ALLIANCE ONE INTERNATIONAL, INC.
Form 10-K
June 22, 2007

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, 2007

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

Alliance One International, Inc.

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 [X]

No [ ]

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

As of September 30, 2006 the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $331 million based on the closing sale price of the common stock as reported on the New York Stock Exchange. As of May 29, 2007, there were 96,583,000 shares of Common Stock outstanding (no par value), including 7,853,000 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 16, 2007) of the registrant is incorporated by reference into Part III hereof.

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PART I

ITEM 1. BUSINESS

In this section, unless the context indicates otherwise, the terms Alliance One, we, us and our refer to the combined business of DIMON and Standard after completion of the merger of Standard with and into DIMON on May 13, 2005. The term DIMON refers to DIMON Incorporated and its subsidiaries prior to the merger. The term Standard refers to Standard Commercial Corporation and its subsidiaries prior to the merger.

AVAILABLE INFORMATION

Our website address is 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 Securities and Exchange Commission. The information contained on our website shall not be deemed part of this annual report on Form 10-K for any reason.

OVERVIEW

Alliance One is one of only two global independent 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. We select, purchase, process, store, pack and ship tobacco grown in more than 45 countries, serving manufacturers of cigarettes and other consumer tobacco products in more than 90 countries around the world. We process tobacco through a complex mechanized threshing and separating operation and then dry it to meet precise moisture levels in accordance with the customer s specifications. 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. In an increasing number of important markets, we also provide agronomy expertise for growing leaf tobacco.

Alliance One holds a leading position in most tobacco growing regions in the world, including the principal export markets for flue-cured, burley and oriental tobacco: the United States, Brazil, Malawi, Turkey, Argentina, India and Thailand. In addition, we process tobacco in more than 50 owned and third party facilities around the world. We sell our processed tobacco primarily to large multinational cigarette manufacturers, including Philip Morris, Japan Tobacco, British American Tobacco, Altadis, Imperial Tobacco, R. J. Reynolds Tobacco, Gallaher, Lorillard, Eastern and others.

Alliance One is a Virginia corporation, and 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 and have maintained relationships with many of our major customers for more than 50 years, with some of these relationships beginning in the early 1900s. Our company was renamed Alliance One International, Inc. on May 13, 2005 concurrent with the merger of Standard with and into DIMON, the third largest and second largest global independent leaf tobacco merchants, respectively. Accordingly, the information contained herein regarding our fiscal year ended March 31, 2005 and for any other time prior to the completion of the merger relates only to DIMON.

Product

The world's large multinational cigarette manufacturers, with one exception, rely primarily on independent leaf tobacco merchants such as Alliance One to supply the majority of their leaf tobacco needs. Leaf tobacco merchants select, purchase, process, store, pack and ship tobacco and, in a growing number of markets, provide agronomy expertise. Our revenues are primarily comprised of sales of processed tobacco and fees charged for processing and related services to manufacturers of tobacco products around the world. 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. International brand cigarettes include Virginia cigarettes that contain only flue-cured tobaccos as well as American blend cigarettes. American blend cigarettes contain approximately 50% flue-cured, 35% burley and 15% oriental tobacco, contain less tar and nicotine and taste milder than locally produced cigarettes containing dark and semi-oriental tobacco historically consumed in certain parts of the world. 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.

Product *(Continued)*

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. We believe that the international expansion of the large multinational cigarette manufacturers will cause these manufacturers 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.

Geographic Regions of Operation

We have developed an extensive international network through which we purchase, process and sell tobacco. We own or have an interest in processing facilities in Argentina, Brazil, India, Tanzania and the United States, the most significant exporters of flue-cured tobacco; Brazil, Malawi and the United States, the leading exporters of burley tobacco, and Kyrgyzstan, Macedonia, Bulgaria and Turkey, the leading exporters of oriental tobacco. We also have processing facilities in Germany and Indonesia. We have historically contracted with third parties for the processing of tobacco in certain countries including Argentina, Canada, China, Guatemala, India, Thailand and certain countries of the former Soviet Union. 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, including Argentina, Canada, China, India, Indonesia and Thailand.

We purchase tobacco in more than 45 countries. During the twelve months ended March 31, 2007, approximately 35%, 12%, 7%, 6%, 6% and 6% of the dollar value of tobacco Alliance One purchased during 2007 was from Brazil, the United States, Argentina, China, Turkey and Malawi, respectively. The remaining 28% was purchased in more than 39 different countries with no single country accounting for more than 5% of the amount purchased.

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 are disclosing 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 further information.

Purchasing

Tobacco is now primarily purchased directly from growers ("direct contract buying") with small quantities still sold at auction. Prior to the 2004 crop in the United States, flue-cured and burley tobacco crops were purchased at public auction, but these markets have undergone a fundamental change. In addition to the leaf merchants, a number of our U.S. customers purchase green tobacco directly from the growers. Although our U.S. facilities continue to process the tobacco purchased directly from growers by these customers, we no longer take ownership of that tobacco and no longer record sales revenues associated with its resale. The majority of our purchases of U.S. flue-cured and burley tobacco are made through the direct contract buying system where we buy the farmer s entire crop. With respect to tobacco purchased by us through this system (and to which we still take title), we assume the risk of matching the quantities and grades required by our customers to the entire crop we must purchase under contract. As a result, we work closely with our customers in advance of the crop to estimate our customer requirements and use these estimates as the basis to contract tobaccos directly from farmers. However, this arrangement has increased the possibility that we may accumulate inventories of grades of tobacco that our customers do not need. When purchases are made from an auction system, tobaccos are purchased primarily to match specific customer orders.

Principal auction markets include Canada, India and Malawi. We usually purchase tobacco at those auction markets after receiving specific customer orders or indications of customers' upcoming needs. Our network of tobacco operations and buyers allows us to cover the major auctions of flue-cured and burley tobacco throughout the world. These buyers are experts in differentiating hundreds of grades of tobacco based on customer specifications and preferences that take into account, among other factors, the texture, visual appearance and aroma of the tobacco.

Purchasing *(Continued)*

In non-auction markets such as Argentina, Brazil, Bulgaria, China, Greece, Guatemala, Indonesia, Kyrgyzstan, Tanzania, Turkey and Zambia, we purchase tobacco directly from growers or from local entities that have arranged for purchase from growers. We often make these direct purchases based upon our projection of the needs of our long-standing customers rather than against specific purchase orders. Our arrangements with growers vary from locale to locale depending on our predictions of future supply and demand, local historical practice and availability of capital. For example, in Brazil, we generally contract to purchase a grower'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 growers with fertilizer and other materials necessary to grow tobacco and may either directly loan or guarantee Brazilian rural credit loans to growers to finance the crop. Under longer-term arrangements with growers, we may also finance or guarantee financing on growers' capital assets. In addition, our agronomists maintain frequent contact with growers prior to and during the growing and curing seasons to provide technical assistance to improve the quality and yield of the crop. In other non-auction markets, such as Argentina and China, we buy tobacco from local entities that have purchased tobacco from growers and supervise the processing of that tobacco by those local entities. We believe that our long-standing relationships with our customers are vital to our purchasing operations outside of the auction markets.

Processing

We process tobacco to meet each customer's specifications as to quality, yield, chemistry, particle size, moisture content and other characteristics. We own and operate 23 tobacco processing facilities in 14 countries. 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. Accordingly, we have located our processing facilities in proximity to our principal sources of 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.

Processed flue-cured and burley 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 are separately packed in cases, bales, cartons or hogsheads for storage and shipment. Packed flue-cured and burley 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.

During 2005 and in prior years, we processed tobacco acquired by various stabilization cooperatives under the domestic price support program in the United States. We derived significant revenues from the fees charged for these processing services, particularly in years when a substantial portion of the domestic tobacco crop is acquired by such cooperatives under the program. While these revenues were not material to our net sales, they resulted in additional recovery of fixed costs that may be significant to gross profit. In 2006 and 2007, as a result of the repeal of the federal tobacco price support and quota programs beginning with the 2005 crops under the The American Jobs Creation Act of 2004, we processed no stabilization cooperative tobacco.

Customers and Selling Arrangements

Customers

We ship tobacco to manufacturers of cigarettes and other consumer tobacco products located in more than 90 countries around the world. We ship to international locations designated by these manufacturers. A majority of the shipments of tobacco are to factories or storage facilities of these manufacturers that are located outside the United States. In certain countries we also use commissioned agents to supplement our selling efforts.

Customers and Selling Arrangements ***(Continued)***

Customers (Continued)

The consumer tobacco business is dominated by a relatively small number of large multinational cigarette manufacturers and by government controlled entities. Of Alliance One s 2007, 2006 and 2005 sales and other operating revenues, approximately 19%, 18% and 15%, respectively, were to various tobacco customers which are owned by or under common control of Japan Tobacco Inc. and approximately 34%, 34% and 28%, respectively, were to various tobacco customers which are owned by or under common control of Altria Group, Inc. In 2007, Alliance One delivered approximately 17% of its tobacco sales to customers in the United States, approximately 50% to customers in Europe. One customer directs shipments to its Belgium storage and distribution center before shipment to its manufacturing facilities in Europe and Asia. In 2007, these Belgium sales accounted for 35% of sales to customers in Europe. The remaining sales are to customers located in Asia, Africa and elsewhere.

Selling Arrangements

We typically make most of our leaf tobacco purchases pursuant to customer orders or supply contracts or customer indications of anticipated need, with most purchases made based on indications. Customers are legally bound to purchase tobacco purchased by us pursuant to orders, but no contractual obligation exists with respect to tobacco purchased in response to indications. However, we have done business with most of our customers for many years and have never experienced a significant failure of customers to purchase tobacco for which they have given indications.

Generally, our agreements with customers establish a framework for pricing our services that is negotiated with respect to crop year, grade of tobacco leaf or type of service provided based on market prices. The majority of these agreements do not provide for minimum purchases and are terminable upon reasonable notice. None of the contracts are individually material to our business as a whole and we have no other significant supply agreements with our customers.

Our normal customer sales terms are either cash against documents, payment against invoice or customer letter of credit. Most of our sales throughout the world are denominated in U.S. dollars. While we can receive payment for tobacco sold after we have processed and shipped it, some of the larger customers advance payments to us throughout the buying and processing season as we purchase and process tobacco for the customers' accounts.

Seasonality

The purchasing and processing activities of our tobacco business are seasonal. Flue-cured tobacco grown in the U.S. is purchased, processed and sold generally during the five-month period beginning in July and ending in November. U.S.-grown burley tobacco is purchased, processed and sold usually from late November through January or February. Tobacco grown in Brazil is usually purchased, processed and sold 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 sales 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

The leaf tobacco industry is highly competitive. 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 and financing of tobacco. In addition, there is competition in all countries to buy the available leaf tobacco and in many areas, total leaf tobacco processing capacity exceeds demand.

In addition to the primary global independent leaf tobacco merchants, the cigarette manufacturers increasingly buy tobacco directly from farmers, and other independent leaf merchants with low fixed costs and overhead who have entered the leaf purchasing and processing business on a local basis.

Alliance One is one of only two global independent leaf tobacco merchants, with substantially similar global market shares. 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 cigarette manufacturers.

