000	$.030	$.000	$.105

See notes to condensed consolidated financial statements

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

(in thousands)	September 30, 2006 As Restated, See Note 16	September 30, 2005	March 31, 2006
ASSETS			
Current assets			
Cash and cash equivalents	$ 14,152	$ 119,962	$ 25,985
Notes receivable	5,200	2,561	3,609
Trade receivables, net of allowances	187,244	239,321	320,865
Inventories			
Tobacco	695,979	844,745	726,846
Other	37,397	44,501	45,294

Advances on purchases of tobacco	99,521	107,261	103,147
Current deferred and recoverable income taxes	40,948	15,843	39,560
Assets held for sale	20,981	11,815	19,955
Prepaid expenses and other assets	61,511	37,242	36,880
Assets of discontinued operations	36,081	90,089	46,056
Total current assets	1,199,014	1,513,340	1,368,197
Investments and other assets			
Equity method investees	17,785	16,807	17,557
Cost method investments	2,920	4,633	27,206
Notes receivable	4,771	3,112	4,840
Other	87,057	70,574	86,764
	112,533	95,126	136,367
Goodwill and intangible assets			
Goodwill	4,186	263,859	4,186
Customer relationship ($31,383 at Sept. 30, 2006; $33,068 at Sept. 30, 2005; and $32,226 at March 31, 2006) and other	32,250	36,023	33,756
Pension asset	1,927	1,856	1,927
	38,363	301,738	39,869
Property, plant and equipment			
Land	25,804	38,425	26,710
Buildings	183,085	240,980	184,950
Machinery and equipment	200,945	241,823	211,498
Allowances for depreciation	(142,834)	(158,473)	(136,023)
	267,000	362,755	287,135
Deferred taxes	48,205	84,915	51,666
Other deferred charges	17,658	22,242	20,890
	$1,682,773	$2,380,116	$1,904,124

See notes to condensed consolidated financial statements

Alliance One International, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands)	September 30, 2006 As Restated, See Note 16	September 30, 2005	March 31, 2006
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities			
Notes payable to banks	$ 257,971	$ 425,434	$ 299,930
Accounts payable			
Trade	36,502	103,449	101,571
Officers and employees	10,819	5,629	7,491
Other	7,496	9,905	66,821
Advances from customers	177,439	192,215	226,413
Accrued expenses	69,590	107,161	68,265
Income taxes	26,467	18,867	22,176
Long-term debt current	76,924	23,685	28,091
Liabilities of discontinued operations	6,174	10,665	8,526
Total current liabilities	669,382	897,010	829,284
Long-term debt			
Revolving credit notes and other	232,250	335,750	318,500
Senior notes and other long term debt	344,940	338,477	334,386
Subordinated debentures	90,248	90,556	91,608
	667,438	764,783	744,494
Deferred credits			
Income taxes	1,606	26,592	7,405
Pension, postretirement and other	106,081	130,827	105,991
	107,687	157,419	113,396

Minority interest in subsidiaries				2,418	2,675	2,763
Commitments and contingencies				-	-	-
Stockholders equity	Sept. 30, 2006	Sept. 30, 2005	March 31, 2006			
Preferred Stock no par value:						
Authorized shares	10,000	10,000	10,000			
Issued shares	-	-	-	-	-	-
Common Stock no par value:						
Authorized shares	250,000	250,000	250,000			
Issued shares	95,339	94,989	94,963	450,527	451,377	451,388
Unearned compensation restricted stock				-	(4,854)	(3,134)
Retained earnings				(207,015)	125,480	(219,937)
Accumulated other comprehensive loss				(7,664)	(13,774)	(14,130)
				235,848	558,229	214,187
				$1,682,773	$2,380,116	$1,904,124

See notes to condensed consolidated financial statements

Alliance One International, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended September 30, 2006 and 2005

(Unaudited)

