

PYXUS INTERNATIONAL, INC.

Form 10-Q

February 11, 2019

PYXUS INTERNATIONAL, INC. Accelerated

Filer false 10-Q 12/31/2018 2019 Q3 false 9,080,984 0000939930 --03-31 2,325,734 7,020,921 three

years 78542760.00 three years 987 one

year 0000939930 2018-04-01 2018-12-31 xbrli:shares 0000939930 2019-01-31 iso4217:USD 0000939930 2018-10-01 2018-12-31 00

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED December 31, 2018.

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

Pyxus International, Inc.

(Exact name of registrant as specified in its charter)

<u>Virginia</u>	<u>001-13684</u>	<u>54-1746567</u>
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

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

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

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated filer
Smaller Reporting Company Emerging Growth Company

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

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

As of January 31, 2019, the registrant had 9,080,984 shares outstanding of Common Stock (no par value) excluding 785,313 shares owned by a wholly owned subsidiary.

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Pyxus International, Inc. and Subsidiaries

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Part I. Financial Information

Item 1. Financial Statements

Pyxus International, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Three and Nine Months Ended December 31, 2018 and 2017

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
<i>(in thousands, except per share data)</i>	2018	2017	2018	2017
Sales and other operating revenues	\$ 524,487	\$ 477,783	\$ 1,210,351	\$ 1,202,115
Cost of goods and services sold	449,776	404,282	1,045,042	1,030,648
Gross profit	74,711	73,501	165,309	171,467
Selling, general, and administrative expenses	41,680	34,283	118,759	102,248
Other income	7,991	1,019	13,473	9,909
Restructuring and asset impairment charges	1,667	—	3,390	—
Operating income	39,355	40,237	56,633	79,128

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Debt retirement expense (benefit)	(1,281)	—	(1,754)	(2,975)
Interest expense (includes debt amortization of \$2,325 and \$2,734 for the three months and \$7,020 and \$7,921 for the nine months ended December 31, 2018 and 2017, respectively)	33,947	33,564	102,182	101,105
Interest income	962	601	2,587	2,295
Income (loss) before income taxes and other items	7,651	7,274	(41,208)	(16,707)
Income tax expense (benefit)	17,354	(73,282)	26,900	(66,233)
Equity in net	4,701	7,770	6,852	7,121

income of investee companies						
Net (loss) (5,002)	88,326		(61,256)		56,647	
income						
Net income (loss)						
attributable	(130)		(769)		(289)	
to noncontrolling interests						
Net (loss) income attributable	\$ (5,095)	\$ 88,456	\$ (60,487)	\$ 56,936		
to Pyxus International, Inc.						
(Loss) earnings per share:						
Basic \$	(0.56)	\$ 9.83	\$ (6.69)	\$ 6.34		
Diluted \$	(0.56)	\$ 9.80	\$ (6.69)	\$ 6.32		
Weighted average number of shares outstanding:						
Basic	9,068	9,001	9,048	8,982		
Diluted	9,068	9,029	9,048	9,009		

See "Notes to Condensed Consolidated Financial Statements"

Pyxus International, Inc. and Subsidiaries

**CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE (LOSS) INCOME**

Three and Nine Months Ended December 31, 2018 and 2017

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
<i>(in 2018 thousands)</i>	2017	2018	2017	
Net (loss) income	(5,002)	\$ 88,326	\$ (61,256)	\$ 56,647
Other comprehensive (loss) income, net of tax:				
Currency translation adjustment	725	(7,628)	6,817	
Defined benefit pension amounts reclassified to income	459	853	1,376	
Change in pension liability for settlements	—	(391)	—	
Change in the fair value of derivatives designated as cash	(64)	(3,752)	(626)	

flow hedges				
Amounts reclassified to income for derivatives	2,161	656	1,445	727
Total other comprehensive (loss) income, net of tax	(4,778)	1,776	(9,473)	8,294
Total comprehensive (loss) income	(9,780)	90,102	(70,729)	64,941
Comprehensive loss attributable to noncontrolling interests	(430)	(130)	(1,216)	(289)
Comprehensive (loss) income attributable to Pyxus International, Inc.	\$ (9,350)	\$ 90,232	\$ (69,513)	\$ 65,230

See
"Notes
to
Condensed
Consolidated
Financial
Statements"

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

<i>(in thousands)</i>	December 31, 2018	December 31, 2017	March 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents	\$ 209,160	\$ 209,490	\$ 264,660
Restricted cash	6,335	2,210	2,984
Trade receivables, net	268,747	222,451	285,554
Other receivables	21,305	18,366	18,845
Accounts receivable, related parties	5,077	9,832	8,188
Inventories	827,782	905,680	698,087
Advances to tobacco suppliers	51,135	69,872	30,482
Recoverable income taxes	8,538	19,025	5,994
Prepaid expenses	17,325	17,730	17,181
Other current assets	16,212	16,774	17,628
Total current assets	1,431,616	1,491,430	1,349,603
Restricted cash	389	539	389
Investments in unconsolidated affiliates	68,351	67,069	68,151
Goodwill	34,109	16,463	27,546
Other intangible assets	70,074	41,837	70,724
Deferred income taxes, net	106,610	128,979	130,520
Long-term recoverable income taxes	898	—	1,795
Other deferred charges	2,634	3,848	3,388
Other noncurrent assets	44,256	54,552	60,234
Property, plant, and equipment, net	264,782	249,471	254,281
Total assets	\$ 2,023,719	\$ 2,054,188	\$ 1,966,631
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Notes payable to banks	\$ 583,407	\$ 536,170	\$ 427,277
Accounts payable	49,373	46,678	76,506
Accounts payable, related parties	18,372	22,939	14,835
Advances from customers	45,900	31,646	24,128
Accrued expenses and other current liabilities	98,233	92,446	88,380
Income taxes payable	6,513	14,902	6,767
Current portion of long-term debt	165	142	164
Total current liabilities	801,963	744,923	638,057
Long-term taxes payable	10,718	15,110	10,027
Long-term debt	897,195	918,820	920,143
Deferred income taxes	12,437	15,649	28,937
Liability for unrecognized tax benefits	11,026	10,522	11,191
Pension, postretirement, and other long-term liabilities	72,013	76,442	75,448
Total liabilities	1,805,352	1,781,466	1,683,803