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 4,700 persons, excluding seasonal employees, in our worldwide operations at March 31, 2007. In the U.S. operations, Alliance One s consolidated entities employed approximately 400 employees at March 31, 2007. During processing periods the seasonal employees in the United States would number approximately 700. Most U.S. seasonal employees are covered by collective bargaining agreements. None of Alliance One s full-time employees are covered by collective bargaining agreements with the exception of approximately 150 factory personnel. In the non-U.S. operations, Alliance One s consolidated entities employed approximately 4,300 persons, excluding approximately 11,900 seasonal employees, at March 31, 2007. 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, 2007 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	53	President and Chief Executive Officer
James A. Cooley	56	Executive Vice President - Chief Financial Officer
Hilton Kappaun	47	Executive Vice President Global Operations
J. Pieter Sikkel	43	Executive Vice President Business Strategy and Relationship Management
Henry C. Babb	62	Senior Vice President - Chief Legal Officer and Secretary
Michael K. McDaniel	57	Senior Vice President - Human Resources
William D. Pappas	54	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 served as President and Chief Operating Officer of Alliance One International, Inc. from May 2005 to January 2007. Previously, he was President and Chief Executive Officer of Standard Commercial Corporation from August 1996, and its Chairman from August 2003 to May 2005.

James A. Cooley has served as Executive Vice President - Chief Financial Officer of Alliance One International, Inc. since May 2005. Previously, he served as Senior Vice President - Chief Financial Officer of DIMON Incorporated from March 1999 to May 2005.

Hilton Kappaun has served as Executive Vice President Global Operations since April 2007. Previously, he served as Regional Director of South America for Alliance One International, Inc from May 2005 to April 2007 and served as Regional Executive of South America for DIMON Incorporated from January 2002 to May 2005.

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 International, Inc from May 2005 to April 2007, Senior Vice President of Asia for Standard Commercial Corporation 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 International, Inc. since May 2005. Previously, he served as Senior Vice President - Public Affairs, General Counsel and Secretary of Standard Commercial Corporation 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 International, Inc. since May 2005. Previously, he served as Senior Vice President - Human Resources of Standard Commercial Corporation 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 International, Inc. since May 2005. Previously, he served as Chief Information Officer of DIMON Incorporated 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. A shift in sourcing origins in Europe is influenced by modifications to the tobacco price support system in the European Union (EU). The Agricultural Counsel of the EU implemented changes in the quota and volume programs across the EU that may result in material reductions in production volumes in certain EU countries in the future. The implementation of these new programs will vary significantly by each EU country. 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. 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.

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. For example, shortages in shipping containers was a major factor in shipping delays in Brazil during our 2006 fiscal year. In the current fiscal year, infrastructure and accessibility issues have materially delayed shipments from the African port of Beira, from which we ship much of the tobacco we source in Malawi and other African origins. 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. Since 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.

ITEM 1A. RISK FACTORS *(Continued)*

Risks Relating to Our Operations *(Continued)*

Our extension of credit to tobacco growers could expose us to losses.

We make advances to tobacco growers in many countries to finance their growing of tobacco for sale to us. Crop advances to growers are generally secured by the grower s agreement to deliver green tobacco. In the event of crop failure, recovery of advances could be delayed until deliveries of future crops or indefinitely. The temporary or permanent loss of these advances to growers could result in losses.

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

In countries where we contract directly with tobacco growers, 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.

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.

Approximately 19%, 18% and 15%, respectively, of our consolidated tobacco sales in 2007, 2006 and 2005, were to various tobacco customers which are owned by or under common control of Japan Tobacco Inc. and approximately 34%, 34% and 28%, respectively, were to various tobacco customers which are owned by or under common control of Altria Group, Inc. No other customer accounts for more than 10% of our sales.

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.

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 growers.

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.

ITEM 1A. RISK FACTORS *(Continued)*

Risks Relating to Our Operations *(Continued)*

We face increased risks of doing business due to the extent of our international operations. *(Continued)*

Zimbabwe remains in a period of civil unrest and has a deteriorating economy. At March 31, 2006, as a result of the political environment, economic instability, foreign currency controls and governmental regulations, we deconsolidated our subsidiaries and recorded an impairment charge of $47.9 million to reduce our investment in Zimbabwe to its estimated fair value. Governmental authorization is required before any dividends can be paid from a Zimbabwe operation. Our Zimbabwe operations had tried unsuccessfully to pay dividends in prior years due to certain unattainable criteria set by the Reserve Bank of Zimbabwe and the government not granting the necessary authorizations. We do not consider any further dividends from our Zimbabwe subsidiary in the near future a possibility. Current economic and political conditions continued to decline in fiscal 2007 as inflation, lending rates and investment rates have deteriorated. General farming operations are being negatively impacted by the lack of foreign exchange to buy crop inputs and fuel. As a result, several significant operational changes were made including the closure of the Zimbabwe processing factory, outsourcing the 2006 crop tobacco processing and a significant reduction in permanent personnel. During fiscal 2007, we evaluated the fair value of the Zimbabwe operations and determined that the net investment in the Zimbabwe operations exceeded the estimated fair value. Accordingly, we recorded an additional non-cash impairment charge of $13.2 million to write down the net investment in the Zimbabwe operations to zero.

Farmers in Malawi have recently protested the current crop auction pricing levels. Any disruption in the marketing of the crop in Malawi would have a significant impact on world supply of burley tobacco and on our financial results.

We are subject to potentially inconsistent actions by the governments of certain foreign countries in which we operate which may have significant impact on our financial results. In 2006, our concession to promote tobacco production in the Chifunde district of Mozambique was terminated by the government. 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.

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.

Effective January 1, 2005, the government of Rio Grande do Sul, the state in which our subsidiaries operate in Brazil, adopted changes in their Imposto Sobre Circulacao de Mercadorias e Servicos (ICMS), a tax on the transfer of goods and services between states within Brazil. Prior to this change, our transfers of leaf tobacco and processed tobacco inventory between states in Brazil was taxed, but these transfers generated tax credits that were used to offset ICMS tax obligations or were transferred to third parties. Pursuant to the change, the credits generated from the payment of ICMS taxes could not be used to reduce the overall tax exposure by third parties by more than 10% of the generating company s tax liability in any tax year, severely reducing the ability to sell excess tax credits to others. In conjunction with this change, we recorded a reserve against the $25.1 million of ICMS credits recorded as a receivable as of March 31, 2006. This reserve remained as we entered into negotiations with the government of Rio Grande do Sul.

Effective on May 23, 2006, we entered into an agreement with the government of Rio Grande do Sul which provided for the sale of a certain amount of ICMS credits each month through 2011. Based on our evaluation of the agreement and the ability to sell ICMS credits to third parties each month, the reserve was reversed during the quarter ended June 30, 2006 as it related to inventory that had already been sold.

On January 1, 2007, a new government took office in the state of Rio Grande do Sul. The government requested a review of the terms to the agreement entered into in May 23, 2006. In March 2007, we renegotiated the terms related to the ICMS credits that the government will allow to be sold to third parties on a monthly basis.

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. 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.

ITEM 1A. **RISK FACTORS** *(Continued)*

Risks Relating to Our Operations *(Continued)*

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

In particular, the devaluation of the U.S. dollar against the Brazilian real has recently increased the cost of our inventory and operating costs generally in Brazil, only a portion of which can be passed on to our customers. As the international leaf industry continues to place greater emphasis on Brazil, the weakness of the U.S. dollar in relation to the Brazilian real will increasingly impact our consolidated operating results and operating margins, and we do not foresee a reversal of this trend occurring in the immediate future. In addition, the historically weak real in relation to the dollar has tended to offset the normal escalation in crop prices in Brazil, which will have a more significant impact to the extent the real is stronger against the dollar.

In recent years, economic problems in Zimbabwe have resulted in significant devaluation of the local currency and inflation. If we are unable to minimize Zimbabwe currency risk by effectively matching the timing of our working capital borrowing needs against the tobacco purchasing and processing funds requirements in the local currency then devaluation can have a material affect on our tobacco purchase and processing costs.

In addition, the devaluation of foreign currencies, particularly Asian and Eastern European currencies, has resulted and may in the future result in reduced purchasing power from customers in these areas. We may incur a loss of business as a result of the devaluation of these currencies now or in the future.

Competition could erode our earnings.

The leaf tobacco industry is highly competitive. DIMON was one of three global leaf tobacco merchants, and when it completed the merger with Standard, Alliance One became one of two global competitors in the leaf tobacco industry, each with approximately equal market share. Competition among leaf tobacco merchants 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 primary global independent leaf tobacco merchants, the cigarette manufacturers increasingly buy tobacco directly from farmers, 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, where the new entrants have been able to capitalize in the global transition to that market. In the United States, the Flue-Cured Tobacco

Stabilization Cooperative (FCTSC) has purchased the Vector facility in Roxboro, North Carolina. That facility enables the FCTSC to process tobacco and manufacture cigarettes. The FCTSC also has a specialty products operation at this facility which competes with our specialty products operations. In addition, the FCTSC and burley stabilization pools received inventory in lieu of cash from the Commodity Credit Corporation under the congressional quota buyout bill. Any of these sources of new competition may result in less tobacco available for us to purchase and process in the applicable markets.

Our adoption and application of certain standards in financial accounting could cause our annual and quarterly financial results to vary and will reduce your ability to gauge our performance, increasing the risk of an investment in our securities.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. FIN 48 requires us to establish reserves for uncertain tax positions if it is not more likely than not that we will prevail on the merits if audited and challenged. FIN 48 will be applicable to us beginning April 1, 2007. The effect of FIN 48 is being reviewed, and it could have a material impact on our financial performance because we do business in countries that do not have clear tax rules concerning transfer pricing and other tax matters. This lack of clarity in the tax rules creates uncertainty which cannot be easily analyzed or predicted. As a result, we may have tax presence liabilities that could give rise to accruals under FIN 48 that will never reverse.

ITEM 1A. RISK FACTORS *(Continued)*

Risks Relating to Our Operations *(Continued)*

Our adoption and application of certain standards in financial accounting could cause our annual and quarterly financial results to vary and will reduce your ability to gauge our performance, increasing the risk of an investment in our securities. *(Continued)*

In addition, we adopted SFAS No. 142, Goodwill and Other Intangible Assets, effective July 1, 2002. As a result of adoption of SFAS No. 142, we no longer amortize goodwill. However, if we determine that there has been a material impairment to goodwill, we will recognize the amount of that impairment as a charge to earnings in the applicable reporting period. As a result of certain reporting units failing Step 1 during our 2006 annual test for impairment of goodwill, we measured the impairment loss, if any, by comparing the implied fair value of the reporting unit with the carrying amount of goodwill (Step 2). The fair value of the reporting unit was estimated using the expected present value of future cash flows. Based on this analysis we recorded a total goodwill impairment charge of $256.9 million during the fourth quarter of fiscal 2006 related to the operating segments of North America and South America.

Risks Relating to Our Capital Structure

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, 2007, we had approximately $179.1 million drawn and outstanding on foreign seasonal lines totaling $485.2 million. Additionally against these lines there was $12.8 million available in unused letter of credit capacity with $17.8 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.

ITEM 1A. <u>RISK FACTORS</u> *(Continued)*

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.

We have a significant amount of indebtedness and debt service obligations. As of March 31, 2007, we had approximately $911.0 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.