	September 30,	September 30,,

(in thousands)	2006 As Restated, See Note 16	2005
Operating activities		
Net income (loss)	$ 12,921	$(101,206)
Adjustments to reconcile net income (loss) to net cash provided (used)		
by operating activities		
Net loss from discontinued operations	4,627	14,761
Depreciation and amortization	18,149	21,393
Restructuring and asset impairment charges	14,590	16,963
Deferred items	(10,863)	(36,654)
Loss (gain) on foreign currency transactions	169	(5,245)
Changes in operating assets and liabilities	22,553	124,212
Net cash provided by operating activities of continuing operations	62,146	34,224
Net cash provided (used) by operating activities of discontinued operations	2,997	(6,672)
Net cash provided by operating activities	65,143	27,552
Investing activities		
Purchases of property and equipment	(5,009)	(10,788)
Proceeds on sale of property and equipment	5,673	11,926
Cash received in acquisition of business	-	42,019
Cash distributed in disposition of business	(5,204)	-
Payments received on notes receivable	384	5,871
Return of capital on cost method investments	10,000	-
Proceeds (payments) for other investments and other assets	(918)	5,401
Net cash provided by investing activities of continuing operations	4,926	54,429
Net cash provided (used) by investing activities of discontinued operations	-	(250)
Net cash provided by investing activities	4,926	54,179
Financing activities		
Net change in short-term borrowings	(48,607)	(226,058)
Proceeds from long-term borrowings	20,552	859,645
Repayment of long-term borrowings	(53,894)	(590,199)
Debt issuance cost	(425)	(22,340)
Proceeds from sale of stock	161	741

Cash dividends paid to Alliance One International, Inc. stockholders	-	(9,921)
Net cash (used) provided by financing activities	(82,213)	11,868
Effect of exchange rate changes on cash	311	(2,765)
Increase (decrease) in cash and cash equivalents	(11,833)	90,834
Cash and cash equivalents at beginning of period	25,985	29,128
Cash and cash equivalents at end of period	$ 14,152	$ 119,962
Non-cash activity:		
Common stock issued, including adjustment for options, in business acquisition	$ -	$ 264,368

See notes to condensed consolidated financial statements

Alliance One International, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)

1. BASIS OF PRESENTATION

Description of Business

The Company is principally engaged in purchasing, processing, storing, and selling leaf tobacco in the United States, Africa, Europe, South America and Asia.

Basis of Presentation

The Company was renamed Alliance One International, Inc. (Alliance One) concurrent with the merger of Standard Commercial Corporation (Standard) on May 13, 2005 with and into DIMON Incorporated. Because the merger was completed after the close of the fiscal year ended March 31, 2005, the information contained in these condensed consolidated financial statements for the six months ended September 30, 2005 includes the operations of Standard since May 13, 2005 and a full six months of results of DIMON. See Note 2 Merger of Standard and DIMON to the Notes to Condensed Consolidated Financial Statements for further information.

The accounts of the Company and its consolidated subsidiaries are included in the unaudited condensed 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; all of which are owned 50% or less. 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. All adjustments necessary to state fairly the results for the period have been included and were of a normal recurring nature. This Form 10-Q/A should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2006. The year ended March 31, 2006 is sometimes referred to herein as fiscal year 2006.

As of March 31, 2006, the Company deconsolidated its operations in Zimbabwe in accordance with the Accounting Research Bulletin 51, *Consolidated Financial Statements* (ARB 51). ARB 51 provides that when a parent does not have control over a subsidiary due to severe foreign exchange restrictions or governmentally imposed uncertainties, the subsidiary should not be consolidated. The Company is accounting for the investment on the cost method and has been reporting it in Cost Method Investments in the condensed consolidated balance sheet since March 31, 2006. At September 30, 2006, the investment in the Zimbabwe operations was written down to zero. See Note 3 Restructuring and Asset Impairment Charges to the Notes to Condensed Consolidated Financial Statements for further information.

Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. This Interpretation is effective for the Company as of April 1, 2007. The Company is currently evaluating the impact of FIN 48 on its financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued FAS No. 157, *Fair Value Measurements*, which enhances existing guidance for measuring assets and liabilities using fair value. FAS No. 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. FAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under FAS No. 157, fair value measurements are disclosed by level within that hierarchy. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is evaluating the impact of FAS No. 157 on its financial condition and results of operations.

In September 2006, the Financial Accounting Standards Board (FASB) issued FAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FAS No. 87, 88, 106, and 132R*. FAS No. 158 makes numerous changes to accounting for pension and postretirement benefit plans. The most significant change is that the funded status of all postretirement plans will be recorded on the balance sheet. The difference between a plan s funded status and its current balance sheet position will be recognized, net of taxes, as a component of shareholders equity. FAS No. 158 is effective for fiscal years ending after December 15, 2006. The Company will adopt the standard at March 31, 2007 and expects to recognize all actuarial losses and prior service costs and credits in Accumulative Other Comprehensive Loss. Adoption of FAS No. 158 is not expected to have an impact on the Company s results of operations, cash flow or liquidity.

Alliance One International, Inc. and Subsidiaries

1. BASIS OF PRESENTATION *(Continued)*

In September 2006, the Financial Accounting Standards Board (FASB) issued FSP No. AUG AIR-1, *Accounting for Planned Major Maintenance Activities*. The FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities such as periodic major overhauls and maintenance of plant and equipment in annual and interim reporting periods. The FSP requires disclosure of the method of accounting for planned major maintenance activities selected, as well as information related to the change from the accrue-in-advance method to another method. The FSP is effective for the first fiscal year beginning after December 15, 2006. The Company is evaluating the impact of FSP No. AUG AIR-1 on its financial condition and results of operations.

Equity and Cost Method Investments

The Company s equity method investments and its cost method investments, which include 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 operating 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.

2. MERGER OF STANDARD AND DIMON

On May 13, 2005, the Company completed the merger with Standard pursuant to the Agreement and Plan of Merger, dated as of November 7, 2004 (the Merger Agreement). Upon the consummation of the merger, Standard was merged into DIMON, which simultaneously changed its name to Alliance One International, Inc.

Under the terms of the merger agreement, Standard shareholders received three shares of the Company s common stock for each Standard share owned. Approximately 41,243 shares of the Company s common stock were issued in exchange for all outstanding shares of common stock of Standard based on the three-for-one exchange ratio, at an aggregate value of $264,368 (based on the average closing price of $6.36 of DIMON common stock during the two business days before and after the date the merger was announced). The net share value, after consideration of unearned compensation restricted stock of $2,463, is $261,905. The common stock issuance combined with professional fees and charges incurred to effect the merger of $12,205 resulted in a total purchase price of $274,110.

The merger has been treated as a purchase business combination for accounting purposes, with the Company as the acquiring entity. As such, Standard s assets acquired and liabilities assumed have been recorded at their fair value and the results of operations after May 13, 2005 are included in the results of the Company. In identifying the Company as the acquiring entity, the companies took into account the relative share ownership of the surviving entity, the composition of the governing body of the combined entity and the designation of certain senior management positions. As a result, the historical financial statements of DIMON become the historical financial statements of the Company. The purchase price for the acquisition, including transaction costs, has been allocated to the assets acquired and liabilities assumed based on estimated fair values at the date of acquisition, May 13, 2005. The purchase price allocation was completed as of March 31, 2006 as follows:

2. MERGER OF STANDARD AND DIMON *(Continued)*

	May 13, 2005
Cash	$ 42,019
Accounts receivable trade	100,781
Inventory	365,110

Advances and deposits - suppliers	41,945
Assets of discontinued operations	68,567
Other current assets	22,705
Property, plant and equipment	172,281
Goodwill and intangible assets	143,030
Other	42,281
Total assets acquired	$ 998,719
Notes payable banks and other	$ 442,205
Accounts payable	94,818
Other current liabilities	100,997
Long term debt	11,396
Deferred income taxes	48,123
Deferred compensation and other	21,613
Other	2,994
Total liabilities	$ 722,146
Total unearned compensation restricted stock	$ 2,463
Net assets acquired	$ 274,110

As indicated in the above table, the goodwill and intangible asset relative to the merger was $143,030 and is non-deductible for tax purposes. See Note 4 Goodwill and Intangibles to the Notes to Condensed Consolidated Financial Statements for further information. Included within this balance is a finite lived customer relationship intangible of $33,700, which is being amortized over a useful life of twenty years.