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Commitments and contingencies

Stockholders' equity	December 31, 2018	December 31, 2017	March 31, 2018			
Common Stock—no par value:						
Authorized shares	250,000	250,000	250,000			
Issued shares	9,866	9,794	9,808	474,603	473,156	473,476
Retained deficit				(213,905)	(151,848)	(156,348)
Accumulated other comprehensive loss				(57,218)	(51,753)	(45,262)
Total stockholders' equity of Pyxus International, Inc.				203,480	269,555	271,866
Noncontrolling interests				14,887	3,167	10,962
Total stockholders' equity				218,367	272,722	282,828
Total liabilities and stockholders' equity				\$ 2,023,719	\$ 2,054,188	\$ 1,966,631

See "Notes to Condensed Consolidated Financial Statements"

Pyxus International, Inc. and Subsidiaries

CONDENSED STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

Nine Months Ended December 31, 2018

(Unaudited)

Attributable to Pyxus International, Inc.

<i>(in thousands)</i>	Common Stock	Retained Deficit	Accumulated Other Comprehensive Loss			Noncontrolling Interests	Total Stockholders' Equity
			Currency Translation Adjustment	Pensions, Net of Tax	Loss on Derivatives, Net of Tax		
Balance, March 31, 2018	\$ 473,476	\$ (156,348)	\$ (12,682)	\$ (32,580)	—	\$ 10,962	\$ 282,828
Net loss	(759)	—	—	—	(654)	(1,413)	
Stock-based compensation	—	—	—	—	—	295	
Purchase of investment in subsidiary	—	—	—	—	—	5,531	5,531
Other comprehensive (loss) income, net of tax	—	(5,136)	366	(1,496)	(175)	(6,441)	
Balance, June 30, 2018	473,771	(157,107)	(17,818)	(32,214)	(1,496)	15,664	280,800
Net loss	(54,634)	—	—	—	—	(208)	(54,842)
Restricted stock surrender	—	—	—	—	—	—	(8)
Stock-based compensation	—	—	—	—	—	—	458
Other comprehensive (loss) income, net of tax	—	(257)	973	780	251	1,747	
Balance, September 30, 2018	474,221	(211,741)	(18,075)	(31,241)	(716)	15,707	228,155
Net (loss) income	(5,095)	—	—	—	—	93	(5,002)

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Restricted stock surrendered	—	—	—	—	—	(20)	
Stock-based compensation	—	—	—	—	—	402	
Dividends paid	—	—	—	—	(390)	(390)	
Impact of adoption of ASU 2018-02	2,931	—	(2,931)	—	—	—	
Other comprehensive loss, net of tax	—	(1,787)	(877)	(1,591)	(523)	(4,778)	
Balance, December 31, 2018	\$ 474,603	\$ (213,905)	\$ (19,862)	\$ (35,049)	\$ (2,307)	\$ 14,887	\$ 218,367

Pyxus International, Inc. and Subsidiaries

CONDENSED STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

Nine Months Ended December 31, 2017

(Unaudited)

Attributable to Pyxus International, Inc.

	Common Stocks	Retained Deficit	Currency Translation Adjustment	Accumulated Other Comprehensive Loss Pensions, Net of Tax	Loss on Derivatives, Net of Tax	Noncontrolling Interests	Total Stockholders' Equity
Balance, March 31, 2017	\$ 472,349	\$ (208,784)	\$ (22,293)	\$ (36,654)	\$ (1,100)	\$ 3,192	\$ 206,710
Net loss	(32,543)	—	—	—	(90)	(32,633)	
Stock-based compensation	—	—	—	—	—	291	
Other comprehensive income (loss), net of tax	—	3,742	459	(562)	—	3,639	
Balance, June 30, 2017	472,640	(241,327)	(18,551)	(36,195)	(1,662)	3,102	178,007
Net income (loss)	1,024	—	—	—	(68)	956	
Restricted stock surrender	—	—	—	—	—	(2)	
Stock-based compensation	—	—	—	—	—	253	
Other comprehensive income, net of tax	—	2,349	459	71	—	2,879	
Balance, September 30, 2017*	472,892	(240,304)	(16,202)	(35,736)	(1,591)	3,033	182,092
Net income (loss)	88,456	—	—	—	(130)	88,326	
Restricted stock surrender	—	—	—	—	—	(6)	
270	—	—	—	—	—	270	

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Stock-based compensation							
Purchase of additional investment in subsidiary	—	—	—	—	264	264	
Other comprehensive income, net of tax	—	726	458	592	—	1,776	
Balance, December 31, 2017	\$ 473,156	\$ (151,848)	\$ (15,476)	\$ (35,278)	\$ (999)	\$ 3,167	\$ 272,722

*Amounts may not equal column totals due to rounding

See "Notes to Condensed Consolidated Financial Statements"

Pyxus International, Inc. and Subsidiaries
**CONDENSED CONSOLIDATED
 STATEMENTS OF CASH FLOWS**
 Nine Months Ended December 31, 2018 and
 2017
(Unaudited)

(in thousands) December 31, 2018 December 31, 2017

**OPERATING
 ACTIVITIES:**

Net
 (loss) (61,256) \$ 56,647
 income

Adjustments
 to
 reconcile
 net
 income
 to
 net
 cash
 used
 by
 operating
 activities:

Depreciation
 and amortization 24,845

Debt
 amortization/interest 9,514

Debt
 retirement benefit (2,975)

