

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 March 31, 2003

OR

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

For the transition period from _____ to _____

Commission file number 0-25734; 1-13684



DIMON INCORPORATED

(Exact name of registrant as specified in its charter)

VIRGINIA

(State or other jurisdiction
of incorporation or organization)

54-1746567

(I.R.S. Employer
Identification No.)

512 Bridge Street, Danville, Virginia
(Address of principal executive offices)

24541
(Zip Code)

Registrant's telephone number, including area code (434) 792-7511

Not Applicable

(Former name, former address and former
fiscal year, if changed since last report)

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 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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒

No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class of Common Stock
NO par value

Outstanding at
May 7, 2003
44,732,004

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DIMON Incorporated and Subsidiaries

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Part I. Financial Information**Item 1. Financial Statements**

DIMON Incorporated and Subsidiaries
CONSOLIDATED BALANCE SHEET

	March 31 2003 (Unaudited)	June 30 2002
<i>(in thousands)</i>		
ASSETS		
Current assets		
Cash and cash equivalents.....	\$ 19,840	\$ 108,991
Notes receivable.....	3,511	4,400
Trade receivables, net of allowances.....	196,823	173,576
Inventories:		
Tobacco.....	419,495	391,112
Other.....	27,224	19,215
Advances on purchases of tobacco.....	70,467	67,769
Current deferred and recoverable income taxes.....	4,439	9,736
Prepaid expenses and other assets.....	23,028	17,239
	<hr/>	<hr/>
Total current assets.....	764,827	792,038
	<hr/>	<hr/>
Investments and other assets		
Equity in net assets of investee companies.....	611	1,072
Other investments.....	2,741	1,941
Notes receivable.....	3,272	5,354
Other.....	23,325	24,566
	<hr/>	<hr/>
	29,949	32,933
	<hr/>	<hr/>
Intangible assets		
Goodwill.....	151,772	151,772
Production and supply contracts.....	9,973	3,938
Pension asset.....	1,664	1,664
	<hr/>	<hr/>
	163,409	157,374
	<hr/>	<hr/>
Property, plant and equipment		
Land.....	19,693	18,676
Buildings.....	183,978	178,987
Machinery and equipment.....	198,519	210,769
Allowances for depreciation.....	(152,357)	(151,148)
	<hr/>	<hr/>
	249,833	257,284
	<hr/>	<hr/>
Deferred taxes and other deferred charges.....	39,694	37,461
	<hr/>	<hr/>
	\$1,247,712	\$1,277,090
	<hr/> <hr/>	<hr/> <hr/>

See notes to consolidated financial statements

Part I. Financial Information**Item 1. Financial Statements**

DIMON Incorporated and Subsidiaries
CONSOLIDATED BALANCE SHEET

	March 31 2003 (Unaudited)	June 30 2002
<i>(in thousands)</i>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes payable to banks.....	\$ 147,775	\$ 181,629
Accounts payable:		
Trade.....	48,102	55,277
Officers and employees.....	9,004	13,553
Other.....	25,999	7,964
Advances from customers.....	47,914	67,616
Accrued expenses.....	26,321	24,797
Income taxes.....	5,295	11,015
Long-term debt current.....	1,908	1,128
	<hr/>	<hr/>
Total current liabilities.....	312,318	362,979
	<hr/>	<hr/>
Long-term debt		
Revolving Credit Notes and Other.....	13,715	7,521
Convertible Subordinated Debentures.....	73,328	73,328
Senior Notes (Net of Fair Value Adjustment of \$16,427 in FY 2003 and (\$3,638) in FY 2002).....	341,427	321,362
	<hr/>	<hr/>
	428,470	402,211
	<hr/>	<hr/>
Deferred credits:		
Income taxes.....	8,759	9,243
Compensation and other	57,787	67,205
	<hr/>	<hr/>
	66,546	76,448
	<hr/>	<hr/>
Minority interest in subsidiaries.....	887	789
	<hr/>	<hr/>
Commitments and contingencies.....	-	-
	<hr/>	<hr/>
Stockholders' equity	<u>Mar. 31</u>	<u>June 30</u>
Preferred Stock—no par value:		
Authorized shares.....	10,000	10,000
Issued shares.....	-	-
Common Stock—no par value:		
Authorized shares.....	125,000	125,000
Issued shares.....	44,732	44,640
	183,327	182,768
Retained earnings.....	269,202	264,148
Accumulated other comprehensive income.....	(13,038)	(12,253)
	<hr/>	<hr/>
	439,491	434,663
	<hr/>	<hr/>
	\$1,247,712	\$1,277,090
	<hr/> <hr/>	<hr/> <hr/>

See notes to consolidated financial statements

DIMON Incorporated and Subsidiaries
STATEMENT OF CONSOLIDATED INCOME
Three Months and Nine Months Ended March 31, 2003 and 2002
(Unaudited)