In 2006, the Company had established reserves for employee separation and operational exit costs related to the integration of certain Standard functions and operations into the Company. Costs associated with these integration actions did not impact earnings and were recognized as a component of purchase accounting, resulting in an adjustment to goodwill. See Note 3 Restructuring and Asset Impairment Charges to the Notes to Condensed Consolidated Financial Statements for further disclosure of the purchase accounting separation and exit costs.

Alliance One Selected Unaudited Pro Forma Combined Financial Information

The unaudited pro forma information in the table below summarizes the combined results of operations of DIMON and Standard for the three months and six months ended September 30, 2005 as if the companies were combined as of April 1, 2005. The pro forma information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved had the merger taken place at the beginning of each period or results of future periods. The following information has not been adjusted to reflect any anticipated cost savings or operating efficiencies that may be realized as a result of the merger.

thousands except per share data	Three Months Ended September 30, 2005 (1)	Six Months Ended September 30, 2005 (1)
Revenues	$613,157	$1,090,455
Operating Income	$ 19,872	$ 7,986

Loss from continuing operations	$ (6,313)	$ (88,105)
Loss from discontinued operations	$(14,235)	$ (16,939)
Net loss	$(20,548)	$ (105,044)
Basic loss per share		
- from continuing operations	$(0.07)	$(1.02)
- from discontinued operations	$(0.17)	$(0.20)
Basic loss per share	$(0.24)	$(1.22)

(1) Merger related debt retirement expenses were $1,567 and $66,474 and restructuring, impairment and integration charges were $359 and $17,574 for the three months and six months, respectively.

Alliance One International, Inc. and Subsidiaries

3. RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

As a result of the merger and with the assistance of outside consultants, the Company developed a detailed preliminary integration plan as of the closing of the merger with Standard that addressed each origin and functional area. Through the use of regional integration teams, assessments were made of each of DIMON s and Standard s processing facilities around the world as well as identification of countries in which there may be duplicative facilities and/or excess capacity and certain redundancies were determined. The plan also reviewed origin and corporate offices. As a result of these closures and redundancies, the plan also included a significant reduction in the global workforce. Subsequent to the acquisition of Standard, the Company has continued assessing relevant information obtained as it relates to markets and customers that were not available prior to the merger which has resulted in modifications to the preliminary integration plan. The integration plan specifically identifies all significant actions to be taken to complete the plan, activities of the acquired company that will not be continued, including the method of disposition and location of those activities, and the plan s expected date of completion. Actions required by the plan were initiated immediately and throughout fiscal 2006 and are continuing in fiscal 2007.

Employee related severance costs in fiscal 2006 totaled $30,944. Severance and other cash charges for fiscal 2006 totaled $43,805. Related payments of $30,161 were made in fiscal 2006 with the remaining $13,644 to be paid in fiscal 2007. During the six months ended September 30, 2006, additional restructuring costs of $4,885 were recorded primarily related to additional employee related severance costs which will substantially all be paid in fiscal 2007. Employee related severance costs and other charges between $6,000 and $8,000 are expected to be incurred during the remainder of fiscal 2007 due to ongoing restructuring and integration plans.