(Gain)
 loss
 on foreign
 currency
 transactions 4,951

Restructuring
 and
 impairment
 charges —

Gain
 on
 sale (89)

of property, plant, and equipment		
Gain on insurance proceeds received (6,460)	—	
for destroyed buildings		
Equity in net income of (1,486) unconsolidated affiliates,	(5,025)	
net of dividends		
Bad debt expenses (recovery) 2,136	(122)	
Stock-based compensation 1,155	869	
Changes in operating assets (17,612) and liabilities, net	(519,946)	
Other net 11,143	1,129	
Net cash used by (338,493) operating activities	(430,202)	
INVESTING ACTIVITIES:		
Purchases of (17,395)	(17,395)	

property, plant, and equipment		
Proceeds from sale of 5,179 property, plant, and equipment	1,832	
Collections on beneficial interests on 171,565 securitized trade receivables	183,610	
Insurance proceeds received for 6,460 destroyed buildings	—	
Payments to acquire controlling interests (8,692) net of cash acquired	—	
Payments to acquire equity method investment	(10,000)	
Other net (886)	(119)	
Net cash provided by 138,299 investing activities	157,928	

**FINANCING
ACTIVITIES:**

Net proceeds from	173,548	48,159
short-term borrowings		
Repayment of	(25,132)	(34,961)
long-term borrowings		
Debt issuance	(5,072)	(5,010)
cost		
Other net	(459)	(72)
Net cash provided by	142,885	8,116
financing activities		
Effect of exchange rate	5,160	978
changes on cash		
Decrease in cash, cash equivalents, and restricted cash	(52,149)	(263,180)
Cash and cash equivalents at	264,660	473,110
beginning of period		
Restricted cash at	3,073	2,309

beginning
of
period
Cash,
cash
equivalents,
and
restricted
cash \$ 215,884 \$ 212,239
at
end
of
period

Other
information:

Cash
paid
for \$ 19,650 \$ 12,719
income
taxes

Cash
paid
for \$ 1,622 79,083
interest

Cash
received
from (2,340) (1,647)
interest

Non-cash
amounts
obtained
as
a
beneficial
interest
in
exchange 11,943 177,259
for
transferring
trade
receivables
in
a
securitization
transaction

See
"Notes
to

*Condensed
Consolidated
Financial
Statements"*

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Pyxus International, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company changed its name from Alliance One International, Inc. to Pyxus International, Inc. on September 12, 2018. Due to the seasonal nature of the Company's business, the results of operations for any fiscal quarter are not necessarily indicative of the operating results that may be attained for other quarters or a full fiscal year. In the opinion of management, all normal and recurring adjustments necessary for fair statement of financial position, results of operations, and cash flows at the dates and for the periods presented have been included. All intercompany accounts and transactions have been eliminated.

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

Segments

During the three months ended December 31, 2018, the Company realigned its reportable segments to reflect changes to how the business is managed and results are reviewed by the Company's chief operating decision maker. In connection with the "One Tomorrow Transformation" initiative, the Company changed its organizational structure to support its diversified business lines. Prior to the realignment, the Company assessed financial information based on geographic regions. The Company's diversification efforts have resulted in management placing emphasis on data by business line in addition to the historical focus by geography. As a result of this realignment, the reportable segments now include Leaf - North America, Leaf - Other Regions, and Other Products and Services. Prior period segment financial information has been revised to conform to the current year presentation.

Taxes Collected from Customers

Certain subsidiaries are subject to value-added taxes on local sales. The amounts included in sales and other operating revenues and cost of goods and services sold were \$4,858 and \$2,703 for the three months ended December 31, 2018 and 2017, respectively, and \$14,692 and \$13,801 for the nine months ended December 31, 2018 and 2017, respectively.

Restricted Cash

As of December 31, 2018 and 2017, and March 31, 2018, \$1,220, \$2,006 and \$1,261 of cash was held on deposit as a compensating balance for short-term borrowings, respectively. As of December 31, 2018 and 2017, and March 31, 2018, zero, zero, and \$1,487 of cash was restricted for capital investment, respectively. As of December 31, 2018 and 2017, and March 31, 2018, \$2,314, zero, and zero of cash was held in escrow from receipt of customer payments.

As of December 31, 2018, the Company held \$2,644 in the Zimbabwe Real Time Gross Settlement ("RTGS") system. RTGS is a local currency equivalent that provides for exchange 1:1 with the U.S. Dollar ("USD"). In order to exchange RTGS units to USD, the Company must obtain foreign currency resources from the Reserve Bank of

Zimbabwe subject to the monetary and exchange control policy in Zimbabwe.

Property, Plant, and Equipment

Total property and equipment purchases for the nine months ended December 31, 2018 and 2017 included \$1,501 and \$279 that were unpaid and included in accounts payable, respectively. Property and equipment sales for the nine months ended December 31, 2018 and 2017 included \$1,473 and zero that were uncollected and included in receivables, respectively.

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

Capitalized Interest

Interest is capitalized on significant construction in progress using the weighted average interest rate during the capitalization period. Interest of \$1,578 and zero was capitalized for the three months and nine months ended December 31, 2018 and 2017, respectively. Capitalized interest of \$1,197 is included in property, plant, and equipment, net in the condensed consolidated balance sheets. Capitalized interest of \$381 is included in investments in unconsolidated affiliates in the condensed consolidated balance sheets.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue Recognition (Topic 606): Revenue from Contracts with Customers*. ASU 2014-09 outlines a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. The Company adopted this guidance on April 1, 2018 for all contracts using the modified retrospective approach. The adoption of this guidance did not have a material impact on the condensed consolidated financial statements. The adoption of this guidance resulted in additional disclosures. See "[Note 2. Revenue Recognition](#)" for more information.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 clarifies the classification of certain cash receipts and cash payments to reduce the diversity in practice on how these activities are presented on the statement of cash flows. The Company adopted this guidance on April 1, 2018 using the retrospective approach. The adoption of this guidance resulted in the following changes as of December 31, 2017 to the condensed consolidated statement cash flows: cash collections from beneficial interests of \$183,610 was reclassified from operating activities to investing activities and \$177,259 obtained as a beneficial interest for transferring trade receivables in a securitization transaction has been added as a non-cash disclosure.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 clarifies the presentation of restricted cash on the statement of cash flows to reduce diversity in practice on how restricted cash is presented on the statement of cash flows. The Company adopted this guidance on April 1, 2018 using the retrospective approach. The adoption of this guidance resulted in the following changes: a reclassification of \$2,749 and \$3,373 from other current and other long-term assets in total to separately stated line items for restricted cash in the condensed consolidated balance sheets as of December 31, 2017 and March 31, 2018, respectively; the change in restricted cash of \$440 presented in investing activities in the consolidated statements of cash flows is eliminated as of December 31, 2017; and the inclusion of \$2,749 of restricted cash in the calculation of cash, cash equivalents, and restricted cash at the end of the period in the condensed consolidated statements of cash flows as of December 31, 2017.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 was issued to increase the consistency, transparency, and usefulness of financial information of retirement benefits by disaggregating the service cost component from the other components of net benefit cost. The Company adopted this guidance on April 1, 2018 using the retrospective approach. The adoption of this guidance resulted in a reclassification of \$342 and \$1,026 from selling, general, and administrative expenses to interest expense in the condensed consolidated statement of operations for the three months and nine months ended December 31, 2017, respectively. See "[Note 13. Pension and Other Postretirement Benefits](#)" for more information.