	Third Quarter		First Nine Months	
<i>(in thousands, except per share amounts)</i>	2003	2002	2003	2002
Sales and other operating revenues.....	\$301,404	\$257,065	\$878,069	\$922,149
Cost of goods and services sold.....	260,301	217,705	737,208	782,581
Gross profit.....	41,103	39,360	140,861	139,568
Selling, administrative and general expenses.....	26,783	24,885	77,802	78,110
Operating income.....	14,320	14,475	63,059	61,458
Interest expense.....	11,125	12,133	34,268	35,862
Current (recovery) charge derivative financial instruments...	(194)	(4,068)	10,371	5,152
Income before income taxes and equity in net income (loss) of investee companies.....	3,389	6,410	18,420	20,444
Income tax expense.....	785	1,730	4,249	5,500
Income before equity in net income (loss) of investee companies.....	2,604	4,680	14,171	14,944
Equity in net income (loss) of investee companies, net of income taxes.....	66	10	(171)	(135)
Net income.....	<u>\$ 2,670</u>	<u>\$ 4,690</u>	<u>\$ 14,000</u>	<u>\$ 14,809</u>
Basic earnings per share	<u>\$.06</u>	<u>\$.11</u>	<u>\$.31</u>	<u>\$.33</u>
Diluted earnings per share	<u>\$.06 *</u>	<u>\$.10 *</u>	<u>\$.31 *</u>	<u>\$.33 *</u>
Average number of shares outstanding:				
Basic.....	44,534	44,525	44,530	44,525
Diluted.....	45,107 *	45,063 *	44,886 *	45,048 *
Cash dividends per share.....	<u>\$.075</u>	<u>\$.05</u>	<u>\$.20</u>	<u>\$.15</u>

See notes to consolidated financial statements

** Assumed conversion of Convertible Debentures at the beginning of the period has an antidilutive effect on earnings per share.*

DIMON Incorporated and Subsidiaries
STATEMENT OF CONSOLIDATED CASH FLOWS
 Nine Months Ended March 31, 2003 and 2002
(Unaudited)

<i>(in thousands)</i>	March 31 2003	March 31 2002
Operating activities		
Net income	\$ 14,000	\$ 14,809
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization.....	24,798	30,219
Deferred items.....	6,094	(4,136)
Loss on foreign currency transactions.....	1,232	3,678
Changes in operating assets and liabilities.....	(74,520)	8,507
Net cash (used) provided by operating activities.....	(28,396)	53,077
Investing activities		
Purchase of property and equipment.....	(15,888)	(16,773)
Proceeds from sale of property and equipment.....	2,673	3,310
Payments received on notes receivable and receivable from investees.....	2,925	2,469
Receipts (payments) for other investments and other assets.....	(4,047)	3,290
Net cash used by investing activities.....	(14,337)	(7,704)
Financing activities		
Net change in short-term borrowings.....	(39,753)	(94,577)
Proceeds from long-term borrowings.....	3,919	266,020
Repayment of long-term borrowings.....	(1,051)	(183,089)
Cash dividends paid to DIMON Incorporated stockholders.....	(8,946)	(6,696)
Net cash used by financing activities.....	(45,831)	(18,342)
Effect of exchange rate changes on cash.....	(587)	1,154
Increase (decrease) in cash and cash equivalents.....	(89,151)	28,185
Cash and cash equivalents at beginning of year.....	108,991	14,594
Cash and cash equivalents at end of period.....	\$ 19,840	\$ 42,779

See notes to consolidated financial statements

DIMON Incorporated and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)

1. BASIS OF PRESENTATION

The accompanying interim unaudited consolidated financial statements of DIMON Incorporated and Subsidiaries (the "Company" or "DIMON") include all normal recurring adjustments necessary for a fair presentation. Certain prior period amounts have been reclassified to conform to the current period presentation. For additional information regarding accounting principles and other financial data, see Notes to Consolidated Financial Statements in the Annual Report on Form 10-K for the fiscal year ended June 30, 2002. The Company's operations are seasonal. Therefore, the results of operations for the nine months ended March 31, 2003 are not necessarily indicative of the results to be expected for the full year.

2. EARNINGS PER SHARE

Basic earnings per share is computed by dividing earnings by the weighted average number of common shares outstanding. The diluted earnings per share calculation assumes that all of the outstanding Convertible Subordinated Debentures outstanding during the periods presented were converted into Common Stock at the beginning of the reporting period or as of the date of issue, thereby increasing the weighted average number of shares considered outstanding during each period and reducing the after-tax interest expense. The weighted average number of shares outstanding are further increased by common stock equivalents on employee stock options and restricted shares outstanding.

The following information reconciles the basic weighted average number of shares outstanding to diluted shares outstanding and diluted earnings per share:

	Third Quarter		First Nine Months	
<i>(in thousands)</i>	2003	2002	2003	2002
<u>Shares</u>				
Weighted average number of common shares outstanding...	44,534	44,525	44,530	44,525
Restricted shares issued and shares applicable to stock options, net of shares assumed to be purchased from proceeds at average market price.....	573	538	356	523
Assuming conversion of 6.25% Convertible Debentures at the beginning of the period.....	- *	- *	- *	- *
Average diluted shares outstanding.....	45,107 *	45,063 *	44,886 *	45,048 *

* Assumed conversion of Convertible Debentures at the beginning of the period has an antidilutive effect on earnings per share.