Our substantial debt will have important consequences, including:

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

- 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;

- 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;

- increasing our vulnerability to general adverse economic and industry conditions;

-

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

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

- 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 indenture governing the notes will restrict, but will not completely prohibit, us from doing so. Our senior secured credit facility provides for a $240.0 million revolving credit line. There were no borrowings under this facility at March 31, 2007. 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.

ITEM 1A. <u>RISK FACTORS</u> *(Continued)*

Risks Relating to Our Capital Structure *(Continued)*

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. *(Continued)*

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.

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.

From October 28, 2005 to March 31, 2007, we amended our senior secured credit facility on six separate occasions. We sought these amendments to relax certain financial covenants and negative covenants, to enable us to engage in previously restricted sales of assets and to refinance our outstanding senior notes.

In October 2004, we determined that defaults had occurred under the limitation on restricted payments covenant in the indentures relating to both our then outstanding $200.0 million 9 5/8% senior notes due 2011 and $125.0 million 7 3/4% senior notes due 2013, and that, by definition, the defaults under these indentures created automatic defaults under our $650.0 million syndicated credit facility then in effect and under certain operating lines of credit. The defaults related to the determination of amounts available to make certain restricted payments under these senior notes indentures. We solicited and, on November 1, 2004 obtained, consents from the holders of our notes to a waiver of the defaults under the senior notes indentures and an amendment of the related covenants to allow additional time to bring our operations into compliance.

You should consider the matters described above in evaluating our ability to comply with restrictive covenants in our debt instruments and the financial costs of our ability to do so.

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.

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.

ITEM 1A. **RISK FACTORS** *(Continued)*

Risks Relating to the Tobacco Industry *(Continued)*

Reductions in demand for consumer tobacco products could adversely affect our results of operations. *(Continued)*

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

- governmental actions seeking to ascribe to tobacco product manufacturers liability for adverse health effects associated with smoking and exposure to environmental tobacco smoke;
- smoking and health litigation against tobacco product manufacturers;
- tax increases on consumer tobacco products;
- 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;
- governmental and private bans and restrictions on smoking;
- actual and proposed price controls and restrictions on imports in certain jurisdictions outside the United States;
- restrictions on tobacco product manufacturing, marketing, advertising and sales;
-

the diminishing social acceptance of smoking;

•

increased pressure from anti-smoking groups;

•

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

•

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. The effects of the lawsuits on our customers could reduce their demand for tobacco from us. 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. The United States Department of Justice is currently engaged in a lawsuit against the leading cigarette manufacturers, seeking to recover billions of dollars. There have been several jury verdicts in tobacco product litigation during the past several years. Additional plaintiffs continue to file lawsuits.

In November 1998, certain United States tobacco product manufacturers entered into the MSA with 46 states and certain territories to settle asserted and unasserted health care cost recovery and other claims. These manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota and an environmental tobacco smoke and health class action brought on behalf of airline flight attendants. The MSA has received final judicial approval in all 52 settling jurisdictions.

The MSA and other state settlement agreements include provisions relating to advertising and marketing restrictions, public disclosure of industry documents, limitations on challenges to tobacco product control and underage use laws, lobbying activities and other provisions. The provisions of the Master Settlement Agreement and any similar settlement agreements could have a material adverse impact on our customers purchases from us.

Legislative and regulatory initiatives could reduce consumption of consumer tobacco products and demand for our services.

In recent years, members of Congress have introduced legislation, some of which has been the subject of hearings or floor debate, that would subject cigarettes to various regulations under the Department of Health and Human Services or regulation under the Consumer Products Safety Act, establish anti-smoking educational campaigns or anti-smoking programs, provide additional funding for governmental anti-smoking activities, further restrict the advertising of cigarettes, including requiring additional warnings on packages and in advertising, provide that the Federal Cigarette Labeling and Advertising Act and the Smoking Education Act could not be used as a defense against liability under state statutory or common law, or allow state and local governments to restrict the sale and distribution of cigarettes and eliminate or reduce the tax deductibility of tobacco product advertising. If any or all of the foregoing were to be implemented, our business, volume, results of operations, cash flows and financial condition could be materially adversely affected.

ITEM 1A. **RISK FACTORS** *(Continued)*

Risks Relating to the Tobacco Industry *(Continued)*

Legislative and regulatory initiatives could reduce consumption of consumer tobacco products and demand for our services. *(Continued)*

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.

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 May of 2003, the World Health Organization adopted a treaty, the Framework Convention for Tobacco Control, which 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. The treaty will take effect after forty countries ratify it and must be implemented by national laws in the ratifying nations. To date, 168 parties have signed the treaty, and 144 countries are parties to the treaty.

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.

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

The leaf tobacco industry, from time to time, has been the subject of government investigations regarding trade practices. For example, in 1998 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. More recently, we were named defendants in the *DeLoach, et al. v. Philip Morris Companies Inc. et al.*, antitrust class action litigation alleging a conspiracy to rig bids in the tobacco auction markets. We, along with all but one of the other defendants, entered into a settlement agreement with the plaintiffs which received final approval, and which accorded us a full release from all the claims. In exchange for such settlement, we contributed $13.0 million towards a larger total settlement agreement.

Since October 2001, the Directorate General for Competition (DGCOMP) of the European Commission (EC) has been conducting 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. 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 ($5.7 million) solely relating to the investigations in Spain. In respect of the Italian investigation, in October 2005, the EC announced that we and Mindo (our former subsidiary) have been assessed a fine in the aggregate amount of €10.0 million ($12.0 million) and that, in addition, we and Transcatab, a subsidiary of Standard prior to its merger into DIMON, have been assessed a fine in the aggregate amount of €14.0 million ($16.8 million). Several tobacco processors, growers 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 recently 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 1A. RISK FACTORS *(Continued)*

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 practices. *(Continued)*

In March 2004, we discovered potential irregularities with respect to certain bank accounts in southern Europe and central Asia. The Audit Committee of our 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 our historical financial statements, 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. 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 has issued a formal order of investigation of us and others to determine if these or other actions may have violated certain provisions of the Securities Exchange Act of 1934 and rules thereunder. We are cooperating fully with the SEC with respect to the investigation. If the U.S. authorities determine that there have been violations of federal laws, they may seek to impose sanctions on us that may include, among other things, injunctive relief, disgorgement, fines, penalties and modifications to business practices. It is not possible to predict at this time whether the authorities will determine that violations have occurred, and if they do, what sanctions they might seek to impose. It is also not possible to predict how the government s investigation or any resulting sanctions may impact our business, results of operations or financial performance. Any monetary penalty assessed may be material to our results of operations in the quarter in which it is imposed.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Following is a description of Alliance One s material properties as of March 31, 2007.

Corporate

Our corporate headquarters are located in Morrisville, North Carolina.

Facilities

We own a total of 23 processing facilities in 14 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 processing 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 processing facilities and certain foreign processing 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:

LOCATION	USE	AREA IN SQUARE FEET
	SOUTH AMERICA SEGMENT	
SOUTH AMERICA		
VENANCIO AIRES, BRAZIL	FACTORY/STORAGE	1,378,000
SANTA CRUZ, BRAZIL	FACTORY/STORAGE	2,111,000
VERA CRUZ, BRAZIL	STORAGE	311,000
EL CARRIL, ARGENTINA	FACTORY/STORAGE	389,000
	OTHER REGIONS SEGMENT	
UNITED STATES		

WILSON, N.C.	FACTORY/STORAGE	1,618,000
FARMVILLE, N.C.	FACTORY/STORAGE	895,000
DANVILLE. VA	STORAGE	907,000
AFRICA		
LILONGWE, MALAWI	FACTORY/STORAGE	1,662,000
MOROGORO, TANZANIA	FACTORY/STORAGE	741,000
EUROPE		
IZMIR, TURKEY	FACTORY/STORAGE	1,431,000
THESSALONIKI, GREECE	FACTORY/STORAGE	378,000
KARLSRUHE, GERMANY	FACTORY/STORAGE	236,000
ASIA		
NGORO, INDONESIA	FACTORY/STORAGE	324,000

ITEM 3. LEGAL PROCEEDINGS

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 (the FCPA). In May 2004, the Company voluntarily reported the matter to the U.S. Department of 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 U.S. Securities and Exchange Commission (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 may have violated certain provisions of the Securities Exchange Act of 1934 and rules thereunder. The Company is cooperating fully with the SEC with respect to the investigation.

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

If the U.S. authorities determine that there have been violations of federal laws, they may seek to impose sanctions on the Company that may include, among other things, injunctive relief, disgorgement, fines, penalties and modifications to business practices. It is not possible to predict at this time whether the authorities will determine that violations have occurred, and if they do, what sanctions they might seek to impose. It is also not possible to predict how the government s investigation or any resulting sanctions may impact the Company s business, results of operations or financial performance, although any monetary penalty assessed may be material to the Company s results of operations in the quarter in which it is imposed.

ITEM 4. <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>

None.

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." Prior to our merger with Standard Commercial Corporation on May 13, 2005, our common stock had been traded on the New York Stock Exchange under the ticker symbol DMN since April 3, 1995.

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
Year Ended March 31, 2007			
Fourth Quarter	$9.35	$6.75	$.000
Third Quarter	7.31	3.97	.000
Second Quarter	4.41	3.57	.000
First Quarter	4.95	3.57	.000
Year Ended March 31, 2006			
Fourth Quarter	$5.06	$3.59	$.000
Third Quarter	4.32	2.16	.000
Second Quarter	6.30	3.28	.030
First Quarter	6.80	5.61	.075

As of March 31, 2007, there were approximately 7,612 shareholders, including approximately 6,364 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.

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

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					
	6/30/02	6/30/03	3/31/04	3/31/05	3/31/06	3/31/07
Alliance One International, Inc.	$100.00	$107.97	$110.55	$102.14	$ 80.97	$153.78
Custom Peer Group	$100.00	$119.76	$147.53	$137.32	$114.75	$200.07
S&P 500	$100.00	$100.25	$117.39	$125.25	$139.93	$156.49
S&P Small Cap 600	$100.00	$ 96.42	$125.87	$142.34	$176.60	$185.95

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

EQUITY COMPENSATION PLAN INFORMATION
as of March 31, 2007

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c) [1]
Equity Compensation Plans Approved by Security Holders	2,798,831	6.94	1,768,724
Equity Compensation Plans Not Approved by Security Holders	0	Not Applicable	0
Total	2,798,831	6.94	1,768,724

(1)

The 2003 Incentive Plan allows for certain of these shares to be issued in the form of restricted stock grants. Further, the Number of Securities Remaining Available for Future Issuance as set forth in this column (c) will increase by the Number of Securities to be Issued (as reflected in column (a)) which are associated with options, rights and warrants that are forfeited from time to time.

ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR FINANCIAL STATISTICS

Alliance One International, Inc. and Subsidiaries

The information presented in the table below includes periods ending prior to the completion of our merger with Standard Commercial Corporation on May 13, 2005. Accordingly, the information presented does not include any results of operations or other information related to Standard for periods ending March 31, 2005, nine months ended March 31, 2004 and June 30, 2003.