In fiscal 2006, integration charges resulting from the Company s decisions had different accounting treatment depending on whether they were related to former DIMON operations or former Standard operations. In accordance with Emerging Issues Task Force (EITF) 95-3, Recognition of Liabilities in Conjunction with a Purchase Business Combination, the Company has recorded the costs of a plan to (1) exit an activity of the former Standard operations, (2) involuntarily terminate employees of the former Standard operations, or (3) relocate employees of the former Standard operations as liabilities assumed in a purchase business combination and included in the allocation of the acquisition cost resulting in an increase in goodwill. The Company concluded that these costs were not associated with or were not incurred to generate revenues of the combined entity after the consummation date, had no future economic benefit to the combined Company, were incremental to other costs incurred in the conduct of activities prior to the consummation date, and will be incurred as a direct result of the plan to exit an activity of the Standard. However, all costs of integration actions associated with former DIMON operations are recorded in earnings as restructuring and asset impairment costs.

In fiscal 2007, all costs of integration actions associated with former DIMON and former Standard operations are recorded in earnings as restructuring and asset impairment costs only when they are incurred or meet the criteria for recording in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets or SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities .

3. RESTRUCTURING AND ASSET IMPAIRMENT CHARGES *(Continued)*

The following table summarizes the restructuring and assets impairment costs recorded during the three months and six months ended September 30, 2006 and 2005:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2006	2005	2006	2005
Restructuring and Asset Impairment Costs				
Employee separation and other cash charges:				
Beginning balance*	$ 12,307	$ 4,839	$ 13,644	$ 865
Period charges:				
Severance charges	2,914	1,669	4,472	8,561
Spain operation sale	84	-	84	-
Other cash charges	134	795	329	3,437
Total employee separation and other cash charges	3,132	2,464	4,885	11,998
Payments through September 30	(9,049)	(3,176)	(12,139)	(8,736)
Ending balance September 30	$ 6,390	$ 4,127	$ 6,390	$ 4,127
Asset impairments and other non-cash charges:				
SFAS No. 144 assets impairment tobacco operations:				
CdF operations asset impairment	$ (21)	$ -	$ (76)	$ 4,548
Greece machinery and equipment impairment	3,166	-	3,166	-
Thailand asset impairment	1,333	-	1,333	-
Other non-cash charges	-	(666)	-	417
Deconsolidated Zimbabwe cost investments	13,246	-	13,246	-
Total asset impairments and other non-cash charges	$ 17,724	$ (666)	$ 17,669	$ 4,965
Total restructuring and asset impairment charges for the period	$ 20,856	$ 1,798	$ 22,554	$ 16,963

* Beginning balance represents March 31, 2006 ending balances for former DIMON employees of $6,027 and former Standard Commercial Corporation employees of $7,617.

	Three Months Ended	Six Months Ended

	September 30, 2005	September 30, 2005
Purchase Accounting Adjustments to Goodwill		
Employee separation and other cash charges:		
Beginning balance	$15,567	$ -
Period Charges:		
Severance charges	2,331	18,217
Other cash charges	(602)	688
Total employee separation and other cash charges	1,729	18,905
Payments through September 30	(7,343)	(8,952)
Ending balance September 30	$ 9,953	$ 9,953

Sale of Spanish tobacco operations

On February 1, 2006, the Company entered into agreement to sell 100% of the stock of Agroexpansion, S.A., its former DIMON operation, and World Wide Tobacco España,, S.A. (WWTE), its former Standard operation. In connection with the decision to close the operations, the Company reviewed its fixed assets for impairment. In the third and fourth quarters of fiscal 2006, the Company recorded asset impairment and restructuring costs of $10,576. Of this amount, the Company recognized $3,241 in earnings and an adjustment related to the former Standard operations of $7,335 as an adjustment to the purchase price of the merger at March 31, 2006 in connection with the pending sale. The Company completed the sale of Agroexpansion and WWTE on August 1, 2006. Additional restructuring charges of $84 were recorded during the three months ended September 30, 2006, to complete the transaction.

3. RESTRUCTURING AND ASSET IMPAIRMENT CHARGES *(Continued)*

Zimbabwe Investment Impairment

As of March 31, 2006, the Company deconsolidated its operations in Zimbabwe in accordance with the Accounting Research Bulletin 51, *Consolidated Financial Statements* (ARB 51). ARB 51 provides that when a parent does not have control over a subsidiary due to severe foreign exchange restrictions or governmentally imposed uncertainties, the subsidiary should not be consolidated. A non-cash impairment charge of $47,899 was recorded to reduce the net investment in Zimbabwe operations to estimated fair value at March 31, 2006.