3. COMPREHENSIVE INCOME

The components of comprehensive income were as follows:

	Three Months Ended March 31		Nine Months Ended March 31	
<i>(in thousands)</i>	2003	2002	2003	2002
Net income.....	\$2,670	\$4,690	\$14,000	\$14,809
Equity currency conversion adjustment.....	(1,253)	(1,036)	(662)	(1,353)
Derivative financial instruments adjustment.....	(513)	1,150	(123)	1,564
Total comprehensive income.....	\$ 904	\$ 4,804	\$13,215	\$15,020

4. STOCK-BASED COMPENSATION

The Company accounts for its stock-based employee compensation plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	Three Months Ended March 31		Nine Months Ended March 31	
	2003	2002	2003	2002
Net income, as reported.....	\$2,670	\$4,690	\$14,000	\$14,809
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects.....	(216)	(155)	(679)	(518)
Pro forma net income.....	\$ 2,454	\$ 4,535	\$13,321	\$14,291
Earnings per share:				
Basic – as reported.....	\$ 0.06	\$ 0.11	\$ 0.31	\$ 0.33
Basic – pro forma.....	\$ 0.06	\$ 0.10	\$ 0.30	\$ 0.32
Diluted – as reported.....	\$ 0.06	\$ 0.10	\$ 0.31	\$ 0.33
Diluted – pro forma.....	\$ 0.05	\$ 0.10	\$ 0.30	\$ 0.32

5. CONTINGENCIES

In 1993, the Company received notices from Brazilian tax authorities of proposed adjustments to the income tax returns of the Company's entities located in Brazil for the calendar years ending 1988 through 1992. In August 1996, the Company also received notices of adjustments from Brazilian tax authorities proposing adjustments to the income taxes for calendar year 1992 based on the Company's recalculation of monetary correction as allowed under Law 8200. The Company successfully defeated many of the proposed adjustments in litigation and settled the other issues under REFIS and Tax Amnesty programs. During the nine months ended March 31, 2003, the Company resolved an additional \$2,000 of tax, penalties and interest. As of March 31, 2003, tax, penalties and interest relating to still unresolved issues is approximately \$1,600, before related tax benefits for future deductions, and deduction of interest if the Company failed to prevail on these issues.

On October 31, 2002, the Company received an assessment from the tax authorities in Germany regarding the taxable gain from the sale of its flower operations, Florimex, in September 1998. The report concluded the values of the real estate located in Germany were greater than those arrived at with the buyer of the flower operation. The proposed adjustment to income tax is equivalent to approximately \$4,000. The Company has challenged this finding with valuations that support the values used in the original filings and is currently discussing the issue with the tax officials in Germany.

In September 2002, the Company's Tanzanian operation received an assessment for income taxes equivalent to approximately \$1,000. The company has filed a protest and an appeal and is awaiting a reply.

5. CONTINGENCIES (*Continued*)

The Company believes it has properly reported its income and paid its taxes in Brazil, Germany and Tanzania in accordance with applicable laws and intends to vigorously contest the proposed adjustments. The Company expects the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated balance sheet or results of operations.

On April 3, 2002, the United States District Court for the Middle District of North Carolina issued an opinion and order certifying a class in Deloach, et al. v. Philip Morris Companies Inc., et al., a lawsuit pending in the United States District Court for the Middle District of North Carolina (Case No. 00-CV-1235) (the "Deloach Suit"). As certified, the class consists of persons who, at any time from February 1996 to the present, held a quota to grow or produced and sold U.S. flue-cured and burley tobacco. The plaintiffs allege that the defendants, which include cigarette manufacturers and leaf tobacco dealers, including the Company, violated the antitrust laws by conspiring to rig bids at auction and undermine the federal government quota and price support program. The plaintiffs seek injunctive relief, treble damages in an unspecified amount, pre- and post-judgment interest, attorneys' fees and costs of litigation. The Company has been defending the lawsuit vigorously. The Company cannot estimate the amount or range of loss that could result if the lawsuit is resolved in a manner unfavorable to the Company.

In October 2001, the Directorate General for Competition (DGCOMP) of the European Commission (EC) began conducting an administrative investigation into certain tobacco buying and selling practices alleged to have occurred within the leaf tobacco industry in Spain and Italy. The Company believes that the DGCOMP may be conducting similar investigations in other countries. The Company's subsidiaries in Spain (Agroexpansion) and Italy (DIMON Italia) are cooperating with the DGCOMP. Based on the Company's understanding of the facts pertaining to the activities of Spanish and Italian tobacco processors, including Agroexpansion and DIMON Italia, respectively, the Company believes there have been infringements of EU law. Agroexpansion and DIMON Italia believe that there are mitigating circumstances in the structure and traditional operation of tobacco production and processing in these markets. The EC is not expected to issue a ruling (Statement of Objection) concerning either of these investigations until later in 2003. The Company expects that administrative penalties will be assessed, and those penalties could be material to the Company's earnings. However, the Company is not able to make an assessment of the amount of any such penalties at this time. The Company understands that the cooperation of its subsidiaries with the DGCOMP during its investigations could result in a reduction of the amount of penalties imposed.