(in thousands, except per share amounts and number of stockholders)	Years Ended March 31, 2007	2006	2005	Nine Months Ended March 31, 2004 (5)	Year Ended June 30, 2003
Summary of Operations					
Sales and other operating revenues	$1,979,078	$2,112,685	$1,300,118	$ 797,525	$1,194,960
Goodwill impairment	-	256,916	-	-	-
Restructuring and asset impairment charges	29,773	85,411	2,836	16,398	-
Debt retirement expense	3,860	66,474	-	-	-
Income (loss) from continuing operations	(2,615)	(423,342)	24,441	(17,511)	28,482
Loss from discontinued operations	(18,730)	(24,104)	(11,153)	(15,357)	(425)
Net income (loss)	(21,597)	(447,446)	13,288	(32,868)	28,057
Per Share Statistics					
Basic Earnings (Loss) Per Share:					
Income (loss) from continuing operations	$(.03)	$(5.21)	$.55	$(.40)	$.64
Loss from discontinued operations	(.22)	(.30)	(.25)	(.33)	(.01)
Net income (loss)	(.25)	(5.51)	.30	(.73)	.63
Diluted Earnings (Loss) Per Share:					
	$(.03)	$(5.21)	$.54	$(.40)	$.63

Income (loss) from continuing operations					
Loss from discontinued operations	(.22)	(.30)	(.25)	(.33)	(.01)
Net income (loss) (1)	(.25)	(5.51)	.29	(.73)	.62
Cash dividends paid	-	.105	.30	.225	.275
Book value	2.55	2.46	9.13	9.19	10.16
Balance Sheet Data					
Working capital	$ 531,983	$ 538,913	$ 473,063	$ 426,605	$ 444,401
Total assets	1,653,872	1,904,124	1,404,059	1,357,404	1,353,152
Long-Term Debt	726,625	744,494	486,412	421,009	424,897
Stockholders equity	225,546	214,187	414,312	414,885	454,573
Other Data					
Ratio of Earnings to Fixed Charges (2)	1.12	-	1.65	-	1.75
Common shares outstanding at year end (3)	96,467	94,963	45,368	45,162	44,737
Number of stockholders at year end (4)	7,612	7,658	7,641	5,945	5,946

1) For the year ended March 31, 2005, the nine months ended March 31, 2004 and the year ended June 30, 2003 the assumed conversion of Convertible Debentures at the beginning of the period has an antidilutive effect on earnings (loss) per share. In connection with the closing of the merger with Standard many of the Company s financing arrangements were refinanced, including in July of 2005, the Company s $73,328 of convertible subordinated debentures due 2007. For the years ended March 31, 2007, March 31, 2006 and the nine months ended March 31, 2004, 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 and 2004, fixed charges exceeded earnings by approximately $442,087 and $17,312 respectively.

3) The years ended March 31, 2007 and March 31, 2006 include 7,853 shares owned by a wholly-owned subsidiary. This subsidiary does not receive dividends on these shares and it does not have the right to vote.

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

5) In June 2003, we changed our fiscal year to March 31. As a result of this change, we reported a nine month transition year ending March 31, 2004.

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

General

Our company was renamed Alliance One International, Inc. on May 13, 2005, concurrent with the merger of Standard Commercial Corporation with and into DIMON Incorporated, the third largest and second largest global independent leaf tobacco merchants, respectively. Accordingly, the information regarding our fiscal year ended March 31, 2005 and for any other time prior to the completion of our merger in Management s Discussion and Analysis of Financial Condition and Results of Operations relates only to DIMON Incorporated. The progression of functional and operational integration activities have made differentiation between former DIMON and former Standard results increasingly difficult which impairs the comparability of fiscal years 2006 and 2005 results.

Executive Overview

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

Financial Results

Current year operating results improved significantly from the prior year, although increases in current year gross margin were eroded by the strength of local currencies against the U.S. dollar and farmer debt costs in certain areas, particularly in Brazil. Selling, administrative and general expenses continue to benefit from the continued focus on delivering the merger savings and from the deconsolidation of Zimbabwe operations and remain in line with a normalized run rate for the year. We had appropriate additional restructuring charges during the year as we completed the merger integration plan and continued to refine our operational footprint. Additional impairment charges were reflected relative to the deconsolidated Zimbabwe operations and closure of non-core business in Europe and Asia while we also took material charges to complete our exit from the Italian market. Overall, our 2007 fiscal year results demonstrated successful execution of our strategy.

Liquidity and Debt Refinancing

During the year we sold non-core assets and used the proceeds to further deleverage the balance sheet, which in turn reduced interest costs. We will continue these efforts in 2008, with particular attention paid to application of free cash flow for further debt reduction. We maintain appropriate levels of liquidity throughout the year utilizing long term commitments augmented by various international banking relationships for our continued seasonal credit needs.

On March 7, 2007 we initiated the first phase of our balance sheet partial refinancing by issuing $150.0 million of new 8.5% Senior Notes due May 15, 2012 with a 0.5% original issue discount to yield 8.625%. Proceeds from the issuance were utilized to make prepayments on our term loans under the May 13, 2005 $650.0 million Senior Secured Credit Agreement. Following the 8.5% Senior Note issuance, on March 30, 2007, we completed the final phase, refinancing outstanding term loans and remaining commitments under our $650.0 million Senior Secured Credit Agreement with a new $385.0 million Credit Agreement. Under the terms of the new credit agreement, we have a three and one half year $240.0 million revolving credit facility and a four year $145.0 million Term Loan B. There were no outstanding loans or issued but unfunded letters of credit under the $240.0 million revolver as of March 31, 2007. The partial refinancing eliminated over $266.8 million in required amortization over the next three years and reduced our future debt carrying cost with lower pricing. Subsequent to the year end, we made an additional optional prepayment on the Term Loan B of $50.0 million.

Outlook

Global demand for our products remains solid and we are well positioned where growth is occurring. We continue to challenge all of our operations to achieve appropriate return targets and to effect actions which will positively improve future performance. The strategy behind our merger and the creation of Alliance One is simple, and has not changed: We are seeking to create the profile of a strategic leaf supply partner with the footprint and scale necessary to drive efficiency, sustainability and long-term shareholder value in what remains an intensely competitive global industry.

As a result of the merger of DIMON and Standard that we completed in May 2005, we have realized more than $115.0 million in annual pre-tax cost savings through the rationalization of processing capacity and the elimination of duplicative regional and corporate overhead and we now view the original merger integration plan as complete except for the sale of certain long-lived assets. In addition to these cost savings, we have realized improved operating efficiencies by leveraging our expertise and capabilities and spreading combined volumes over a streamlined asset base. The focus on cost savings and operating efficiencies over the last two years has better positioned us to serve and grow with our customers as they respond to global industry conditions.

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

Executive Overview *(Continued)*

Outlook *(Continued)*

We have now transitioned the combined operations of both predecessor companies and created a truly unified and integrated Alliance One with an unswerving focus on our core business. We have exerted tremendous efforts in order to complete the systematic exiting of marginal and/or unprofitable origins or businesses. Most of our initiatives and actions were begun in fiscal 2006 and the integration process was substantially completed in fiscal 2007. We will continue to refine our footprint and we are dedicated to further improving the company s performance in fiscal 2008.

Our focus in fiscal 2007 has been on profit improvement and debt reduction, and we have shown notable success in both areas. Our focus in fiscal 2008 will be on continued profit improvement and debt reduction. The former will come from a combination of cost reductions, efficiency improvements and improved pricing, while the latter will be achieved through aggressive working capital management to reduce the operating cycle, including reduced leaf production in certain key origins to minimize inventory and investments.

We remain totally committed to our customer-focused strategy, and we are confident that this strategy, with our merger as its cornerstone, will position us to enhance our already strong customer relationships and allow us to grow with our customers. As such, we will continue to focus our attention and resources on those origins that are growing in market importance, on delivering outstanding customer service, exercising expense discipline, and above all, delivering the full benefits of the merger.

Operating Environment

Global

As previously stated, current trends remain toward a balance of supply and demand, though there are indications of increased demand for better quality burley tobaccos due to weather related crop shortfalls in certain African markets. We expect additional near term downward production adjustments to be made in the South American markets in response to the higher than anticipated current yields, achieved this crop cycle. Currency pressures remain a concern in most of the tobacco supply markets while crop yield and quality issues impacted by uncertain climatological conditions remain a challenge in many of the offshore markets. Continued attention to market fundamentals, particularly to responsible growing practices, quality product, service and valued delivery remain a core focus for the Company as we deal with these factors.

South America

We consider this region to be a key area in tobacco leaf production with Brazil as our largest source country in terms of volume and revenue. The Brazil 2006 crop marketed during fiscal 2007 was of poor quality due to adverse weather related growing conditions which resulted in higher levels of uncommitted inventory remaining at March 31, 2007 and related market valuation adjustments and a higher provision for grower bad debt. The continued appreciation of the Brazilian real has increased costs by approximately 20% again this year. While sales prices for the 2006 crop increased, they do not offset the higher costs of both the 2005 and 2006 crops. The 2007 crop is a better quality crop but it will be impacted by the continuing currency appreciation as well. We are evaluating various alternatives to mitigate these cost increases. In fiscal 2007, we reached an agreement with the government of Rio Grande do Sul, the state in which our subsidiaries operate in Brazil in which we recovered a substantial amount of trade taxes that had been recorded as costs in fiscal 2006. These taxes are not a cost component in fiscal 2007. Argentina remained a stable operating environment even though margins were negatively impacted by inflation.

Asia

The Asian region experienced several operating challenges this year. All areas experienced diminished volumes but increased domestic demand. The increased demand resulted in higher prices which were also impacted by strong local currencies. However, these challenges also provided opportunities including increased oriental trading volumes, new processing arrangements and increased processing volumes in Indonesia. As a whole, the importance of the Asian region continues to increase as a supply source for our global customers particularly as they expand their cigarette manufacturing operations into the region. In Indonesia, Thailand and India, we purchase and process tobacco through our own or joint venture operations. In other areas of Asia, we supervise the purchase and processing of tobacco in conjunction with operations owned by governmental and other third parties. We continue to expand the scope of our operations as the demand for Asian origin leaf continues to rise. Increased oriental crop sizes in China, India and Thailand coupled with a new crop development project in Indonesia are expected to act as key drivers for future growth in the Asian region.

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

Operating Environment: *(Continued)*

North America

The post-quota buyout era continues to evolve in the U.S. market and it is now virtually 100% direct contract purchasing as the traditional auction system has all but disappeared. Tobacco production continues to be concentrated in the traditional growing areas even though controls on volume, location and support price have been removed. The market remains substantially limited to domestic customers, as traditional foreign buyers have significantly reduced or eliminated U.S. grown leaf tobaccos from their product blends. As a result, our U.S. operations are increasingly focused on providing processing services to domestic manufacturers and providing value added products and services as manufacturers outsource segments of their business. Our Canadian and Guatemalan operations continue to contribute to the region s profitability.

Africa

Over the last three seasons, low yields in burley and dark-fired tobaccos across the region have resulted in reduced volumes. As a result, the African markets have opened with strong demand for burley and dark-fired tobaccos. Customer demand is strong for African flue-cured tobacco for its quality as well as a solution for customer dependency on other origins. Customer support remains strong throughout the region despite the affect on the business climate of political campaigning for presidential or local government elections around the region. Poverty, HIV, malaria and malnutrition are the main targets for eradication and are invariably linked to grower returns for agricultural products, particularly tobacco. In April 2007, we signed an agreement to sell one of our two factories in Malawi in early 2008. We anticipate that such sale, if consummated, will serve to futher streamline our African operations and provide increased efficiencies and cost reductions.

