

ALLIANCE ONE INTERNATIONAL, INC.
Form 10-Q
May 25, 2016

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 December 31, 2015.

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" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated
filer

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

As of January 31, 2016, the registrant had 8,894,558 shares outstanding of Common Stock (no par value) excluding 785,312 shares owned by a wholly owned subsidiary.

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Preliminary Note

Immediately prior to the filing of this report, we filed a Form 10-K/A report for the year ended March 31, 2015 and a Form 10-Q/A report for the quarter ended June 30, 2015, restating our financial statements for the periods. These filings were made to correct errors we discovered in our accounting at our Kenya subsidiary. Certain details regarding those errors and adjustments covered by these reports are discussed in Note 1A “Restatement of Previously Issued Condensed Consolidated Financial Statements” of this Form 10-Q. The Company is also concurrently filing a Quarterly Report on Form 10-Q for the quarter ended September 30, 2015.

Restatement Background

On February 15, 2016, the Audit Committee of our Board of Directors (the “Audit Committee”), after discussion with management, determined that the following financial statements previously filed with the SEC should no longer be relied upon: (1) the audited consolidated financial statements included in our Annual Report on Form 10-K for the years ended March 31, 2015, 2014 and 2013; and (2) the unaudited condensed consolidated financial statements included in our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2015, 2014 and 2013, September 30, 2014 and 2013, and December 31, 2014 and 2013.

In the course of downsizing and terminating certain operations of Alliance One Tobacco (Kenya) Limited (“AOTK”), and preparing our financial statements for the quarter ended September 30, 2015, the Company identified errors in accounts receivable, inventory, sales and cost of goods sold in AOTK. Specifically, the value of inventory was overstated due to improper accounting for shrinkage, deferred crop costs, lower of cost or market valuations and accurate inventory counts. Further, sales and other operating revenues, and trade and other receivables, net were incorrectly stated due to improper revenue recognition for external sales. As a result of these errors, we have restated our consolidated financial statements for the years ended March 31, 2015, 2014 and 2013 and our unaudited condensed consolidated financial information for the three months and nine months ended December 31, 2014 on this Form 10-Q.

As of December 31, 2015, the correction of these errors principally decreased the Company’s inventory by approximately \$46 million, decreased accounts receivable by approximately \$3 million, and decreased retained earnings by approximately \$49 million. Approximately \$39 million of the decrease in retained earnings is related to March 31, 2015 and prior periods, with a portion in each quarter dating back to fiscal 2011 and prior. Further, these corrections decreased operating income for the nine months ended December 31, 2015 by approximately \$10 million. Please refer to Note 1A “Restatement of Previously Issued Consolidated Financial Statements” of the Notes to Condensed Consolidated Financial Statements of this Form 10-Q for more information regarding the impact of these adjustments.

Along with restating our financial statements to correct the errors discussed above, we have recorded adjustments for certain previously identified immaterial accounting errors related to the periods covered by this Form 10-Q. When these financial statements were originally issued, we assessed the impact of these errors and concluded that they were not material to our financial statements for the three months and nine months ended December 31, 2014. However, in conjunction with our need to restate our financial statements as a result of the errors above, we have determined that it would be appropriate within this Form 10-Q to record all such previously unrecorded adjustments. Please refer to Note 1A “Restatement of Previously Issued Consolidated Financial Statements” of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1, of this Form 10-Q for more information regarding the impact of these adjustments.

Because our prior period financial results have been corrected for errors, they are considered to be “restated” under U.S. generally accepted accounting principles. Accordingly, the revised financial information included in this Quarterly Report on Form 10-Q has been identified as “restated.”

Internal Control Consideration

Our Chief Executive Officer and Chief Financial Officer have determined that there were deficiencies in our internal control over financial reporting that constitute material weaknesses, as defined by SEC regulations, at December 31, 2015. Accordingly, our Chief Executive Officer and Chief Financial Officer have concluded that our internal control over financial reporting and our disclosure controls and procedures, as defined by SEC regulations, were not effective at December 31, 2015, as discussed in Part I, Item 4 of this Form 10-Q.