In September 2002, the Argentina National Commission for Defense of Competition ("NCDC") began an administrative inquiry into the tobacco and cigarette industry in Argentina. The Company's subsidiary in Argentina, DIMON Argentina S.A., is cooperating with the NCDC. The Company cannot predict whether the inquiry will result in any further action by the NCDC.

The Company and certain of its foreign subsidiaries guarantee bank loans to growers to finance their crop. Under longer-term arrangements, the Company may also guarantee financing on growers' construction of curing barns or other tobacco production assets. The Company also guarantees bank loans to certain tobacco cooperatives to assist with the financing of their growers' crops. Guaranteed loans are generally repaid concurrent with the delivery of tobacco to the Company. The Company is obligated to repay any guaranteed loan should the grower or tobacco cooperative default. If default occurs, the Company has recourse against the grower or cooperative. At March 31, 2003, the Company is guarantor of an amount not to exceed \$90,556 with \$70,700 outstanding under these guarantees. The majority of the current outstanding guarantees expire within the respective annual crop cycle. The Company considers the risk of significant loss under these guarantees to be remote.

The Company's other off balance sheet risks are not material.

5. CONTINGENCIES (*Continued*)

On August 21, 2001, the Company's subsidiary in Brazil won a claim related to certain excise taxes ("IPI credit bonus") for the years 1983 through 1990 and is now pursuing collection. The collection procedures are not clear and the total realization process could potentially be over many years. The Company is unable to estimate the realizable value of this claim as of March 31, 2003.

Zimbabwe remains in a period of civil unrest in combination with a deteriorating economy. Should the current political situation continue, the Company could experience disruptions and delays associated with its Zimbabwe operations. If the political and economic situation in Zimbabwe continues to deteriorate, or if tobacco crop volumes continue declining at a significant rate, the Company's ability to recover its assets there could be impaired. The Company's Zimbabwe subsidiary has long-lived assets of approximately \$46.7 million as of March 31, 2003.

6. ISSUANCE OF SENIOR NOTES AND BANK CREDIT FACILITY

On October 30, 2001, the Company completed a private issuance of \$200 million principal amount of 9 5/8% Senior Notes due 2011 pursuant to Rule 144A under the Securities Act of 1933. The financial covenants of the Senior Notes are substantially similar to those for the existing \$125 million principal amount of 8 7/8% Senior Notes due 2006.

On October 31, 2001, the Company closed on a three-year \$165 million syndicated bank credit facility with a group of five banks. The credit facility is subject to certain commitment fees and covenants that, among other things, require DIMON to maintain minimum working capital and tangible net worth amounts, require specific liquidity and long-term solvency ratios, including certain borrowing base restrictions, and restrict acquisitions. The Company continuously monitors its compliance with these covenants. The credit facility's initial term expires on October 31, 2004, and, subject to approval by the lenders, may be extended. The rates of interest are based on the Company's published credit rating and vary according to the type of loan requested by the Company. During the life of the agreement, the interest rate could be the prime rate or the LIBOR rate adjusted. The primary advance rate is the agent bank's base lending rate (4.25% at March 31, 2003). The Company pays a commitment fee of 1% per annum on any unused portion of the facility.

7. DERIVATIVE FINANCIAL INSTRUMENTS

Fixed to Floating Rate Interest Swaps

Concurrent with the private issuance of \$200 million principal amount of 9 5/8% Senior Notes on October 30, 2001, discussed in Note 6, the Company entered into a derivative financial instrument to swap the entire \$200 million notional amount of the Senior Notes to a floating interest rate equal to LIBOR plus 4.11%, set six months in arrears. Also, effective November 25, 2002, the Company entered into a derivative financial instrument to swap \$100 million notional amount of the \$125 million principal amount of the 8 7/8% Senior Notes due 2006, to a floating interest rate equal to LIBOR plus 5.11%, set six months in arrears. The effective interest rates at March 31, 2003 were 5.34% and 6.34% for the \$200 million and \$100 million instruments, respectively.

The maturity, payment dates, and other fundamental terms of these derivative financial instruments match those of the related Senior Notes. In accordance with Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities," these derivatives qualify for hedge accounting treatment. They are accounted for as fair value hedges. Changes in the fair value of these derivative financial instruments, as well as offsetting changes in the fair value of the Senior Notes, are being recognized in current period earnings. As of March 31, 2003 and June 30, 2002, the fair value of the debt increased the Senior Notes liability by \$16,427 and decreased the liability by \$3,638, respectively, with a corresponding change in the fair value of the derivative financial instruments reflected in Deferred Credits – Compensation and Other.

7. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Floating to Fixed Rate Interest Swaps

Prior to the implementation of SFAS No. 133, the Company entered into multiple interest swaps to convert a portion of its worldwide debt portfolio from floating to fixed interest rates, to reduce its exposure to interest rate volatility. At March 31, 2003, the Company held instruments of this type with an aggregate notional value of \$265 million, bearing interest at rates between 4.29% and 6.22%, and with maturity dates ranging from September 15, 2003 to September 15, 2008. The implementation of SFAS No. 133 eliminated hedge accounting treatment for these instruments because they do not meet certain criteria. Accordingly, the Company is required to reflect the full amount of all changes in their fair value, without offset, in its current earnings. These fair value adjustments have caused substantial volatility in the Company's reported earnings. For the three months ended March 31, 2003 and 2002, the Company recognized non-cash recoveries before income taxes of \$(194) and \$(4,068), respectively, from the change in the fair value of these derivative financial instruments. For the nine months ended March 31, 2003 and 2002, the Company recognized non-cash charges before income taxes of \$10,371 and \$5,152, respectively, from the change in the fair value of these derivative financial instruments. With the recognition of each charge or recovery relating to these instruments, a corresponding amount is recognized in Deferred Credits — Compensation and Other. At March 31, 2003, there was an aggregate credit of \$25,846 relating to these instruments accumulated in this balance sheet classification, all of which will reverse through future earnings over the remaining life of the instruments.

Forward Currency Contracts

The Company periodically enters into forward currency contracts to protect against volatility associated with certain non-U.S. dollar denominated forecast transactions. In accordance with SFAS No. 133, these derivatives qualify for hedge accounting treatment. They are accounted for as cash flow hedges. Changes in the fair value of these derivative financial instruments, net of deferred taxes, are recognized in Other Comprehensive Income and do not affect current period earnings.

Fair Value of Derivative Financial Instruments

As noted, and in accordance with SFAS No. 133, the Company recognizes all derivative financial instruments at fair value, regardless of the purpose or intent for holding the instrument. Fair value estimates are based on information available to management at March 31, 2003, and were determined using quoted market prices when available. For the nine months ended March 31, 2003 and 2002 accumulated other comprehensive income decreased by \$123 (net of deferred taxes of \$62) and increased by \$1,564 (net of deferred taxes of \$814), respectively, related specifically to accumulated unrealized net losses on forward contracts accounted for as cash flow hedges. For the three months ended March 31, 2003 and 2002 accumulated other comprehensive income decreased by \$513 (net of deferred taxes of \$256) and increased by \$1,150 (net of deferred taxes of \$563), respectively, related specifically to accumulated unrealized net losses on forward contracts accounted for as cash flow hedges.

8. ADOPTION OF NEW ACCOUNTING STANDARD

Effective July 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 (SFAS No. 142), "Goodwill and Other Intangible Assets." This new standard eliminates the amortization of goodwill and intangible assets with indefinite useful lives. Instead these assets must be tested at least annually for impairment. In the year of adoption, SFAS No. 142 also requires the Company to perform an initial assessment of its reporting units to determine whether there is any indication that the goodwill carrying value may be impaired. This transitional assessment is made by comparing the fair value of each reporting unit, as determined in accordance with the new standard, to its book value. To the extent the fair value of any reporting unit is less than its book value, which would indicate that potential impairment of goodwill exists, a second transitional test is required to determine the amount of impairment.

The Company completed the initial transitional assessment during the first quarter and has determined that no potential goodwill impairment existed as of July 1, 2002. A goodwill impairment review will be conducted at least annually and any impairment charges that are required to be recorded would be charged to operating income.

In accordance with SFAS No. 142, prior period amounts were not restated. The following table adjusts the reported net income for the three months and nine months ended March 31, 2002 and the income per share amounts to exclude amortization of goodwill:

	Three Months Ended March 31, 2002	Nine Months Ended March 31, 2002
<i>(in thousands, except for per share data)</i>		
Reported net income.....	\$ 4,690	\$ 14,809
Amortization of goodwill (net of tax of \$10 and \$30).....	1,690	5,071
Adjusted net income	<u>\$ 6,380</u>	<u>\$ 19,880</u>
Reported basic earnings per share.....	\$.11	\$.33
Amortization of goodwill (net of tax).....	\$.04	\$.12
Adjusted basic earnings per share.....	<u>\$.15</u>	<u>\$.45</u>

9. SUBSEQUENT EVENT

On May 1, 2003, the Company received \$2,734 from the United Nations Compensation Commission in connection with a claim filed by a predecessor company, Monk-Austin, Incorporated. The claim arose from an uncollected trade receivable from the Iraqi Tobacco Monopoly, which related to transactions that occurred prior to Iraq's invasion of Kuwait in August 1990. The predecessor company charged off the entire receivable, net of tax, as a \$5,202 extraordinary loss during its fiscal year 1991. The Company will report the current recovery, net of tax, as a \$1,777 extraordinary gain in its fourth quarter earnings.

Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations

LIQUIDITY AND CAPITAL RESOURCES:

The purchasing and processing activities of our business are seasonal. Our need for working capital fluctuates. At any of several seasonal peaks, our outstanding indebtedness may be significantly greater or less than at year-end. We historically have needed working capital in excess of cash flow from operations to finance inventory and accounts receivable. We also prefinance tobacco crops in certain foreign countries by making advances of crop materials and cash to farmers prior to and during the growing season. We have historically financed our operations through a combination of short-term lines of credit, customer advances, cash from operations, debt securities and equity and equity-linked securities.