Europe

In the EU flue-cured and burley markets, the reform to the Common Agricultural Policy (CAP) support for tobacco has effected subsidy payments to growers. As a result, we sold our operations in Spain and closed our processing facility in Greece. We believe there could be further material reductions in tobaccos grown in Western Europe and we continue to evaluate our position in these markets. However, we will remain active in the EU flue-cured and burley markets as required to satisfy our customer requirements. We believe that Turkey continues to be the most important oriental tobacco market. Due to adverse growing conditions experienced in 2006, the oriental crops grown primarily in the Balkan areas, which are in the process of being purchased, have been reduced. However, with renewed interest from farmers and customers, we anticipate a return to reasonable volumes in the coming season. Oriental crop sizes are in alignment with demand and government-held stocks, in Turkey and in Bulgaria, are declining. Opportunities within our operations in the semi-oriental market continue to contribute to the development of the region and serve our customers. We believe we have a strong presence in all the important oriental and semi-oriental markets. Our European operations are continuously evaluated in order to achieve improved efficiencies and cost reductions.

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

Results of Operations

Condensed Consolidated Statement of Operations

	Twelve Months Ended March 31,						
		Change			Change		
(in millions)	2007	$	%	2006 (1)	$	%	2005 (1)
Sales and other operating revenues	$1,979.1	$(133.6)	(6.3)	$2,112.7	$ 812.6	62.5	$1,300.1
Gross profit	295.7	71.0	31.6	224.7	30.1	15.5	194.6
Selling, administrative and general expenses	158.3	(5.8)	(3.5)	164.1	39.7	31.9	124.4
Other income	6.1	3.6		2.5	(2.8)		5.3
Goodwill Impairment	-	(256.9)		256.9	256.9		-
Restructuring and asset impairment charges	29.8	(55.6)		85.4	82.6		2.8
Debt retirement expense	3.9	(62.6)		66.5	66.5		-
Interest expense	105.6	(3.0)		108.6	55.8		52.8
Interest income	8.6	1.5		7.1	2.7		4.4
Derivative financial instruments income	0.3	(4.8)		5.1	(8.0)		13.1
Income tax expense (benefit)	16.1	33.6		(17.5)	(30.6)		13.1
Equity in net income of investee companies	1.0	-		1.0	0.9		0.1
Minority interests (income)	0.7	0.9		(0.2)	(0.1)		(0.1)
Loss from discontinued operations	(18.7)	5.4		(24.1)	(12.9)		(11.2)
	(0.3)	(0.3)		-	-		-

Cumulative effect of accounting changes, net of income tax					
Net income (loss)	$ (21.6)*	$ 425.8	$ (447.4)*	$ (460.7)*	$ 13.3

* 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)	2007	$	%	2006 (1)	$	%	2005 (1)
Tobacco sales and other operating revenues:							
Sales and other operating revenues	$ 1,909.3	$ (147.8)	(7.2)	$2,057.1	$ 789.3	62.3	$1,267.8
Kilos	584.9	(80.5)	(12.1)	665.4	255.1	62.2	410.3
Average price per kilo	$ 3.26	$ 0.17	5.5	$ 3.09	$ 0.00	0.0	$ 3.09
Processing and other revenues	69.8	14.2	25.5	55.6	23.3	72.1	32.3
Total sales and other operating revenues	$ 1,979.1	$ (133.6)	(6.3)	$2,112.7	$ 812.6	62.5	$1,300.1

(1) The merger of DIMON and Standard was completed May 13, 2005, which was during the first quarter of fiscal 2006. As a result, total revenues and expenses for the twelve months ended March 31, 2006 exclude Standard s results from April 1to May 13, 2005. Total revenues and expenses for the twelve months ended March 31, 2005 are DIMON only.

For the fiscal year ended March 31, 2006, functional and operational integration activities made differentiation between former DIMON and former Standard results difficult which impairs the comparability of fiscal years 2006 and 2005 results.

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, 2007 to the Year Ended March 31, 2006

Sales and other operating revenues. The decrease of 6.3% from $2,112.7 million in 2006 to $1,979.1 million in 2007 is the result of a 12.1% or 80.5 million kilo decrease in quantities sold, offset by a 5.5% or $0.17 per kilo increase in average sales prices and a 25.5% or $14.2 million increase in processing and other revenues.

South America region. Tobacco revenues decreased $34.5 million, reflecting a 37.1 million kilo decrease in quantities sold versus the prior year primarily related to the timing of 2005 shipments that had been delayed to 2006 and a decrease in demand primarily resulting from the quality of the 2006 crop. This was offset by a $0.36 per kilo increase in average sales prices, attributable primarily to the increased costs of the 2006 crop.

Other regions. Tobacco revenues decreased $113.3 million due to a 43.4 million kilo decrease in quantities sold, partially offset by a $0.06 per kilo increase in average sales prices. The decrease in volume resulted primarily from prior year opportunistic sales in the oriental market as well as the exit from certain European markets during 2007. The decrease in volume also reflected diminished prior year low margin sales from Thailand and China, and the delay of U.S. shipments into fiscal year 2008. The increase in average sales prices resulted from the product mix in Asian origin sales as well as higher costs of 2006 Asian crops. Other region processing and other revenues increased $14.2 million primarily related to greater quantities of U.S. customer-owned tobacco processed.

Gross profit as a percentage of sales. The $71.0 million increase in gross profit, or 31.6%, from $224.7 million in 2006 to $295.7 million in 2007, as well as the gross profit percentage increased from 10.6% in 2006 to 14.9% in 2007, is primarily attributable to two factors:

First, gross profit in the South American region increased approximately $63.5 million. As disclosed in the quarterly and annual reports for the fiscal year ended March 31, 2006, gross profit in Brazil was negatively impacted by the poor quality of the 2005 crop, the strength of the local currency against the U.S. dollar on prices paid to growers and related processing costs, and increased costs from the absorption of local intrastate trade taxes from a change in local laws. In the first quarter of 2007 we entered into an agreement with the government of Rio Grande do Sul allowing us to transfer accumulated intrastate trade tax credits related to the 2005 crop. As a result, intrastate trade taxes related to the 2005 crop of $19.2 million previously recorded as cost of goods and services sold in fiscal 2006 were reversed during the current year. The impact of this agreement in the current year coupled with 2006 crop sales price increases resulted in an increase in gross profit when comparing 2007 with 2006. Partially offsetting the impact of the items noted above which increased the gross profit in the South American region during 2007, was the quality of the 2006 crop and decreased demand. While the 2006 Brazilian crop had been expected to be of average quality, weather related growing conditions in the latter part of the season significantly impacted quality and demand declined. As a result, we increased the provision for grower bad debt, impacting the current year gross profit by $8.3 million compared to the prior year, as well as future quarters relative to 2006 crop sales.

Second, as required by SFAS No. 141, we adjusted Standard s inventory to its fair value less selling costs. These purchase accounting adjustments impacting gross profit on sales of inventory acquired in the merger were reduced by $16.6 million from $18.0 million in 2006 compared to $1.4 million in 2007, primarily in the Other Regions reportable segment. There will be no further impact on gross profit related to purchase accounting adjustments resulting from the merger. This cost reduction was partially offset by a $6.9 million increase in the tobacco market valuation adjustment recorded in 2007 compared to 2006 that was primarily in the South America reportable segment as a result of poor quality crops.

Selling, administrative and general expenses decreased $5.8 million or 3.5% from $164.1 million in 2006 to $158.3 million in 2007. The decrease is primarily due to the deconsolidation of Zimbabwe and a significant reduction in merger and integration related travel expenses.

Other income increased $3.6 million from $2.5 million in 2006 to $6.1 million in 2007. The increase is primarily attributable to the recovery of receivable previously written off and increased gains on fixed asset sales.

Goodwill impairment is tested for each reporting unit annually as of the first day of the last quarter of the fiscal year and whenever events or circumstances indicate that impairment may have occurred. In 2007, there were no indications of impairment. Based on the impairment analysis in 2006, we recorded a total goodwill impairment charge of $256.9 million during the fourth quarter related to the reporting units of North America (75.7 million) and South America (181.2 million). See Note E Goodwill and Other Intangibles to the Notes to Consolidated Financial Statements for further information.

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, 2007 to the Year Ended March 31, 2006 *(Continued)*

Restructuring and asset impairment charges were $29.8 million in 2007 compared to $85.4 million in 2006. At March 31, 2006, in accordance with ARB 51, we deconsolidated our Zimbabwe operations. A non-cash impairment charge of $47.9 million was recorded in 2006 to adjust the investment in those operations to estimated fair value. In 2007, an additional non-cash impairment charge of $13.2 million was recorded to write down our Zimbabwe investment to zero. Neither of these charges was deductible for income tax purposes. Other impairment charges in 2006 relate to $22.2 million for employee severance and other integration charges related to the merger and $15.3 million for asset impairments primarily related to the decision to sell the dark air-cured tobacco business, including intangibles of the Indonesian dark air-cured operation. Other impairment charges in 2007 relate to $6.7 million for asset impairments in Greece, Thailand and Turkey, primarily machinery and equipment, and $9.9 million for employee severance and other integration related charges as a result of the merger. See Note D Restructuring and Assets Impairment Charges to the Notes to Consolidated Financial Statements for further information.

Debt retirement expense of $3.9 million in 2007 relates to one time costs of refinancing our senior secured credit facility. Debt retirement expense of $66.5 million in 2006 relates to one time costs of retiring DIMON debt as a result of the merger. These costs include tender premiums paid for the redemption of senior notes and convertible subordinated debentures, the expense recognition of debt issuance costs associated with former DIMON debt instruments, termination of certain interest rate swap agreements and other related costs.

Interest expense decreased $3.0 million from $108.6 million in 2006 to $105.6 million in 2007 due to lower average borrowings offset by higher average rates.

Interest income increased $1.5 million from $7.1 million in 2006 to $8.6 million in 2007 primarily due to the interest income received from the release of Brazilian PIS/Cofins escrow deposits during the fourth quarter of fiscal 2007.

Derivative financial instruments resulted in a benefit of $0.3 million in 2007 and $5.1 million in 2006. These items are derived from changes in the fair value of non-qualifying interest rate swap agreements.

Effective tax rates were an expense of 122.7% in 2007 and a benefit of 4.0% in 2006. 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 unfavorable variance from the statutory rate in 2007 is primarily due to the inability to recognize the benefit of losses in certain jurisdictions and the additional income tax accrual for the tax audit in Germany. See Note P Contingencies and Other Information to the Notes to Consolidated Financial Statements for further information. The effective rate was favorably impacted as a result of the reduction in tax rates in Turkey and a reduction in valuation allowance related to U.S. foreign tax credit carryovers. The difference from the statutory rate in 2006 is primarily due to significant goodwill impairment charges for which no tax benefit is realized. See Note L Income Taxes to the Notes to Consolidated Financial Statements for further information.