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

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

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Job Acts (the "Tax Act"). The tax effects unrelated to the Tax Act are released from accumulated other comprehensive income using either the specific identification approach or the portfolio approach based on the nature of the underlying item. The Company adopted this guidance on December 31, 2018 using modified retrospective approach. The adoption of this guidance resulted in a reclassification of \$2,931 of stranded tax effects from accumulated other comprehensive loss to retained deficit due to reduction in federal corporate tax rate. The stranded tax effects are derived from the deferred tax balance on pension obligations as a result of the lower U.S. Federal Corporate tax rate.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 eliminates, adds, and modifies certain disclosure requirements for fair value measurements. The Company adopted this guidance prospectively on September 30, 2018. The adoption of this guidance resulted in the addition of the weighted average of the significant observable inputs used to develop Level 3 fair value measurements in its disclosures. See "[Note 17. Fair Value Measurements](#)" for more information.

Recent Accounting Pronouncements Not Yet Adopted

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

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

In August 2018, the FASB issued ASU No. 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. ASU 2018-14 removes disclosures, clarifies specific disclosure requirements, and adds disclosure requirements. This guidance will be adopted using a retrospective approach and is effective for the Company on March 31, 2020. The Company is evaluating the effect that adoption of this guidance will have on its consolidated financial statements and related disclosures.

In October 2018, the FASB issued ASU No. 2018-17, *Consolidation (Topic 810): Targeted Improvements to the Related Party Guidance for Variable Interest Entities*. ASU 2018-17 changes how entities evaluate decision-making fees under the variable interest entity guidance. To determine whether decision-making fees represent a variable interest, an entity considers indirect interests held through related parties under common control on a proportional basis, rather than in their entirety. This guidance will be adopted using a retrospective approach and is effective for the Company on April 1, 2020. The Company is evaluating the effect that adoption of this guidance will have on its consolidated financial statements and related disclosures.

2. REVENUE RECOGNITION

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

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2. REVENUE RECOGNITION *(continued)*

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

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

	Three Months Ended December 31, 2018	Nine Months Ended December 31, 2018
Leaf		
-		
North America:		
Product revenue	60,280	\$ 152,725
Processing and other revenues	17,570	29,039
Total sales and other operating revenues	77,850	181,764
Leaf		
-		
Other Regions:		
Product revenue	432,423	977,503
Processing and other revenues	9,296	40,752
Total sales and other operating	441,719	1,018,255

revenues

Other
Products
and
Services:

Total sales		
and other	4,918	10,332

operating
revenues¹

Total sales		
and other	\$ 524,487	\$ 1,210,351

operating
revenues

(1) Other products and services is primarily composed of revenue from the sale of legal cannabis in Canada and e-liquids product revenue.

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

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

The Company records product and supply contract intangible assets for the incremental costs of obtaining a contract with a customer if the Company expects the benefit of those costs to be longer than one year, and if such costs are material. The Company applied a practical expedient to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less. Capitalized costs to obtain a contract as of December 31, 2018 were \$4,896 and classified as other intangible assets. See "[Note 5. Goodwill and Intangibles](#)" for more information.

Significant Judgments

The Company has identified two main forms of variable consideration in its contracts with customers: warehousing fees for storing customer-controlled tobacco until the customer requests shipment and claims resulting from tobacco that do not meet customer specifications. Warehousing fees are built into the price of tobacco based on the customers' best estimate of the date they will request shipment or separately charged using a per-day storage rate. When the Company enters into a contract with a customer, the price communicated is the amount of consideration the Company expects to receive. Price adjustments for tobacco not meeting customer specifications for shrinkage, improper blend or chemical makeup, etc. are handled through a claims allowance that is assessed quarterly.

2. REVENUE RECOGNITION *(continued)*

The following summarizes activity in the claims allowance:

	Three Months Ended December 31, 2018	Nine Months Ended December 31, 2018
Balance, beginning of period	\$ 1,360	\$ 1,100
Additions	526	2,258
Payments	(476)	(1,948)
Balance, end of period	\$ 1,410	\$ 1,410

Contract Balances

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

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

	Three Months Ended December 31, 2018	Nine Months Ended December 31, 2018
Balance, beginning of period	\$ (7,324)	\$ (7,055)
Additions	(1,774)	(2,136)
Writes-offs	(15)	78
Balance, end of period	(9,113)	(9,113)
Trade receivables	277,860	277,860
Trade receivables, net	\$ 268,747	\$ 268,747

3. INCOME TAXES

Accounting for Uncertainty in Income Taxes

As of December 31, 2018, the Company's unrecognized tax benefits totaled \$9,153, of which \$8,912 would impact the Company's effective tax rate, if recognized. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of December 31, 2018, accrued interest and penalties totaled \$1,176 and \$939, respectively. The Company expects to continue accruing interest expense related to the unrecognized tax benefits described above. The Company may be subject to fluctuations in the unrecognized tax benefit due to currency exchange rate movements.