Working capital at March 31, 2003 was \$453 million compared to \$429 million at June 30, 2002. Our current ratio was 2.4 to 1 at March 31, 2003 compared to 2.2 to 1 at June 30, 2002. The increase in working capital is the result of a decrease in current assets of \$27 million and a decrease of \$51 million in current liabilities. The decrease in current assets is primarily a result of decreased cash partially offset by increases in trade receivables and inventory. The decrease in current liabilities is primarily a result of decreases in notes payable to banks and advances from customers.

Cash flows used by operating activities were \$28.4 million in 2003 compared to cash provided of \$53.1 million in 2002. The increased usage is primarily due to more cash used for inventories and advances on purchases of tobacco and accounts receivable partially offset by changes in customer advances.

Cash used by investing activities was \$14.3 million in 2003 compared to \$7.7 million in 2002. The increase in usage by investing activities relates primarily to payments for investments and other assets.

Cash flows used by financing activities were \$45.8 million in 2003 compared to \$18.3 million in 2002. This change relates primarily to our proceeds from our Senior Note issuance and credit facility refinance in October 2001.

At March 31, 2003, we had seasonally adjusted lines of credit of \$417.8 million, with \$147.8 million in borrowings with a weighted average interest rate of 4.7%. At March 31, 2003, unused lines of credit amounted to \$229.5 million. Total maximum outstanding borrowings, excluding the long-term credit agreements, during the nine months ended March 31, 2003 were \$289.4 million. At March 31, 2003, we had \$25.5 million of letters of credit outstanding and an additional \$15.0 million of letters of credit lines available.

On October 30, 2001 we completed an issuance of \$200 million principal amount of 9 5/8% Senior Notes due 2011 pursuant to Rule 144A under the Securities Act of 1933. The financial covenants of the Senior Notes are substantially similar to those for the existing \$125 million principal amount of 8 7/8% Senior Notes due 2006. Concurrent with the completion of the Senior Note issuance, we entered into a derivative financial instrument to swap the entire \$200 million notional amount of Senior Notes to a floating interest rate equal to LIBOR plus 4.11%, set six months in arrears. The effective rate at March 31, 2003 was 5.34%. See also Note 7 of the "Notes to Consolidated Financial Statements."

In addition, on October 31, 2001, we closed on a three-year \$165 million syndicated bank credit facility with a group of five banks. The credit facility is subject to certain commitment fees and covenants that, among other things, require us to maintain minimum working capital and tangible net worth amounts, require specific liquidity and long-term solvency ratios, including certain borrowing base restrictions, and restrict acquisitions. We continuously monitor our compliance with these covenants. The credit facility's initial term expires on October 31, 2004, and, subject to approval by the lenders, may be extended. The rates of interest are based on our published credit rating and vary according to the type of loan requested. During the life of the agreement, the interest rate could be the prime rate or the LIBOR rate adjusted. The primary advance rate is the agent bank's base lending rate (4.25% at March 31, 2003). We pay a commitment fee of 1% per annum on any unused portion of the facility. Decisions relative to drawings and repayments are made based on circumstances then existing, including our judgment as to the most effective utilization of funds. Based on forecast working capital needs, we do not anticipate making significant draws on this facility in the near term.

LIQUIDITY AND CAPITAL RESOURCES: *(Continued)*

We have historically financed our operations through a combination of short-term lines of credit, revolving credit arrangements, customer advances, cash from operations and equity and equity-linked securities. At March 31, 2003, we had no material capital expenditure commitments. We believe that these sources of funds will be sufficient to fund our anticipated needs for fiscal 2003. There can be no assurance, however, that these sources of capital will be available in the future or, if available, that any such sources will be available on favorable terms.

RESULTS OF OPERATIONS:

Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002

Our sales and other operating revenues were \$301 million, an increase of \$44 million or 17.1% from \$257 million in 2002. This increase is primarily due to sales of Zimbabwean tobacco that were delayed from the prior quarter partially offset by lower sales of U.S. tobacco.

The cost of sales and expenses increased \$44 million or 18.1% from \$243 million in 2002 to \$287 million in 2003. Gross margin as a percentage of sales decreased from 15.3% in 2002 to 13.6% in 2003.

Gross profit increased \$1.7 million or 4.3% from \$39.4 million in 2002 to \$41.1 million in 2003. The increase in gross profit is primarily due to the shipments of the Zimbabwean tobacco partially offset by the impact on gross profit of lower sales in the U.S.

Selling, administrative and general expenses, exclusive of the amortization of goodwill, increased \$3.6 million from \$23.1 million in 2002 to \$26.7 million in 2003. The increase in selling, administrative and general expenses is primarily attributable to unfavorable exchange rate changes in Europe, increases in personnel related expenses, insurance costs and legal fees. Increases in personnel related expenses resulted primarily from the matching of incentive compensation awards to operating results. Insurance costs increased as a result of the impact on business risk from events that have occurred in recent years. Amortization expense was \$1.8 million in 2002 compared to \$0.1 million in 2003 due to the adoption of SFAS No. 142. Also see Note 8 of the "Notes to Consolidated Financial Statements."

Interest expense decreased \$1.0 million or 8.3% from \$12.1 million in 2002 to \$11.1 million in 2003. This decrease was primarily due to lower average rates.

Non-cash recoveries of \$0.2 million and \$4.1 million were realized in 2003 and 2002, respectively, for the change in fair value of non-qualifying interest rate swap instruments. Also see Note 7 of the "Notes to Consolidated Financial Statements."

The effective tax rate was 23% in 2003 compared to 27% in 2002. The change in tax rates relates to the non-amortization of goodwill in 2003 and the distribution of taxable income among various taxing jurisdictions.

RESULTS OF OPERATIONS: *(Continued)*

Nine Months Ended March 31, 2003 Compared to Nine Months Ended March 31, 2002:

Our sales and other operating revenues were \$878 million, a decrease of 4.8% or \$44 million from \$922 million in 2002. This decrease is primarily due to reduced sales volumes of U.S. tobacco and non-recurring sales in 2002 of U.S. prior crop tobacco.

The cost of sales and expenses decreased \$46 million to \$815 million in 2003 from \$861 million in 2002. Gross margin as a percentage of sales improved 0.9% from 15.1% in 2002 to 16.0% in 2003.

Gross profit remained relatively constant at \$140.9 million in 2003 compared to \$139.6 million in 2002. U.S. margins decreased due to reduced volumes and non-recurring sales in the prior year. In 2002 we recognized a \$3.1 million charge related to the devaluation of the Argentine Peso and a gain of \$1.7 million related to the sale of unutilized Zimbabwe assets.

Selling, administrative and general expenses, exclusive of the amortization of goodwill, increased 7.3% or \$5.3 million from \$72.2 million in 2002 to \$77.5 million in 2003. The increase is primarily attributable to unfavorable exchange rate changes in Europe, increases in personnel related expenses, insurance costs and legal fees. Increases in personnel related expenses resulted primarily from lower returns on assets of defined benefit pension plans. Insurance costs increased as a result of the impact on business risk from events that have occurred in recent years. Amortization expense was \$0.3 million in 2003 compared to \$5.9 million in 2002 due to the adoption of SFAS No. 142. Also see Note 8 of the "Notes to Consolidated Financial Statements."

Interest expense decreased 4.4% or \$1.6 million from \$35.9 million in 2002 to \$34.3 million in 2003 primarily due to lower average rates.

Non-cash charges of \$10.4 million and \$5.1 million were realized in 2003 and 2002, respectively, for the change in fair value of non-qualifying interest rate swap instruments. Also see Note 7 of the "Notes to Consolidated Financial Statements."

The effective tax rate was 23% in 2003 compared to 27% in 2002. The change in tax rates relates to the non-amortization of goodwill in 2003 and the distribution of taxable income among various taxing jurisdictions.

OUTLOOK AND OTHER INFORMATION:

We believe that global supply and demand for leaf tobacco is now substantially balanced, and that the raw material inventories held by our customers are largely in equilibrium with their production forecasts. However, the political and economic situations in both Zimbabwe and Argentina present uncertainties that may adversely impact future results.

Zimbabwe remains in a period of civil unrest in combination with a deteriorating economy. Should the current political situation continue, we could experience disruptions and delays associated with our Zimbabwe operations. The government's forced land resettlement program has caused disruptions to both tobacco and food farm production in Zimbabwe. The volume of the 2003 tobacco crop is projected to decline by approximately 49% in comparison to the prior year crop. If the political situation continues to deteriorate, our ability to recover our assets there could be impaired.

OUTLOOK AND OTHER INFORMATION: (Continued)

Argentina is in a period of political and economic uncertainty. We purchase Argentine tobacco for export. We do not own any processing assets there and do not foresee any additional material effects on our operations. However, we do continue to closely monitor events associated with the instability in Argentina and their possible impact on future results.

See "Factors That May Affect Future Results," below, for important warnings about the forward-looking statements included in this section.

FACTORS THAT MAY AFFECT FUTURE RESULTS:

Readers are cautioned that the statements contained herein regarding expectations for our performance are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations of future events. If underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially from our expectations and projections. Risks and uncertainties include changes in the timing of anticipated shipments, changes in anticipated geographic product sourcing, political instability in sourcing locations, currency and interest rate fluctuations, shifts in the global supply and demand position for our tobacco products, and the impact of regulation and litigation on our customers. A further list and description of these risks, uncertainties and other factors can be found in our Annual Report on Form 10-K for the fiscal year ended June 30, 2002 and other filings with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In accordance with SFAS No. 133, we recognize all derivative financial instruments, such as interest rate swap contracts and forward currency contracts, in the consolidated financial statements at fair value, regardless of the purpose or intent for holding the instrument. We use forward currency contracts to mitigate exposure to changes in foreign currency exchange rates on forecasted transactions. Generally, the effective portion of unrealized gains and losses associated with forward currency contracts, and the intrinsic value of option contracts, are deferred as a component of accumulated other comprehensive income net of deferred taxes until the underlying hedge transactions are reported on the consolidated statement of earnings. We have traditionally used interest rate swaps to mitigate our exposure to changes in interest rates related to certain debt agreements. The swaps convert floating-rate debt to fixed-rate debt, and fixed-rate debt to floating-rate debt. For interest rate swaps deemed to be effective that are accounted for as cash flow hedges, the changes in the fair values of the instruments are recorded in accumulated other comprehensive income, net of deferred taxes. For interest rate swaps deemed to be effective that are accounted for as fair value hedges, both the fair value of the hedged item and the offsetting interest rate swap are marked to market through earnings in the current period. Changes in the fair values of derivatives that do not qualify for hedge accounting treatment are reported in income. As a result of fluctuations in interest rates, and volatility in market expectations, the fair market value of interest rate swap instruments can be expected to appreciate or depreciate over time. Swap instruments entered into by us prior to the adoption of SFAS No. 133, which do not qualify as hedges, have created and may continue to create significant volatility in reported earnings.

We plan to continue the practice of economically hedging various components of our debt. However, wherever practical, it is our intent that future interest rate swap transactions will match the notional amounts, maturities, and payment dates of the derivative financial instrument with those of the underlying debt in order to qualify for hedge accounting treatment under SFAS No. 133.

See Note 6 and Note 7 of the "Notes to Consolidated Financial Statements" for a description of all of our derivative financial instruments.

FACTORS THAT MAY AFFECT FUTURE RESULTS: (Continued)

Item 4. Controls and Procedures

Based on their most recent evaluation, which was completed within 90 days of the filing of this Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Exchange Act Rule 13a-14(c)) are effective to ensure that the information required to be disclosed in our filings with the SEC under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Part II. Other Information

Item 1. Legal Proceedings

On April 3, 2002, the United States District Court for the Middle District of North Carolina issued an opinion and order certifying a class in Deloach, et al. v. Philip Morris Companies Inc., et al., a lawsuit pending in the United States District Court for the Middle District of North Carolina (Case No. 00-CV-1235) (the "Deloach Suit"). As certified, the class consists of persons who, at any time from February 1996 to the present, held a quota to grow or produced and sold U.S. flue-cured and burley tobacco. The plaintiffs allege that the defendants, which include cigarette manufacturers and leaf tobacco dealers, including DIMON, violated the antitrust laws by conspiring to rig bids at auction and undermine the federal government quota and price support program. The plaintiffs seek injunctive relief, treble damages in an unspecified amount, pre- and post-judgment interest, attorneys' fees and costs of litigation. DIMON has been defending the lawsuit vigorously. We cannot estimate the amount or range of loss that could result if the lawsuit is resolved in a manner unfavorable to us.

In October 2001, the Directorate General for Competition (DGCOMP) of the European Commission (EC) began conducting an administrative investigation into certain tobacco buying and selling practices alleged to have occurred within the leaf tobacco industry in Spain and Italy. We believe that the DGCOMP may be conducting similar investigations in other countries. Our subsidiaries in Spain (Agroexpansion) and Italy (DIMON Italia) are cooperating with the DGCOMP. Based on our understanding of the facts pertaining to the activities of Spanish and Italian tobacco processors, including Agroexpansion and DIMON Italia, respectively, we believe there have been infringements of EU law. Agroexpansion and DIMON Italia believe that there are mitigating circumstances in the structure and traditional operation of tobacco production and processing in these markets. The EC is not expected to issue a ruling (Statement of Objection) concerning either of these investigations until later in 2003. We expect that administrative penalties will be assessed, and those penalties could be material to our earnings. However, we are not able to make an assessment of the amount of any such penalties at this time. We understand that the cooperation of our subsidiaries with the DGCOMP during its investigations could result in a reduction of the amount of penalties imposed.

In September 2002, the Argentina National Commission for Defense of Competition ("NCDC") began an administrative inquiry into the tobacco and cigarette industry in Argentina. Our subsidiary in Argentina, DIMON Argentina S.A., is cooperating with the NCDC. We cannot predict whether the inquiry will result in any further action by the NCDC.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits
 - See Index of Exhibits after Signature Page
- (b) Current Reports on Form 8-K
 - February 4, 2003 – Item 9, Regulation FD Disclosure
 - February 21, 2003 - Item 5, DIMON Announces Quarterly Dividend
 - February 24, 2003 – Item 5, DIMON Names Steven B. Daniels President and Chief Operating Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DIMON Incorporated

/s/ Thomas G. Reynolds

Date: May 7, 2003

Thomas G. Reynolds
Vice President - Controller
(Principal Accounting Officer)

CERTIFICATION

I, Brian J. Harker, Principal Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of DIMON Incorporated;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Brian J. Harker

Brian J. Harker
Chairman and Chief Executive Officer
May 7, 2003

CERTIFICATION

I, James A. Cooley, Principal Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of DIMON Incorporated;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ James A. Cooley

James A. Cooley
Senior Vice President-Chief Financial Officer
May 7, 2003

INDEX OF EXHIBITS

Exhibits

- 99(a) Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99(b) Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.