Losses from discontinued operations were $18.7 million in 2007 and $24.1 million in 2006. The decrease of $5.4 million is due to a $12.0 million assessment in 2006 related to an administrative investigation into tobacco buying and selling practices within the leaf tobacco industry in Italy by the Directorate General for Competition. Also included in the decrease is reduced losses of $2.7 million from our non-tobacco, Italian and Mozambique tobacco operations as well as our wool operations. Substantially offsetting this decrease is $9.3 million in charges in 2007 related to finalizing our exit from the Italian market. See Note C Discontinued Operations to the Notes to Consolidated Financial Statements for further information.

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, 2006 to the Year Ended March 31, 2005

The merger of DIMON and Standard was completed during the first quarter of 2006. Total revenues and expenses for the fiscal year ended March 31, 2006, which includes Standard s results since May 13, 2005 and DIMON s results for the full fiscal year, increased significantly when compared to prior fiscal years as prior fiscal years include only the results of DIMON.

For the fiscal year ended March 31, 2006, functional and operational integration activities made differentiation between former DIMON and former Standard results difficult which impairs the comparability of fiscal years 2006 and 2005 results.

Sales and other operating revenues. The increase of 62.5% from $1,300.1 million in 2005 to $2,112.7 million in 2006 is primarily the result of the addition of Standard revenues. The increase is a result of a 62.2% or 255.1 million kilo increase in quantities sold and a 72.1% or $23.3 million increase in processing and other revenues. Average sales prices remained constant overall.

South America region. Tobacco revenues increased $291.6 million, reflecting a 92.3 million kilo increase in quantities sold and a $0.09 per kilo increase in average sales prices. The increase in the South America region is primarily a result of the inclusion of Standard revenues.

Other regions. Tobacco revenues increased $497.7 million due to a 162.7 million kilo increase in quantities sold, partially offset by a $0.06 per kilo decrease in average sales prices. The inclusion of Standard revenues significantly increased revenues in the origins of Turkey, Malawi and the United States. While volumes increased in the United States, average sales prices per kilo decreased $0.34 per kilo as a result of including Standard s lower priced cut rag and crushed rolled expanded stem products in 2006. Average sales prices in Zimbabwe decreased $1.09 per kilo as a result of the continued decline in the economic and political situation even though volumes increased as a result of direct contract buying. Other region processing and other revenues increased $23.3 million primarily related to greater quantities of U.S. customer-owned tobacco processed as a result of the merger.

Gross profit as a percentage of sales. The $30.1 million increase in gross profit, or 15.5%, from $194.6 million in 2005 to $224.7 million in 2006, as well as the gross profit percentage decrease from 15.0% in 2005 to 10.6% in 2006 is primarily attributable to two factors:

First, while the inclusion of Standard sales contributed significantly to operating results, gross profit on these sales was reduced by $18.0 million as a result of non-cash purchase accounting adjustments required to record inventory in the Standard acquisition at fair value.

Second, a significant decline in gross profit and gross profit percentage in the South America region also negatively impacted the fiscal 2006 results. The Brazil crop marketed during fiscal 2006 was of a poor quality due to adverse weather related growing conditions. The result, under contract farming, was that certain tobaccos purchased did not meet customer quality requirements. The 2005 crop costs in Brazil increased approximately 20% due to a combination of the effect of the relative strength of the local currency against the U.S. dollar on prices paid to growers for leaf and related processing and conversion costs, coupled with the absorption of local intrastate trade taxes resulting from a change in local laws. Gross profit was negatively impacted as sales price increases were insufficient to cover these cost escalations. These factors will continue to affect operating results in the South America region in future quarters when the remainder of the 2005 crop is sold.

Selling, administrative and general expenses increased $39.7 million or 31.9% from $124.4 million in 2005 to $164.1 million in 2006. The increase is primarily due to the additional expenses of Standard as a result of the merger. Expenses were further increased by the impact of expenses denominated in foreign currencies, primarily a greater than 20% increase in the Brazilian real.

Other income of $2.5 million in 2006 relates primarily to fixed asset sales of $0.9 million and the recovery of $1.6 million of an Iraqi debt previously written off. Other income of $5.3 million in 2005 relates primarily to fixed asset sales and insurance recoveries.

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

<u>Results of Operations</u> *(Continued)*

Comparison of the Year Ended March 31, 2006 to the Year Ended March 31, 2005 *(Continued)*

Goodwill impairment is tested for each reporting unit annually as of the first day of the last quarter of the fiscal year and whenever events or circumstances indicate that impairment may have occurred. The testing is based on a discounted cash flow approach for each reporting unit to determine fair value (Step 1). When a possible impairment for a reporting unit is indicated, the implied fair value of goodwill is tested by comparing the carrying amount of the net assets of the reporting unit excluding goodwill to the total fair value (Step 2). The fair value of the reporting unit is estimated using the expected present value of future cash flows. As a result of certain reporting units failing Step 1, we completed Step 2 to measure the impairment loss, if any. Based on this analysis we recorded a total goodwill impairment charge of $256.9 million during the fourth quarter of fiscal 2006 related to the reporting units of North America and South America. Of the total goodwill impairment charge, $75.7 million related to North America. Prior to the merger with Standard, no goodwill was previously allocated to the former DIMON operating segment in North America. As a result of declines in the U.S. market share due to unanticipated decreased customer demand and reduced crop size, indicators of impairment were present. Accordingly, Step 2 testing was required resulting in the related goodwill impairment charge. Of the total goodwill impairment charge, $181.2 million related to South America. Prior to the merger, all previous goodwill of $151.8 million was allocated to the South America operating region. Merger related goodwill of $29.4 million was allocated to South America. As stated above management completed the annual impairment test for each of the preceding years without any impairment. There are several changes in the South America region that have significantly impacted operations in 2006. First is the impact of the absorption of local intrastate trade taxes resulting from a change in local laws. Second is the effect of the strong local currency on prices paid to growers and related tobacco conversion costs. Third is the impact of the poor quality of the 2005 crop. These factors negatively impacted the operating segment s future cash flow projections. Some of these factors are expected to continue to affect cash flow projections. Accordingly, Step 2 was required and the related impairment charge was recorded. See Note E Goodwill and Other Intangibles to the Notes to Consolidated Financial Statements for further information.

Restructuring and asset impairment charges were $85.4 million in fiscal 2006 compared to $2.8 million in 2005. The South America segment was $2.4 million and the other segments were $83.0 million. In accordance with ARB 51, when a parent does not have control of a subsidiary due to severe foreign exchange restrictions or other governmental imposed uncertainties, the subsidiary should be deconsolidated. As a result, the Company deconsolidated its Zimbabwe operations at March 31, 2006 and recorded a non-cash impairment charge of $47.9 million to adjust the investment in those operations to estimated fair value. No income tax benefit was recognized on the charge. The investment is now accounted for using the cost method and is reported on the balance sheet in Cost Method Investments. Business operations in Zimbabwe were not impacted by the financial reporting change or the non-cash charge, and the Company intends to continue its operations there. In 2006, assets impairment of $15.3 million and $22.2 million of employee severance and other integration charges related to merger. In 2006 we recorded asset impairment charges of $1.2 million, $12.5 million and $1.6 million in connection with the decision to close the Spanish operations, sell the dark air-cured tobacco business and other, respectively. See Note D Restructuring and Assets Impairment Charges to the Notes to Consolidated Financial Statements for further information.

Debt retirement expense of $66.5 million relates to one time costs of retiring DIMON debt as a result of the merger. These costs include tender premiums of $42.3 million paid for the redemption of senior notes and convertible subordinated debentures, the non-cash expense recognition of $18.4 million of debt issuance costs associated with former DIMON debt instruments and $5.8 million related to the termination of certain interest rate swap agreements and other related costs.

Interest expense increased $55.8 million from $52.8 million in 2005 to $108.6 million in 2006 of which, $27.6 million was due to higher average borrowings of the combined company reflected in the post-merger capital structure and $28.2 million resulted from higher average interest rates.

Interest income increased $2.7 million from $4.4 million in 2005 to $7.1 million in 2006 primarily due to higher interest rates and average cash balances in the United States, United Kingdom and Zimbabwe.

Derivative financial instruments resulted in a benefit of $5.1 million in 2006 and $13.1 million in 2005. These items are derived from changes in the fair value of non-qualifying interest rate swap agreements. See Note F Derivative and Other Financial Instruments to the Notes to Consolidated Financial Statements for further information.

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, 2006 to the Year Ended March 31, 2005 *(Continued)*

Effective tax rates were a benefit of 4.0% in 2006 and an expense of 35.1% in 2005. The rates are based on the current estimate of full year results except for any taxes related to specific events which are recorded in the interim period in which they occur. The tax rate in 2006 was adversely affected by goodwill and other asset impairment charges for which no tax benefit is realized. During the fiscal year ended March 31, 2006, adjustments of $29.0 million related to deferred tax asset valuation allowance adjustments were recorded as specific events. The net effect on the 2006 tax provision was to decrease the effective tax rate from a benefit of 10.5% to 4.0%.

Losses from discontinued operations were $24.1 million in 2006 and $11.2 million in 2005. The increase of $12.9 million is primarily due to a $12.0 million assessment related to an administrative investigation into tobacco buying and selling practices within the leaf tobacco industry in Italy by the Directorate General for Competition. The remainder is attributable to the discontinuation of operations in Italy and Mozambique of the combined company, the wool operations of former Standard and non-tobacco operations of former DIMON. The decision to discontinue operations in Mozambique in 2006 was due to our loss of concession to promote tobacco production in the Chifunde district of Mozambique. Without the Chifunde district it was not in our economic interest to continue operations in Mozambique. Non-tobacco operations of former DIMON were acquired in 2004. This was a developmental enterprise and neither emerging markets nor production expectations met our expectations. The non-tobacco operation was sold in April 2006 after the conclusion of our March 31 fiscal year end. See Note C Discontinued Operations to the Notes to Consolidated Financial Statements for further information.

Liquidity and Capital Resources

Overview

Purchasing, processing and selling activities of our business are seasonal. Our need for capital fluctuates with corresponding peaks and our associated outstanding indebtedness may be significantly greater or less as a result. Historically we have needed capital in excess of cash flow from operations to finance accounts receivable, inventory and advances to farmers for pre-financing tobacco crops in foreign countries, including Argentina, Brazil, Guatemala, Malawi, Tanzania, Turkey and Zambia. Our long-term borrowings consist of senior and subordinated notes as well as senior secured revolving and term credit facilities. We also have short-term lines of credit available with a number of banks to provide needed working capital during the seasonal peaks of our business.

Over the last twelve months and in line with one of management s stated areas of focus, we have reduced debt, net of cash, by $215.8 million from $1,046.5 million as of March 31, 2006 to $830.7 million as of March 31, 2007. Improved working capital management, as well as both excess cash flow from operations and non-core asset sale proceeds, were the significant debt reduction drivers. From time to time in the future, we may elect to purchase, redeem, repay, retire or cancel indebtedness prior to stated maturity under our senior secured credit agreement or indentures, as permitted therein.

On March 30, 2007, we refinanced our existing $650.0 million Senior Secured Credit Facility with a new $385.0 million Senior Secured Credit facility comprised of a three and one half year $240.0 million revolving facility and a four year $145.0 million Term Loan B, as well as on March 7, 2007, the issuance of $150.0 million of 8.5% Senior Notes due May 15, 2012 and issued at a discounted price of 99.507 with a yield to maturity of 8.625%. Following the fiscal year end, on May 4, 2007, we made an optional $50.0 million prepayment on our $145.0 million Term Loan B with excess cash flow from operations reducing it to $95.0 million. Also, subsequent to the fiscal year end, on May 25, 2007, we increased the revolver commitment from $240.0 million to $250.0 million as permitted under the credit agreement.