During the nine months ended December 31, 2018, the Company reached an income tax settlement with the Kenyan Revenue Authority for \$1,166. An uncertain tax position had previously been recorded of \$2,692, which resulted in a favorable adjustment to tax expense (as the amount was settled for less than it was accrued) which totaled \$1,526. Furthermore, the Company recorded additional unrecognized tax benefits of \$1,987 for a return position taken in Kenya related to currency exchange losses on its amended Kenyan tax return for years 2013 - 2015. In addition, the Company entered into negotiations with the Zimbabwe Revenue Authority during its amnesty program to settle asserted issues. The Company has thus far paid \$2,988 and has accrued another \$964 in anticipation of the settlement. These amounts have not previously been accrued as an uncertain tax position.

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

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3. INCOME TAXES *(continued)*

recorded liabilities for these positions. The Company expects the challenged positions to be settled at a time greater than twelve months from its balance sheet date.

The Company and its subsidiaries file a U.S. federal consolidated income tax return as well as returns in several U.S. states and a number of foreign jurisdictions. As of December 31, 2018, the Company's earliest open tax year for U.S. federal income tax purposes is its fiscal year ended March 31, 2015; however, the Company's net operating loss carryovers from prior periods remain subject to adjustment. Open tax years in state and foreign jurisdictions generally range from three to six years.

Enactment of Tax Cuts and Jobs Act ("Tax Act")

In December 2017, the SEC staff issued Staff Accounting Bulletin 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC Topic 740—Income Taxes. As a result of the Tax Act, and in accordance with SAB 118, the Company recorded provisional tax expense in the three months ended December 31, 2017 related to the deemed repatriation tax, the revaluation of deferred tax assets, and adjustments to liabilities related to the repatriation of foreign earnings.

During the nine months ended December 31, 2018, the Company recorded adjustments to the provisional tax expense initially recorded in the December 31, 2017 financial statements upon adoption of the Tax Act. An adjustment of \$1,827 was made, increasing the deemed repatriation tax liability. As a result of this adjustment, deferred taxes related to future remittances of foreign earnings were impacted by an immaterial amount. The changes were a result of additional regulatory guidance that was issued, as well as further analysis of the Tax Act and the Company's facts and circumstances. Additionally, the Company will continue to be impacted by the expanded interest limitation and the tax on Global Intangible Low-Taxed Income ("GILTI"), which the Company has elected to treat as a period cost if and when incurred. As of December 31, 2018, the Company has completed the accounting for the income tax effects of the Tax Act.

Provision for the Nine Months Ended December 31, 2018

The effective tax rate used for the nine months ended December 31, 2018 and 2017 was (65.3)% and 396.4%, respectively. The primary difference in the effective tax rate this year compared to last year is the impact of U.S. tax reform, which resulted in a change in the taxability of operations, principally due to the impact of the new section 163(j) interest addback and GILTI. The impact was accentuated by the net foreign exchange effects. The significant difference in the effective tax rate for the nine months ended December 31, 2018 from the U.S. federal statutory rate is primarily due to the impact of U.S. tax reform and changes resulting from net foreign exchange effects.

The Company's quarterly provision for income taxes has historically been calculated using the annual effective tax rate method ("AETR method"), which applies an estimated annual effective tax rate to pre-tax income or loss. Consistent with the period ended September 30, 2018, the Company recorded its interim income tax provision using the discrete method as of December 31, 2018, as allowed under ASC 740-270, Accounting for Income Taxes - Interim Reporting. The Company utilized the discrete method, rather than the AETR method, due to significant variations in income tax expense, primarily driven by U.S. tax reform, relative to projected annual pre-tax income (loss) that would have resulted in a disproportionate and unreliable effective tax rate under the AETR method. Using the discrete method, the Company determined current and deferred income tax expense as if the interim period were an annual period.

4. GUARANTEES

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

	December 31, 2018	December 31, 2017	March 31, 2018
Amounts guaranteed (not to exceed)	\$ 176,762	\$ 165,333	\$ 150,900
Amounts outstanding under guarantee	79,336	96,154	126,835
Fair value of guarantees	2,890	2,913	5,864

Of the guarantees outstanding at December 31, 2018, most expire within one year. As of December 31, 2018 and 2017, and March 31, 2018, respectively, the Company had balances of zero, zero, and \$14,807 due to local banks on behalf of suppliers included in accounts payable in the condensed consolidated balance sheets.

5. GOODWILL AND INTANGIBLES

The following summarizes goodwill and other intangible assets:

	December 31, 2018					
	Weighted Average Remaining Useful Life	Gross Carrying Amount	Additions	Accumulated Amortization	Impact of Foreign Currency Translation	Ending Intangible Assets, Net
Intangibles subject to amortization:						
Customer relationships	9.77 years	\$ 58,530	\$ 5,450	\$ (28,021)	\$ —	\$ 35,959
Production and supply contracts	3.10 years	14,893	—	(9,997)	—	4,896
Internally developed software	3.66 years	18,812	759	(18,229)	—	1,342
Licenses	19.11 years	30,339	17	(1,277)	(1,655)	27,424
Trade names	7.25 years		500	(47)	—	453
Intangibles not subject to amortization:						
Goodwill		27,546	7,174	—	(611)	34,109
Total		\$ 150,120	\$ 13,900	\$ (57,571)	\$ (2,266)	\$ 104,183

	March 31, 2018					
	Weighted Average Remaining Useful Life	Gross Carrying Amount	Additions	Accumulated Amortization	Ending Intangible Assets, Net	
Intangibles subject to amortization:						
Customer relationships	10.85 years	\$ 58,530	\$ —	\$ (25,005)	\$ 33,525	
Production and supply contracts	3.82 years	14,893	—	(8,774)	6,119	
Internally developed software	2.82 years	18,581	231	(17,828)	984	
Licenses	19.84 years		30,339	(243)	30,096	
Intangibles not subject to amortization:						

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Goodwill	16,463	11,083	—	27,546
Total	\$ 108,467	\$ 41,653	\$ (51,850)	\$ 98,270

The following summarizes the estimated future intangible asset amortization expense:

For Fiscal Years Ended	Customer Relationships	Production and Supply Contracts	Internally Developed Software*	Licenses	Trade Names	Total
January 1, 2019 through March 31, 2019	\$ 1,005	\$ 516	\$ 139	\$ 360	\$ 16	\$ 2,036
2020	4,022	1,741	445	1,439	63	7,710
2021	4,022	1,397	284	1,439	63	7,205
2022	4,022	1,242	211	1,437	63	6,975
2023	4,022	—	179	1,434	63	5,698
Later	18,866	—	84	21,315	185	40,450
	\$ 35,959	\$ 4,896	\$ 1,342	\$ 27,424	\$ 453	\$ 70,074

*Estimated amortization expense for the internally developed software is based on costs accumulated as of December 31, 2018. These estimates will change as new costs are incurred and until the software is placed into service in all locations.