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 OPERATIONSThree and Nine Months Ended December 31, 2015
and 2014

(Unaudited)

	Three Months Ended December 31,	Nine Months Ended December 31,		
(in thousands, except per share data)	2015	2015	2014 (As Restated)	2014 (As Restated)
Sales and other operating revenues	\$491,139	\$489,227	\$1,172,274	\$1,335,341
Cost of goods and services sold	422,566	419,972	1,020,066	1,167,940
Gross profit	68,573	69,255	152,208	167,401
Selling, general and administrative expenses	29,124	38,882	86,986	106,207
Other income	594	146	125	1,273
Restructuring and asset impairment charges	625	—	4,087	500
Operating income	38,518	30,519	61,260	61,967
	—	(338) —	(338

Debt retirement expense (income)				
Interest expense (includes debt amortization of \$2,497 and \$2,131 for the three months and \$7,123 and \$5,693 for the nine months in 2015 and 2014, respectively)	30,356	28,277	86,911	83,694
Interest income	2,744	1,486	5,393	4,411
Income (loss) before income taxes and other items	10,906	4,066	(20,258)	(16,978)
Income tax expense	1,930	2,089	21,617	13,387
Equity in net income of investee companies	2,514	1,088	5,679	1,642
	11,520	3,065	(36,196)	(28,723)

Net
income
(loss)
Less:
Net
loss
attributable to noncontrolling interests
Net
income
(loss)
attributable to Alliance One International, Inc.

	(230)	(115)	(182)
\$11,570	\$3,295	\$(36,081)	\$(28,541)

Income
(loss)
per
share:

Basic	\$0.37	\$(4.06)	\$(3.24)
Diluted	\$0.37	\$(4.06)	\$(3.24)

Weighted
average
number
of
shares
outstanding:

Basic	8,841	8,878	8,821
Diluted	8,841	8,878	8,821

See notes to condensed consolidated financial statements

Alliance One International, Inc. and Subsidiaries
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 Three and Nine Months Ended December 31, 2015 and 2014
 (Unaudited)

(in thousands)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014 (As Restated)	2015	2014 (As Restated)
Net income (loss)	\$11,520	\$ 3,065	\$(36,196)	\$(28,723)
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	(1,075)	(2,095)	(432)	(6,174)
Defined benefit pension amounts reclassified to income:				
Negative plan amendment/reclassified to liability	2,534	—	7,220	—
Curtailment	1,062	—	1,062	—
Amounts reclassified to income	725	413	2,725	1,240
Defined benefit plan adjustment	4,321	413	11,007	1,240
Total other comprehensive income (loss), net of tax	3,246	(1,682)	10,575	(4,934)
Total comprehensive income (loss)	14,766	1,383	(25,621)	(33,657)
Comprehensive loss attributable to noncontrolling interests	(50)	(230)	(115)	(182)
Comprehensive income (loss) attributable to Alliance One International, Inc.	\$14,816	\$ 1,613	\$(25,506)	\$(33,475)