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

Liquidity and Capital Resources *(Continued)*

Overview *(Continued)*

At March 31, 2007, we had $80.3 million in cash on our balance sheet, no borrowings under our $240.0 million revolving credit facility with $240.0 million available and $179.1 million outstanding under foreign lines with $275.5 million available under those lines and $22.5 million of other debt for a total of $618.3 million of debt availability and cash on hand around the world, excluding $17.8 million in issued but unfunded letters of credit with $12.8 million of letters of credit available. Another source of liquidity as of March 31, 2007 was $30.7 million funded under our $55.0 million receivable sale program. Additionally, customers pre-financed purchases of $125.4 million and it should be noted that we hold substantial amounts of inventories that are committed to them. To the extent that these customers do not provide advance funding, we must provide financing for such inventories. Should customers pre-finance less in the future for committed inventories this action could negatively affect our short-term liquidity. At March 31, 2007, we had no material capital expenditure commitments. We believe that these sources of funds will be sufficient to fund our anticipated needs for fiscal year 2008. No cash dividends were paid to stockholders during the twelve months ended March 31, 2007. See Note G Short-term Borrowing Arrangements and Note R 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, 2007, we are in our working capital build and nearing our high point in seasonally adjusted working capital borrowing. Borrowings related to South America are approaching full utilization as tobacco from the most recent crop is being purchased and processed 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 decreased from $538.9 million at March 31, 2006 to $531.9 million at March 31, 2007. Our current ratio was 1.9 to 1 at March 31, 2007 compared to 1.6 to 1 at March 31, 2006. The decrease in working capital is primarily related to decreased inventories and advances on purchases of tobacco partially offset by the corresponding decrease in notes payable to banks.

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

	As of March 31,						
		Change			Change		
(in millions except for current ratio)	2007	$	%	2006	$	%	2005
Cash and cash equivalents	$ 80.3	$ 54.3	208.7	$ 26.0	(3.1)	(10.7)	$ 29.1
Net trade receivables	217.8	(103.1)	(32.1)	320.9	101.6	46.3	219.3
Inventories and advances on purchases of tobacco	730.3	(145.0)	(16.6)	875.3	311.3	55.2	564.0
Total current assets	1,131.6	(236.6)	(17.3)	1,368.2	493.5	56.4	874.7
Notes payable to banks	179.1	(120.8)	(40.3)	299.9	87.9	41.5	212.0
Accounts payable	188.0	12.1	6.9	175.9	86.1	95.9	89.8
Advances from customers	125.4	(101.0)	(44.6)	226.4	177.0	358.3	49.4
Total current liabilities	599.7	(229.6)	(27.7)	829.3	427.7	106.5	401.6
Current ratio	1.9 to 1			1.6 to 1			2.2 to 1
Working capital	531.9	(7.0)	(1.3)	538.9	65.8	13.9	473.1
Total long term debt	726.6	(17.9)	(2.4)	744.5	258.1	53.1	486.4
Stockholders equity	225.5	11.3	5.3	214.2	(200.1)	(48.3)	414.3
Net cash provided (used) by:							
Operating activities	187.5	95.1		92.4	86.0		6.4
Investing activities	44.3	1.0		43.3	57.5		(14.2)
Financing activities	(179.1)	(55.4)		(123.7)	(142.7)		19.0

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

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

Operating Cash Flows

Net cash provided by operating activities increased $95.1 million in 2007 compared to 2006 which increased $86.0 million compared to 2005. The increase in cash provided in 2007 is primarily due to significantly improved results of operations in 2007 compared to 2006. Decreases in accounts receivable and inventories and advances on purchases of tobacco were offset by a corresponding decrease in advances from customers. Decreases in accounts payable and accrued expenses were substantially offset by the change in deferred items. The increase in cash provided in 2006 compared to 2005 is primarily related to the increased operating cash flows associated with the acquisition of Standard.

Investing Cash Flows

Net cash provided by investing activities increased $1.0 million in 2007 compared to 2006 which increased $57.5 million compared to 2005. The increase in cash provided in 2007 compared to 2006 is primarily a result of the surrender of life insurance policies, increased proceeds from the sale of fixed assets identified as part of the merger process to be redundant and the return of capital from our Zimbabwe operation offset by the cash acquired in the prior year as a result of the purchase and merger of Standard into Alliance One. The increase in cash provided in 2006 compared to 2005 is primarily due to the cash acquired as a result of the merger and increased proceeds from the sale of fixed assets identified as part of the merger process to be redundant.

Financing Cash Flows

Net cash used by financing activities increased $55.4 million in 2007 compared to 2006 which increased $142.8 million compared to 2005. The increase in cash used in 2007 compared to 2006 is primarily due to lower net proceeds from borrowings in 2007 as a result of the new debt arrangements entered into in the prior year as a result of the merger. The increase in cash used in 2006 compared to 2005 is primarily due to the payoff in 2006 of the former DIMON debt arrangements as a result of the merger which were substantially offset by the proceeds from the new debt arrangements of Alliance One.

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, 2007:

	Outstanding March 31,		March 31, 2007 Lines and Letters Available	Interest Rate		Repayment Schedule by Fiscal Year (5)			
	2006	2007				2008	2009	2010	Later
Senior secured credit facility:									
Revolver (1)	$ -	$ -	$240.0						
Term loan A	142.5	-	-			$ -	$ -	$ -	$ -
Term loan B	198.0	145.0	-	9.5%		1.5	1.5	1.4	140.6
	340.5	145.0	240.0			1.5	1.5	1.4	140.6
Senior notes:									
11% senior notes due 2012	315.0	315.0	-	11.0%		-	-	-	315.0
8 ½% notes due 2012	-	149.3	-	8.5%		(.1)	(.1)	(.1)	149.6
Other (2)	10.2	10.2	-			-	-	-	10.2
	325.2	474.5	-			(.1)	(.1)	(.1)	474.8
12 ¾% senior subordinated note due 2012	90.7	91.6	-	12.8%		(1.0)	(1.2)	(1.4)	95.2
Other long-term debt	16.2	20.8	22.5	11.2%	(3)	4.8	12.8	1.9	1.3
Notes payable to banks (4)	299.9	179.1	275.5	6.3%	(3)	-	-	-	-

Total debt	$1,072.5	$911.0	538.0		$5.2	$13.0	$1.8	$711.9
Short term	$ 299.9	$179.1						
Long term:								
Long term debt current (5)	$ 28.1	$ 5.2						
Long term debt (5)	744.5	726.7						
	$ 772.6	$731.9						
Letters of credit	$ 30.1	$ 17.8	12.8					
Total credit available			$550.8					

(1) Revolver available balance does not reflect the $10.0 million increase effective May 25, 2007

(2) Balance consists of legacy DIMON and Standard Senior Notes with balances and maturities as follows:

$ 3.5	9 5/8% Senior Notes due 2011
0.4	7 3/4% Senior Notes due 2013
6.3	8% Senior Notes due 2012
$10.2	

(3) Weighted average rate for the year ended March 31, 2007

(4) Primarily foreign seasonal lines of credit

(5) Debt classification and repayment are based on a next twelve months basis and does not reflect the additional $50.0 million paydown on term loan B made after the fiscal year end.

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

Liquidity and Capital Resources *(Continued)*

The following summarizes the material terms of each significant component of our debt financing.

Senior Secured Credit Facility

On March 30, 2007, we entered into an Amended and Restated Credit Agreement (the Credit Agreement), with a syndicate of banks that amends and restates the Company’s prior credit agreement and provides for a senior secured credit facility (the “Credit Facility”) that consists of:

a three and one-half year $240.0 million revolver (subsequently increased to $250.0 million) (the “Revolver”) which initially accrues interest at a rate of LIBOR plus 2.75%; and

a four-year $145.0 million term loan B (subsequently reduced to $95.0 million) (the “ Term Loan B”) which accrues interest at a rate of LIBOR plus 2.25%

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. Effective May 25, 2007, the Company increased the Revolver by $10.0 million to $250.0 million by adding additional Lenders thereto.

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 $150.0 million outstanding at any one time. Intabex is the sole borrower under the Term Loan B. 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 currently guaranteed by us and must be guaranteed by any of our material direct or indirect domestic subsidiaries.

Collateral. Our borrowings under the senior secured credit facility are secured by a first priority pledge of:

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

65% of the capital stock of any material first tier foreign subsidiaries;

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

Intercompany notes evidencing loans or advances we make to subsidiaries that are not guarantors.

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

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

a minimum consolidated interest coverage ratio of not less than 1.55 to 1.00;

a maximum consolidated leverage ratio of not more than 6.25 to 1.00;

a maximum consolidated total senior debt to borrowing base ratio of not more than 0.90 to 1.00; and

a maximum amount of annual capital expenditures of $40.0 million during any fiscal year of the Company.

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

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 and we are not in default as of, or for the quarter ended, March 31, 2007. On June 20, 2007, the Company entered into a Waiver and Consent to cure any potential defaults under the Credit Agreement. See Note S Subsequent Events to the Notes to Consolidated Financial Statements for further information. If we were in default and were unable to obtain the necessary amendments or waivers under our Credit Facility, the lenders under that facility have the right to accelerate the loans thereby demanding repayment in full and extinguishment of their commitment to lend. Certain defaults under the Credit Facility would result in a cross default under the indentures governing our senior notes and senior subordinated notes and could impair access to our seasonal operating lines of credit in local jurisdictions. A default under our Credit Facility would have a material adverse effect on our liquidity and financial condition.

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

Liquidity and Capital Resources *(Continued)*

Senior Notes

On May 13, 2005, we issued $315.0 million of 11% senior notes due 2012 and on March 7, 2007 we issued $150.0 million of 8 ½% senior notes due 2012 at a 0.5% original issue discount to reflect an 8.6% yield to maturity. The indentures governing each of the 11% senior notes and the 8 ½% senior notes contain certain 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 its subsidiaries; enter into transactions with our affiliates; and enter into certain sale and leaseback transactions.

Senior Subordinated Notes

On May 13, 2005, we issued $100.0 million of 12 3/4% senior subordinated notes due 2012 at a 10% original issue discount to reflect a 15% yield to maturity. The indenture governing the senior subordinated notes contains covenants substantially identical to those contained in the indentures governing the 11% senior notes and the 8 ½% senior 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, 2007, we had approximately $179.1 million drawn and outstanding on foreign seasonal lines totaling $485.2 million. Additionally against these lines there was $12.8 million available in unused letter of credit capacity with $17.8 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, 2007.

			Payments / Expirations by Period			
(in millions)	Total 2006	Total 2007	2008	Years 2009-2010	Years 2011-2012	After 2012
Long-Term Debt Obligations*	$ 1,169.6	$ 1,112.2	$ 81.4	$ 166.3	$ 278.3	$ 586.2
Capital Lease Obligations*	0.5	0.5	0.2	0.3	-	-
Operating Lease Obligations	19.1	26.4	5.7	8.5	3.8	8.4
Tobacco Purchase Obligations	646.9	567.0	516.0	51.0	-	-
Total Contractual Obligations and Other Commercial Commitments	$ 1,836.1	$ 1,706.1	$603.3	$ 226.1	$ 282.1	$ 594.6

* 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, 2007. 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.

