

ALLIANCE ONE INTERNATIONAL, INC.
Form 10-Q
August 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM
10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2018.

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

Alliance One International, Inc.

(Exact name of registrant as specified in its charter)

Virginia

001-13684

54-1746567

(State or other jurisdiction of incorporation) (Commission File Number) (I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated filer (Do not check if a smaller reporting company)

Smaller Reporting Company Emerging Growth Company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transaction period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2018, the registrant had 9,044,104 shares outstanding of Common Stock (no par value) excluding 785,313 shares owned by a wholly owned subsidiary.

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Alliance One International, Inc. and Subsidiaries

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Part I. Financial Information

Item 1. Financial Statements

Alliance One
International, Inc.
and Subsidiaries
CONDENSED
CONSOLIDATED
STATEMENTS OF
OPERATIONS
Three Months Ended
June 30, 2018 and
2017
(Unaudited)

	2018	2017
(in thousands, except per share data)		
Sales and operating revenues	\$220,989	\$276,993
Cost of goods and services sold	249,594	248,358
Gross profit	41,395	28,635
Selling, general, administrative expenses	38,084	33,502
Other income, net	2,011	4,304
Restructuring and impairment charges	1,561	—
Operating income	4,691	1563

(loss)
 Debt
 retirement
 expense (84)(2,975)
 (benefit)
 Interest
 expense
 (includes
 debt
 amortization
 of
 \$2,329
 32,912 34,442
 and
 \$2,224
 for
 2018
 and
 2017,
 respectively)
 Interest
 income 888 968
 Loss
 before
 income
 tax (27,349)(31,062)
 and
 other
 items
 Income
 tax
 expense (25,270)646
 (benefit)
 Equity
 in
 net
 income 566 (925)
 (loss)
 of
 investee
 companies
 Net
 loss (1,413)(32,633)
 Net
 loss
 attributable
 to (654)(90)
 noncontrolling
 interests
 Net
 loss (6159)\$(32,543)
 loss
 attributable

to
Alliance
One
International,
Inc.

Loss
per
share:
~~\$0.08~~) \$(3.63)
~~\$0.08~~) \$(3.63)

Weighted
average
number
of
shares
outstanding:
~~9,937~~ 8,964
~~9,937~~ 8,964

See "Notes to
Condensed
Consolidated
Financial
Statements"

Alliance One International, Inc. and Subsidiaries
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
 Three Months Ended June 30, 2018 and 2017
 (Unaudited)

(in thousands)	2018	2017
Net loss	\$(1,413)	\$(32,633)
Other comprehensive (loss) income, net of tax:		
Currency translation adjustment	(5,311)	3,742
Defined benefit pension amounts reclassified to income	366	459
Change in the fair value of derivatives designated as cash flow hedges	(1,496)	(562)
Total other comprehensive (loss) income, net of tax	(6,441)	3,639
Total comprehensive loss	(7,854)	(28,994)
Comprehensive loss attributable to noncontrolling interests	(829)	(90)
Comprehensive loss attributable to Alliance One International, Inc.	\$(7,025)	\$(28,904)

See "Notes to Condensed Consolidated Financial Statements"

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

(Unaudited)

(in thousands)	June 30, 2018	June 30, 2017	March 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents	\$202,107	\$264,406	\$264,660
Restricted cash	2,374	1,937	2,984
Trade receivables, net	196,834	200,583	285,554
Other receivables	13,939	12,092	18,845
Accounts receivable, related parties	12,375	14,828	8,188
Inventories	916,928	894,449	698,087
Advances to tobacco suppliers	67,983	70,097	30,482
Recoverable income taxes	33,058	10,568	5,994
Prepaid expenses	22,356	25,290	17,181
Other current assets	17,635	16,045	17,628
Total current assets	1,485,589	1,510,295	1,349,603
Restricted cash	389	389	389
Investments in unconsolidated affiliates	67,898	51,336	68,151
Goodwill	34,487	16,463	27,546
Other intangible assets	74,322	44,616	70,724
Deferred income taxes, net	144,389	40,681	130,520
Long-term recoverable income taxes	898	—	1,795
Other deferred charges	3,554	4,881	3,388
Other noncurrent assets	62,973	53,456	60,234
Property, plant, and equipment, net	254,867	252,885	254,281
Total assets	\$2,129,366	\$1,975,002	\$1,966,631