Governmental authorization is required before any dividends can be paid from a Zimbabwe operation. The Company s Zimbabwe operations had tried unsuccessfully to pay dividends in prior years due to certain unattainable criteria set by the Reserve Bank of Zimbabwe and the government not granting the necessary authorizations. During the three months ended September 30, 2006, the Company received a $10,000 dividend payment from one of its Zimbabwe subsidiaries that had been negotiated with the Zimbabwe authorities. The $10,000, which was paid from Zimbabwe dollar devaluation gains for the year ended December 31, 2005, was permitted as a result of a negotiated prepayment of $20,000 of export funds due into Zimbabwe at a later date. The dividend was recorded as a reduction in the investment in the Zimbabwe subsidiary. The Company does not consider the ability to pay dividends in the near future a possibility.

Current economic and political conditions have continued to decline over the past six months as inflation, lending rates and investment rates have deteriorated. General farming operations are being negatively impacted by the lack of foreign exchange to buy crop inputs and fuel. The crop size in Zimbabwe also continues to decline. Due to these continually declining conditions, the Company decided to reevaluate the Zimbabwe operational structure this quarter. As a result, several significant operational changes were made. These changes include the closure of the Zimbabwe processing factory and outsourcing the 2006 crop tobacco processing as well as a significant reduction in permanent personnel.

Based on events discussed above, the Company evaluated the fair value of the Zimbabwe operations and determined that the net investment in the Zimbabwe operations exceeded the estimated fair value. The Company recorded an additional non-cash impairment charge of $13,246 during the current quarter to write down the net investment in the Zimbabwe operations to zero.

SFAS No. 144 Asset Impairment

CdF Sale of dark air-cured operations

As a consequence of the ongoing transition in overcapacity within certain markets of the industry, the Company began tentative negotiations to dispose of its dark air-cured operations. In June 2005, the Company reviewed its assets for impairment and a pre-tax impairment charge of $4,548 was recorded which primarily related to intangibles of the dark air cured tobacco operation in Indonesia. On January 23, 2006, the Company entered into a non-binding letter of intent to sell its ownership interest in Compania General de Tabacos de Filipinas, S.A. (CdF), the owner of the Company s dark air-cured tobacco business. In connection with this letter of intent, additional asset impairment charges of $7,972 were recorded during fiscal 2006. The Company anticipates the sale will occur during fiscal 2007.

Thailand Asset Impairment

In fiscal 2006, concurrent with the closure of the former DIMON Thailand processing facilities, assets of $5,743 were reclassified in the Company s balance sheet to assets held for sale. These assets are primarily land and production facilities that have become redundant as a result of the merger.

As a result, during the three months ended September 30, 2006, the Company conducted a review of the fair value of the Thai assets held for sale and recorded an asset impairment charge of $1,333 related to land and buildings.

Greece Asset Impairment

As a result of the partial and pending full closure of Greek operations, the Company tested the long-lived assets for impairment in accordance with SFAS No. 144. During the three months ended September 30, 2006, the Company recorded an asset impairment charge of $3,166 related to machinery and equipment.

Assets Held for Sale

As of September 30, 2006, assets of $20,981 were actively marketed and classified in the Company s balance sheet as assets held for sale. The Company evaluated the criteria of SFAS No. 144 and concluded that these assets qualify as assets held for sale. These assets were primarily production and administrative facilities that had become redundant as a result of the merger.

4. GOODWILL AND INTANGIBLES

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

The Company has no intangible assets with indefinite useful lives. It does have other intangible assets which are being amortized. The following table summarizes the changes in the Company s goodwill and other intangibles for the three months and six months ended September 30, 2006 and 2005.