On September 27, 2006, the Company, entered into a revolving trade accounts receivable securitization agreement to sell receivables to a limited liability company (LLC). Under the agreement, the Company has assumed co-insurance equal to 10% of the value of receivables sold. Based on the closing balance of receivables sold to the LLC, this amount is equal to $3,128 as of March 31, 2007.

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. FR-67.

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

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

Aggregate Contractual Obligations and Off-Balance Sheet Arrangements *(Continued)*

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 2012. Operating assets that are of long-term and continuing benefit are generally purchased.

Tobacco Purchase Obligations

Tobacco purchase obligations result from contracts with growers, primarily in the United States, Brazil and Turkey, to buy either specified quantities of tobacco or the grower s total tobacco production. Amounts shown as tobacco purchase obligations are estimates based on projected purchase prices of the future crop tobacco. Payment of these obligations is net of our advances to these growers. Our tobacco purchase obligations do not exceed our projected requirements over the related terms and are in the normal course of business.

Planned Capital Expenditures

We have projected a total of $25.5 million in capital investments for our 2008 fiscal year. We forecast our capital expenditure needs for routine replacement of equipment as well as investment in assets that will add value to the customer or increase efficiency. Included in capital expenditures for 2008 are costs for the initial development and implementation of SAP, a global financial accounting and reporting system. This system will replace more than 50 systems we are currently using around the world. Implementation will be phased in during fiscal 2009 and fiscal 2010.

Tax and Repatriation Matters

We are subject to income tax laws in each of the countries in which we do business through wholly owned subsidiaries and through affiliates. We make a comprehensive review of the income tax requirements of each of our operations, file appropriate returns and make appropriate income tax planning analyses directed toward the minimization of our income tax obligations in these countries. Appropriate income tax provisions are determined on an individual subsidiary level and at the corporate level on both an interim and annual basis. These processes are followed using an appropriate combination of internal staff at both the subsidiary and corporate levels as well as independent outside advisors in review of the various tax laws and in compliance reporting for the various operations.

We consider unremitted earnings of certain subsidiaries operating outside the United States to be invested indefinitely. No U.S. income taxes or foreign withholding taxes are provided on such permanently reinvested earnings, in accordance with APB No. 23, Accounting for Income Taxes, Special Area. We regularly review the status of the accumulated earnings of each of our foreign subsidiaries and reassess this determination as part of our overall financing plans. Following this assessment, we provide deferred income taxes, net of any foreign tax credits, on any earnings that are determined to no longer be indefinitely invested. See Note L Income Taxes to the Notes to Consolidated Financial Statements for further information.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States (GAAP) requires the use of estimates and assumptions that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental disclosures including information about contingencies, risk and financial condition.

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

Critical Accounting Policies and Estimates *(Continued)*

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and potentially yield materially different results under different assumptions or conditions. Given current facts and circumstances, we believe that our estimates and assumptions are reasonable, adhere to GAAP and are consistently applied. Our selection and disclosure of our critical accounting policies and estimates has been reviewed with our Audit Committee. Following is a review of the more significant assumptions and estimates and the accounting policies and methods used in the preparation of our consolidated financial statements.

Inventories

Inventories are valued at the lower of cost or market. Inventories are reviewed and written down for changes in market value based on assumptions related to future demand and worldwide and local market conditions. If actual demand and market conditions vary from those projected by management, additional write-downs to lower of cost or market value may be required. Inventory write-downs for the years ended March 31, 2007 and 2006 were $14.6 million and $7.7 million, respectively. See Note A Significant Accounting Policies - Inventories to the Notes to Consolidated Financial Statements for further information.

Income Taxes

Deferred tax assets and liabilities reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We periodically assess the realizability of deferred tax assets and the adequacy of deferred tax liabilities, including the results of local, state, federal or foreign statutory tax audits or estimates and judgments used.

Realization of deferred tax assets associated with net operating loss and credit carryforwards is dependent upon generating sufficient taxable income prior to their expiration by tax jurisdiction. We believe that it is more likely than not that certain of these net operating loss and credit carryforwards may expire unused and, accordingly, have established a valuation allowance against them. Although realization is not assured for the remaining deferred tax assets, we believe it is more likely than not the deferred tax assets will be realized through future taxable earnings or alternative tax strategies. However, deferred tax assets could be reduced in the near term if our estimates of taxable income during the carryforward period are significantly reduced or alternative tax strategies are no longer viable.

The amount of income tax that we pay annually is dependent on various factors, including the timing of certain deductions and ongoing audits by federal, state and foreign tax authorities, which may result in proposed adjustments. We perform reviews of our income tax positions on a continuous basis and accrue for potential contingencies when we believe a liability is probable and can be reasonably estimated. Accruals for these contingencies are recorded based on an expectation as to the timing of when the contingency will be resolved. As events change or resolution occurs, these accruals are adjusted, such as in the case of audit settlements with taxing authorities. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities due to closure of income tax examinations, new regulatory or judicial pronouncements, or other relevant events. See Note L Income Taxes and Note P Contingencies and Other Information to the Notes to Consolidated Financial Statements for additional details regarding certain of our tax contingencies.

Advances on Purchases of Tobacco and Guarantees of Brazilian Rural Credit Financing to Farmers

We provide agronomy services and seasonal crop advances of, or for, seed, fertilizer, and other supplies. These advances are short term in nature, are repaid upon delivery of tobacco to us, and are reported in advances on purchases of tobacco in the consolidated balance sheet. Primarily in Brazil and certain African countries, we have made long-term advances to tobacco farmers to finance curing barns and other farm infrastructure. In addition, due to low crop yields and other factors, in some years individual farmers may not deliver sufficient volumes of tobacco to fully repay their seasonal advances, and we may extend repayment of those advances into future crop years. In Brazil, we also assist the farmer in obtaining government subsidized rural credit financing which is guaranteed by the company. Each reporting period, we must make assumptions as to the balances of farmer advances that may prove uncollectible. Based on these assumptions, we make estimates resulting in a valuation allowance for farmers advances and accruals for obligations under rural credit financing guarantees.

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

Critical Accounting Policies and Estimates *(Continued)*

Property and Depreciation

Estimating the useful lives of property, plant and equipment requires management judgment, and actual lives may differ from these estimates. Changes to these initial useful life estimates are made when appropriate. Property, plant and equipment are tested for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, whenever events or changes in circumstances indicate that the carrying amounts of such long-lived assets may not be recoverable from future cash flows. Impairment testing requires significant management judgment including estimating the future sales volumes, growth rates for selling prices and costs, alternative uses for the assets and estimated proceeds from disposal of the assets. Impairment testing is conducted at the lowest level where cash flows can be measured and are independent of cash flows of other assets. An asset impairment would be indicated if the sum of the expected future cash flows from the use of the asset (undiscounted and without interest charges) is less than the carrying amount of the asset. An impairment loss would be measured based on the difference between the fair value of the asset and its carrying amount. Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties and may be estimated using a number of techniques, including quoted market prices or valuations by third parties, present value techniques based on estimates of cash flows, or multiples of earnings or revenue performance measures. The fair value of the asset could be different using different estimates and assumptions in these valuation techniques which would increase or decrease the impairment charge. During the years 2007, 2006 and 2005, the Company incurred charges of $19.9 million, $63.2 million and $0.7 million, respectively, related to the impairment of long-lived assets. See Note D Restructuring and Asset Impairment Charges to the Notes to Consolidated Financial Statements for further information.

When the Company determines that all of the criteria under SFAS No. 144 have been met to classify a component of a business as discontinued operations, its financial position is reported as assets and liabilities of discontinued operations and its results as discontinued operations. The Company has made such decisions concerning tobacco operations in Italy and Mozambique, a U.S. non-tobacco processing facility and former Standard s wool operations. These operations are reported as discontinued operations in our financial statements and have resulted in losses of $18.7 million, $24.1 million and $11.2 million in the years 2007, 2006 and 2005 respectively. See Note C Discontinued Operations to the Notes to Consolidated Financial Statements for further information.

Pensions and Postretirement Health Care and Life Insurance Benefits

The valuation of our pension and other postretirement health care and life insurance plans requires the use of assumptions and estimates that are used to develop actuarial valuations of expenses, assets and liabilities. These assumptions include discount rates, investment returns, projected salary increases and benefits and mortality rates. In September 2005, the postretirement healthcare plan was capped resulting in a significant decrease in benefit cost. The significant assumptions used in the calculation of pension and postretirement obligations are:

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

Critical Accounting Policies and Estimates (*Continued)*

Pensions and Postretirement Health Care and Life Insurance Benefits *(Continued)*

Discount rate: The discount rate is based on investment yields available at the measurement date on high-quality fixed income obligations, such as those included in the Moody s Aa bond index.

Salary increase assumption: The salary increase assumption reflects our expectations with respect to long-term salary increases of our workforce. Historical pay increases, expectations for the future, and anticipated inflation and promotion rates are considered in developing this assumption.

Cash Balance Crediting Rate: Interest is credited on cash balance accounts based on the yield on one-year Treasury Constant Maturities plus 1%. The assumed crediting rate thus considers the discount rate, current treasury rates, current inflation rates, and expectations for the future.

Mortality Rates: Mortality rates are based on gender-distinct group annuity mortality (GAM) tables.

Expected return on plan assets: The expected return reflects asset allocations, investment strategy and our historical actual returns.

Termination and Retirement Rates: Termination and retirement rates are based on standard tables reflecting past experience and anticipated future experience under the plan. No early retirement rates are used since benefits provided are actuarially equivalent and there are not early retirement subsidies in the plan.

Health Care Cost Trends: Trends for future increases in medical costs are based on past experience as well as forecasts of long-term medical cost trends.

Management periodically reviews actual demographic experience as it compares to the actuarial assumptions. Changes in assumptions are made if there are significant deviations or if future expectations change significantly. Based upon anticipated changes in assumptions, pension and postretirement expense is expected to decrease by $3.6 million in the fiscal year ended March 31, 2008 as compared to March 31, 2007. We continually evaluate ways to better manage benefits and control costs. The cash contribution to our employee benefit plans in 2007 was $9.8 million and is expected to be $5.8 million in 2008.

The effect of actual results differing from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense in such future periods. Changes in other assumptions and future investment returns could potentially have a material impact on our pension and postretirement expenses and related funding requirements.

The effect of a change in certain assumptions is shown below:

Change in Assumption (Pension Plans)	Estimated Change in Projected Benefit Obligation Increase (Decrease) (in 000 s)	Estimated Change in Annual Expense Increase (Decrease) (in 000 s)
1% increase in discount rate	$ (7,269)	$ (575)
1% decrease in discount rate	$ 8,535	$ 512
1% increase in salary increase assumption	$ 546	$ 190
1% decrease in salary increase assumption	$ (738)	$ (141)
1% increase in cash balance crediting rate	$ 1,239	$ 156
1% decrease in cash balance crediting rate	$ (1,104)	$ (132)
1% increase in rate of return on assets		$ (443)
1% decrease in rate of return on assets		$ 444