6. VARIABLE INTEREST ENTITIES

The Company holds variable interests in multiple entities that primarily procure or process inventory on behalf of the Company and other parties or are securitization entities. These variable interests relate to equity investments, advances, guarantees made by the Company, and securitized receivables. The Company is not the primary beneficiary of the majority of its variable interests in variable interest entities, as it does not have the power to direct the activities that most significantly impact the economic performance of the entities due to the entities' management and board of directors' structure. As a result, the majority of these variable interest entities are not consolidated. The Company holds a majority voting interest and is the primary beneficiary of its variable interest in Humble Juice Co., LLC, a consolidated entity for which the related intercompany accounts and transactions have been eliminated.

As of December 31, 2018 and 2017, and March 31, 2018, the Company's investment in variable interest entities was \$62,156, \$66,287, and \$64,208, respectively, and is classified as investments in unconsolidated affiliates in the condensed consolidated balance sheets. The Company's advances to these variable interest entities as of December 31, 2018 and 2017, and March 31, 2018 were \$2,817, \$9,832, and \$5,895, respectively, and classified as accounts receivable, related parties in the condensed consolidated balance sheets. The Company guaranteed an amount to two variable interest entities not to exceed \$73,278, \$73,223, and \$65,487 as of December 31, 2018 and 2017, and March 31, 2018, respectively. The investments, advances, guarantees, and the deferred purchase price on the sale of securitized receivables disclosed in "Note 16. Sale of Receivables" in these variable interest entities represent the Company's maximum exposure to loss.

7. SEGMENT INFORMATION

The Company's operations are managed and reported in ten operating segments that are organized by product category and geographic area and aggregated into three reportable segments for financial reporting purposes: Leaf - North America, Leaf - Other Regions, and Other Products and Services. In reviewing operations, the Company concluded that the economic characteristics of Leaf - North America operations were dissimilar from the other Leaf geographic operating segments in Africa, Asia, Europe, and South America, which have been consolidated into one reportable segment "Leaf - Other Regions". The five other operating segments are aggregated into the "Other Products and Services" reportable segment as they do not meet the quantitative thresholds to be individually reportable. These segment groupings are consistent with information used by the chief operating decision maker to assess performance and allocate resources.

The types of products and services from which each reportable segment derives its revenues are as follows:

- Leaf - North America ships tobacco to manufacturers of cigarettes and other consumer tobacco products around the world. In addition, Leaf - North America is more highly concentrated on processing and other activities compared to the rest of the world.
- Leaf - Other Regions ships tobacco to manufacturers of cigarettes and other consumer tobacco products around the world. In addition, the Leaf - Other Regions sell a small amount of processed but un-threshed flue-cured and burley tobacco in loose-leaf and bundle form to certain customers.
- Other Products and Services primarily consists of cannabis and e-liquid products. Cannabis was legalized for adult use in Canada on October 17, 2018. The Company's cannabis products have been sold primarily to municipally-owned retailers in the Canadian market. E-liquids products are sold to consumers via e-commerce platforms and other distribution channels, and retail stores.

The Company evaluates the operating performance of its segments based upon information included in management reports. Corporate general expenses are allocated to the segments based upon segment selling, general, and

administrative expenses. Other than those described previously, the accounting policies of each segment are the same and are described in "Note 1. Basis of Presentation and Significant Accounting Policies".

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7. SEGMENT INFORMATION *(continued)*

The following summarizes segment information and includes information for periods other than the three and nine months ended December 31, 2018 and 2017 in light of the segment re-alignment:

	Three Months Ended December 31,		
	2018	2017	2016
Sales and other operating revenues:			
Leaf - North America	\$ 77,850	\$ 120,689	\$ 108,869
Leaf - Other Regions	441,719	357,094	345,666
Other Products and Services	4,918	—	—
Total sales and other operating revenues	\$ 524,487	\$ 477,783	\$ 454,535
Operating income (loss):			
Leaf - North America	\$ 2,870	\$ 7,340	\$ 5,685
Leaf - Other Regions	44,133	32,897	34,390
Other Products and Services	(7,648)	—	—
Total operating income	\$ 39,355	\$ 40,237	\$ 40,075

	Nine Months Ended December 31,		
	2018	2017	2016

Sales and other operating revenues:

Leaf - North America	\$ 181,764	\$ 245,307	\$ 217,629
Leaf - Other Regions	1,018,255	956,808	887,431
Other Products and Services	10,332	—	—
Total sales and other operating revenues	\$ 1,210,351	\$ 1,202,115	\$ 1,105,060

Operating income (loss):

Leaf - North America	\$ 7,888	\$ 13,463	\$ 8,366
Leaf - Other Regions	70,010	65,665	45,480
Other Products and Services	(21,265)	—	—
Total operating income	\$ 56,633	\$ 79,128	\$ 53,846

Years Ended March 31,
2018 2017

Sales and other operating revenues:

Leaf - North America	\$ 451,383	\$ 396,217
Leaf -	1,394,048	1,318,533

Other Regions			
Other Products and Services	535	—	
Total sales and other operating revenues	\$ 1,845,966	\$	1,714,750
Operating income (loss):			
Leaf - North America	\$ 26,446	\$	15,333
Leaf - Other Regions	88,742	72,009	
Other Products and Services	(3,284)	—	
Total operating income	\$ 111,904	\$	87,342