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities			
Notes payable to banks	\$580,221	\$535,339	\$427,277
Accounts payable	83,144	80,264	76,506
Accounts payable, related parties	23,008	8,329	14,835
Advances from customers	16,646	26,183	24,128
Accrued expenses and other current liabilities	99,356	101,817	88,380
Income taxes payable	13,718	7,365	6,767
Current portion of long-term debt	180	10,046	164
Total current liabilities	816,273	769,343	638,057
Long-term taxes payable	9,155	—	10,027
Long-term debt	910,635	916,265	920,143
Deferred income taxes	29,720	20,425	28,937
Liability for unrecognized tax benefits	8,917	10,444	11,191
Pension, postretirement, and other long-term liabilities	73,866	80,518	75,448
Total liabilities	1,848,566	1,796,995	1,683,803

Commitments and contingencies

Stockholders' equity

	June 30, 2018	June 30, 2017	March 31, 2018
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Common Stock—no par value:

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Authorized shares	250,000	250,000	250,000			
Issued shares	9,834	9,760	9,808	473,771	472,640	473,476
Retained deficit				(157,107)	(241,327)	(156,348)
Accumulated other comprehensive loss				(51,528)	(56,408)	(45,262)
Total stockholders' equity of Alliance One International, Inc.				265,136	174,905	271,866
Noncontrolling interests				15,664	3,102	10,962
Total stockholders' equity				280,800	178,007	282,828
Total liabilities and stockholders' equity				\$2,129,366	\$1,975,002	\$1,966,631

See "Notes to Condensed Consolidated Financial Statements"

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

(in thousands)	Attributable to Alliance One International, Inc.						Total Stockholders' Equity
	Common Stock	Retained Deficit	Accumulated Comprehensive Loss	Currency Translation Adjustment	Pensions, Net of Tax	Loss on Derivatives, Net of Tax		Noncontrolling Interests
Balance, March 31, 2017	\$472,349	\$(208,784)	\$(22,293)	\$(36,654)	\$ (1,100)	\$ 3,192	\$ 206,710
Net loss	—	(32,543)	—	—	—	(90)	(32,633)
Stock-based compensation	291	—	—	—	—	—	291
Other comprehensive income (loss), net of tax	—	—	3,742	459	(562)	—	3,639
Balance, June 30, 2017	\$472,640	\$(241,327)	\$(18,551)	\$(36,195)	\$ (1,662)	\$ 3,102	\$ 178,007
Balance, March 31, 2018	\$473,476	\$(156,348)	\$(12,682)	\$(32,580)	\$ —	\$ 10,962	\$ 282,828
Net loss	—	(759)	—	—	—	(654)	(1,413)
Stock-based compensation	295	—	—	—	—	—	295
Purchase of investment in subsidiary	—	—	—	—	—	5,531	5,531
Other comprehensive (loss) income, net of tax	—	—	(5,136)	366	(1,496)	(175)	(6,441)
Balance, June 30, 2018	\$473,771	\$(157,107)	\$(17,818)	\$(32,214)	\$ (1,496)	\$ 15,664	\$ 280,800

See "Notes to Condensed Consolidated Financial Statements"

Alliance One International, Inc. and Subsidiaries
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 Three Months Ended June 30, 2018 and 2017
 (Unaudited)

(in thousands)	June 30, 2018	June 30, 2017
OPERATING ACTIVITIES:		
Net loss	\$(1,413	)\$(32,633)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	9,277	8,387
Debt amortization/interest	2,894	2,742
Debt retirement benefit	(84	)(2,975)
(Gain) loss on foreign currency transactions	(1,478	)4,827
Restructuring and asset impairment charges	1,541	—
Gain on sale of property, plant, and equipment	(186	)(13)
Bad debt expense	293	—
Equity in net (income) loss of unconsolidated affiliates, net of dividends	(431	)1,187
Stock-based compensation	295	345
Changes in operating assets and liabilities, net	(278,023	)(284,398)
Other, net	(5,793	)697
Net cash used by operating activities	(273,108	)(301,834)
INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(8,047	)(6,061)
Proceeds from sale of property, plant, and equipment	219	1,347
Collections on beneficial interests on securitized trade receivables	76,241	75,543
Payments to acquire controlling interests, net of cash acquired	(8,692)—
Other, net	(300	)148
Net cash provided by investing activities	59,421	70,977
FINANCING ACTIVITIES:		
Net proceeds from short-term borrowings	163,951	51,710
Repayment of long-term borrowings	(10,721	)(24,961)
Debt issuance cost	(4,851	)(4,628)
Debt retirement cost	(27	)(72)
Net cash provided by financing activities	148,352	22,049
Effect of exchange rate changes on cash	2,172	121
Decrease in cash, cash equivalents, and restricted cash	(63,163	)(208,687)
Cash and cash equivalents at beginning of period	264,660	473,110
Restricted cash at beginning of period	3,373	2,309
Cash, cash equivalents, and restricted cash at end of period	\$204,870	\$266,732
Other information:		
Cash paid for income taxes	\$9,407	\$885
Cash paid for interest	15,231	17,910
Cash received from interest	(323	)(968)
	48,685	58,557

