ALLIANCE ONE INTERNATIONAL, INC.
Form 10-Q
November 05, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED September 30, 2013

[ ] 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 [X] No [ ]

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

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

Large accelerated filer [ ] 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 November 1, 2013, the registrant had 88,146,892 shares outstanding of Common Stock (no par value) excluding 7,853,121 shares owned by a wholly owned subsidiary.

Alliance One International, Inc. and Subsidiaries

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

Alliance One International, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Six Months Ended September 30, 2013 and 2012
(Unaudited)

(in thousands, except per share data)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Six Months Ended September 30, 2013	Six Months Ended September 30, 2012
Sales and other operating revenues	$700,680	$576,411	$1,084,567	$934,181
Cost of goods and services sold	616,710	489,448	972,103	805,655
Gross profit	83,970	86,963	112,464	128,526
Selling, general and administrative expenses	34,641	35,982	70,132	72,076
Other income (expense)	(499)	(1,157)	745	(1,347)
Restructuring and asset impairment charges	580	—	2,776	—
Operating income	48,250	49,824	40,301	55,103
Debt retirement expense	55,582	—	55,599	—
Interest expense (includes debt amortization of $2,691 and $2,625 for the three months and $5,201 and $5,217 for the six months in 2013 and 2012, respectively)	31,684	29,776	60,527	56,891
Interest income	1,859	1,121	3,845	2,119
Income (loss) before income taxes and other items	(37,157)	21,169	(71,980)	331
Income tax expense	10,291	3,901	11,159	13,140
Equity in net income of investee companies	1,362	1,045	320	850
Net income (loss)	(46,086)	18,313	(82,819)	(11,959)
Less: Net income (loss) attributable to noncontrolling interests	(104)	(55)	25	416
Net income (loss) attributable to Alliance One International, Inc.	$(45,982)	$18,368	$(82,844)	$(12,375)
Income (loss) per share:				
Basic	$(.53)	$.21	$(.95)	$(.14)
Diluted	$(.53)	$.18	$(.95)	$(.14)
Weighted average number of shares outstanding:				
Basic	87,570	87,367	87,522	87,280
Diluted	87,570	110,545	87,522	87,280

See notes to condensed consolidated financial statements

- 3 -

Alliance One International, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Three and Six Months Ended September 30, 2013 and 2012
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
(in thousands)	2013	2012	2013	2012
Net income (loss)	$(46,086)	$18,313	$(82,819)	$(11,959)
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	1,861	1,074	2,610	(702)
Defined benefit pension amounts reclassified to income	522	(521)	1,044	(521)
Total other comprehensive income (loss), net of tax	2,383	553	3,654	(1,223)
Total comprehensive income (loss)	(43,703)	18,866	(79,165)	(13,182)
Comprehensive income (loss) attributable to noncontrolling interests	(104)	(55)	25	416
Comprehensive income (loss) attributable to Alliance One International, Inc.	$(43,599)	$18,921	$(79,190)	$(13,598)

See notes to condensed consolidated financial statements

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

(in thousands)				September 30, 2013	September 30, 2012	March 31, 2013
ASSETS						
Current assets						
Cash and cash equivalents				$85,430	$194,717	$92,026
Trade and other receivables, net				319,539	270,632	224,222
Accounts receivable, related parties				99,053	111,878	55,696
Inventories				984,773	1,009,722	903,947
Advances to tobacco suppliers				117,577	104,840	109,520
Recoverable income taxes				7,857	7,361	8,980
Current deferred taxes				24,897	22,529	16,776
Prepaid expenses				33,048	37,819	36,811
Other current assets				12,656	7,419	16,777
Total current assets				1,684,830	1,766,917	1,464,755
Other assets						
Investments in unconsolidated affiliates				24,482	24,207	25,169
Goodwill and other intangible assets				29,248	33,525	31,471
Deferred income taxes				49,114	60,952	56,045
Other deferred charges				22,739	18,145	12,971
Other noncurrent assets				44,389	62,324	50,190
				169,972	199,153	175,846
Property, plant and equipment, net				265,840	265,100	270,978
				$2,120,642	$2,231,170	$1,911,579
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities						
Notes payable to banks				$668,919	$491,207	$356,836
Accounts payable				49,282	58,904	135,260
Due to related parties				27,907	64,757	26,084
Advances from customers				113,484	55,727	16,817
Accrued expenses and other current liabilities				91,371	84,493	70,152
Income taxes				15,484	11,750	9,454
Long-term debt current				56,173	51,268	6,349
Total current liabilities				1,022,620	818,106	620,952
Long-term debt				721,652	962,327	830,870
Deferred income taxes				6,060	8,268	6,396
Liability for unrecognized tax benefits				8,662	7,853	8,617
Pension, postretirement and other long-term liabilities				97,685	114,540	102,713
				834,059	1,092,988	948,596
Commitments and contingencies						
Stockholders' equity	September 30, 2013	September 30, 2012	March 31, 2013			
Common Stock—no par value:						
Authorized shares	250,000	250,000	250,000			
Issued shares	95,692	95,454	95,494	462,011	460,334	460,914
Retained deficit				(150,173)	(103,717)	(67,329)

Accumulated other comprehensive loss	(51,538)	(39,896)	(55,192)
Total stockholders’ equity of Alliance One International, Inc.	260,300	316,721	338,393
Noncontrolling interests	3,663	3,355	3,638
Total equity	263,963	320,076	342,031
	$2,120,642	$2,231,170	$1,911,579

See notes to condensed consolidated financial statements

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

	Attributable to Alliance One International, Inc.					
			Accumulated Other Comprehensive Loss			
(in thousands)	Common Stock	Retained Deficit	Currency Translation Adjustment	Pensions, Net of Tax	Noncontrolling Interests	Total Equity
Balance, March 31, 2012	$457,497	$(91,342)	$(2,922)	$(35,751)	$2,939	$330,421
Net income (loss)	—	(12,375)	—	—	416	(11,959)
Restricted stock surrendered	(118)	—	—	—	—	(118)
Stock-based compensation	2,955	—		—	—	2,955
Other comprehensive loss, net of tax	—	—	(702)	(521)	—	(1,223)
Balance, September 30, 2012	$460,334	$(103,717)	$(3,624)	$(36,272)	$3,355	$320,076
Balance, March 31, 2013	$460,914	$(67,329)	$(5,724)	$(49,468)	$3,638	$342,031
Net income (loss)	—	(82,844)	—	—	25	(82,819)
Stock-based compensation	1,097	—	—	—	—	1,097
Other comprehensive loss, net of tax	—	—	2,610	1,044	—	3,654
Balance, September 30, 2013	$462,011	$(150,173)	$(3,114)	$(48,424)	$3,663	$263,963

See notes to condensed consolidated financial statements

Alliance One International, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended September 30, 2013 and 2012
(Unaudited)

(in thousands)	September 30, 2013	September 30, 2012
Operating activities		
Net loss	$(82,819)	$(11,959)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	17,212	16,589
Debt amortization/interest	6,810	7,432
Debt retirement costs	55,599	—
Loss on foreign currency transactions	11,075	9,034
Restructuring and asset impairment charges	2,776	—
Stock-based compensation	1,712	3,297
Changes in operating assets and liabilities, net	(182,574)	(236,228)
Other, net	387	919
Net cash used by operating activities	(169,822)	(210,916)
Investing activities		
Purchases of property, plant and equipment	(11,937)	(20,433)
Proceeds from sale of property, plant and equipment	667	835
Restricted cash	391	7,611
Other, net	(573)	(888)
Net cash used by investing activities	(11,452)	(12,875)
Financing activities		
Net proceeds from short-term borrowings	307,805	121,526
Proceeds from long-term borrowings	885,300	228,060
Repayment of long-term borrowings	(960,894)	(44,821)
Debt issuance cost	(21,938)	(5,759)
Debt retirement costs	(34,347)	—
Net cash provided by financing activities	175,926	299,006
Effect of exchange rate changes on cash	(1,248)	(241)
Increase (decrease) in cash and cash equivalents	(6,596)	74,974
Cash and cash equivalents at beginning of period	92,026	119,743
Cash and cash equivalents at end of period	$85,430	$194,717
Other information:		
Cash paid during the six months:		
Interest	$50,457	$47,843
Taxes	5,697	10,795

See notes to condensed consolidated financial statements

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Taxes Collected from Customers
Certain subsidiaries are subject to value added taxes on local sales. These amounts have been included in sales and cost of sales and were $3,431 and $3,975 for the three months ended September 30, 2013 and 2012, respectively and $10,962 and $9,122 for the six months ended September 30, 2013 and 2012, respectively.