Goodwill and Intangible Asset Rollforward:

	Goodwill			Amortizable Intangibles		
	South America Segment	Other Regions Segment	Total	Customer Relationship Intangible	Production and Supply Contract Intangibles	Total
Weighted average remaining useful life in years as of March 31, 2006				19	2	
March 31, 2005 balance:						
Gross carrying amount	$151,772	$ -	$151,772	$ -	$ 19,662	$171,434
Accumulated amortization	-	-	-	-	(10,952)	(10,952)
Net March 31, 2005	151,772	-	151,772	-	8,710	160,482
Purchase goodwill and intangibles	36,267	98,589	134,856	-	-	134,856
Amortization expense	-	-	-	-	(744)	(744)
Asset impairment	-	-	-	-	(4,548)	(4,548)
Net June 30, 2005	188,039	98,589	286,628	-	3,418	290,046
Purchase goodwill and intangibles	(6,121)	(16,648)	(22,769)	33,700	-	10,931
Amortization expense	-	-	-	(632)	(463)	(1,095)
Net September 30, 2005	181,918	81,941	263,859	33,068	2,955	299,882
Purchase goodwill and intangibles	(744)	(2,013)	(2,757)	-	-	(2,757)
Amortization expense	-	-	-	(842)	(862)	(1,704)
Asset impairment	(181,174)	(75,742)	(256,916)	-	(563)	(257,479)
Net March 31, 2006	-	4,186	4,186	32,226	1,530	37,942
Amortization expense	-	-	-	(421)	(399)	(820)

Net June 30, 2006	-	4,186	4,186	31,805	1,131	37,122
Amortization expense	-	-	-	(422)	(264)	(686)
Net September 30, 2006	$ -	$ 4,186	$ 4,186	$31,383	$ 867	$ 36,436

Estimated Intangible Asset Amortization Expense:

	Customer Relationship Intangible	Production and Supply Contract Intangibles	Total
For year ended 2007	$ 1,685	$ 1,144	$ 2,829
For year ended 2008	1,685	386	2,071
For year ended 2009	1,685	-	1,685
For year ended 2010	1,685	-	1,685
For year ended 2011	1,685	-	1,685
Later years	23,801	-	23,801
	$ 32,226	$ 1,530	$ 33,756

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Alliance One International, Inc. and Subsidiaries

5. DISCONTINUED OPERATIONS

The Company continually evaluates its component operations to assure they are consistent with its business plan. Each operation that has been identified as discontinued is presented separately following the summary of discontinued operations.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2006	2005	2006	2005
Sales and other revenues	$ 6,786	$ 10,453	$ 11,603	$ 21,069
Loss from discontinued operations, net of tax:	$ (483)	$ (14,348)	$ (2,393)	$ (17,207)

Loss from discontinued operations, before tax				
Income tax benefit (expense)	(350)	113	(2,234)	300
Loss from discontinued operations, net of tax	$ (833)	$ (14,235)	$ (4,627)	$ (16,907)

	September 30, 2006	September 30, 2005	March 31, 2006
Assets of discontinued operations:			
Cash	$ 909	$ 4,838	$ 1,352
Trade receivables, net of allowances	9,046	16,536	9,925
Inventory and advances	20,441	47,378	23,396
Net property, plant and equipment	5,502	10,650	7,174
Other assets	183	10,687	4,209
Total assets of discontinued operations	$36,081	$ 90,089	$46,056

	September 30, 2006	September 30, 2005	March 31, 2006
Liabilities of discontinued operations:			
Accounts payable	$ 1,635	$ 3,644	$ 2,625
Advances from customers	122	845	156
Accrued expenses	4,417	4,880	5,745
Other liabilities	-	1,296	-
Total liabilities of discontinued operations	$ 6,174	$ 10,665	$ 8,526

Discontinued Italian Operations, Other Regions Segment

On September 30, 2004, concurrent with the sale of the Italian processing facility, the Company made a decision to discontinue all of its former DIMON Italian operations as part of its ongoing plans to realign its operations to more closely reflect worldwide changes in the sourcing of tobacco. As a result of the merger on May 13, 2005, the remaining net assets of the discontinued Italian operations of Standard were acquired. The Company has completed the sale of the Italian operations. The collection of the accounts receivable and the liquidation of the inventory not acquired by the purchaser are continuing and are expected to be completed within the next twelve months. Due to the merger between DIMON and Standard these efforts have taken longer than originally anticipated.