Non-cash amounts obtained as a beneficial interest in exchange for transferring trade receivables in a securitization transaction

See "Notes to Condensed Consolidated Financial Statements"

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Due to the seasonal nature of the Company's business, the results of operations for any fiscal quarter are not necessarily indicative of the operating results that may be attained for other quarters or a full fiscal year. In the opinion of management, all normal and recurring adjustments necessary for fair statement of financial position, results of operations, and cash flows at the dates and for the periods presented have been included. All intercompany accounts and transactions have been eliminated.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

Taxes Collected from Customers

Certain subsidiaries are subject to value-added taxes on local sales. These amounts have been included in sales and other operating revenues and cost of goods and services sold and were \$3,876 and \$3,854 for the three months ended June 30, 2018 and 2017, respectively.

Cash and Cash Equivalents

As of June 30, 2018, the Company held \$2,638 in the Zimbabwe Real Time Gross Settlement ("RTGS") System. RTGS is a local currency equivalent that is exchanged 1:1 with the U.S. Dollar ("USD"). In order to convert these units to USD, the Company must obtain foreign currency resources from the Reserve Bank of Zimbabwe subject to the monetary and exchange control policy in Zimbabwe.

Property, Plant, and Equipment

Total property and equipment purchases for the three months ended June 30, 2018 and 2017 included \$1,854 and \$583 that were unpaid and included in Accounts Payable.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, Revenue Recognition (Topic 606), Revenue from Contracts with Customers. ASU 2014-09 outlines a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. The Company adopted this guidance on April 1, 2018 to all contracts using the modified retrospective approach. There was no impact on the consolidated financial statements. The adoption of this guidance resulted in additional disclosures. See "[Note 2. Revenue Recognition](#)" for more information.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 clarifies the classification of certain cash receipts and cash payments to reduce the diversity in practice on how these activities are presented on the statement of cash flows. The Company adopted this guidance on April 1, 2018 using the retrospective approach. The adoption of this guidance resulted in the following changes as of June 30, 2017 to the condensed consolidated statement cash flows: cash collections from beneficial interests of \$75,543 was reclassified from operating activities to investing activities and \$58,557 obtained as a beneficial interest for transferring trade receivables in a securitization transaction has been added as a non-cash disclosure.

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1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Adopted Accounting Pronouncements (continued)

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 clarifies the presentation of restricted cash on the statement of cash flows to reduce diversity in practice on how restricted cash is presented on the statement of cash flows. The Company adopted this guidance on April 1, 2018 using the retrospective approach. The adoption of this guidance resulted in the following changes: a reclassification of \$2,326 and \$3,373 from other current and other long-term assets in total to separately stated line items for restricted cash in the condensed consolidated balance sheets as of June 30, 2017 and March 31, 2018, respectively; the change in restricted cash of \$17 presented in investing activities in the consolidated statements of cash flows is eliminated as of June 30, 2017; and the inclusion of \$2,326 of restricted cash in the calculation of cash, cash equivalents, and restricted cash at the end of the period in the condensed consolidated statements of cash flows as of June 30, 2017. In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 was issued to increase the consistency, transparency, and usefulness of financial information of retirement benefits by disaggregating the service cost component from the other components of net benefit cost. The Company adopted this guidance on April 1, 2018 using the retrospective approach. The adoption of this guidance resulted in a reclassification of \$341 from selling, general, and administrative expenses to interest expense in the condensed consolidated statement of operations for the three months ended June 30, 2017. See "[Note 13 Pension and Retirement Benefits](#)" for more information.