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

New Accounting Standards

Recently Adopted Accounting Pronouncements
On April 1, 2013, the Company adopted new accounting guidance, as amended, on disclosures about offsetting assets and liabilities. The guidance enhances disclosures of the effect or potential effect of netting arrangements on an entity's financial position and is applicable to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending that are offset or subject to an enforceable master netting arrangement or similar agreement. The Company adopted this new accounting guidance with no material impact on its financial condition or results of operations.

On April 1, 2013, the Company adopted new accounting guidance to improve the reporting of reclassifications out of accumulated other comprehensive income. Companies are required to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income when reclassified to net income in its entirety. If amounts are not reclassified to net income in its entirety in the same reporting period, cross-reference to other disclosures is required to provide additional detail about those amounts. The Company adopted this new accounting guidance with no material impact on its financial condition or results of operations.

Recent Accounting Pronouncements Not Yet Adopted
In July 2013, the Financial Accounting Standards Board ("FASB") issued new accounting guidance on the financial presentation of an unrecognized tax benefit when a net operating loss (“NOL”) carryforward, a similar tax loss, or a tax credit carryforward exists. The primary objective of this accounting guidance is to reduce diversity in financial presentations resulting from a current lack of guidance on this topic. An unrecognized tax benefit should be presented as a reduction in a deferred tax asset for a NOL or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. This accounting guidance is effective for the Company on April 1, 2014. The Company currently reports its applicable

unrecognized tax benefits in accordance with this guidance and therefore, does not expect the impact of this new accounting guidance to have a material impact on its financial condition or results of operations.

Alliance One International, Inc. and Subsidiaries

2. INCOME TAXES

Accounting for Uncertainty in Income Taxes

As of September 30, 2013, the Company’s unrecognized tax benefits totaled $8,065, all of which would impact the Company’s effective tax rate if recognized.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of September 30, 2013, accrued interest and penalties totaled $840 and $1,210 respectively.

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

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

The Company and its subsidiaries file a U.S. federal consolidated income tax return as well as returns in several U.S. states and a number of foreign jurisdictions. As of September 30, 2013, the Company’s earliest open tax year for U.S. federal income tax purposes was its fiscal year ended March 31, 2009. Open tax years in state and foreign jurisdictions generally range from three to six years.

Provision for the Six Months Ended September 30, 2013

The effective tax rate used for the six months ended September 30, 2013 was (15.5)% compared to 3,969.8% for the six months ended September 30, 2012. The effective tax rates for these periods are based on the current estimate of full year results including the effect of taxes related to discrete events which are recorded in the interim period in which they occur. The Company expects the tax rate for the year ended March 31, 2014 to be (119.6)% after absorption of discrete items.

For the six months ended September 30, 2013, the Company recorded a discrete event adjustment expense of $6,722, bringing the effective tax rate estimated for the six months of (6.2)% to (15.5)%. This discrete event adjustment expense relates primarily to net exchange losses on income tax accounts and net exchange gains related to liabilities for unrecognized tax benefits. For the six months ended September 30, 2012 , the Company recorded a discrete event adjustment expense of $913, bringing the effective tax rate estimated for the six months of 3,694.0% to 3,969.8%. This discrete event adjustment expense relates primarily to increases in net exchange losses on income tax accounts and an adjustment to the valuation allowance related to resolution of a prior period uncertain tax position; and decreases due to the expiration of an assessment period local country administrative practice pertaining to an international unrecognized tax benefit and the release of a U.S. uncertain tax position effectively settled upon completion of a tax examination of a prior year. The significant difference in the estimated effective tax rate for the six months ended September 30, 2013 from the U.S. federal statutory rate is primarily due to net exchange losses on income tax accounts, foreign income tax rates lower than the U.S. rate and certain losses for which no benefit is currently recorded.

3. GUARANTEES

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

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

	September 30, 2013	September 30, 2012	March 31, 2013
Amounts guaranteed (not to exceed)	$126,608	$117,928	$125,623
Amounts outstanding under guarantee	121,634	112,227	98,689
Fair value of guarantees	6,023	9,489	6,367

Of the guarantees outstanding at September 30, 2013, all expire within one year. The fair value of guarantees is recorded in Accrued Expenses and Other Current Liabilities in the Condensed Consolidated Balance Sheets and included in crop costs except for Zimbabwe which is included in Accounts Receivable, Related Parties.

