ALLIANCE ONE INTERNATIONAL, INC.
Form 10-K
June 14, 2010

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

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED March 31, 2010

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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, North Carolina 27560-8417
(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange On Which Registered
Common Stock (no par value)	New York Stock Exchange

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

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

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

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

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

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

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

Large Accelerated Filer [ ] Accelerated Filer [X] Non-Accelerated filer [ ] Smaller Reporting Company [ ]
(Do not check if a smaller reporting company)

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

As of September 30, 2009 the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $377.4 million based on the closing sale price of the common stock as reported on the New York Stock Exchange. As of June 8, 2010, there were 89,118,503 shares of Common Stock outstanding (no par value) excluding 7,853,121 shares owned by a wholly owned subsidiary.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Shareholders (to be held August 12, 2010) of the registrant is incorporated by reference into Part III hereof.

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PART I

ITEM 1. BUSINESS

A. The Company

Alliance One is a Virginia corporation with revenues of approximately $2.3 billion and operating income of approximately $223.8 million in fiscal 2010. Our common stock has been traded on the New York Stock Exchange since 1995. Through our predecessor companies, we have a long operating history in the leaf tobacco industry with some customer relationships beginning in the early 1900s. Alliance One is one of only two global publicly held leaf tobacco merchants, each with substantially similar global market shares. We have broad geographic processing capabilities, a diversified product offering and an established customer base, including all of the major consumer tobacco product manufacturers. Our goal is to be the preferred supplier of quality tobacco products and innovative solutions to the world s manufacturers and marketers of tobacco products.

Additional Information

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

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

B. The Business

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

We deal primarily in flue-cured, burley, and oriental tobaccos that are used in international brand cigarettes. Several of the large multinational cigarette manufacturers have expanded their operations throughout the world, particularly in Asia, Eastern Europe and the former Soviet Union, in order to increase their access to and penetration of international brand cigarette markets. As cigarette manufacturers continue to expand their global operations, we believe that demand will increase for local sources of leaf tobacco and local tobacco processing and distribution, primarily due to beneficial tariff rates and lower freight costs. For some large multinational cigarette manufacturers, international expansion will cause them to place greater reliance on the services of leaf tobacco merchants with the ability to source and process tobacco on a global basis and to help develop higher quality local sources of tobacco by improving local agronomic practices. For other large multinational cigarette manufacturers, international expansion also includes vertical integration of their operations, either through acquisition of our competitors, establishing new operations or contracting directly with suppliers. Recently, Japan Tobacco, Inc. began enhancing their direct leaf procurement capabilities by acquiring a small leaf processor in Malawi, a small leaf processor in Brazil and formed a joint venture for tobacco leaf in the United States. We will continue to work with our customers to meet all their needs while continuing to be a provider of quality tobacco products and innovative solutions.

Purchasing

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

Purchasing (Continued)

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

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

Alliance One has developed an extensive international network through which we purchase, process and sell tobacco and we hold a leading position in most tobacco growing regions in the world. We purchase tobacco in more than 45 countries. During the three years ended March 31, 2010, 2009 and 2008, approximately 36%, 39% and 41%, respectively, of our purchases of tobacco were from the South America operating segment and approximately 64%, 61% and 59%, respectively, were from the Other Regions operating segment. Within the Other Regions operating segment, approximately 32%, 32% and 30% of our purchases for the three years ended March 31, 2010, 2009 and 2008, respectively, were from Malawi, China, the United States and Turkey.

Processing

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

We process tobacco in more than 50 owned and third party facilities around the world including Argentina, Brazil, Canada, China, Guatemala, India, Tanzania, the United States, Malawi, Thailand, Germany, Indonesia, Macedonia, Bulgaria and Turkey. These facilities encompass all leading export locations of flue-cured, burley and oriental tobaccos. In addition, we have entered into contracts, joint ventures and other arrangements for the purchase of tobacco grown in substantially all other countries that produce export-quality flue-cured and burley tobacco.

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

Processing (Continued)

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

Selling

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

The consumer tobacco business is dominated by a relatively small number of large multinational cigarette manufacturers and by government controlled entities. Including their respective affiliates, accounting for more than 10% of our revenues from continuing operations were each of Philip Morris International, Inc. (PMI), Japan Tobacco, Inc. (JTI) and British American Tobacco p.l.c. for the year ended March 31, 2010; PMI and JTI for the year ended March 31, 2009; and Altria Group, Inc. (Altria) and JTI for the year ended March 31, 2008. On March 28, 2008, Altria completed the spin-off of its international tobacco business, PMI. We conduct business with both PMI and Altria s retained domestic tobacco business, Philip Morris USA, Inc., and the spin-off did not have a material effect on our results.

In 2010, Alliance One delivered approximately 58% of its tobacco sales to customers in Europe and approximately 14% to customers in the United States. One customer directs shipments to its Belgium storage and distribution center before shipment to its manufacturing facilities in Europe and Asia. In 2010, these Belgium sales accounted for 37% of sales to customers in Europe. The remaining sales are to customers located in Asia, Africa and other geographic regions of the world.

Seasonality

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

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

Competition

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

Competition (Continued)

The leaf tobacco industry is highly competitive and there are a number of independent global, regional or national competitors. Competition among leaf tobacco merchants is based primarily on the price charged for products and services as well as the merchant's ability to meet customer specifications in the buying, processing, residue compliance and financing of tobacco. In addition to the primary global independent leaf tobacco merchants, the cigarette manufacturers increasingly buy tobacco directly from suppliers and other independent leaf merchants with low fixed costs and overhead who have entered the leaf purchasing and processing business on a local basis. Recently, Japan Tobacco, Inc. acquired a small leaf processor in Malawi, a small leaf processor in Brazil and formed a joint venture for tobacco leaf in the United States in order to enhance procurement of leaf directly from suppliers. There is also competition in all countries to buy the available leaf tobacco and in many areas, total leaf tobacco processing capacity exceeds demand.

Reportable Segments

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

C. Other

Research and Development

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

Alliance One Employees

Alliance One s consolidated entities employed approximately 5,000 persons, excluding seasonal employees, in our worldwide operations at March 31, 2010. In the Other Regions operating segment, Alliance One s consolidated entities employed approximately 4,100 employees at March 31, 2010 excluding approximately 7,400 seasonal employees. During processing periods, most seasonal employees as well as approximately 200 full-time factory personnel in the United States are covered by collective bargaining agreements. In the South America operating segment, Alliance One s consolidated entities employed approximately 900 persons, excluding approximately 3,500 seasonal employees, at March 31, 2010. We consider Alliance One s employee relations to be satisfactory.

Government Regulation and Environmental Compliance

See Item 1A. Risk Factors for a discussion of government regulation. Currently there are no material estimated capital expenditures related to environmental control facilities.

EXECUTIVE OFFICERS OF ALLIANCE ONE INTERNATIONAL, INC.

The following information is furnished with respect to the Company s executive officers as of April 1, 2010 and the capacities in which they serve. These officers serve at the pleasure of the Board of Directors and are elected at each annual organizational meeting of the Board.

NAME	AGE	TITLE
Robert E. Harrison	56	Chairman, President and Chief Executive Officer
Robert A. Sheets	55	Executive Vice President - Chief Financial Officer
J. Henry Denny	59	Executive Vice President - Global Operations
J. Pieter Sikkel	46	Executive Vice President - Business Strategy and Relationship Management
Henry C. Babb	65	Senior Vice President - Chief Legal Officer and Secretary
Michael K. McDaniel	60	Senior Vice President - Human Resources
William D. Pappas	57	Senior Vice President - Chief Information Officer

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

Robert E. Harrison has served as President and Chief Executive Officer since January 2007 and as Chairman since August 2007. Previously he served as President and Chief Operating Officer of Alliance One from May 2005 to January 2007, and as President and Chief Executive Officer of Standard from August 1996, and its Chairman from August 2003 to May 2005.

Robert A. Sheets has served as Executive Vice President Chief Financial Officer since April 2008. Previously, he served as a member of the Board of Directors and as Executive Vice President and Chief Financial Officer of Standard until its merger with DIMON in May 2005.

J. Henry Denny has served as Executive Vice President   Global Operations since July 2009. Previously, he served as Regional Director   North/Central America from April 2006 to July 2009 and Director of Leaf Purchasing for DIMON from 1995 to March 2006.

J. Pieter Sikkel has served as Executive Vice President   Business Strategy and Relationship Management since April 2007. Previously, he served as Regional Director of Asia for Alliance One from May 2005 to April 2007, Senior Vice President of Asia for Standard from April 2004 to May 2005 and Regional Manager of Asia from 1999 to April 2004.

Henry C. Babb has served as Senior Vice President - Chief Legal Officer and Secretary of Alliance One since May 2005. Previously, he served as Senior Vice President - Public Affairs, General Counsel and Secretary of Standard from April 2004 to May 2005 and served as Secretary from June 1998 to April 2004.

Michael K. McDaniel has served as Senior Vice President - Human Resources of Alliance One since May 2005. Previously, he served as Senior Vice President - Human Resources of Standard from April 2004 to May 2005 and served as Vice President - Human Resources from June 1997 to April 2004.

William D. Pappas has served as Senior Vice President - Chief Information Officer of Alliance One since May 2005. Previously, he served as Chief Information Officer of DIMON from December 2004 to May 2005 and served as Vice President - Chief Technology Officer from October 2001 to December 2004.

ITEM 1A. RISK FACTORS

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

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

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

Risks Relating to Our Operations

Global shifts in sourcing customer requirements may negatively impact our organizational structure and asset base.

The global leaf tobacco industry is experiencing shifts in the sourcing of customer requirements for tobacco. For example, significant tobacco production volume decreases have occurred and may continue to occur in the United States, Zimbabwe and Western Europe from historical levels. At the same time, production volumes in other sourcing origins, such as Brazil and other areas of Africa, are stabilizing. Additional shifts in sourcing may occur as a result of currency fluctuations, including devaluation of the U.S. dollar. A shift in sourcing origins in Europe has been influenced by modifications to the tobacco price support system in the European Union (EU). Customer requirements are changing due to these variations in production, therefore influencing our ability to plan effectively for the longer term in Europe.

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

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

Our financial results, particularly the quarterly financial results, may be significantly affected by fluctuations in tobacco growing seasons and crop sizes which affect the supply of tobacco. The cultivation period for tobacco is dependent upon a number of factors, including the weather and other natural events, such as hurricanes or tropical storms, and our processing schedule and results of operations can be significantly altered by these factors.

The cost of acquiring tobacco can fluctuate greatly due to smaller crop sizes and increased competition in certain markets in which we purchase tobacco. For example, in Malawi, a smaller 2007 crop and increased competition in the Malawi market increased green tobacco costs at auction by almost 100%, while processing and overhead costs also increased. Furthermore, short crops in periods of high demand translate into higher average green prices, higher throughput costs and less volume to sell.

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

Risks Relating to Our Operations *(Continued)*

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

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

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

We advance inputs to our suppliers, which represent prepaid inventory, in many countries to allow the suppliers to grow tobacco, which we are contractually obligated to purchase. The advances to tobacco suppliers are settled as part of the consideration paid upon the suppliers delivering us unprocessed tobacco at market prices. Two primary factors determine the market value of the tobacco suppliers deliver to us: the quantity of tobacco delivered and the quality of the tobacco delivered. Unsatisfactory quantities or quality of the tobacco delivered could result in losses of amounts advanced to our tobacco suppliers or the deferral of those advances.

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

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

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

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

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

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

Our reliance on a small number of significant customers may adversely affect our results of operations.

Our customers are manufacturers of cigarette and other tobacco products. Several of these customers individually account for a significant portion of our sales in a normal year.

For the year ended March 31, 2010, each of Philip Morris International, Inc., British American Tobacco p.l.c. and Japan Tobacco Inc., including their respective affiliates, accounted for more than 10% of our revenues from continuing operations.

In addition, tobacco product manufacturers are experiencing consolidation and further consolidation among our customers could decrease such customers demand for our leaf tobacco or processing services. The loss of any one or more of such customers could have a material adverse effect on our financial condition or results of operations.

Further, demand for our leaf tobacco or processing services could be materially reduced if cigarette manufacturers significantly vertically integrate their operations, either through acquisition of our competitors, establishing new operations or contracting directly with suppliers. Recently, one of our significant customers, Japan Tobacco, Inc., acquired a leaf processing business in Malawi and a leaf processing business in Brazil, and formed a joint venture to acquire tobacco leaf in the United States. We believe that these transactions could have a material adverse effect on our financial condition and results of operations.

Risks Relating to Our Operations *(Continued)*

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

We do business in more than 45 countries, many of which do not have stable economies or governments. Our international operations are subject to international business risks, including unsettled political conditions, expropriation, import and export restrictions, exchange controls, inflationary economies, currency risks and risks related to the restrictions on repatriation of earnings or proceeds from liquidated assets of foreign subsidiaries. These risks are exacerbated in countries where we have advanced substantial sums or guaranteed local loans or lines of credit for the purchase of tobacco from suppliers. For example, in 2006 as a result of the political environment, economic instability, foreign currency controls and governmental regulations in Zimbabwe, we deconsolidated our Zimbabwe subsidiaries. Zimbabwe had imposed a requirement of governmental authorization of any dividends paid from our Zimbabwe operation, which had been unsuccessful in satisfying unattainable criteria set by the Reserve Bank of Zimbabwe and, therefore, in obtaining the necessary authorizations.

We have expanded our international operations in areas where the export of tobacco has increased due to increased demand for lower priced tobacco. We have significant investments in our purchasing, processing and exporting operations in Argentina, Brazil, Malawi, Tanzania and Turkey.

In recent years, economic problems in Zimbabwe and Brazil have received wide publicity related to devaluation and appreciation of the local currency and inflation. Devaluation and appreciation can affect our purchase costs of tobacco and our processing costs.

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

We are subject to the Foreign Corrupt Practices Act (the FCPA), and we are currently under investigation by U.S. authorities for potential violations.

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

Additionally, we are currently under investigation for potential criminal and civil violations of the FCPA. In March 2004, we discovered potential irregularities with respect to certain bank accounts in southern Europe and central Asia. Our Audit Committee engaged an outside law firm to conduct an investigation of activity relating to these accounts. The investigation revealed that there were payments from these accounts that may have violated the U.S. Foreign Corrupt Practices Act. In May 2004, we voluntarily reported the matter to the U.S. Department of Justice (Justice). Soon thereafter, we closed the accounts in question, implemented personnel changes and other measures designed to prevent similar situations in the future, including the addition of new finance and internal audit staff and enhancement of existing training programs, and disclosed these circumstances in our filings with the SEC. In August 2006, we learned that the SEC had issued a formal order of investigation of us and others to determine if these or other actions, including those in other countries in which we do business, may have violated the FCPA or other provisions of the Exchange Act and rules thereunder. In May 2008, we learned that Justice began conducting an investigation into possible violations of the FCPA or other federal criminal laws stemming from the same actions being investigated by the SEC. We have been advised by Justice and the SEC that such agencies believe that violations of applicable federal laws have occurred. We are engaging in discussions with both agencies to resolve their investigations into alleged violations of the Foreign Corrupt Practices Act and other federal securities laws. Based on those discussions, resolution of the investigations is likely to include injunctive relief, disgorgement, fines, penalties and the retention of an independent compliance monitor. Moreover, negotiations with the agencies have reached a stage at which an agreement in principle has been reached and we are able to estimate a probable loss in connection with these matters of $19.45 million for any disgorgement, fines and penalties. This loss is recorded in Accrued Expenses and Other Income (Expense) in the consolidated balance sheet at March 31, 2010 and in the statement of consolidated operations for the year ended March 31, 2010, respectively.

Risks Relating to Our Operations *(Continued)*

We are subject to the Foreign Corrupt Practices Act (the FCPA), and we are currently under investigation by U.S. authorities for potential violations. *(Continued)*

This agreement in principle is subject to the finalization and execution, with both the SEC and Justice, of definitive agreements and, further, is subject to the approval of a federal court having jurisdiction over this matter. Therefore, there can be no assurance that our negotiations with the SEC and Justice will result in a final resolution, and the amount of the loss upon final resolution may exceed our current estimate. Further, we will incur additional costs associated with the retention of an independent monitor and with any changes we may implement.

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

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

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

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

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

Low investment performance by our defined benefit pension plan assets may increase our pension expense, and may require us to fund a larger portion of our pension obligations, thus, diverting funds from other potential uses.

We sponsor a domestic defined benefit pension plan that covers certain eligible employees. Our pension expense and required contributions to our pension plan are directly affected by the value of plan assets, the projected rate of return on plan assets, the actual rate of return on plan assets, and the actuarial assumptions we use to measure the defined benefit pension plan obligations.

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

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

Competition could erode our earnings.

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

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

Risks Relating to Our Operations *(Continued)*

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

As a result of our testing of our internal control over financial reporting for the year ended March 31, 2008, we identified certain matters involving our internal control over financial reporting that we and our independent registered public accounting firm determined to be material weaknesses under standards established by the Public Company Accounting Oversight Board. Although we have remediated those material weaknesses in internal control over financial reporting, and we believe that our internal control over financial reporting was effective at March 31, 2010 and 2009 as reported elsewhere in this Annual Report and intend to continue to monitor and improve our internal controls, we cannot assure you that other material weaknesses will not occur in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could cause us to fail to meet our reporting obligations or result in misstatements in our financial statements in amounts that could be material. Inferior internal controls could cause investors to lose confidence in our reported financial information, which could have a negative effect on the value of our common stock and could also require additional restatements of our prior reported financial information.

Risks Relating to Our Capital Structure

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

We access the short-term capital markets and, from time to time, the long-term markets to obtain financing. Although we believe that we can continue to access the capital markets in fiscal 2011 on acceptable terms and conditions, our access and the availability of acceptable terms and conditions are impacted by many factors, including: (i) our credit ratings; (ii) the liquidity and volatility of the overall capital markets, which has been negatively impacted by the U.S. sub-prime debt turmoil; and (iii) the current state of the economy, including the tobacco industry. There can be no assurances that we will continue to have access to the capital markets on terms acceptable to us.

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

We have typically financed our non-U.S. local operations with uncommitted short term operating credit lines at the local level. These operating lines are typically seasonal in nature, normally extending for a term of 180 to 270 days corresponding to the tobacco crop cycle in that location. These facilities are typically uncommitted in that the lenders have the right to cease making loans or demand payment of outstanding loans at any time. In addition, each of these operating lines must be renewed with each tobacco crop season in that jurisdiction. Although our foreign subsidiaries are the borrowers under these lines, many of them are guaranteed by us.

As of March 31, 2010, we had approximately $189.0 million drawn and outstanding on foreign seasonal lines with maximum capacity totaling $619.3 million subject to limitations as provided for in our Credit Agreement. Additionally against these lines there was $14.2 million available in unused letter of credit capacity with $5.3 million issued but unfunded.

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

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

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

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

We have a significant amount of indebtedness and debt service obligations. As of March 31, 2010, we had approximately $978.3 million of indebtedness. In addition, the indenture governing the notes allows us to incur additional indebtedness under certain circumstances. If we add new indebtedness to our current indebtedness levels, the related risks that we now face could increase.

Risks Relating to Our Capital Structure *(Continued)*

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

Our substantial debt will have important consequences, including:

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

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that our indebtedness may limit our ability to obtain additional financing on satisfactory terms and to otherwise fund working capital, capital expenditures, debt refinancing, acquisitions and other general corporate requirements;

·

that a significant portion of our cash flow from operations must be dedicated to paying interest on and the repayment of the principal of our indebtedness. This reduces the amount of cash we have available for making principal and interest payments under the notes and for other purposes and makes us more vulnerable to a decrease in demand for leaf tobacco, increases in our operating costs or general economic or industry conditions;

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that our ability to adjust to changing market conditions and to compete with other global leaf tobacco merchants may be hampered by the amount of debt we owe;

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increasing our vulnerability to general adverse economic and industry conditions;

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placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged;

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limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

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restricting us from making strategic acquisitions or exploiting business opportunities.

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

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

We may be able to incur substantial additional indebtedness in the future. The terms of the indentures governing our publicly traded notes and our credit agreement restrict, but do not completely prohibit, us from doing so. Our senior secured credit facility provides for a revolving credit line that was recently increased to $290.0 million. There were no borrowings under this facility at March 31, 2010. If new debt is added to our current debt levels, the related risks we now face could intensify.

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

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

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

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

Risks Relating to Our Capital Structure *(Continued)*

We have had to obtain waivers and amendments under our existing financing arrangements to avoid future defaults or cure past defaults.

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

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

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

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

If the recent worsening of credit market conditions continues or increases, it could have a material adverse impact on our ability to refinance our current credit facilities on similar or better terms than our current credit facility.

Risks Related to the Current Global Financial Crisis

The volatility and disruption of global credit markets and adverse changes arising from the current global financial crisis may negatively impact our ability to access financing and expose us to unexpected risks.

The current global financial and credit crisis exposes us to a variety of risks. We fund our business with a combination of cash from operations, short-term seasonal credit lines, our revolving credit facility, long term debt securities and customer advances. We have financed our non-U.S. operations with uncommitted unsecured short term seasonal lines of credit at the local level. These local operating lines typically extend for a term of 180 to 270 days and are typically uncommitted in that the lenders have the right to cease making loans and demand repayment of loans at any time. As of March 31, 2010, we had approximately $189.0 million drawn and outstanding on foreign seasonal lines with maximum capacity totaling $619.3 million. In light of the global credit crisis it is uncertain whether local seasonal lines will continue to be available to finance our non-U.S. operations to the extent or on terms similar to what has been available in the past and whether repayment of existing loans under these lines will be demanded prior to maturity. To the extent that local seasonal lines cease to be available at levels necessary to finance our non-U.S. operations or we are required to repay loans under the lines prior to maturity, we may be required to seek alternative financing sources beyond our existing committed sources of funding. In light of the current capital and credit market disruption and volatility, we cannot assure you that such alternative funding will be available to us on terms and conditions acceptable to us, or at all. In the event that we may be required to support our non-U.S. operations by borrowing U.S. dollars under our existing revolving credit line, we may be exposed to additional currency exchange risk that we may be unable to successfully hedge. Further, there is additional risk that certain banks in the U.S. revolving credit line syndicate could be unable to meet contractually obligated borrowing requests in the future as a result of the global financial crisis. In addition, we maintain deposit accounts with numerous financial institutions around the world in amounts that exceed applicable governmental deposit insurance levels. While we actively monitor our deposit relationships, we are subject to risk of loss in the event of the unanticipated failure of a financial institution in which we maintain deposits, which loss could be material to our results of operations and financial condition.

Risks Related to the Current Global Financial Crisis *(Continued)*

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

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

Risks Relating to the Tobacco Industry

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

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

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

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governmental actions seeking to ascribe to tobacco product manufacturers liability for adverse health effects associated with smoking and exposure to environmental tobacco smoke;

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smoking and health litigation against tobacco product manufacturers;

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tax increases on consumer tobacco products;

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current and potential actions by state attorneys general to enforce the terms of the Master Settlement Agreement, or MSA, between state governments in the United States and tobacco product manufacturers;

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governmental and private bans and restrictions on smoking;

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actual and proposed price controls and restrictions on imports in certain jurisdictions outside the United States;

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restrictions on tobacco product manufacturing, marketing, advertising and sales;

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the diminishing social acceptance of smoking;

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increased pressure from anti-smoking groups;

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other tobacco product legislation that may be considered by Congress, the states, municipalities and other countries; and

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the impact of consolidation among multinational cigarette manufacturers.

Tobacco product manufacturer litigation may reduce demand for our services.

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

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

The Family Smoking Prevention and Tobacco Control Act, which was enacted in June 2009, extends the authority of the Food and Drug Administration (FDA) to regulate tobacco products. This act authorizes the FDA to adopt product standards for tobacco products, including the level of nicotine yield and the reduction or elimination of other constituents of the products, along with provisions for the testing of products against these standards. The act imposes further restrictions on advertising of tobacco products, authorizes the FDA to limit the sales of tobacco products to face-to-face transactions permitting the verification of the age of the purchaser, authorizes a study to determine whether the minimum age for the purchase of tobacco products should be increased and requires submission of reports from manufacturers of tobacco products to the FDA regarding product ingredients and other matters, including reports on health, toxicological, behavioral, or physiologic effects of tobacco products and their constituents. The act also mandates warning labels and requires packaging to indicate the percentage of domestically grown tobacco and foreign grown tobacco included in the product.

Risks Relating to the Tobacco Industry *(Continued)*

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

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

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

A number of foreign nations also have taken steps to restrict or prohibit cigarette advertising and promotion, to increase taxes on cigarettes and to discourage cigarette smoking. In some cases, such restrictions are more onerous than those in the United States. For example, advertising and promotion of cigarettes has been banned or severely restricted for a number of years in Australia, Canada, Finland, France, Italy, Singapore and other countries. Further, in February 2005, the World Health Organization (WHO) treaty, the Framework Convention for Tobacco Control (FCTC), entered into force. This treaty, to which 164 nations were parties at March 31, 2009, requires signatory nations to enact legislation that would require, among other things, specific actions to prevent youth smoking; restrict or prohibit tobacco product marketing; inform the public about the health consequences of smoking and the benefits of quitting; regulate the content of tobacco products; impose new package warning requirements including the use of pictorial or graphic images; eliminate cigarette smuggling and counterfeit cigarettes; restrict smoking in public places; increase and harmonize cigarette excise taxes; abolish duty-free tobacco sales; and permit and encourage litigation against tobacco product manufacturers.

Due to the present regulatory and legislative environment, a substantial risk exists that past growth trends in tobacco product sales may not continue and that existing sales may decline.

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

The WHO, through the FCTC, has created a formal study group to identify and assess crop diversification initiatives and alternatives to leaf tobacco growing in countries whose economies depend upon tobacco production. The study group began its work in February 2007. If certain countries were to partner with the FCTC study group and seek to eliminate or significantly reduce leaf tobacco production, we could encounter difficulty in sourcing leaf tobacco to fill customer requirements, which could have an adverse effect on our results of operations.

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

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

Risks Relating to the Tobacco Industry *(Continued)*

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

Our subsidiaries in Spain, Italy and Greece have been subject to these investigations. In 2004, the EC fined us and our Spanish subsidiaries €4.4 million ($5.6 million) solely relating to the investigations in Spain. In respect of the Italian investigation, in October 2005, the EC announced that we and our Italian subsidiaries have been assessed a fine in the aggregate amount of €24.0 million ($28.8 million). Several tobacco processors, suppliers and agricultural associations that were the subject of the investigation in Italy were assessed fines in various amounts totaling €56.0 million ($67.0 million), inclusive of the fines imposed on us and our subsidiaries. We, along with the applicable subsidiaries, have appealed the decisions of the EC with respect to Spain and Italy to the Court of First Instance of the EC for the annulment or modification of the decision; but the outcome of the appeals process as to both timing and results is uncertain.

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

We have been made aware of a review by the Malawi Government of the operation of its tobacco auction markets. Although the Government s preliminary report suggests that there may have been violations by the leaf dealer industry of certain Malawi competition laws, the review is at an early stage and it is not possible to predict its outcome or its possible impact on us. We will continue to cooperate with the relevant authorities and are conducting our own internal investigation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Following is a description of Alliance One s material properties as of March 31, 2010.

Corporate

Our corporate headquarters are located in Morrisville, North Carolina.

Facilities

We own a total of 14 production facilities in 9 countries. We operate each of our tobacco processing plants for seven to nine months during the year to correspond with the applicable harvesting season. While we believe our production facilities have been efficiently utilized, we continually compare our production capacity and organization with the transitions occurring in global sourcing of tobacco. We also believe our domestic production facilities and certain foreign production facilities have the capacity to process additional volumes of tobacco if required by customer demand.

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

ITEM 2. PROPERTIES *(Continued)*

LOCATION	USE
	SOUTH AMERICA SEGMENT
SOUTH AMERICA	
VENANCIO AIRES, BRAZIL	FACTORY/STORAGE
SANTA CRUZ, BRAZIL	FACTORY/STORAGE
VERA CRUZ, BRAZIL	STORAGE
EL CARRIL, ARGENTINA	FACTORY/STORAGE
	OTHER REGIONS SEGMENT
UNITED STATES	
WILSON, N.C.	FACTORY/STORAGE
FARMVILLE, N.C.	FACTORY/STORAGE
DANVILLE. VA	STORAGE
AFRICA	
LILONGWE, MALAWI	FACTORY/STORAGE
MOROGORO, TANZANIA	FACTORY/STORAGE
EUROPE	
IZMIR, TURKEY	FACTORY/STORAGE
KARLSRUHE, GERMANY	FACTORY/STORAGE
ASIA	
NGORO, INDONESIA	FACTORY/STORAGE

ITEM 3. LEGAL PROCEEDINGS

In October 2001, the Directorate General for Competition (DGCOMP) of the European Commission (EC) began an administrative investigation into certain tobacco buying and selling practices alleged to have occurred within the leaf tobacco industry in some countries within the European Union, including Spain, Italy, Greece and potentially other countries. The Company and its subsidiaries in Spain, Italy and Greece have been subject to these investigations. In respect of the investigation into practices in Spain, in 2004, the EC fined the Company and its Spanish subsidiaries €4.4 million (US$5.6 million). In respect of the investigation into practices in Italy, in October 2005, the EC announced that the Company and its Italian subsidiaries have been assessed a fine in the aggregate amount of €24.0 million (US$28.8 million). With respect to both the Spanish and Italian investigations, the fines imposed on the Company and its predecessors and subsidiaries were part of fines assessed on several participants in the applicable industry. With respect to the investigation relating to Greece, the EC informed the Company in March 2005 it had closed its investigation in relation to the Greek leaf tobacco industry buying and selling practices. The Company, along with its applicable subsidiaries, has appealed the decisions of the EC with respect to Spain and Italy to the Court of First Instance of the European Commission for the annulment or modification of the decision, but the outcome of the appeals process as to both timing and results is uncertain. The Company has fully recognized the impact of each of the fines set forth above and has paid all of such fines as part of the appeal process.

In March 2004, the Company discovered potential irregularities with respect to certain bank accounts in southern Europe and central Asia. The Audit Committee of the Company s Board of Directors engaged an outside law firm to conduct an investigation of activity relating to these accounts. That investigation revealed that, although the amounts involved were not material and had no material impact on the Company s historical financial statements, there were payments from these accounts that may have violated the U.S. Foreign Corrupt Practices Act. In May 2004, the Company voluntarily reported the matter to the U.S. Department of Justice (Justice). Soon thereafter, the Company closed the accounts in question, implemented personnel changes and other measures designed to prevent similar situations in the future, including the addition of new finance and internal audit staff and enhancement of existing training programs, and disclosed these circumstances in its filings with the SEC. In August 2006, the Company learned that the SEC had issued a formal order of investigation of the Company and others to determine if these or other actions, including those in other countries in which the Company does business, may have violated certain provisions of the Securities Exchange Act of 1934 and rules thereunder. In May 2008, the Company learned that Justice is conducting an investigation into possible violations of federal laws stemming from the same actions being investigated by the SEC.

ITEM 3. <u>LEGAL PROCEEDINGS</u> *(Continued)*

The Company has been advised by Justice and the SEC that such agencies believe that violations of applicable federal laws have occurred. The Company is engaging in discussions with both agencies to resolve their investigations into alleged violations of the Foreign Corrupt Practices Act and other federal securities laws. Based on those discussions, resolution of the investigations is likely to include injunctive relief, disgorgement, fines, penalties and the retention of an independent compliance monitor. Moreover, negotiations with the agencies have reached a stage at which an agreement in principle has been reached and the Company is able to estimate a probable loss in connection with these matters of $19.45 million for any disgorgement, fines and penalties. This loss is recorded in Accrued Expenses and Other Income (Expense) in the consolidated balance sheet at March 31, 2010 and in the statement of consolidated operations for the year ended March 31, 2010, respectively. This agreement in principle is subject to the finalization and execution, with both the SEC and Justice, of definitive agreements and, further, is subject to the approval of a federal court having jurisdiction over this matter. Therefore, there can be no assurance that the Company s negotiations with the SEC and Justice will result in a final resolution, and the amount of the loss upon final resolution may exceed the Company s current estimate. Further, the Company will incur additional costs associated with the retention of an independent monitor and with any changes the Company may implement.

The Company had previously disclosed that it had received notice from Mindo, S.r.l., the purchaser in June 2004 of the Company s Italian subsidiary Dimon Italia, S.r.l., of its intent to assert against the Company, or its subsidiaries, a claim arising out of that sale transaction. That claim, which may be followed by additional claims, was filed before the Court of Rome on April 12, 2007. The claim, allegedly arising from a guaranty letter issued by a consolidated subsidiary of the Company in connection with the sale transaction, seeks the recovery of €7.4 million (US$9.9 million) plus interest and costs.

On December 13, 2007, the Public Prosecutors' offices in the States of Santa Catarina and Parana filed claims against the Company s Brazilian subsidiary, Alliance One Brazil Exportadora de Tobaccos Ltda. and a number of other tobacco processors, on behalf of all tobacco suppliers in those states. The lawsuits primarily assert that there exists an employment relationship between tobacco processors and tobacco suppliers.

At the initial hearing in Santa Catarina, on January 29, 2008, the Court granted the Company s motion to have the case moved to the Labor Court in Brasilia. No hearing date has yet been set.

In the state of Parana, the relief sought by the Public Prosecutor was granted by the local Labor Court. The Company appealed that initial ruling and it was overturned in part and affirmed in part. The Company has appealed from that part of the initial ruling which was affirmed and no ruling has yet been rendered on the appeal. The Company has separately asserted, on April 11, 2008, a lack of jurisdiction motion similar to that which it asserted in the case in Santa Catarina which resulted in the transfer of that case to the Labor Court in Brasilia. No hearing date for that motion has been set.

On July 23, 2009, the Company received notice that Sharpmind Enterprises, Ltd., a British Virgin Islands company, had filed in the United States District Court for the Eastern District of North Carolina, a claim against the Company seeking unspecified damages for an alleged breach of a sales representation agreement between the Company and Sharpmind. Sharpmind has indicated that it would seek damages in excess of $2.0 million. The Company has recorded an accrual it believes is adequate to satisfy the estimated financial outcome. However, the Company intends to vigorously defend the claim.

ITEM 4. <u>RESERVED</u>

PART II

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

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

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

	Alliance One Common Stock		
	High	Low	Dividends Declared
<u>Year Ended March 31, 2010</u>			
Fourth Quarter	$ 5.96	$ 4.50	$.000

Third Quarter	5.23	4.25	.000
Second Quarter	4.73	3.61	.000
First Quarter	5.71	3.19	.000
Year Ended March 31, 2009			
Fourth Quarter	$ 4.25	$ 2.22	$.000
Third Quarter	4.22	1.97	.000
Second Quarter	5.30	3.50	.000
First Quarter	6.60	5.07	.000

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

As of March 31, 2010, there were approximately 7,716 shareholders, including approximately 6,699 beneficial holders of our common stock.

The payment of dividends by Alliance One is subject to the discretion of our board of directors and will depend on business conditions, compliance with debt agreements, achievement of anticipated cost savings, financial condition and earnings, regulatory considerations and other factors.

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

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

Cumulative Total Return

	Fiscal Year Ending					
	3/31/05	3/31/06	3/31/07	3/31/08	3/31/09	3/31/10
Alliance One International, Inc.	$100.00	$ 80.20	$152.31	$ 99.67	$ 63.37	$ 83.99
Custom Peer Group	$100.00	$ 83.57	$145.70	$160.51	$ 76.48	$141.32
S&P 500 Index	$100.00	$111.73	$124.95	$118.60	$ 73.43	$109.97
S&P Small Cap 600 Index	$100.00	$124.07	$130.63	$116.78	$ 72.33	$118.63

ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR FINANCIAL STATISTICS

Alliance One International, Inc. and Subsidiaries

	Years Ended March 31,				
(in thousands, except per share amounts and number of stockholders)	2010	2009	2008	2007	2006
Summary of Operations					
Sales and other operating revenues	$2,308,299	$2,258,219	$2,011,503	$1,979,078	$2,112,685
Goodwill impairment	-	-	-	-	256,916
Restructuring and asset impairment charges	-	591	19,580	29,773	85,411
Debt retirement expense	40,353	954	5,909	3,860	66,474
Income (loss) from continuing operations	79,946	132,830	9,374	(1,962)	(423,558)
Income (loss) from discontinued operations	-	407	7,855	(18,730)	(24,104)
Net income (loss)	79,946	133,237	17,229	(20,944)	(447,662)
Net income (loss) attributable to Alliance One International, Inc.	79,167	132,558	16,861	(21,597)	(447,446)
Per Share Statistics					
Basic Earnings (Loss) Per Share:					
Income (loss) from continuing operations	$.89	$1.50	$.10	$(.03)	$(5.21)
Income (loss) from discontinued operations	-	-	.09	(.22)	(.30)
Net income (loss) attributable to Alliance One International, Inc.	.89	1.50	.19	(.25)	(5.51)
Diluted Earnings (Loss) Per Share:					
Income (loss) from continuing operations	$.78	$1.49	$.10	$(.03)	$(5.21)
Income (loss) from discontinued operations	-	-	.09	(.22)	(.30)
Net income (loss) attributable to Alliance One International, Inc. (1)	.78	1.49	.19	(.25)	(5.51)
Cash dividends paid	-	-	-	-	.105
Book value	4.38	3.67	2.38	2.55	2.46
Balance Sheet Data					
Working capital	$ 795,229	$ 608,179	$ 440,213	$ 531,983	$ 538,913
Total assets	1,911,199	1,758,519	1,712,865	1,653,872	1,904,124
Long-Term Debt	788,880	652,584	563,973	726,625	744,494
Stockholders equity attributable to Alliance One International, Inc.	390,400	326,661	211,467	225,546	214,187
Other Data					
Ratio of Earnings to Fixed Charges (2)	1.63	2.07	1.02	1.12	-
Common shares outstanding at year end (4)	89,113	88,974	88,897	88,614	87,110
Number of stockholders at year end (3)	7,716	6,754	7,670	7,612	7,658

1) For the years ended March 31, 2007 and March 31, 2006, all outstanding restricted stock and stock options are excluded because their inclusion would have an antidilutive effect on the loss per share.

2) In 2006, fixed charges exceeded earnings by approximately $442,087.

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

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

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

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

Executive Overview

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

Financial Results

Revenues increased 2.2% and gross profit increased 9.9% over the prior year. Operating income increased 9.5% over the prior year despite being negatively impacted by our recording a $19.5 million estimated loss in connection with an ongoing investigation of alleged violations of the Foreign Corrupt Practices Act as we have previously disclosed. In addition, while our debt refinancing during the current year improved our long term liquidity position, we recorded $40.4 million in one-time debt retirement costs as well as incurred increased interest expense. Our effective tax rate changed from a benefit rate of 20.1% to a benefit rate of 5.1%. As a result of these one time charges and the change in our effective tax rate, our net income decreased $53.4 million from the prior year.

Liquidity

We modify our available liquidity as required to maintain appropriate business flexibility and cost controls. As of March 31, 2010, we had $824.6 million of cash and available credit comprised of $129.7 million of cash and $694.9 million in available credit inclusive of $270.0 million undrawn on our revolver, $416.1 million of notes payable to banks, and $8.8 million exclusively for letters of credit. Our liquidity requirements are affected by crop seasonality, foreign currency and interest rates, green tobacco prices, crop size and quality, as well as other factors. We monitor and adjust funding sources based on a number of industry, business, and financial market dynamics, utilizing cash from operations, our revolving credit facility, short term credit lines throughout the world, sales of accounts receivable, active working capital management and advances from customers. Movement and changes between these various funding sources enhances our enterprise agility and ability to drive various business opportunities.

Outlook

The operating environment will remain dynamic including the volatile financial markets which impact currency rates worldwide. Therefore, we will continue to focus on managing our financial resources prudently. Global production for the next crop cycle is currently stable, though recent flooding in Brazil and dryer weather in Malawi will impact those markets. Demand for leaf tobacco, other than in Asia, appears likely to decline. However, crop sizes are not increasing significantly and global uncommitted inventories remain at lower levels. Customers have begun to enhance their capability to procure leaf directly. Japan Tobacco, Inc. has recently acquired small leaf processors in Malawi and Brazil and formed a joint venture for tobacco leaf in the United States. While our volumes will be impacted by this change, most customers do not utilize the entire run of the crop. As a result, they will continue to supplement their leaf and processing requirements with traditional purchases and services provided by leaf tobacco dealers. As we look ahead, hopefully to a more stable global economy, we will begin to refocus on reducing our leverage again, while managing working capital and capital expenditures. Importantly, our customer centric strategy encompasses expense control, while investing for the future where appropriate returns exist, and is critical to continued plan execution and enhanced shareholder returns.

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

Results of Operations

Consolidated Statement of Operations

	Twelve Months Ended March 31,						
		Change			Change		
(in millions)	2010	$	%	2009	$	%	2008
Sales and other operating revenues	$2,308.3	$ 50.1	2.2	$2,258.2	$ 246.7	12.3	$2,011.5
Gross profit	396.5	35.7	9.9	360.8	110.4	44.1	250.4
Selling, administrative and general expenses	155.4	(0.6)	(0.4)	156.0	(1.4)	(0.9)	157.4
Other income (expense)	(17.3)	(17.5)		0.2	(20.0)		20.2
Restructuring and asset impairment charges	-	(0.6)		0.6	(19.0)		19.6
Debt retirement expense	40.4	39.4		1.0	(4.9)		5.9
Interest expense	113.8	15.8		98.0	(3.9)		101.9
Interest income	4.6	0.8		3.8	(12.4)		16.2
Income tax expense (benefit)	(3.8)	18.2		(22.0)	(16.5)		(5.5)
Equity in net income of investee companies	2.0	0.5		1.5	(0.3)		1.8
Income from discontinued operations	-	(0.4)		0.4	(7.5)		7.9
Income attributable to noncontrolling interests	0.8	0.1		0.7	0.3		0.4
Net income attributable to the Company	$ 79.2	$(53.4)*		$ 132.6*	$ 115.7*		$ 16.9*

* Amounts do not equal column totals due to rounding.

Sales and Other Operating Revenue Supplemental Information

	Twelve Months Ended March 31,						
		Change			Change		
(in millions, except per kilo amounts)	2010	$	%	2009	$	%	2008
Tobacco sales and other operating revenues:							
Sales and other operating revenues	$ 2,238.1	$ 65.4	3.0	$ 2,172.7	$239.7	12.4	$ 1,933.0
Kilos	489.5	(8.5)	(1.7)	498.0	(58.1)	(10.4)	556.1

Average price per kilo	$ 4.58	$ 0.22	5.0	$ 4.36	$ 0.88	25.3	$ 3.48
Processing and other revenues	$ 70.2	$(15.3)	(17.9)	$ 85.5	$ 7.0	8.9	$ 78.5
Total sales and other operating revenues	$ 2,308.3	$ 50.1	2.2	$ 2,258.2	$246.7	12.3	$ 2,011.5

Comparison of the Year Ended March 31, 2010 to the Year Ended March 31, 2009

Summary

Sales and other operating revenues increased 2.2% from $2,258.2 million in 2009 to $2,308.3 million in 2010 and gross profit increased 9.9% from $360.8 million in 2009 to $396.5 million in 2010. Sales increases are the result of a 5.0% or $0.22 per kilo increase in average sales prices partially offset by a 1.7% or 8.5 million kilo decrease in quantities sold and a $15.3 million decrease in processing and other revenues. Gross profit as a percentage of sales increased from 16.0% in 2009 to 17.2% in 2010. While selling, administrative and general expenses remained fairly constant, other operating income (expense) was negatively impacted by our recording an estimated loss of $19.5 million, including disgorgement and penalties, in connection with negotiations with the SEC and Department of Justice and their investigation of alleged violations of the Foreign Corrupt Practices Act. See Note P Contingencies to the Notes to Consolidated Financial Statements for further information. Including the estimated loss, our operating income still increased $19.4 million compared to the prior year.

During 2010, we refinanced our credit facility and long-term debt. As a result, we recorded $40.4 million in one-time debt retirement costs in 2010. In addition, our interest costs increased $15.8 million as a result of higher debt levels after the refinancing. Consequently, our pretax income decreased from $109.3 million in 2009 to $74.2 million in 2010. Our effective tax rate changed from a benefit of 20.1% in 2009 to a benefit of 5.1% in 2010. Our effective rates in both years vary significantly from the statutory tax rate due to foreign income tax rates that are lower than the U.S. rate, permanent differences related to local goodwill amortization and exchange gains and losses and currency translation adjustments. In addition, in 2010, the effective tax rate varied from the statutory rate due to reductions in liabilities for unrecognized tax benefits and other factors. In 2009, the effective tax rate was lower than the statutory rate due to the decrease in the valuation allowance.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

Results of Operations *(Continued)*

Comparison of the Year Ended March 31, 2010 to the Year Ended March 31, 2009 *(Continued)*

South America Region

Tobacco revenues decreased $36.3 million or 4.2% primarily due to a decrease of 12.1 million kilos in quantities sold partially offset by an increase of $0.11 per kilo in average sales prices. The decrease in volume is mainly attributable to carryover volumes sold in 2009 that did not recur in 2010 and smaller crop sizes. The increase in average sales price is primarily due to sales of higher priced lamina in the current year compared to the prior year and improved customer pricing.

Although revenues decreased, gross profit increased $6.5 million primarily due to favorable variances related to supplier advances. While product mix and improved customer pricing increased average sales prices, the increase was not sufficient to offset the impact of decreased volumes, increased prices of tobacco paid to suppliers and the exchange rate impact on purchase and processing costs which are denominated in local currency. In addition, increased gains from derivative financial instruments were offset by increased exchange losses this year compared to the prior year due to the volatility of the Brazilian real.

Other Regions

Tobacco revenues increased $101.7 million or 7.8% primarily as a result of a $0.28 per kilo increase in average sales prices and an increase of 3.6 million kilos in quantities sold. Processing and other revenues decreased 17.9% or $15.3 million primarily as a result of decreased processing volumes in Africa and Europe. Gross profits increased $29.2 million in 2010 compared to 2009.

Increased revenues and gross profits were primarily from the Africa, North America and Asia regions. In the Africa region, Malawi had a record crop this year which was the primary driver in increasing revenues and gross profits this year compared to the prior year. In addition, Tanzania prices increased compared to the prior year as a result of higher costs while their margins improved primarily due to the impact of favorable exchange rates. Kenya and Zambia operating results also improved which contributed to increased revenues and gross profits in the Africa region.

In the North America region, revenues and gross profit increases were primarily due to better yields in the United States which lowered costs and the increased demand for our cut rag operations as consumers turn to lower priced U.S. products in response to tax increases on tobacco products by U.S. federal and state governments. Our Canadian operations increased revenues and gross profits as a result of a fundamental change in the Canadian marketing system which began with this year s crop.

The primary driver in increased revenues and gross profits in the Asia region was increased sales from China of by-products at higher average sales prices as well as higher prices for lamina due to cost increases and product mix. Partially offsetting these gains were less opportunistic sales from Vietnam and the Philippines. Increased revenues and gross profits from Indonesia were offset by decreased volumes sold of India and Thailand tobacco.

Comparison of the Year Ended March 31, 2009 to the Year Ended March 31, 2008

Summary

Sales and other operating revenues increased 12.3% from $2,011.5 million in 2008 to $2,258.2 million in 2009 and gross profit increased 44.1% from $250.4 million in 2008 to $360.8 million in 2009. Sales increases are the result of a 25.3% or $0.88 per kilo increase in average sales prices and an 8.9% or $7.0 million increase in processing and other revenues partially offset by a 10.4% or 58.1 million kilo decrease in quantities sold. Gross profit as a percentage of sales increased from 12.4% in 2008 to 16.0% in 2009. Selling, administrative and general expenses decreased slightly while other operating income (expense) decreased $20.0 million in 2009 compared to 2008 primarily due to gains of approximately $9.5 million and $7.0 million on the non-recurring sales of the Malawi factory and Greek properties, respectively, in 2008. The remaining decrease in other operating income (expense) is primarily the change in gains on other sales of fixed assets. Restructuring and asset impairment charges decreased $19.0 million in 2009 compared with 2008. While the charges in 2009 are primarily employee severance charges related to the closure of an operation in Germany, the charges in 2008 were asset impairment charges of $10.6 million incurred primarily as a result of a $6.1 million charge from the sale of our interest in Compania General de Tabacos de Filipinas (CdF) and an impairment charge of $2.7 million related to long-lived assets in Turkey as a result of significant reductions in future Turkish flue cured and burley tobacco volumes. In addition, the 2008 charges included $9.0 million of substantially employee severance charges primarily in Malawi due to the sale of one of the Malawi factories, in Turkey due to the significant reductions in future volumes, in Brazil due to the sale of one of the operating facilities and other employee severance charges as the execution of our merger integration plan continued. As a result, our operating income increased $110.9 million compared to the prior year.

Debt retirement expense decreased in 2009 compared to 2008 as a result of higher debt prepayment and retirement in 2008 as well as other one time costs associated with the retirement of senior notes. Interest expense decreased primarily due to our reduced financing costs for our Brazilian suppliers in 2009 compared to 2008 and lower average rates. The decrease in interest expense was substantially offset by higher average borrowings. Interest income was $3.8 million in 2009 and $16.2 million in 2008. The decrease was primarily due to lower cash balances and decreased interest income from Brazilian supplier refinancing in 2009 compared to 2008. Consequently, our pretax income increased from $2.0 million in 2008 to $109.3 million in 2009.

Effective tax rates were a benefit of (20.1)% in 2009 and (268.8)% in 2008. Effective tax rates are largely determined by the distribution of taxable income among various taxing jurisdictions as well as management s judgment on the ability to realize the tax benefits of deferred tax assets. The significant variance from the statutory tax rate in 2009 is due primarily to the decrease in the valuation allowance, foreign income tax rates lower than the U.S. rate, permanent differences related to local goodwill amortization, and to exchange gains and losses and currency translation adjustments. Our valuation allowances are reviewed when the outlook for utilizing those credits changes. The significant variance from the statutory rate in 2008 is due primarily to permanent differences related to local goodwill amortization and to exchange gains and losses and currency translation adjustments, partially offset by an increase to the valuation allowance. Income from discontinued operations decreased $7.5 million primarily due to gains on the sale of the remaining wool assets of $7.2 million in 2008.

South America Region

Tobacco revenues increased $19.8 million, reflecting an increase of $1.16 per kilo in average sales prices substantially offset by a decrease of 58.8 million kilos in quantities sold. The increase in average sales price is primarily due to improved customer pricing and the decrease in volume is mainly attributable to reduced inventories carried over from the prior fiscal year and smaller crop sizes.

Gross profit increased $26.1 million primarily as a result of the nonrecurrence of significant supplier unfavorable variance and interstate trade tax provisions in the prior year. In 2008, as a result of the poor quality of the 2006 crop and the resulting surplus quantities on hand combined with substantial increases in both green tobacco and tobacco processing costs for the 2006 and 2007 crops due to the strengthening Brazilian real, 2007 crop production and purchases declined as expected. The continued decline in market conditions again resulted in an increased supplier unfavorable variance for the 2007 crop. As a result, a $37.5 million provision for unrecoverable supplier advances associated with supplier accounts related to the cumulative impact of the lower quality of the 2006 crop and smaller 2007 crop was recorded. The positive impact on gross profit from the nonrecurrence of these provisions in 2009 was partially offset by the impact of decreased volumes and net losses on derivative financial instruments. During 2009, the gross profit from sales of the 2008 crop remain negatively impacted by higher supplier unfavorable variance and other costs that result from the decreased supply of tobacco volumes available. However, increased sales prices mitigate the impact of these higher costs. The net impact to gross profit from derivative financial instruments was a reduction of $9.3 million compared to the prior year as a result primarily of the volatility in the Brazilian real.

Other Regions

Tobacco revenues increased $220.0 million or 20.2% primarily as a result of a $0.70 per kilo increase in average sales prices and a slight increase of 0.7 million kilos in quantities sold. Average sales price increases due to improved customer pricing, as well as increased byproduct volumes in the Africa region, were the primary contributors to the increase in revenues in the Other Regions operating segment. Average sales prices and changing product mix as well as increased volumes in the Asia and North America regions also contributed significantly to the increase in revenues. In Europe, improved customer pricing more than offset decreased volumes that resulted from the exit from the Greek and Spanish tobacco markets as well as reduced demand in Russia. Processing and other revenues increased 8.9% or $7.0 million from $78.5 million in 2008 to $85.5 million in 2009 primarily as a result of increased processing volumes and prices in Africa.

The increase in gross profit of $84.3 million is primarily attributable to the Africa and Asia regions. Gross profit in Africa increased as a result of better sales prices and increased volumes combined with lower freight costs and lower period costs as a result of more throughput due to increased third party processing. Gross profit in Asia increased as a result of delayed shipments from the prior fiscal year into the current fiscal year, increased sales prices in all Asian regions, changing product mix and lower freight costs. Gross profit in the Europe region improved as a result of improved customer pricing, lower period costs and the favorable impact of exchange rates. The North America region results remained relatively consistent with the prior year.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

Liquidity and Capital Resources

Overview

Historically we have needed capital in excess of cash flow from operations to finance accounts receivable, inventory and advances to suppliers for tobacco crops in certain foreign countries. Purchasing, processing and selling activities of our business are seasonal and our need for capital fluctuates with corresponding peaks where outstanding indebtedness may be significantly greater or less as a result. Our long term borrowings consist of unsecured senior and convertible senior subordinated notes as well as a senior secured revolving credit facility. We also have short term lines of credit available with a number of banks throughout the world to provide needed seasonal working capital to correspond with regional peaks of our business. Over the fiscal year a combination of further devaluation of the U.S. dollar versus some of the currencies that we experience costs in, partially offset by higher customer advances, along with increased green tobacco costs have resulted in increased working capital requirements financed with higher levels of long term debt available during the second quarter refinancing that resulted in lower short term capital utilization. Looking forward, and as the global economy recovers, we will shift fixed rate long term debt being used for working capital back to our U.S. revolver and seasonal working capital lines. As of March 31, 2009, we reported a balance of $37.3 million on our balance sheet as debt related to financing for certain supplier advances. As of March 31, 2010, this balance has been repaid in its entirety. Over the last twelve months, as a result of the refinancing and larger cash balances on hand, we slightly increased debt, net of cash, by $4.4 million from $844.2 million as of March 31, 2009 to $848.6 million as of March 31, 2010. As a result of the refinancing the makeup of our debt is longer term in nature with a significant portion of the maturities extending out to 2016. From time to time in the future, we may elect to redeem, repay, retire or cancel indebtedness prior to stated maturity under our senior secured credit agreement or indentures, as permitted therein.

At March 31, 2010, we had $129.7 million in cash on our balance sheet, no borrowings under our $270.0 million revolving credit facility with $270.0 million available, $189.0 million outstanding under foreign lines with $416.1 million available under those lines and $2.5 million outstanding of other debt for a total of $815.8 million of debt availability and cash on hand around the world, excluding $5.3 million in issued but unfunded letters of credit with $8.8 million available. Another source of liquidity as of March 31, 2010 was $79.6 million funded under our $100.0 million receivable sale program. Additionally, customers advances were $102.3 million in 2010 compared to $44.4 million in 2009. To the extent that these customers do not provide this advance funding, we must provide financing for their inventories. Should customers pre-finance less in the future for committed inventories, this action could negatively affect our short term liquidity. At March 31, 2010, we had no material capital expenditure commitments with the exception of our Santa Catarina factory. See Note P Contingencies and Other Information to the Notes to Consolidated Financial Statements for further information. We believe that the sources of capital we possess, or have access to, will be sufficient to fund our anticipated needs for fiscal year 2011. No cash dividends were paid to stockholders during the twelve months ended March 31, 2010. See Note G Short-term Borrowing Arrangements and Note Q Sale of Receivables to the Notes to Consolidated Financial Statements for further information.

Seasonal liquidity beyond cash flow from operations is provided by our revolving credit facility, seasonal working capital lines throughout the world, advances from customers and sale of accounts receivable. As of March 31, 2010, we are in our working capital build. In South America we are in the process of purchasing and processing the most recent crop, while the peak tobacco sales season for South America is at its beginning stages. Africa is also in the middle of its buying, processing and selling season and is utilizing working capital funding as well. North America and Europe are still selling and planning for the next crop that is now being grown.

Working Capital

Our working capital increased from $608.2 million at March 31, 2009 to $795.2 million at March 31, 2010. Our current ratio was 2.4 to 1 at March 31, 2010 compared to 2.0 to 1 at March 31, 2009. The increase in working capital is primarily related to decreases in notes payable to banks and current portions of long term debt as a result of our debt refinancing in the second quarter. The increase in working capital is also related to increased cash and accounts receivable balances as well as increased recoverable and current deferred tax assets. Increases in inventories and advances to tobacco suppliers were primarily offset by increases in advances from customers.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

Liquidity and Capital Resources *(Continued)*

Working Capital *(Continued)*

The following table is a summary of items from the Consolidated Balance Sheet and Consolidated Statements of Cash Flows.

	As of March 31,						
		Change			Change		
(in millions except for current ratio)	2010	$	%	2009	$	%	2008
Cash and cash equivalents	$ 129.7	$ 42.0	47.9	$ 87.7	$ (24.5)	(21.8)	$ 112.2
Net trade receivables	207.4	31.7	18.0	175.7	(5.3)	(2.9)	181.0
Inventories and advances to tobacco suppliers	894.9	82.5	10.2	812.4	10.6	1.3	801.8
Total current assets	1,382.9	163.3	13.4	1,219.6	27.7	2.3	1,191.9
Notes payable to banks	189.0	(72.5)	(27.7)	261.5	(125.7)	(32.5)	387.2
Accounts payable	146.4	26.2	21.8	120.2	(38.3)	(24.2)	158.5
Advances from customers	102.3	57.9	130.4	44.4	(47.5)	(51.7)	91.9
Total current liabilities	587.7	(23.7)	(3.9)	611.4	(140.3)	(18.7)	751.7
Current ratio	2.4 to 1			2.0 to 1			1.6 to 1
Working capital	795.2	187.0	30.7	608.2	168.0	38.2	440.2
Total long term debt	788.9	136.3	20.9	652.6	88.6	15.7	564.0
Stockholders equity attributable to Alliance One International, Inc.	390.4	63.7	19.5	326.7	115.2	54.5	211.5
Net cash provided (used) by:							
Operating activities	111.3	77.7		33.6	(4.2)		37.8
Investing activities	(9.3)	22.9		(32.2)	(89.6)		57.4
Financing activities	(59.3)	(43.8)		(15.5)	52.9		(68.4)

Operating Cash Flows

Net cash provided by operating activities increased $77.7 million in 2010 compared to 2009 which decreased $4.2 million compared to 2008. The increase in 2010 compared to 2009 is primarily due to higher levels of pre-financing by customers. Partially offsetting these increases are reduced earnings and the reversal of non-cash exchange gains.

Significant increased earnings in 2009 combined with the decrease in inventory and advances to suppliers was substantially offset by the increase in trade and other receivables and in deferred items when compared to 2008.

Investing Cash Flows

Net cash used by investing activities decreased $22.9 million in 2010 compared to 2009 which increased $89.6 million compared to 2008. The decrease in cash used in 2010 compared to 2009 is primarily a reduction in the purchase of foreign currency derivatives compared to 2009. Also decreasing cash used in 2010 was less costs incurred for internally developed software as we began our global implementation of SAP in 2009. The increase in cash used in 2009 compared to 2008 is primarily due to a decrease in proceeds from the sale of property and equipment, cash received from the sale of CdF in 2008 and the purchase of foreign currency derivatives in 2009.

Financing Cash Flows

Net cash used by financing activities increased $43.8 million in 2010 compared to 2009 which decreased $52.9 million compared to 2008. The increase in cash used in 2010 compared to 2009 is primarily increased repayments of our short term borrowings and $76.1 million in increased debt issuance, debt retirement and other debt related costs primarily associated with our debt refinancing this year. Partially offsetting these decreases are not having short term demand notes in 2010 and more net proceeds from long term borrowings also due to our debt refinancing in 2010. The decrease in cash used in 2009 compared to 2008 is primarily due to increased proceeds from long term borrowings due to $120.0 million outstanding under our revolver at March 31, 2009 and a decrease in repayment of long term borrowings due to significant prepayment of senior notes and retirement of Term Loan B in 2008. Partially offsetting the decrease in cash used is less proceeds from short term demand notes and the significant repayment of short term borrowings.

ITEM 7. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> *(Continued)*

<u>Liquidity and Capital Resources</u> *(Continued)*

The following table summarizes our debt financing as of March 31, 2010:

	Outstanding		March 31, 2010								
	March 31, 2009	March 31, 2010	Lines and Letters Available	Interest Rate		Long Term Debt Repayment Schedule					
						2011	2012	2013	2014	2015	Later
Senior secured credit facility:											
Revolver	$120.0	$ -	$270.0			$ -	$ -	$ -	$ -	$ -	$ -
Senior notes:											
10% senior notes due 2016 (4)	-	642.2	-	10.0%	(4)	-	-	-	-	-	642.2
11% senior notes due 2012	264.4	-	-	11.0%		-	-	-	-	-	-
8 ½% senior notes due 2012 (5)	149.5	29.6	-	8.5%		-	-	29.6	-	-	-
Other (1)	10.2	-	-			-	-	-	-	-	-
	424.1	671.8	-			-	-	29.6	-	-	642.2
5 ½% convertible senior subordinated notes due 2014	-	115.0	-	5.5%		-	-	-	-	115.0	-
12 ¾% senior subordinated notes due 2012	84.0	-	-	12.8%		-	-	-	-	-	-
Other long-term debt	42.4	2.5	-	9.0%	(2)	0.4	1.6	0.1	0.1	-	.3
	261.5	189.0	416.1	7.5%	(2)	-	-	-	-	-	-

Notes payable to banks (3)										
Total debt	$931.9	$ 978.3	686.1		$0.4	$1.6	$29.7	$ 0.1	$115.0	$642.5
Short term	$261.5	$ 189.0								
Long term:										
Long term debt current	$ 17.8	$ 0.4								
Long term debt	652.6	788.9								
	$670.4	$ 789.3								
Letters of credit	$ 3.8	$ 5.3	8.8							
Total credit available			$694.9							

(1) Notes redeemed in total as of December 4, 2009.

(2) Weighted average rate for the twelve months ended March 31, 2010

(3) Primarily foreign seasonal lines of credit

(4) Repayment of $642.2 is net of original issue discount of $27.8. Total repayment will be $670.0. At March 29, 2010, the interest rate increased to 10.5% pending completion of a registered exchange offer for these notes.

(5) Repayment of $29.6 is net of original issue discount of $.07. Total repayment will be $29.6.

We completed a number of refinancing transactions, which are described below.

Senior Secured Credit Facility

On July 2, 2009, we entered into a Credit Agreement (the Credit Agreement), with a syndicate of banks that replaced our $305.0 million Amended and Restated Credit Agreement dated March 30, 2007 and provides for a senior secured credit facility (the Credit Facility) that consists of:

.

a three and one-quarter year $270.0 million revolver (the Revolver) which initially accrues interest at a rate of LIBOR plus 2.50%.

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

Liquidity and Capital Resources *(Continued)*

Senior Secured Credit Facility *(Continued)*

The interest rate for the Revolver may increase or decrease according to a consolidated interest coverage ratio pricing matrix as defined in the Credit Agreement. The Credit Agreement permits us to add $55.0 million in commitments from existing or additional lenders which would increase the amount of the Revolver to $325.0 million. As of April 7, 2010, we exercised $20.0 of the $55.0 incremental borrowing to increase the amount of the Revolver to $290.0.

First Amendment. On August 24, 2009, we closed the First Amendment to the Credit Agreement which included the following modifications effective August 24, 2009:

.

Amended the definition for Senior Notes to allow for the issuance of up to an additional $100.0 million of Senior Notes due 2016 within 90 days of the First Amendment Effective Date;

.

Amended the definition of Consolidated Total Senior Debt to exclude the Existing Senior Notes 2005;

.

Amended the definition of Applicable Percentage to clarify the effective date of the change in the Applicable Percentage;

.

Modifications to several schedules within the Credit Agreement.

Second Amendment. Effective June 9, 2010, we closed the Second Amendment to the Credit Agreement. See Note U Subsequent Event to the Notes to Consolidated Financial Statements for further information.

Borrowers and Guarantors. One of our primary foreign holding companies, Intabex Netherlands B.V. (Intabex), is co-borrower under the Revolver, and our portion of the borrowings under the Revolver is limited to $200.0 million outstanding at any one time. One of our primary foreign trading companies, Alliance One International AG (AOIAG), is a guarantor of Intabex s obligations under the Credit Agreement. Such obligations are also guaranteed by us and must be guaranteed by any of our material direct or indirect domestic subsidiaries of which we have none.

Collateral. Our borrowings under the Credit Facility are secured by a first priority pledge of:

.

100% of the capital stock of any domestic subsidiary held directly by us or by any material domestic subsidiary;

.

100% of the capital stock of any material domestic subsidiary;

.

100% of the capital stock of any material foreign subsidiary held directly by us or any domestic subsidiary; provided that not more than 65% of the voting stock of any material foreign subsidiary is required to be pledged to secure our obligations or those of any domestic subsidiary;

.

U.S. accounts receivable and U.S. inventory owned by us or our material domestic subsidiaries (other than inventory the title of which has passed to a customer and inventory financed through customer advances and certain other exceptions); and

.

Intercompany notes evidencing loans or advances we make to subsidiaries.

In addition, Intabex s borrowings under the Credit Facility are secured by a pledge of 100% of the capital stock of Intabex, AOIAG, certain of our and Intabex s material and other foreign subsidiaries and the collateral described above for our borrowings.

Financial Covenants. The Credit Facility includes certain financial covenants and required financial ratios, including:

.

a minimum consolidated interest coverage ratio of not less than 1.90 to 1.00;

.

a maximum consolidated leverage ratio in an amount not more than a ratio specified for each fiscal quarter, which ratio is 5.50 to 1.00 for the fiscal quarter ended March 31, 2010;

.

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

.

a maximum amount of annual capital expenditures of $75.0 million during fiscal year ending March 31, 2010 and $40.0 million during any fiscal year thereafter, with a one-year carry-forward for capital expenditures in any fiscal year below the maximum amount.

Certain of these financial covenants and required financial ratios adjust over time in accordance with schedules in the Credit Agreement.

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

Liquidity and Capital Resources *(Continued)*

Senior Secured Credit Facility *(Continued)*

The Credit Agreement also contains certain customary affirmative and negative covenants, including, without limitation, restrictions on additional indebtedness, guarantees, liens and asset sales.