In August 2017, the FASB issued ASU No. 2017-12, Derivative and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 was issued to better align risk and management activities to financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The Company early adopted this guidance on April 1, 2018 using the modified retrospective approach. The adoption of this guidance did not have a material impact on the consolidated financial statements and related disclosures.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 requires lessees to recognize right-of-use assets and liabilities arising from leases on the balance sheet. In addition, leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. This guidance may be adopted using a modified retrospective approach and is effective for the Company on April 1, 2019. The Company has formed a project team to evaluate and implement this guidance. The Company has elected to adopt an accounting policy for all asset classes, to include both the lease and non-lease components as a single component and account for it as a lease. The Company has elected to utilize the transition practical expedients, as prescribed in ASC 842-10-65-1(f). The adoption of this guidance is expected to materially increase assets and liabilities on the consolidated balance sheets. The Company does not expect the adoption of this guidance to have a material impact on its existing debt covenants.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 provides financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. This guidance is effective for the Company on April 1, 2020. The Company is evaluating the effect that adoption of this guidance will have on its consolidated financial statements and related disclosures.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting

from the Tax Cuts and Jobs Act. The guidance is effective for the Company on April 1, 2019. Early adoption is permitted. Amendments in the update should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company is evaluating the effect that adoption of this guidance will have on its consolidated financial statements and related disclosures.

2. REVENUE RECOGNITION

The Company derives revenue from contracts with customers primarily from the sale of processed tobacco and fees charged for processing and related services to the manufacturers of tobacco products. The Company does not disclose information related to its unsatisfied performance obligations with an expected duration of one year or less. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The Company's performance obligations are satisfied when the transfer of control of the distinct product or service

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2. REVENUE RECOGNITION (continued)

to the customer occurs. For products, control is transferred and revenue is recognized at a point in time, in accordance with the terms of the contract. For services, control is transferred and revenue is recognized using the input method over time, in accordance with the terms of the contract. The Company applied a practical expedient to account for shipping and handling costs as costs to fulfill its performance obligations, irrespective of when control transfers. A kilogram of processed tobacco (or tobacco processing services resulting in a kilogram of processed tobacco) is the only material and distinct performance obligation for each of the Company's revenue streams; therefore, consideration is attributed to the performance of this obligation. Revenue is measured as the amount of consideration to which the Company expects to be entitled to receive in exchange for transferring goods or providing services. Contract costs primarily include labor, material, shipping and handling, and overhead expenses. Certain subsidiaries are subject to value-added taxes on local sales. These amounts have been included in sales and other operating revenues and cost of goods and services sold.

The following disaggregates sales and other operating revenues by major source:

	Three Months Ended June 30, 2018
North America:	
Product revenue	\$46,457
Processing and other revenues	3,595
Total sales and other operating revenues	50,052
Other Regions:	
Product revenue	226,907
Processing and other revenues	14,030
Total sales and other operating revenues	240,937
Total sales and other operating revenues	\$290,989

Product revenue is primarily processed tobacco sold to the customer. Processing and other revenues are mainly contracts to process green tobacco owned and provided by the customer. During processing, ownership remains with the customer and the Company is engaged to perform processing services.

Assets Recognized from the Costs to Obtain a Contract with a Customer

The Company records product and supply contract intangible assets for the incremental costs of obtaining a contract with a customer if the Company expects the benefit of those costs to be longer than one year, and if such costs are material. Total capitalized costs to obtain a contract were immaterial during the periods presented. Capitalized costs to obtain a contract as of June 30, 2018 were \$5,715 and classified as other intangible assets. See [Note 5 "Goodwill and Intangible Assets"](#) for more information. The Company applied a practical expedient to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less.

Significant Judgments

The Company has identified two main forms of variable consideration in its contracts with customers: warehousing fees for storing customer controlled tobacco until the customer requests shipment and claims resulting from tobacco that do not meet the customer specifications. Warehousing fees are built into the price of tobacco based on the customers' best estimate of the date they will request shipment or separately charged using a per day storage rate. When the Company enters into a contract with a customer, the price communicated is the amount of consideration the

Company expects to receive. Price adjustments for tobacco not meeting customer specifications for shrinkage, improper blend or chemical makeup, etc. are handled through a claims allowance that is assessed quarterly. As of June 30, 2018, the claims allowance was \$1,100. The Company incurred claims payments of \$963 for the three months ended June 30, 2018.