Alliance One International, Inc. and Subsidiaries

3. GUARANTEES (continued)

In Brazil, certain suppliers obtain government subsidized rural credit financing from local banks that is guaranteed by the Company. The Company withholds amounts owed to suppliers related to the rural credit financing of the supplier upon delivery of tobacco to the Company. The Company remits payments to the local banks on behalf of the guaranteed suppliers. Terms of rural credit financing are such that repayment is due to local banks based on contractual due dates. As of September 30, 2013 and 2012 and March 31, 2013, respectively, the Company had balances of $3,200, $1,979 and $45,843 that were due to local banks on behalf of suppliers. These amounts are included in Accounts Payable in the Condensed Consolidated Balance Sheets.

4. RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

The Company previously implemented several strategic initiatives in response to shifts in supply and demand balances and changing business models of its customers. These initiatives were substantially complete at March 31, 2013. The Company continues to focus on improving factory efficiencies and other core components of its business. As part of this focus, the Company agreed to a joint processing venture in one of its foreign locations during the three months ended June 30, 2013. As a result, the Company recorded pretax charges of $1,893 in connection with the reduction in workforce including the effect on the Company's defined benefit pension plans of $1,261. An asset impairment charge of $303 was recorded for certain processing equipment in connection with the new venture. During the three months ended September 30, 2013, employee separation charges of $580 were incurred as the Company continues to respond to changes in its business.

The following table summarizes the restructuring charges recorded in the Company’s reporting segments during the three months and six months ended September 30, 2013 and 2012, respectively:

	Three Months Ended September 30,		Six Months Ended September 30,	
Restructuring and Asset Impairment Charges	2013	2012	2013	2012
Employee separation and other cash charges:				
Beginning balance	$1,144	$1,405	$668	$1,960
Period charges:				
Severance charges	580	—	1,212	—
Total period charges	580	—	1,212	—
Payments through September 30	(676)	(229)	(832)	(784)
Ending balance September 30	$1,048	$1,176	$1,048	$1,176
Asset impairment and other non-cash charges	$—	$—	$1,564	$—
Total restructuring charges for the period	$580	$—	$2,776	$—

	Three Months Ended September 30,		Six Months Ended September 30,	
Employee Separation and Other Cash Charges	2013	2012	2013	2012
Beginning balance:	$1,144	$1,405	$668	$1,960
South America	—	165	—	183
Value added services	—	—	—	—
Other regions	1,144	1,240	668	1,777
Period charges:	$580	$—	$1,212	$—
South America	433	—	433	—
Value added services	—	—	—	—
Other regions	147	—	779	—
Payments through September 30	$(676)	$(229)	$(832)	$(784)
South America	(433)	(19)	(433)	(37)

Value added services	—	—	—	—
Other regions	(243)	(210)	(399)	(747)
Ending balance September 30	$1,048	$1,176	$1,048	$1,176
South America	—	146	—	146
Value added services	—	—	—	—
Other regions	1,048	1,030	1,048	1,030

Alliance One International, Inc. and Subsidiaries

5. GOODWILL AND INTANGIBLES

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

The Company has no intangible assets with indefinite useful lives. It does have intangible assets which are amortized. The following table summarizes the changes in the Company's goodwill and other intangibles for the three months and six months ended September 30, 2013 and 2012:

		Amortizable Intangibles			
	Goodwill (1)	Customer Relationship Intangible	Production and Supply Contract Intangibles	Internally Developed Software Intangible	Total
Weighted average remaining useful life in years as of September 30, 2013		11.5	2.5	0.5	
March 31, 2012 balance:					
Gross carrying amount	$2,794	$33,700	$7,893	$16,588	$60,975
Accumulated amortization	—	(11,584)	(3,043)	(10,483)	(25,110)
Net March 31, 2012	2,794	22,116	4,850	6,105	35,865
Additions	—	—	—	22	22
Amortization expense	—	(421)	(115)	(762)	(1,298)
Net June 30, 2012	2,794	21,695	4,735	5,365	34,589
Additions	—	—	—	247	247
Amortization expense	—				