See notes to condensed consolidated financial statements

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

(in thousands)	December 31, 2015	December 31, 2014 (As Restated)	March 31, 2015 (As Restated)
ASSETS			
Current assets			
Cash and cash equivalents	\$ 195,230	\$ 235,009	\$ 143,849
Trade and other receivables, net	242,435	219,673	193,370
Accounts receivable, related parties	81,837	63,491	41,816
Inventories	936,181	925,810	740,943
Advances to tobacco suppliers	62,648	81,016	37,767
Recoverable income taxes	14,809	6,673	5,257
Current deferred taxes, net	7,773	10,204	15,586
Prepaid expenses	23,257	27,105	23,901
Other current assets	13,529	11,840	14,606
Total current assets	1,577,699	1,580,821	1,217,095
Other assets			
Investments in unconsolidated affiliates	57,698	54,299	54,694
Goodwill and other intangible assets	29,248	32,739	31,891
Long-term recoverable income taxes	7,786	5,992	6,571
Deferred income taxes, net	24,208	35,952	33,155
Other deferred charges	15,392	17,426	17,695
Other noncurrent assets	20,812	31,876	27,631
	155,144	178,284	171,637
Property, plant and equipment, net	228,786	240,554	237,914
	\$ 1,961,629	\$ 1,999,659	\$ 1,626,646
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Notes payable to banks	\$ 522,538	\$ 506,822	\$ 330,254
Accounts payable	57,548	59,682	73,349
Due to related parties	30,137	24,767	58,512
Advances from customers	20,661	57,290	18,906
Accrued expenses and other current liabilities	109,044	107,029	87,815
Income taxes	5,961	8,096	12,694
Long-term debt current	30,269	2,894	2,894
Total current liabilities	776,158	766,580	584,424
Long-term debt			
	919,787	923,618	738,943
Deferred income taxes	2,341	5,213	3,498
Liability for unrecognized tax benefits	9,872	11,401	11,011
Pension, postretirement and other long-term liabilities	79,710	75,543	91,502
	1,011,710	1,015,775	844,954
Commitments and contingencies			
Stockholders' equity	December 31, 2015	December 31, 2014	March 31, 2015
Common Stock—no par value:			

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Authorized shares	250,000	250,000	250,000			
Issued shares	9,680	9,638	9,644	470,480	467,934	468,564
Retained deficit				(244,265) (210,595) (208,184
Accumulated other comprehensive loss				(55,811) (43,260) (66,386
Total stockholders' equity of Alliance One International, Inc.				170,404	214,079	193,994
Noncontrolling interests				3,357	3,225	3,274
Total equity				173,761	217,304	197,268
				\$ 1,961,629	\$ 1,999,659	\$ 1,626,646

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 Equity (As Restated)
	Common Stock	Retained Deficit (As Restated)	Currency Translation Adjustment	Accumulated Other Comprehensive Loss Pensions, Net of Tax (As Restated)	Noncontrolling Interests	
Balance, March 31, 2014 (as restated)	\$465,682	\$(182,054)	\$(1,640)	\$(36,686)	\$ 3,295	\$248,597
Net loss	—	(28,541)	—	—	(182)	(28,723)
Acquisition of noncontrolling interest	—	—	—	—	112	112
Restricted stock surrendered	(145)	—	—	—	—	(145)
Stock-based compensation	2,397	—	—	—	—	2,397
Other comprehensive income, net of tax	—	—	(6,174)	1,240	—	(4,934)
Balance, December 31, 2014 (as restated)	\$467,934	\$(210,595)	\$(7,814)	\$(35,446)	\$ 3,225	\$217,304
Balance, March 31, 2015 (as restated)	\$468,564	\$(208,184)	\$(14,154)	\$(52,232)	\$ 3,274	\$197,268
Net loss	—	(36,081)	—	—	(115)	(36,196)
Increase in capitalization of non-controlling interest	—	—	—	—	198	198
Restricted stock surrendered	(159)	—	—	—	—	(159)
Stock-based compensation	2,075	—	—	—	—	2,075
Other comprehensive loss, net of tax	—	—	(432)	11,007	—	10,575
Balance, December 31, 2015	\$470,480	\$(244,265)	\$(14,586)	\$(41,225)	\$ 3,357	\$173,761

See notes to condensed consolidated financial statements

Alliance One International, Inc. and Subsidiaries
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 Nine Months Ended December 31, 2015 and 2014
 (Unaudited)

(in thousands)	December 31, 2015	December 31, 2014 (As Restated)
Operating activities		
Net loss	\$ (36,196)	\$ (28,723)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	21,018	22,247
Debt amortization/interest		