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2. REVENUE RECOGNITION (continued)

Contract Balances

The Company generally records a receivable when revenue is recognized. Timing of revenue recognition may differ from the timing of payment from customers. Payment terms and conditions vary by contract, although terms generally include a requirement of payment within 30 to 60 days. The Company applied a practical expedient not to adjust the transaction price for the effects of financing components as the Company expects that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. As a result, where the timing of revenue recognition differs from the timing of payment, the Company determined its contracts do not include a significant financing component.

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on historical experience, and other currently available information. The following summarizes activity in the allowance for doubtful accounts:

	Three Months Ended June 30, 2018
Balance, beginning of period	\$(7,055)
Additions	(293)
Writes-offs	91
Balance, end of period	(7,257)
Accounts receivable	204,091
Accounts receivable, net	\$ 196,834

3. INCOME TAXES

Accounting for Uncertainty in Income Taxes

As of June 30, 2018, the Company's unrecognized tax benefits totaled \$7,544, \$7,255 of which would impact the Company's effective tax rate, if recognized. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of June 30, 2018, accrued interest and penalties totaled \$746 and \$916, respectively. The Company expects to continue accruing interest expense related to the unrecognized tax benefits described above. Additionally, the Company may be subject to fluctuations in the unrecognized tax benefit due to currency exchange rate movements.

During the three months ended June 30, 2018, the Company reached income tax settlements with the Kenyan Revenue Authority for \$1,166. An uncertain tax position had previously been recorded of \$2,692, which resulted in a favorable adjustment to tax expense of \$1,526. In addition, the Company entered into negotiations with the Zimbabwe Revenue Authority during its amnesty program to settle asserted issues. The Company paid \$2,988 during the quarter and accrued another \$844 in anticipation of the settlement. These amounts have not previously been accrued as an uncertain tax position.

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

The Company and its subsidiaries file a U.S. federal consolidated income tax return as well as returns in several U.S. states and a number of foreign jurisdictions. As of June 30, 2018, the Company's earliest open tax year for U.S. federal income tax purposes is its fiscal year ended March 31, 2015; however, the Company's net operating loss carryovers

from prior periods remain subject to adjustment. Open tax years in state and foreign jurisdictions generally range from three to six years.

Enactment of Tax Cuts and Jobs Act (“Tax Act”)

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC Topic 740-Income Taxes (“ASC 740”).

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3. INCOME TAXES (continued)

During the year ended March 31, 2018, the Company recorded certain provisional impacts of the Tax Act. As noted in the Company's prior filings, provisional tax effects may differ during the measurement period, possibly materially, due to further refinement of the calculations, changes in interpretations and assumptions made, and additional guidance that may be issued by the Department of the U.S. Treasury, the Internal Revenue Service, and other regulatory and standard setting bodies. During the quarter, there has not been a change in the provisional amounts that have been recorded. These amounts remain provisional pending further regulatory guidance.

The Company will complete its analysis within its fiscal year 2019, consistent with the guidance provided in SAB 118, and any adjustments during this measurement period will be included in net earnings from continuing operations as an adjustment to income tax expense in the reporting period when such adjustments are determined. No such adjustments were included in income tax expense for the three months ended June 30, 2018.

Provision for the Three Months Ended June 30, 2018

The effective tax rate used for the three months ended June 30, 2018 and 2017 were 92.7% and (2.1)%, respectively. The effective tax rates for these periods are based on the current estimate of full year results, including the effect of taxes related to discrete events, which are recorded in the interim period they occur. The primary difference in the effective tax rate this year compared to last year is due to the impact of the U.S. tax reform, which resulted in a change in the taxability of operations, principally due to the impact of the new section 163(j) interest addback. The impact was accentuated by the net foreign exchange effects.