7. SEGMENT INFORMATION *(continued)*

	December 31, 2018				December 31, 2017			
	Leaf - North America	Leaf - Other Regions	Other Products and Services	Total	Leaf - North America	Leaf - Other Regions	Other Products and Services	Total
Total assets	\$ 318,295	1,598,879	106,545	2,023,719	495,950	1,558,238	—	2,054,188
Trade and other receivables, net	22,724	266,104	1,224	290,052	34,042	206,775	—	240,817
Goodwill	2,795	13,669	17,645	34,109	2,794	13,669	—	16,463
Equity in net assets of investee companies	—	55,283	12,285	67,568	—	56,808	9,479	66,287
Depreciation and amortization	5,365	19,398	2,124	26,887	5,572	19,273	—	24,845
Capital expenditures*	3,011	13,263	18,900	35,174	4,461	12,801	—	17,262

*Capital expenditures in this table are presented as activity for the nine months ended December 31, 2018 and 2017.

	March 31, 2018				March 31, 2017			
	Leaf - North America	Leaf - Other Regions	Other Products and Services	Total	Leaf - North America	Leaf - Other Regions	Other Products and Services	Total
Total assets	\$ 366,495	1,528,859	71,275	1,966,631	375,782	1,596,090	—	1,971,872
Trade and other receivables, net	46,096	257,968	335	304,399	40,212	213,973	—	254,185
Goodwill	2,795	13,669	11,082	27,546	2,794	13,669	—	16,463
Equity in net assets of investee companies	—	57,434	9,935	67,369	—	51,832	(389)	51,443

Depreciation and amortization	7,435	25,754	409	33,598	7,543	26,933	—	34,476
Capital expenditures	4,649	17,017	1,632	23,298	3,638	9,099	—	12,737

8. EARNINGS PER SHARE

The weighted average number of common shares outstanding is reported as the weighted average of the total shares of common stock outstanding, net of shares of common stock held by a wholly owned subsidiary. Shares of common stock owned by the subsidiary were 785 as of December 31, 2018 and 2017. This subsidiary waives its right to receive dividends and it does not have the right to vote these shares.

Certain potentially dilutive options were not included in the computation of earnings per diluted share because their exercise prices were greater than the average market price of the shares of common stock during the period and their effect would be antidilutive. These shares totaled 427 at a weighted average exercise price of \$60.00 per share as of December 31, 2018 and 2017. Diluted net loss per share as of December 31, 2018 was the same as basic net loss per share as the effects of potentially dilutive items were antidilutive given the Company's net loss.

8. EARNINGS PER SHARE *(continued)*

The following summarizes the computation of earnings per share:

	Three Months Ended December 31,		Nine Months Ended December 31,	
<i>(in thousands, except 2018 per share data)</i>	2017	2018	2017	
Basic (loss) income per share:				
Net (loss) income attributable to	\$ (5,095)	\$ 88,456	\$ (60,487)	\$ 56,936
Pyxus International, Inc.				
Shares:				
Weighted average number of	9,001	9,048	8,982	
shares outstanding				
Basic (loss) income	\$ (0.56)	\$ 9.83	\$ (6.69)	\$ 6.34
per share				
Diluted (loss) income per share:				
Net (loss) income attributable to	\$ (5,095)	\$ 88,456	\$ (60,487)	\$ 56,936

Pyxus
International,
Inc.

Shares:

Weighted
average
number
of ~~9,068~~
shares
outstanding

9,001

9,048

8,982

Plus:
Restricted
shares
issued
and
shares
applicable
to
stock
options
and
restricted
stock
units,

* 28

—

* 27

net
of
shares
assumed
to
be
purchased
from
proceeds
at
average
market
price

Adjusted
weighted
average
number ~~9,068~~
of
shares
outstanding

9,029

9,048

9,009

Diluted
(loss)
income (0.56)
per
share

\$ 9.80

\$ (6.69)

\$ 6.32

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

Net income for the three and nine months ended December 31, 2017 were favorably impacted by a net tax benefit of \$73.3 million primarily attributable to the impact of the 2017 U.S. Tax Reform Act.

9. STOCK-BASED COMPENSATION

The following summarizes the Company's stock-based compensation expense related to awards granted under its various employee and non-employee stock incentive plans:

	Three Months Ended December 31,		Nine Months Ended December 31,	
<i>(in thousands)</i>	2018	2017	2018	2017
Stock-based compensation expense	\$ 402	\$ 271	\$ 1,155	\$ 869
Stock-based compensation expense payable in cash	—	—	—	54

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
<i>(in thousands, except grant date fair value)</i>	2018	2017	2018	2017
Restricted stock				
Number granted	13	7	26	22
Grant date fair value \$	11.86	\$ 13.25	\$ 17.04	\$ 12.85
Restricted stock units				
Number granted	5	—	66	57
Grant date fair value \$	14.32	\$ —	\$ 15.94	\$ 11.75
Performance-based stock units				
Number granted	—	—	30	29
Grant date fair value \$	—	\$ —	\$ 16.00	\$ 11.75

Restricted stock units granted during the nine months ended December 31, 2018 vest ratably over a three-year period.

10. CONTINGENCIES AND OTHER INFORMATION

The government in the Brazilian State of Parana issued a tax assessment on October 26, 2007 with respect to local intrastate trade tax credits that result primarily from tobacco transferred between states within Brazil. The assessment for intrastate trade tax credits taken is \$3,399 and the total assessment including penalties and interest at December 31, 2018 is \$11,743. The Company believes it has properly complied with Brazilian law and will contest any assessment through the judicial process. Should the Company lose in the judicial process, the loss of the intrastate trade tax credits would have a material impact on the financial statements of the Company.

