

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

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U.S. SECURITIES AND EXCHANGE COMMISSION, :  
100 F Street, NE :  
Washington, D.C. 20549 :

Plaintiff,

v.

ALLIANCE ONE INTERNATIONAL, INC. :

Defendant. :

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Case: 1:10-cv-01319  
Assigned To : Urbina, Ricardo M.  
Assign. Date : 8/6/2010  
Description: General Civil

COMPLAINT

Plaintiff, Securities and Exchange Commission ("Commission"), alleges:

**SUMMARY**

1. During the period from 1996 through 2004, Dimon, Incorporated ("Dimon") made multiple improper payments to foreign officials in Kyrgyzstan and Thailand in violation of the Foreign Corrupt Practices Act of 1977 ("FCPA"). During the period from 2001 through 2004, Standard Commercial Corporation ("Standard") made multiple improper payments to foreign officials in Thailand in violation of the FCPA. In May 2005, Dimon and Standard merged to form Alliance One International, Inc. ("Alliance One").

2. From 1996 through 2004, Dimon International Kyrgyzstan ("DIK"), a wholly-owned subsidiary of Dimon, paid more than \$3 million in bribes to Kyrgyzstan government officials in order to purchase Kyrgyz tobacco for resale to Dimon's customers. These payments were made to various government officials, including officials of the JSC GAK Kyrgyztamekisi ("Tamekisi") and local public officials ("Akims"). DIK also made improper payments to Kyrgyzstan tax officials. Dimon's Country Manager authorized, directed, and made these

improper payments in Kyrgyzstan through a DIK bank account held under his name (the “Special Account”). Dimon’s Regional Financial Director authorized all fund transfers from a Dimon subsidiary’s bank account to the Special Account. Dimon’s International Controller formalized the accounting methodology used to record the payments made from the Special Account for purposes of internal reporting by Dimon.

3. From 2000 to 2004, Dimon and Standard also paid bribes of more than \$1.2 million to government officials of the Thailand Tobacco Monopoly (“TTM”) in order to obtain more than \$18.3 million in sales contracts. Dimon’s Senior Vice President of Sales directed the sales of tobacco from Brazil and Malawi to the TTM through Dimon’s agent in Thailand. In connection with the sales, he authorized the payment of bribes to TTM officials and characterized the payments as commissions paid to Dimon’s agent in Thailand. Similarly, Standard’s personnel in Brazil and Europe directed the sales of tobacco from Brazil to the TTM through Standard’s agents in Thailand. Standard personnel authorized improper payments to TTM officials and failed to accurately record those payments in Standard’s books and records.

4. By at least May 2005, Standard provided gifts, travel, and entertainment expenses to foreign government officials in the Asian Region, including China and Thailand. In 2004, Standard made a \$50,000 payment to a political candidate who was also Standard’s agent for tobacco sales in Thailand.

5. In April 2003, Dimon’s subsidiary in Greece made a payment of \$96,000 to a Greek tax official in exchange for the tax official’s agreement not to pursue certain irregularities discovered during an audit, thus significantly reducing Dimon Greece’s tax liability. Separately, the controller of Dimon’s subsidiary in Indonesia made a \$44,000 cash payment to an Indonesian tax official in exchange for receiving a tax refund.

6. Despite their extensive international operations, Dimon and Standard lacked sufficient internal controls designed to prevent or detect violations of the FCPA. During the 2000-2004 period, Dimon and Standard each had a policy manual prohibiting bribery, but the training and guidance provided to their employees regarding compliance with the FCPA were not adequate or effective. Dimon and Standard each also failed to establish a program to monitor compliance with the FCPA by its employees, agents, and subsidiaries.

7. Dimon improperly recorded bribes and other improper payments in its books and records as Selling, General, and Administrative expenses. Standard failed to make and keep records that accurately reflected its transactions in Thailand and China, including its transactions with the TTM.

8. By its conduct, defendant Alliance One violated the anti-bribery provision of the FCPA, Section 30A of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78dd-1], by making or agreeing to make improper payments to foreign government officials in order to obtain or retain business. Defendant Alliance One also violated Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)] by failing to maintain an adequate internal control system to detect and prevent improper payments and by improperly recording these payments in its books and records. Unless restrained and enjoined by the Court, defendant Alliance One will continue to engage in acts and practices that constitute, or will constitute, violations of these provisions.

#### **JURISDICTION AND VENUE**

9. This Court has jurisdiction over this action pursuant to Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e) and 78aa].

10. Venue in the District of Columbia is proper pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa].

11. In connection with the conduct described herein, Dimon and Standard, directly or indirectly, made use of the mails or the means or instrumentalities of interstate commerce in connection with the acts, transactions, practices and courses of business alleged in this Complaint.

#### DEFENDANT

12. Alliance One is a Virginia corporation headquartered in Morrisville, North Carolina. Alliance One's common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and listed on the New York Stock Exchange (NYSE: AOI).

#### OTHER RELEVANT ENTITIES

13. Dimon was formed in 1995 through a merger. Dimon purchased and shipped tobacco to manufacturers of cigarettes and other consumer tobacco products in approximately 90 countries around the world, including Kyrgyzstan, Greece, Indonesia, and Thailand. Dimon's common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act and listed on the New York Stock Exchange (NYSE: DMN).

14. DIK was a wholly-owned subsidiary of Dimon, with its headquarters in Osh, Kyrgyzstan. DIK was a tobacco procurement and sales center involved in the purchase and fermentation of oriental tobacco.

15. Standard was founded in 1910 as a leaf tobacco merchant. The company purchased and sold tobacco to customers in about 85 countries worldwide, including Thailand. Standard's common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act and listed on the New York Stock Exchange (NYSE: STW).

16. Tamekisi is an entity established by the government of the Kyrgyz Republic (Kyrgyzstan) to regulate the sale and export of Kyrgyz tobacco. The Tamekisi has had the authority to issue and control licenses for the fermentation and export of tobacco.

17. TTM is a tobacco monopoly owned by the government of Thailand. The TTM was formed in 1939 and, after the government enacted the Tobacco Act of 1943, became a state tobacco monopoly.

## FACTS

### A. Payments To Kyrgyzstan Government Officials

18. In August 1994, Dimon began business operations in Osh, Kyrgyzstan, through DIK.

19. On September 1, 1996, the Kyrgyzstan government imposed a requirement that all exporters of fermented tobacco have an export license. The Tamekisi acted as the issuing authority and controlled the issuance of export licenses, thus effectively controlling all tobacco purchases in Kyrgyzstan. A high-ranking Tamekisi official had the authority to sign export licenses. During this time, a Tamekisi official informed DIK that the export licensing requirement would result in greater competition for DIK from other companies and that "Tamekisi will share in any profit [Dimon] makes."

20. Under Presidential Order, the Tamekisi was responsible for overseeing the fermentation of tobacco. The Tamekisi operated state-controlled tobacco fermentation plants throughout Kyrgyzstan and prohibited private fermentation plants from operating in Kyrgyzstan.

21. On October 22, 1996, Dimon International Inc. (USA), Dimon's wholly-owned subsidiary, signed an agreement with the Tamekisi stating, among other things, "The cost of services for tobacco fermentation at tobacco plants shall be set up in the amount of \$0.18 U.S. per kg. Apart from that, DIMON shall pay \$0.05 U.S. per kg. on the settlement account of the Kyrgyz party for financial assistance." The payments for "financial assistance" were made by Dimon's Country Manager in cash to a high-ranking Tamekisi official and had no legitimate business purpose.

22. Dimon's Country Manager received periodic calls from a high-ranking Tamekisi official regarding the "financial assistance" payments and periodically delivered bags filled with \$100 bills to the high-ranking Tamekisi official at the Tamekisi's office in Bishkek, Kyrgyzstan. From 1996 to 2004, Dimon's Country Manager paid more than \$2.6 million to the high-ranking Tamekisi official.

23. Dimon's Country Manager also paid bribes to local government officials in Kyrgyzstan known as Akims, who controlled the tobacco regions. DIK needed the support and consent of each Akim in order to purchase tobacco from local growers or agricultural collectives. Akims had the power and influence to prevent the purchase of tobacco in their respective regions, even if a company had an export license. Akims could also send the police to block the entrance to buying stations or install a lock box to prevent the transfer of tobacco.

24. DIK paid Akims approximately \$0.01 per kilogram of tobacco it purchased from growers in each province. From 1996 to 2004, Dimon's Country Manager authorized and paid more than \$260,000 to the Akims.

25. Dimon's Country Manager authorized, directed, and paid the bribes to government officials in Kyrgyzstan through a DIK bank account held under his name called the Special Account. The Special Account was funded by wire transfers from another Dimon subsidiary. These wire transfers were authorized by Dimon's Regional Financial Director. Dimon's International Controller formalized the accounting methodology used to record the improper payments made from the Special Account. Specifically, Dimon recorded these payments as tobacco inventory in DIK's balance sheet. As DIK's tobacco was sold, the cost of that tobacco and the capitalized expenditures from the Special Account were removed from inventory and charged to DIK's cost of goods sold through an amortization process. DIK's cost

of goods sold was incorporated in Dimon's consolidated financial statements as cost of goods sold.

**B. Payments to Government Officials Of Thailand**

26. From 2000 to 2003, Dimon, and from 2001 to 2004, Standard colluded with another competitor to pay bribes of more than \$1.2 million to government officials of the TTM in exchange for obtaining more than \$18.3 million in sales contracts. These sales were made through Dimon and Standard's subsidiaries in Brazil, Dimon do Brasil Tabacos Ltda. and Standard Brazil Limited, respectively. Dimon falsely recorded these payments as commissions in its books and records, and Standard failed to accurately record these payments in its books and records.

27. Dimon's sales of tobacco from Brazil and Malawi to the TTM were directed and coordinated by Dimon's Senior Vice President of Sales in the United States and Dimon's personnel in Brazil. Standard's sales of tobacco from Brazil to the TTM were directed and coordinated by Standard's personnel in Brazil and Europe.

28. A portion of Dimon and Standard's selling price to the TTM was designated on a per kilogram basis as "special expenses" or "special commissions," which were kickbacks paid through their agents to certain members of the TTM in exchange for the sales contracts. During the period 2000 through 2003, Dimon made corrupt payments of approximately \$542,590 to TTM government officials. Similarly, from 2001 through 2004, Standard made corrupt payments of \$696,160 to TTM government officials.

**C. Books and Records and Internal Control Violations**

*Improper Payments to Tax Officials in Kyrgyzstan*

29. DIK was frequently subjected to audits by Kyrgyz tax officials. The tax inspections generally lasted about seven weeks and DIK personnel devoted most of their work

hours to responding to queries from the tax officials. Upon completion of one audit, the Kyrgyz tax officials would begin performing yet another inspection. During the relevant time period, the tax authorities reduced the tax penalties levied against DIK in exchange for cash payments. From 1996 through 2004, Dimon through DIK paid approximately \$82,850 to Kyrgyz tax officials to reduce tax penalties.

*Improper Gifts And Payments To Government Officials In China And Thailand*

30. Between 2000 and 2003, Dimon arranged purported business trips that were actually sightseeing trips arranged by Dimon and others for TTM officials.

31. By at least May 2005, Standard provided gifts, travel, and entertainment expenses to government officials in the Asian Region. For example, in 2002 and 2003, contemporaneous documents show that Standard employees provided watches, cameras, laptop computers, and other gifts to Chinese and Thailand tobacco officials. Standard also paid for dinner and sightseeing expenses during non-business related travel to Alaska, Los Angeles, and Las Vegas for Chinese and Thailand government delegations.

32. In December 2004, Standard paid \$50,000 to a political candidate who was also Standard's agent for tobacco sales in Thailand. The \$50,000 payment was falsely recorded in Standard's books as a payment for consulting work.

*Improper Payments to Tax Officials in Greece and Indonesia*

33. During a routine internal audit of two Dimon subsidiaries in Greece in May and June 2003, Dimon's internal auditors inquired about certain transactions in a miscellaneous expense account. Disbursements from this account were labeled "special marketing expenses," and included a cash payment of \$96,000 to a Greek tax official in April 2003 by the country manager of Dimon Greece. The Greek tax official was conducting an audit of Dimon Greece at the time of the payment.



34. The cash payment was made in exchange for the Greek tax official's agreement not to pursue over alleged irregularities discovered during the audit. As a result of the payment, Dimon Greece's tax payment was reduced from approximately 2.5 million Euros to approximately 600,000 Euros. The payment to the Greek tax official was recorded in a miscellaneous account as part of Dimon Greece's Selling, General, and Administrative Expenses, which was incorporated in Dimon's consolidated financial statements.

35. In July 2004, Indonesian tax authorities initiated an audit of the 2003 tax return of P.T. Mayangsari, Dimon's Indonesian subsidiary. Dimon owned 75% of Mayangsari. According to the tax return, Mayangsari was entitled to receive a refund of \$630,375,745 Indonesian Rupiah (about \$68,000) in connection with the overpayment of income and value added taxes. During the audit, one of the Indonesian supervising tax officials suggested to Mayangsari's Controller that Mayangsari resolve the audit by making a cash payment of 410,000,000 Rupiah (about \$44,000) to the tax official. Mayangsari's Controller agreed. In August 2004, Mayangsari's Controller made the cash payment to the tax official in exchange for terminating the audit and obtaining a tax refund of 618,591,983 Rupiah (about \$67,000).

36. In August 2004, Mayangsari's Controller recorded the cash payment in Mayangsari's books and records as a purchase of tobacco and attributed to Mayangsari's Selling, General, and Administrative Expenses, which was incorporated in Dimon's consolidated financial statements.

## **CLAIMS FOR RELIEF**

### **FIRST CLAIM**

#### **Violations of Section 30A of the Exchange Act**

37. Paragraphs 1 through 36 are re-alleged and incorporated by reference.

38. Section 30A(a)(3) of the Exchange Act prohibits any issuer, or any officer, director, employee, or agent of such issuer from making use of the mails or any means or instrumentality of interstate commerce corruptly in furtherance of an offer, payment, promise to pay, or authorization of the payment of any money, or offer, gift, promise to give, or authorization of the giving of anything of value to any person, while knowing that all or a portion of such money or thing of value will be offered, given, or promised, directly or indirectly, to any foreign official for the purposes of influencing their acts or decisions in their official capacity, inducing them to do or omit to do actions in violation of their lawful duties, securing any improper advantage, or inducing such foreign officials to use their influence with a foreign government or instrumentality thereof to affect or influence any act or decision of such government or instrumentality in order to assist such issuer in obtaining or retaining business for or with, or directing business to, any person.

39. By reason of the foregoing, defendant Alliance One violated, and unless enjoined will continue to violate, the anti-bribery provisions of the FCPA, as codified at Section 30A of the Exchange Act [15 U.S.C. § 78dd-1].

### **SECOND CLAIM**

#### **Violations of Section 13(b)(2)(A) of the Exchange Act**

40. Paragraphs 1 through 36 are re-alleged and incorporated by reference.

41. As detailed above, Alliance One failed to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected Alliance One's transactions and the disposition of its assets.

42. By reason of the foregoing, Alliance One violated, and unless enjoined will continue to violate, Section 13(b)(2)(A) [15 U.S.C. § 78m(b)(2)(A)] of the Exchange Act.

**THIRD CLAIM**

**Violations of Section 13(b)(2)(B) of the Exchange Act**

43. Paragraphs 1 through 36 are re-alleged and incorporated by reference.

44. As detailed above, Alliance One failed to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances, among other things, that: (i) transactions were executed in accordance with management's general or specific authorization; and (ii) transactions were recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for its assets.

45. By reason of the foregoing, Alliance One violated, and unless enjoined will continue to violate, Section 13(b)(2)(B) [15 U.S.C. § 78m(b)(2)(B)] of the Exchange Act.

**PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that this Court enter a judgment:

- A. Permanently restraining and enjoining Defendant Alliance One from violating Sections 30A, 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78dd-1, 78m(b)(2)(A), and 78m(b)(2)(B)];
- B. Ordering Alliance One to disgorge ill-gotten gains wrongfully obtained as a result of its illegal conduct; and
- C. Granting such further relief as the Court may deem just and appropriate.

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Dated: August 6, 2010

Respectfully Submitted,

*Erica Y. Williams*

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