For the three months ended June 30, 2018, the Company recorded the net tax effects of certain discrete events, including the changes in U.S. tax law resulting from the Tax Act, which resulted in an income tax expense of \$3,906, bringing the effective tax rate for the three months of 107.1% to 92.7%. This discrete income tax expense primarily relates to the impact of changes in uncertain tax positions and changes in foreign exchange impacts. For the three months ended June 30, 2017, the Company recorded the tax effects of a discrete event resulting in additional income tax expense of \$1,554, bringing the effective tax rate for the three months of 2.9% to (2.1)%. This discrete income tax expense primarily relates to net exchange losses on income tax accounts, net exchange losses related to liabilities for unrecognized tax benefits, and the release of uncertain tax positions. The significant difference in the estimated effective tax rate for the three months ended June 30, 2018 from the U.S. federal statutory rate is primarily due to the impact of U.S. Tax Reform and changes resulting from net foreign exchange effects.

4. GUARANTEES

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

	June 30, 2018	June 30, 2017	March 31, 2018
Amounts guaranteed (not to exceed)	\$ 153,347	\$ 195,840	\$ 150,900
Amounts outstanding under guarantee	84,116	116,257	126,835
Fair value of guarantees	3,544	6,388	5,864

Of the guarantees outstanding at June 30, 2018, all expire within one year. The fair value of guarantees is recorded in accrued expenses and other current liabilities in the condensed consolidated balance sheets and included in crop costs, except for the joint venture in Brazil, which is included in accounts receivable, related parties.

In Brazil, certain suppliers obtain government subsidized rural credit financing from local banks that is guaranteed by the Company. The Company withholds amounts owed to suppliers related to the rural credit financing of the supplier upon delivery of tobacco to the Company. The Company remits payments to the local banks on behalf of the guaranteed suppliers. Rural credit financing repayment is due to local banks based on contractual due dates. As of June 30, 2018 and 2017 and March 31, 2018, respectively, the Company had balances of \$18,652, \$24,142, and \$14,807 due to local banks on behalf of suppliers included in accounts payable in the condensed consolidated balance sheets.

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5. GOODWILL AND INTANGIBLES

The following summarizes goodwill and intangible assets as of June 30, 2018 and March 31, 2018:

	June 30, 2018	Beginning Gross Carrying Amount	Additions	Accumulated Amortization	Impact of Foreign Currency Translation	Ending Intangible Assets, Net
Intangibles subject to amortization:						
Customer relationship intangible	10.22 years	\$ 58,530	\$ 5,450	\$ (26,010)	\$ —	\$ 37,970
Production and supply contract intangibles	3.56 years	14,893	—	(9,178)	—	5,715
Internally developed software intangible	2.90 years	18,812	199	(17,970)	—	1,041
License intangibles	19.60 years	30,339	—	(594)	(633)	29,112
Trade names	7.75 years	—	500	(16)	—	484
Intangibles not subject to amortization:						
Goodwill ⁽¹⁾		27,546	7,174	—	(233)	34,487
Total		\$ 150,120	\$ 13,323	\$ (53,768)	\$ (866)	\$ 108,809

(1) Goodwill of \$2,795 relates to the North America segment and \$31,692 relates to the Other Regions segment.

	March 31, 2018		Beginning Gross Carrying Amount	Additions	Accumulated Amortization	Ending Intangible Assets, Net
Intangibles subject to amortization:						
Customer relationship intangible	\$ 58,530	\$ —	\$ (25,005)			\$ 33,525
Production and supply contract intangibles	14,893	—	(8,774)			6,119
Internally developed software intangible	18,581	231	(17,828)			984
License intangibles	—	30,339	(243)			30,096
Intangibles not subject to amortization:						
Goodwill ⁽¹⁾	16,463	11,083	—			27,546
Total	\$ 108,467	\$ 41,653	\$ (51,850)			\$ 98,270

(1) Goodwill of \$2,795 relates to the North America segment and \$24,751 relates to the Other Regions segment.

The following summarizes the estimated future intangible asset amortization expense:

For Fiscal Years Ended	Customer Relationship Intangible	Production and Supply Contract Intangible	Internally Developed Software Intangible*	Licenses	Trade Names	Total
July 1, 2018 through March 31, 2019	\$ 3,016	\$ 1,335	\$ 370	\$ 1,114	\$ 47	\$ 5,882
2020	4,022	1,741	333	1,485	63	7,644
2021	4,022	1,397	172	1,485	63	7,139

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2022	4,022	1,242	99	1,485	63	6,911
2023	4,022	—	67	1,485	63	5,637
Later	18,866	—	—	22,058	185	41,109
	\$ 37,970	\$ 5,715	\$ 1,041	\$29,112	\$ 484	\$74,322

* Estimated amortization expense for the internally developed software is based on costs accumulated as of June 30, 2018. These estimates will change as new costs are incurred and until the software is placed into service in all locations.