We continuously monitor our compliance with these covenants. If we fail to comply with any of these covenants and are unable to obtain the necessary amendments or waivers under the Credit Agreement, the lenders under the Credit Agreement have the right to accelerate the outstanding loans thereunder and demand repayment in full and to terminate their commitment to make any further loans under the Credit Facility. Certain defaults under the Credit Facility would result in a cross default under the indentures governing our senior notes and convertible senior subordinated notes and could impair access to our seasonal operating lines of credit in local jurisdictions. A default under the Credit Agreement would have a material adverse effect on our liquidity and financial condition. At March 31, 2010, we are in compliance with these covenants. We record all fees and third-party costs associated with the Credit Agreement, including amendments thereto, in accordance with accounting guidance for changes in line of credit or revolving debt arrangements.

As a result of terminating the $305.0 million Amended and Restated Credit Agreement dated March 30, 2007, we accelerated approximately $5.7 million of deferred financing costs.

Senior Notes

On July 2, 2009, we issued $570.0 million of 10% Senior Notes due 2016 (the Senior Notes). The Senior Notes were priced at 95.177% of the face value, for gross proceeds of approximately $542.5 million and representing a yield to maturity of 11.0%. On August 26, 2009, we issued an additional $100.0 million tranche of 10% Senior Notes due 2016. The notes were priced at 97.500% of the face value, for gross proceeds of approximately $97.5 million and representing a yield to maturity of 10.512%. These additional notes form part of the same series as the Senior Notes issued on July 2, 2009. The aggregate principal amount of the outstanding Senior Notes is $670.0 million. We entered into registration rights agreements in connection with the issuance of the Senior Notes providing for us to register with the Securities and Exchange Commission and complete, within specified time periods, an offer to exchange for the Senior Notes registered notes in substance identical to the Senior Notes. We have not yet registered such an exchange offer and as a consequence the interest rate on the Senior Notes increased to 10.5% on March 29, 2010 and is subject to further incremental increases up to 11.0% if we do not register and complete the exchange offer within specified time periods. The Senior Notes are required to be guaranteed by any of our material domestic subsidiaries as defined in the indenture governing the Senior Notes. Because no subsidiary is, or has been at any relevant time, a material domestic subsidiary, the Senior Notes are not guaranteed by any subsidiaries of us, though such a guarantee would be required if any subsidiary subsequently qualifies as a material domestic subsidiary. The indenture governing the Senior Notes contains covenants that, among other things, limit our ability to incur additional indebtedness; issue preferred stock; merge, consolidate or dispose of substantially all of our assets; grant liens on our assets; pay dividends, redeem stock or make other distributions or restricted payments; repurchase or redeem capital stock or prepay subordinated debt; make certain investments; agree to restrictions on the payment of dividends to us by our subsidiaries; sell or otherwise dispose of assets, including equity interests of our subsidiaries; enter into transactions with our affiliates; and enter into certain sale and leaseback transactions. If a change of control (as defined in the indenture governing the Senior Notes) occurs at any time, holders of the Senior Notes will have the right, at their option, to require us to repurchase all or a portion of the Senior Notes for cash at a price equal to 101% of the principal amount of Senior Notes being repurchased, plus accrued and unpaid interest.

Convertible Senior Subordinated Notes

On July 2, 2009, we issued $100.0 million of 5 ½% Convertible Senior Subordinated Notes due 2014 (the Convertible Notes). We granted the initial purchasers of the Convertible Notes an option to purchase up to an additional $15.0 million of Convertible Notes solely to cover over-allotments. The initial purchasers exercised the option and purchased an additional $15.0 million of the Convertible Notes on July, 15, 2009. Holders may surrender their Convertible Notes, in integral multiples of $1,000 principal amount, for conversion into shares of our common stock at the then-applicable conversion rate until the close of business on the second scheduled trading day immediately preceding the maturity date. The initial conversion rate for the Convertible Notes is 198.8862 shares of common stock per $1,000 principal amount of Convertible Notes. The conversion rate is subject to adjustments based on certain events as described in the indenture governing the Convertible Notes. In addition, upon the occurrence of certain fundamental changes (as defined in the indenture governing the Convertible Notes), a holder that converts its notes in connection with such a fundamental change may be entitled to receive a make-whole premium in the form of an increase in the conversion rate. In addition, if such a fundamental change occurs at any time, holders of the Convertible Notes will have the right, at their option, to require us to repurchase all or a portion of the Convertible Notes for cash at a price equal to 100% of the principal amount of the Convertible Notes to be repurchased plus accrued and unpaid interest.

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

Liquidity and Capital Resources *(Continued)*

Convertible Note Hedge and Warrant Transactions

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

Tender of Existing Notes

On July 2, 2009, we applied a portion of the net proceeds from the issuance of the Senior Notes and Convertible Notes to fund the purchase $467.5 million aggregate principal amount of our existing notes pursuant to an early settlement of a cash tender offer (the Tender Offer) for any and all of our 11% Senior Notes due 2012, 8 ½% Senior Notes due 2012, 12 ¾% Senior Subordinated Notes due 2012, 9 % Senior Notes due 2011, 7 ¾% Senior Notes due 2013 and 8% Senior Notes due 2012, Series B (collectively, the “Existing Notes”). On July 9, 2009, we applied a portion of the remaining net proceeds to fund the purchase of an additional $1.1 million aggregate principal amount of Existing Notes in connection with the final settlement of the Tender Offer. The following table sets forth the principal amount of the Existing Notes outstanding at the commencement of the Tender Offer and the principal amount of the Existing Notes that we purchased:

Existing Notes	Issuer (1)	Principal Amount Outstanding	Principal Amount Purchased
11% Senior Notes due 2012 (2)	A	$264.4	$ 258.1
8 ½% Senior Notes due 2012	A	$150.0	$ 120.4
12 ¾% Senior Subordinated Notes due 2012 (2)	A	$ 89.5	$ 82.1
9 % Senior Notes due 2011 (3)	D	$ 3.4	$ 3.4
7 ¾% Senior Notes due 2013 (3)	D	$ 0.4	$ 0.4
8% Senior Notes due 2012, Series B (3)	S	$ 6.3	$ 4.3

(1) The issuer of a series of Existing Notes designated with an A is Alliance One International, Inc. In 2005, Standard Commercial Corporation (Standard Commercial) merged with and into DIMON Incorporated (DIMON), which changed its name to Alliance One International, Inc. The issuer of a series of Existing Notes designated with a D was originally DIMON and the issuer of a series of Existing Notes designated with an S was originally Standard Commercial.

(2) On July 31, 2009 funds were paid to the Trustee to defease the remaining outstanding principal and interest. The Notes were redeemed in full on August 3, 2009.

(3) On December 4, 2009 funds were paid to redeem in full the remaining outstanding principal and interest as well as the applicable redemption premium.

As a result of the repurchase, defeasance and redemption of the Existing Notes as described in the foregoing table, we accelerated approximately $5.6 million of deferred financing costs and $5.6 million of amortization of original issue discount.

ITEM 7. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> *(Continued)*

<u>Liquidity and Capital Resources</u> *(Continued)*

Amendment of Certain Existing Notes

On July 2, 2009, in connection with the early settlement of the Tender Offer with respect to our 11% Senior Notes due 2012, 8 ½% Senior Notes due 2012 and 12 ¾% Senior Subordinated Notes due 2012 (the Alliance One Notes), certain amendments to the indentures governing the Alliance One Notes became operative and effective. These amendments eliminated substantially all of the restrictive covenants, eliminated requirements for subsidiary guarantees and requirements to conduct repurchase offers following certain events, including a change in control, modified redemption notice periods from 30 days to three business days, eliminated or modified certain events of default and certain conditions to defeasance of the Alliance One Notes, and eliminated or modified related provisions contained in the indentures governing the Alliance One Notes.

Foreign Seasonal Lines of Credit

We have typically financed our non-U.S. operations with uncommitted unsecured short-term seasonal lines of credit at the local level. These operating lines are seasonal in nature, normally extending for a term of 180 to 270 days corresponding to the tobacco crop cycle in that location. These facilities are typically uncommitted in that the lenders have the right to cease making loans and demand repayment of loans at any time. These loans are typically renewed at the outset of each tobacco season. As of March 31, 2010, we had approximately $189.0 million drawn and outstanding on foreign seasonal lines with maximum capacity totaling $619.3 million subject to limitations as provided for in the Credit Agreement. Additionally against these lines there was $14.2 million available in unused letter of credit capacity with $5.3 million issued but unfunded.

Aggregate Contractual Obligations and Off-Balance Sheet Arrangements

We have summarized in the table below our contractual cash obligations and other commercial commitments as of March 31, 2010.

		Payments / Expirations by Period			
(in millions)	Total	2011	Years 2012-2013	Years 2014-2015	After 2015
Long-Term Debt Obligations*	$1,276.7	$ 81.9	$ 191.7	$ 266.7	$ 736.4
Capital Lease Obligations*	0.3	0.1	0.1	0.1	-
Operating Lease Obligations	28.3	8.1	9.3	5.2	5.7
Capital Expenditure Commitments	10.3	10.3	-	-	-
Tobacco Purchase Obligations	746.9	746.9	-	-	-
Retained Interest in Receivables Sold	25.1	25.1	-	-	-
Amounts Guaranteed for Tobacco Suppliers	184.4	174.8	7.7	1.9	-
Total Contractual Obligations and Other Commercial Commitments	$2,272.0	$1,047.2	$ 208.8	$ 273.9	$ 742.1

*Long-Term Debt Obligations and Capital Lease Obligations include projected interest for both fixed and variable rate debt. We assume that there will be no drawings on the senior secured revolving credit facility in these calculations. The variable rate used in the projections is the rate that was being charged on our variable rate debt as of March 31, 2010. These calculations also assume that there is no refinancing of debt during any period. These calculations are on Long-Term Debt Obligations and

Capital Lease Obligations only.

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

Lease Obligations

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