In fiscal 2006, Italian operations of both former DIMON and Standard were being investigated by the Directorate General for Competition (DGCOMP) of the European Commission (EC) into tobacco buying and selling practices within the leaf tobacco industry in Italy. During the quarter ended September 30, 2005, as a result of this investigation, fines of $12,000 were levied against the former DIMON entity and $16,800 were levied against the former Standard entity. Fines levied against the former DIMON entity are included in the summary shown below, while fines levied against the former Standard entity were recorded as a purchase price adjustment as the investigation was initiated prior to the combination of the two companies.

Results of operations and the assets and liabilities, other than subsidiary debt guaranteed by the Company and the related interest expense, are reported as discontinued operations. Sales and operating losses for the three months and six months ended September 30, 2006 and 2005 are presented below.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2006	2005	2006	2005
Sales and other revenues	$ 1,435	$ 9,172	$ 2,977	$ 14,585
Loss from discontinued operations, net of tax:				
Loss from discontinued operations, before tax	$ (854)	$ (13,508)	$(2,569)	$ (14,034)
Income tax expense	(90)	-	(90)	-
Loss from discontinued operations, net of tax	$ (944)	$ (13,508)	$(2,659)	$ (14,034)

5. DISCONTINUED OPERATIONS *(Continued)*

	September 30,		March 31,
	2006	2005	2006
Assets of discontinued operations:			
Trade receivables, net of allowances	$ 8,677	$ 10,772	$ 8,557
Inventory and advances	17,314	25,012	20,325
Net property, plant and equipment	-	271	-
Other assets	122	2,045	280
Total assets of discontinued operations	$26,113	$ 38,100	$29,162

	September 30,		March 31,
	2006	2005	2006
Liabilities of discontinued operations:			
Accounts payable	$ 1,472	$ 2,056	$1,624

Advances from customers	-	547	156
Accrued expenses	1,327	-	1,348
Other liabilities	-	1,296	-
Total liabilities of discontinued operations	$ 2,799	$ 3,899	$3,128

Discontinued Wool Operations, Other Regions Segment

As a result of the merger, the Company acquired the remaining net assets of Standard s discontinued wool operations. The liquidation of these assets is continuing. The remaining assets are primarily in France and, along with the remaining trading operations in France, are the subjects of separate sales agreements pending governmental approval. Due to unexpected delays in conjunction with obtaining approval from the French government the sale of these operations has been delayed. The Company is obtaining approval from the French government as expeditiously as possible.

Results of operations and the assets and liabilities, other than subsidiary debt guaranteed by the Company, are reported as discontinued operations. This information is summarized for the appropriate fiscal periods as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2006	2005	2006	2005
Sales and other revenues	$ -	$ -	$ -	$ -
Loss from discontinued operations, net of tax:				
Loss from discontinued operations, before tax	$ (729)	$ (443)	$(737)	$ (443)
Income tax expense	-	-	-	-
Loss from discontinued operations, net of tax	$ (729)	$ (443)	$(737)	$ (443)

	September 30,		March 31,
	2006	2005	2006
Assets of discontinued operations:			
Cash	$ 909	$ 4,838	$ 1,352
Trade receivables, net of allowances	262	4,612	556
Inventory and advances	-	-	-
Net property, plant and equipment	4,566	4,817	4,830
Notes receivable	-	4,536	-
Other assets	-	3,449	3,450
Total assets of discontinued operations	$5,737	$22,252	$10,188

	September 30,	March 31,

	2006	2005	2006
Liabilities of discontinued operations:			