6. VARIABLE INTEREST ENTITIES

The Company holds variable interests in multiple variable interest entities that primarily procure or process inventory on behalf of the Company and the other parties. These variable interests relate to equity investments, advances, and guarantees made by the Company. The Company is not the primary beneficiary of its preexisting variable interests in these variable interest entities, as it does not have the power to direct the activities that most significantly impact the economic performance of the entities due to the entities' management and board of directors' structure. As a result, these entities are not consolidated. The Company is the primary beneficiary of its newly acquired variable interest in Humble Juice Co., LLC. See "[Note 20. Acquisitions](#)" for more information.

As of June 30, 2018 and 2017, and March 31, 2018, the Company's investment in variable interest entities was \$63,021, \$50,450, and \$64,208, respectively, and is classified as investments in unconsolidated affiliates in the condensed consolidated balance sheets. The Company's advances to these variable interest entities as of June 30, 2018 and 2017, and March 31, 2018 were \$9,937, \$14,828, and \$5,895, respectively, and classified as accounts receivable, related parties in the condensed consolidated balance sheets. The Company guaranteed an amount to two variable interest entities not to exceed \$71,919, \$103,955, and \$65,487 as of June 30, 2018 and 2017, and March 31, 2018, respectively. The investments, advances, and guarantees in these variable interest entities represent the Company's maximum exposure to loss.

7. SEGMENT INFORMATION

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

Selling, logistics, billing, and administrative overhead, including depreciation, which originates primarily from the Company's corporate and sales offices, are allocated to the segments based on operating income. Intercompany transactions are allocated to the operating segment that either purchases or processes the tobacco. Investments in new business lines as part of the Company's transformation process are in development and reported in the Other Regions segment.

The following summarizes segment information:

	Three Months Ended	
	June 30,	
	2018	2017
Sales and other operating revenues:		
North America	\$50,052	\$65,287
Other Regions	240,937	211,706
Total revenue	\$290,989	\$276,993
Operating income (loss):		
North America	\$442	\$(1,649)
Other Regions	4,249	1,086
Total operating income (loss)	4,691	(563)
Debt retirement expense (benefit)	(84)	(2,975)
Interest expense	32,912	34,442
Interest income	888	968
Loss before income taxes and other items	\$(27,249)	\$(31,062)

June 30,	June 30,	March 31,
2018	2017	2018

Segment assets:

North America	\$ 300,238	\$ 293,057	\$ 379,354
Other Regions	1,829,128	1,681,945	1,587,277
Total assets	\$ 2,129,366	\$ 1,975,002	\$ 1,966,631

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8. EARNINGS PER SHARE

The weighted average number of common shares outstanding is reported as the weighted average of the total shares of common stock outstanding, net of shares of common stock held by a wholly owned subsidiary. Shares of common stock owned by the subsidiary were 785 as of June 30, 2018 and 2017. This subsidiary waives its right to receive dividends and it does not have the right to vote.

Certain potentially dilutive options were not included in the computation of earnings per diluted share because their exercise prices were greater than the average market price of the shares of common stock during the period and their effect would be antidilutive. These shares totaled 427 at a weighted average exercise price of \$60.00 per share as of June 30, 2018 and 458 at a weighted average exercise price of \$61.00 per share as of June 30, 2017. Diluted net loss per share as of June 30, 2018 and 2017 was the same as basic net loss per share as the effects of potentially dilutive items were antidilutive given the Company's net loss.

The following summarizes the computation of earnings per share for the three months ended June 30, 2018 and 2017:

(in thousands, except per share data)	Three Months	
	Ended June 30, 2018	2017
Basic loss		
Net loss attributable to Alliance One International, Inc.	\$(759)	\$(32,543)
Shares		
Weighted average number of shares outstanding	9,027	8,964
Basic loss per share	\$(0.08)	\$(3.63)
Diluted loss		
Net loss attributable to Alliance One International, Inc.	\$(759)	\$(32,543)
Shares		
Weighted average number of shares outstanding	9,027	8,964
Plus: Restricted shares issued and shares applicable to stock options and restricted stock units, net of shares assumed to be purchased from proceeds at average market price	—	*— *
Adjusted weighted average number of shares outstanding	9,027	8,964
Diluted loss per share	\$(0.08)	\$(3.63)

* All outstanding restricted shares and shares applicable to stock options and restricted stock units are excluded because their inclusion would have an antidilutive effect on the loss per share.

9. STOCK-BASED COMPENSATION

The Company recorded stock-based compensation expense related to stock-based awards granted under its various employee and non-employee stock incentive plans of \$295 and \$345 for the three months ended June 30, 2018 and 2017, respectively, of which zero and \$54, respectively, were for stock-based awards payable in cash.

The Company's shareholders approved the 2016 Incentive Plan (the "2016 Plan") at its annual meeting on August 12, 2016, which is the successor to the 2007 Incentive Plan (the "2007 Plan") as amended on August 11, 2011 and August 6, 2009. The 2016 Plan is an omnibus plan that provides the flexibility to grant a variety of equity awards including stock options, stock appreciation rights, stock awards, stock units, performance awards, and incentive awards to officers, directors, and employees of the Company.

9. STOCK-BASED COMPENSATION (continued)

The following summarizes the Company's stock-based compensation awards:

	Three Months Ended June 30,	
(in thousands, except grant date fair value)	2018	2017
Restricted stock		
Number granted	7	7
Grant date fair value	\$ 15.85	\$ 14.40
Restricted stock units		
Number granted	61	57
Grant date fair value	\$ 16.00	\$ 11.75
Performance-based stock units		
Number granted	30	29
Grant date fair value	\$ 16.00	\$ 11.75

Restricted stock consists of shares issued to non-employee directors of the Company that are not subject to a minimum vesting period. Restricted stock units differ from restricted stock in that shares are not issued until the restrictions lapse. Restricted stock units granted during the three months ended June 30, 2018 vest ratably over a three-year period. Under the terms of the performance-based stock units, shares issued will be contingent upon the achievement of specified business performance goals.

10. CONTINGENCIES AND OTHER INFORMATION

The government in the Brazilian State of Parana ("Parana") issued a tax assessment on October 26, 2007 with respect to local intrastate trade tax credits that result primarily from tobacco transferred between states within Brazil. The assessment for intrastate trade tax credits taken is \$3,416 and the total assessment including penalties and interest at June 30, 2018 is \$11,629. The Company believes it has properly complied with Brazilian law and will contest any assessment through the judicial process. Should the Company lose in the judicial process, the loss of the intrastate trade tax credits would have a material impact on the financial statements of the Company.

The Company also has local intrastate trade tax credits in the Brazilian State of Santa Catarina and the State of Rio Grande do Sul. These jurisdictions permit the sale or transfer of excess credits to third parties. However, approval must be obtained from the tax authorities. The Company has an agreement with the state governments regarding the amounts and timing of credits that can be sold. The tax credits have a carrying value of \$6,082 as of June 30, 2018, which is net of impairment charges based on management's expectations about future realization. The intrastate trade tax credits will continue to be monitored for impairment in future periods based on market conditions and the Company's ability to use or sell the tax credits.

In 1969, the Brazilian government created a tax credit program that allowed companies to earn IPI tax credits ("IPI credits") based on the value of their exports. The government began to phase out this program in 1979, which resulted in numerous lawsuits between taxpayers and the Brazilian government. The Company has a long legal history with respect to credits it earned while the IPI credit program was in effect. In 2001, the Company won a claim related to certain IPI credits it earned between 1983 and 1990. The Brazilian government appealed this decision and numerous rulings and appeals were rendered on behalf of both the government and the Company from 2001 through 2013. Because of this favorable ruling, the Company began to use these earned IPI credits to offset federal taxes in 2004 and 2005, until it received a Judicial Order to suspend the IPI offsetting in 2005. The value of the federal taxes offset in 2004 and 2005 was \$24,142 and the Company established a reserve on these credits at the time of offsetting as they were not yet realizable due to the legal uncertainty that existed. Specifically, the Company extinguished other federal tax liabilities using IPI credits and recorded a liability in pension, postretirement and other long-term liabilities to reflect that the credits were not realizable at that time due to the prevalent legal u