The Company also has local intrastate trade tax credits in the Brazilian State of Santa Catarina and the State of Rio Grande do Sul. These jurisdictions permit the sale or transfer of excess credits to third parties. However, approval must be obtained from the tax authorities. The Company has an agreement with the state governments regarding the amounts and timing of credits that can be sold. The tax credits have a carrying value of \$7,138 as of December 31, 2018, which is net of impairment charges based on management's expectations about future realization. The intrastate trade tax credits will continue to be monitored for impairment in future periods based on market conditions and the Company's ability to use or sell the tax credits.

In 1969, the Brazilian government created a tax credit program that allowed companies to earn IPI tax credits ("IPI credits") based on the value of their exports. The government began to phase out this program in 1979, which resulted in numerous lawsuits between taxpayers and the Brazilian government. The Company has a long legal history with respect to credits it earned while the IPI credit program was in effect. In 2001, the Company won a claim related to certain IPI credits it earned between 1983 and 1990. The Brazilian government appealed this decision and numerous rulings and appeals were rendered on behalf of both the government and the Company from 2001 through 2013. Because of this favorable ruling, the Company began to use these earned IPI credits to offset federal taxes in 2004 and 2005, until it received a Judicial Order to suspend the IPI offsetting in 2005. The value of the federal taxes offset in 2004 and 2005 was \$24,142 and the Company established a reserve on these credits at the time of offsetting as they were not yet realizable due to the legal uncertainty that existed. Specifically, the Company extinguished other federal tax liabilities using IPI credits and recorded a liability in pension, postretirement and other long-term liabilities to reflect that the credits were not realizable at that time due to the prevalent legal uncertainty. On March 7, 2013, the Brazilian Supreme Court rendered a final decision in favor of the Company that recognized the validity of the IPI credits and secured the Company's right to benefit from the IPI credits earned from March 1983 to October 1990. This final decision expressly stated the Company has the right to the IPI credits. The Company estimated the total amount of the IPI credits to be approximately \$94,316 at March 31, 2013. Since the March 2013 ruling definitively (without the government's ability to appeal) granted the Company the ownership of the IPI credits generated between 1983 and 1990, the Company believed the amount of IPI credits that were used to offset other federal taxes in 2004 and 2005 were realizable beyond a reasonable doubt. Accordingly, and at March 31, 2013, the Company recorded the \$24,142 IPI credits it realized in the statements of consolidated operations in other income, net. No further benefit has been recognized pending the outcome of the judicial procedure to ascertain the final amount as those amounts have not yet been realized.

Certain of the Company's subsidiaries are involved in other litigation or legal matters incidental to their business activities, including tax matters. While the outcome of these matters cannot be predicted with certainty, the Company is vigorously defending them and does not currently expect that any of them will have a material adverse effect on its business or financial position. Should one or more of these matters be resolved in a manner adverse to its current expectation, the effect on the Company's results of operations for a particular fiscal reporting period could be material.

In accordance with GAAP, the Company records known asset retirement obligations ("ARO") for which the liability can be reasonably estimated. Currently, it has identified an ARO associated with one of its facilities that requires it to restore the land to its initial condition upon vacating the facility. The Company has not recognized a liability under GAAP for this ARO because the fair value of restoring the land at this site cannot be reasonably estimated since the

settlement date is unknown at this time. The settlement date is unknown because the land restoration is not required until title is returned to the government, and the Company has no current or future plans to return the title. The Company will recognize a liability in the period in which sufficient information is available to reasonably estimate its fair value.

11. DEBT ARRANGEMENTS

ABL Facility

The ABL credit agreement restricts the Company from paying any dividends during the term of this facility subject to the satisfaction of specified financial ratios. In addition, the indentures governing the Company's outstanding 8.5% senior secured first lien notes due 2021 and its outstanding 9.875% senior secured second lien notes due 2021 contain similar restrictions and

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11. DEBT ARRANGEMENTS *(continued)*

also prohibit the payment of dividends and other distributions if the Company fails to satisfy a ratio of consolidated EBITDA to fixed charges of at least 2.0 to 1.0. As of December 31, 2018, the Company did not satisfy this fixed charge coverage ratio.

The Company may not satisfy this ratio from time to time and failure to meet this fixed charge coverage ratio does not constitute an event of default.

Senior Secured Second Lien Notes

During the nine months ended December 31, 2018, the Company purchased \$27,260 of its existing 9.875% senior secured second lien notes on the open market. The purchased securities were canceled leaving \$635,686 of the Second Lien Notes outstanding at December 31, 2018. Related discounts were \$2,293 resulting in net cash repayment of \$24,967 and recorded in repayment of long-term borrowings in the condensed consolidated statements of cash flows. Associated costs paid were \$68 and deferred financing costs and amortization of original issue discount of \$472 were accelerated.

12. DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31, 2018 and 2017, accumulated other comprehensive loss includes \$2,307 and \$999, net of tax of \$613 and zero, for unrealized losses related to designated cash flow hedges, respectively. The Company recorded losses of \$458 and \$1,445 in its cost of goods and services sold for the three months and nine months ended December 31, 2018, respectively. For the nine months ended December 31, 2018, \$987 was from the discontinuance of a portion of the Company's cash flow hedges. The Company recorded losses of \$656 and \$598 in its cost of goods and services sold for the three months and nine months ended December 31, 2017, respectively. The Company recorded a current derivative asset of \$1,029, zero, and zero as of December 31, 2018 and 2017, and March 31, 2018, respectively, included on the condensed consolidated balance sheets.

13. PENSION AND OTHER POSTRETIREMENT BENEFITS

The following summarizes the components of net periodic benefit cost:

	Pension Benefits			
	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Operating expenses:				
Service cost	\$ 120	\$ 116	\$ 359	\$ 349
Interest expense:				
Interest expense	1,155	1,063	3,464	3,189
Expected return on plan assets	(1,286)	(1,264)	(3,858)	(3,793)

Amortization of prior service cost	11	10	32	31	
Settlement loss	91	—	609	—	
Actuarial loss	422	511	1,267	1,533	
Net periodic pension cost	\$ 513	\$ 436	\$ 1,873	\$ 1,309	

Other Postretirement Benefits

Three Months Ended December 31, 2018	2017	2018	Nine Months Ended December 31, 2017
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Operating expenses: