UNIVERSAL CORP /VA/
Form 10-Q
February 07, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended December 31, 2007

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: 1-652

UNIVERSAL CORPORATION

(Exact name of registrant as specified in its charter)

Virginia	**54-0414210**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
1501 North Hamilton Street, Richmond, Virginia	**23230**
(Address of principal executive offices)	**(Zip Code)**

804-359-9311

(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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

As of February 1, 2008, the total number of shares of common stock outstanding was 27,188,889.

UNIVERSAL CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
UNIVERSAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(In thousands of dollars, except per share data)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
Sales and other operating revenues	$ 573,094	$ 511,706	$ 1,678,641	$ 1,502,787
Costs and expenses				
Cost of goods sold	446,089	378,348	1,324,752	1,147,293
Selling, general and administrative expenses	47,869	63,010	165,545	204,637
Restructuring and impairment costs		3,519	3,304	15,808
Operating income	79,136	66,829	185,040	135,049
Equity in pretax earnings of unconsolidated affiliates	8,477	9,570	7,231	5,302
Interest income	4,453	4,208	13,317	7,188
Interest expense	10,314	14,347	32,274	41,961
Income before income taxes and other items	81,752	66,260	173,314	105,578
Income taxes	29,204	24,805	62,937	45,203
Minority interests, net of income taxes	1,796	5,676	974	1,085
Income from continuing operations	50,752	35,779	109,403	59,290
Loss from discontinued operations, net of income taxes		(11,674)	(145)	(34,454)
Net income	50,752	24,105	109,258	24,836
Dividends on convertible perpetual preferred stock	(3,712)	(3,713)	(11,137)	(10,973)
Earnings available to common shareholders	$ 47,040	$ 20,392	$ 98,121	$ 13,863
Basic earnings (loss) per common share:				
From continuing operations	$ 1.72	$ 1.24	$ 3.60	$ 1.87
From discontinued operations		(0.45)	(0.01)	(1.33)
Net income	$ 1.72	$ 0.79	$ 3.59	$ 0.54
Diluted earnings (loss) per common share:				
From continuing operations	$ 1.56	$ 1.17	$ 3.38	$ 1.87
From discontinued operations		(0.38)	(0.01)	(1.33)
Net income	$ 1.56	$ 0.79	$ 3.37	$ 0.54
Retained earnings - beginning of year			$ 682,232	$ 697,987
Net income			109,258	24,836

Cash dividends declared:		
Series B 6.75% Convertible Perpetual Preferred Stock	(11,137)	(10,973)
Common stock (2007 - $1.32 per share; 2006 - $1.29 per share)	(36,422)	(33,561)
Repurchase of common stock - cost in excess of stated capital amount	(3,513)	
Adoption of Financial Accounting Standards Board Interpretation 48 (FIN 48) as of April 1, 2007	(10,870)	
Retained earnings - end of period	$ 729,548	$ 678,289

See accompanying notes.

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UNIVERSAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)

	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	March 31, 2007
ASSETS			
Current			
Cash and cash equivalents	$ 502,277	$ 220,438	$ 358,236
Accounts receivable, net	233,861	289,548	261,106
Advances to suppliers, net	114,897	83,629	113,396
Accounts receivable - unconsolidated affiliates	46,732	43,709	37,290
Inventories - at lower of cost or market:			
Tobacco	486,785	656,329	595,901
Other	42,289	45,553	40,577
Prepaid income taxes	8,032	7,580	8,760
Deferred income taxes	19,158	27,443	25,182
Other current assets	58,264	52,511	62,480
Current assets of discontinued operations		75,482	42,437
Total current assets	1,512,295	1,502,222	1,545,365
Property, plant and equipment			
Land	17,061	17,141	16,640
Buildings	250,202	250,281	241,410
Machinery and equipment	515,870	521,608	512,586
	783,133	789,030	770,636
Less accumulated depreciation	(442,844)	(408,408)	(410,478)
	340,289	380,622	360,158
Other assets			
Goodwill and other intangibles	104,689	104,265	104,284
Investments in unconsolidated affiliates	114,622	94,242	104,316
Deferred income taxes	66,991	92,879	81,003
Other noncurrent assets	183,948	143,781	133,696
	470,250	435,167	423,299
Total assets	$ 2,322,834	$ 2,318,011	$ 2,328,822

See accompanying notes.

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UNIVERSAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)

	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	March 31, 2007
LIABILITIES AND SHAREHOLDERS EQUITY			
Current			
Notes payable and overdrafts	$ 139,632	$ 169,283	$ 131,159
Accounts payable	173,864	192,797	220,181
Accounts payable - unconsolidated affiliates	8,815	10,730	644
Customer advances and deposits	86,099	122,086	133,608
Accrued compensation	15,007	13,858	18,519
Income taxes payable	12,712	23,763	11,549
Current portion of long-term obligations	150,000	22,513	164,000
Current liabilities of discontinued operations		15,816	13,314
Total current liabilities	586,129	570,846	692,974
Long-term obligations	400,644	548,769	398,952
Pensions and other postretirement benefits	98,242	81,383	100,004
Other long-term liabilities	73,322	76,839	70,528
Deferred income taxes	47,881	34,038	29,809
Total liabilities	1,206,218	1,311,875	1,292,267
Minority interests	6,985	14,934	5,822
Shareholders equity			
Preferred stock:			
Series A Junior Participating Preferred Stock, no par value, 500,000 shares authorized, none issued or outstanding			
Series B 6.75% Convertible Perpetual Preferred Stock, no par value, 5,000,000 shares authorized, 219,999 shares issued and outstanding (220,000 at December 31, 2006, and March 31, 2007)	213,023	213,024	213,024
Common stock, no par value, 100,000,000 shares authorized, 27,299,524 shares issued and outstanding (25,923,058 at December 31, 2006, and 26,948,599 at March 31, 2007)	198,581	130,564	176,453
Retained earnings	729,548	678,289	682,232
Accumulated other comprehensive loss	(31,521)	(30,675)	(40,976)
Total shareholders equity	1,109,631	991,202	1,030,733
Total liabilities and shareholders equity	$ 2,322,834	$ 2,318,011	$ 2,328,822

See accompanying notes.

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UNIVERSAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)

	Nine Months Ended December 31, 2007	Nine Months Ended December 31, 2006
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS:		
Net income	$ 109,258	$ 24,836
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:		
Net loss from discontinued operations	145	34,454
Depreciation	31,028	36,662
Amortization	1,597	1,488
Provisions for losses on advances and guaranteed loans to suppliers	12,218	30,250
Restructuring and impairment costs	3,304	15,808
Other, net	16,490	(2,264)
Changes in operating assets and liabilities, net	28,988	(30,381)
Net cash provided by operating activities of continuing operations	203,028	110,853
CASH FLOWS FROM INVESTING ACTIVITIES OF CONTINUING OPERATIONS:		
Purchase of property, plant and equipment	(18,355)	(20,915)
Proceeds from sale of businesses, less cash of businesses sold	26,556	379,379
Proceeds from sale of property, plant and equipment	15,964	4,960
Deposit to escrow account	(32,098)	
Net cash provided (used) by investing activities of continuing operations	(7,933)	363,424
CASH FLOWS FROM FINANCING ACTIVITIES OF CONTINUING OPERATIONS:		
Repayment of short-term debt, net	(2,559)	(118,814)
Repayment of long-term debt	(14,000)	(200,000)
Issuance of convertible perpetual preferred stock, net of issuance costs		19,478
Issuance of common stock	16,131	5,910
Repurchase of common stock	(4,084)	
Dividends paid on convertible perpetual preferred stock	(11,137)	(10,973)
Dividends paid on common stock	(36,422)	(33,561)
Other	(907)	(1,325)
Net cash used by financing activities of continuing operations	(52,978)	(339,285)
Net cash provided by continuing operations	142,117	134,992
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Net cash provided by operating activities of discontinued operations	6,495	36,776
Net cash used by investing activities of discontinued operations	(17)	(9,417)
Net cash used by financing activities of discontinued operations	(4,957)	(6,766)
Net cash provided by discontinued operations	1,521	20,593
Effect of exchange rate changes on cash	164	75

Net increase in cash and cash equivalents	143,802	155,660
Cash and cash equivalents of continuing operations at beginning of year	358,236	62,486
Cash and cash equivalents of discontinued operations at beginning of year	239	4,146
Less: Cash and cash equivalents of discontinued operations at end of period		1,854
Cash and cash equivalents at end of period	$ 502,277	$ 220,438

Significant non-cash items from investing activities of continuing operations for the nine months ended December 31, 2006, included the buyer s assumption of $153,560 of notes payable and overdrafts with the sale of businesses.

See accompanying notes.

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UNIVERSAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Universal Corporation, with its subsidiaries (Universal or the Company), is one of the world s leading leaf tobacco merchants and processors. The Company previously had operations in lumber and building products and in agri-products. The lumber and building products businesses, along with a portion of the agri-products operations, were sold on September 1, 2006. In December 2006, the Company adopted a plan to sell the remaining agri-products operations. One of those agri-products businesses was sold in January 2007, another was sold in May 2007, and the assets of the remaining business were sold in October 2007. The lumber and building products operations and the agri-products operations are reported as discontinued operations for all periods in the accompanying financial statements.

Because of the seasonal nature of the Company s business, the results of operations for any fiscal quarter will not necessarily be indicative of results to be expected for other quarters or a full fiscal year. All adjustments necessary to state fairly the results for the period have been included and were of a normal recurring nature. Certain amounts in prior year statements have been reclassified to conform to the current year presentation. This Form 10-Q should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2007.

NOTE 2. ACCOUNTING PRONOUNCEMENTS

Universal adopted Financial Accounting Standards Board (FASB) Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), effective April 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 requires that positions taken or expected to be taken in tax returns meet a more-likely-than-not threshold in order to be recognized in the financial statements. It also provides guidance on measuring the amount of a tax position that meets the more-likely-than-not criterion. As a result of adopting FIN 48, the Company recognized a net increase of approximately $10.9 million in its liability related to uncertain tax positions, which was accounted for as a decrease in the April 1, 2007, balance of retained earnings. Additional disclosures related to the adoption of FIN 48 are included in Note 11.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is applicable for fiscal years beginning after November 15, 2007. The Company does not expect that SFAS 157 will have a material effect on its financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, Business Combinations (SFAS 141R), which requires that companies record assets acquired, liabilities assumed, and noncontrolling interests in business combinations at fair value, separately from goodwill, as of the acquisition date. This approach differs from the cost allocation approach provided under current accounting guidance and can result in the recognition of a gain at acquisition date if the cost to acquire a business is less than the net fair value of the assets acquired, liabilities assumed, and noncontrolling interests. SFAS 141R

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also provides new guidance on recording assets and liabilities that arise from contingencies in a business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008, which means that Universal will apply the guidance to any business combinations occurring on or after the fiscal year that begins on April 1, 2009.

Also in December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51 (SFAS 160). SFAS 160 requires that noncontrolling interests in subsidiaries that are included in a company s consolidated financial statements, commonly referred to as minority interests, be reported as a component of shareholders equity in the balance sheet. It also requires that a company s consolidated net income and comprehensive income include the amounts attributable to both the company and the noncontrolling interests, identified separately in the financial statements. SFAS 160 further provides that losses attributable to a noncontrolling interest be attributed to the majority shareholder when those losses exceed the equity capital held by the noncontrolling interest. Finally, the new guidance requires certain disclosures about noncontrolling interests in the consolidated financial statements. SFAS 160 is effective for fiscal years beginning after December 15, 2008. Universal has various subsidiaries with noncontrolling interests and will begin applying the new guidance for the fiscal year that begins on April 1, 2009. Adoption is not expected to have a material impact on the Company s financial statements.

NOTE 3. GUARANTEES AND OTHER CONTINGENT LIABILITIES

Guarantees and Other Contingent Liabilities

Guarantees of bank loans to growers for crop financing and construction of curing barns or other tobacco producing assets are industry practice in Brazil and support the farmers production of tobacco there. At December 31, 2007, the Company s total exposure under guarantees issued by its operating subsidiary in Brazil for banking facilities of farmers in that country was approximately $205 million. About 70% of these guarantees expire within one year, and nearly all of the remainder expire within five years. The subsidiary withholds payments due to the farmers on delivery of tobacco and forwards those payments to the third-party banks. Failure of farmers to deliver sufficient quantities of tobacco to the subsidiary to cover their obligations to third-party banks could result in a liability for the subsidiary under the related guarantee; however, in that case, the subsidiary would have recourse against the farmers. The maximum potential amount of future payments that the Company s subsidiary could be required to make is the face amount, $205 million, and any unpaid accrued interest. The fair value liability recorded for the guarantees was approximately $11 million and $12 million at December 31, 2007 and 2006, respectively, and approximately $10 million at March 31, 2007. In addition to these guarantees, the Company has other contingent liabilities totaling approximately $6 million.

European Commission Fines and Other Legal Matters

European Commission Fines in Spain

In October 2004, the European Commission (the Commission) imposed fines on five companies active in the raw Spanish tobacco processing market totaling 20 million (approximately $29 million) for colluding on the prices paid to, and the quantities bought from, the tobacco growers in Spain. Two of the Company s subsidiaries, Tabacos Espanoles S.A. (TAES), a purchaser and processor of raw tobacco in Spain, and Deltafina, S.p.A. (Deltafina), an Italian subsidiary, were among the five companies assessed fines. In its decision, the Commission imposed a fine of 108,000 on TAES and 11.88 million (approximately $17 million) on Deltafina. Deltafina did not and does not purchase or process raw tobacco in the Spanish market, but was and is a significant buyer of

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tobacco from some of the Spanish processors. The Company recorded a charge of approximately $14.9 million in the second quarter of fiscal year 2005 to accrue the full amount of the fines assessed against the Company s subsidiaries.

In January 2005, Deltafina filed an appeal in the Court of First Instance of the European Communities. The outcome of the appeal is uncertain, and an ultimate resolution to the matter could take several years. The Company has deposited funds in an escrow account with the Commission in the amount of the fine in order to stay execution during the appeal process. This deposit is accounted for as a non-current asset.

European Commission Fines in Italy

In 2002, the Company reported that it was aware that the Commission was investigating certain aspects of the leaf tobacco markets in Italy. Deltafina buys and processes tobacco in Italy. The Company reported that it did not believe that the Commission investigation in Italy would result in penalties being assessed against it or its subsidiaries that would be material to the Company s earnings. The reason the Company held this belief was that it had received conditional immunity from the Commission because Deltafina had voluntarily informed the Commission of the activities that were the basis of the investigation.

On December 28, 2004, the Company received a preliminary indication that the Commission intended to revoke Deltafina s immunity for disclosing in April 2002 that it had applied for immunity. Neither the Commission s Leniency Notice of February 19, 2002, nor Deltafina s letter of provisional immunity, contains a specific requirement of confidentiality. The potential for such disclosure was discussed with the Commission in March 2002, and the Commission never told Deltafina that disclosure would affect Deltafina s immunity. On November 15, 2005, the Company received notification from the Commission that the Commission had imposed fines totaling 30 million (about $44 million) on Deltafina and the Company jointly for infringing European Union antitrust law in connection with the purchase and processing of tobacco in the Italian raw tobacco market.

The Company does not believe that the decision can be reconciled with facts and the Commission s Statement of Objections. The Company and Deltafina each have appealed the decision to the Court of First Instance of the European Communities. Based on consultation with outside legal counsel, the Company believes it is probable that it will prevail in the appeals process and has not accrued a charge for the fine. Deltafina has provided a bank guarantee to the Commission in the amount of the fine in order to stay execution during the appeal process. A cash deposit of 30 million (about $44 million) secures the bank guarantee and is classified as a non-current asset.

U.S. Foreign Corrupt Practices Act

As a result of a posting to the Company s Ethics Complaint hotline alleging improper activities that involved or related to certain of the Company s tobacco subsidiaries, the Audit Committee of the Company s Board of Directors engaged an outside law firm to conduct an investigation of the alleged activities. That investigation revealed that there have been payments that may have violated the U.S. Foreign Corrupt Practices Act. Those payments approximated $1 million over a five-year period. In addition, the investigation revealed activities in foreign jurisdictions that may have violated the competition laws of such jurisdictions, but the Company believes those activities did not violate U.S. antitrust laws. The Company voluntarily reported these activities to the appropriate U.S. authorities. On June 6, 2006, the Securities and Exchange Commission notified the Company that a formal order of investigation has been issued.

If the U.S. authorities determine that there have been violations of the Foreign Corrupt Practices Act, or if the U.S. authorities or the authorities in foreign jurisdictions determine there have been violations of other laws, they may seek to impose sanctions on the Company or its subsidiaries that may include injunctive relief, disgorgement, fines, penalties, and modifications to business practices. It is not possible to predict at this time whether the authorities will determine that violations have occurred, and if they do, what sanctions they might seek to impose. It is also not possible to predict how the government s investigation or any resulting sanctions may impact the Company s business, financial condition, results of operations, or financial performance, although such sanctions, if imposed, could be material to its results of operations in any quarter. The Company will continue to cooperate with the authorities in these matters.

Other Legal Matters

In addition to the above-mentioned matters, various subsidiaries of the Company are involved in other litigation and tax examinations incidental to their business activities. While the outcome of these matters cannot be predicted with certainty, management is vigorously defending the claims and does not currently expect that any of them will have a material adverse effect on the Company s financial position. However, should one or more of these matters be resolved in a manner adverse to management s current expectation, the effect on the Company s results of operations for a particular fiscal reporting period could be material.

NOTE 4. DISCONTINUED OPERATIONS

During fiscal years 2007 and 2008, Universal implemented the following actions to divest all of its non-tobacco operations:

- In the quarter ended September 30, 2006, the sale of the Company s lumber and building products segment and a portion of its agri-products segment (the Deli Operations) was approved, contractually agreed to with the buyer, and completed.

- On December 12, 2006, a plan to sell the remaining businesses in the agri-products segment was approved. These businesses were classified as held for sale as of that date. The sale of one of the agri-products businesses was completed in January 2007, the sale of another was completed in May 2007, and the assets of the remaining business were sold in October 2007.

As a result of these actions, the Company s worldwide leaf tobacco business now represents its continuing operations. The operating results and the assets and liabilities of the non-tobacco businesses are reported as discontinued operations for all periods presented in the accompanying consolidated financial statements.

Sale of Deli Operations

On September 1, 2006, Universal completed the sale of the non-tobacco businesses managed by its wholly-owned subsidiary, Deli Universal, Inc. (Deli) to NVDU Acquisition, B.V., a newly-formed entity owned by affiliates of a Netherlands-based merchant bank, a Netherlands-based private company, and managers of the businesses that were sold. As discussed above, these businesses composed the Company s entire lumber and building products segment and a portion of its agri-products segment. The total value of the transaction was approximately $565 million. After selling and other expenses, Universal realized a net value of $551 million, consisting of net cash proceeds of $397 million and the buyer s assumption of $154 million of debt with the acquired businesses. The Company recorded a net loss on the sale of $35.0 million, consisting of a pretax loss of $34.1 million and income tax expense of $0.9 million primarily related to net deferred tax assets that were not realized as a result of the sale. Approximately $33.3 million of the loss was recorded upon completion of the sale during the quarter ended September 30, 2006, and an additional $1.7 million was recorded upon final agreement on adjustments to the sales price during the quarter ended March 31, 2007.

Sale of Remaining Agri-Products Operations

In December 2006, Universal approved a plan to sell the remaining non-tobacco agri-products businesses that were not part of the sale of the Deli Operations. A pretax impairment charge of $11.1 million was recorded in the quarter ended December 31, 2006, to reduce the Company s aggregate net investment in two of these businesses to estimated fair value less costs to sell. Based on its consolidated income tax position, the Company did not realize a tax benefit on the loss on the sale of these businesses and did not record an income tax benefit on the impairment charge. As noted above, the sale of one of the agri-products businesses was completed in January 2007 at a small gain that was not material to the results of operations or financial condition of the Company. In May 2007 and October 2007, the sales of the other agri-products businesses were completed at prices approximating their net book values after the impairments recorded in prior periods.

Amounts Reported as Discontinued Operations in the Accompanying Financial Statements

The consolidated statements of income and retained earnings reflect the following income (loss) from discontinued operations, net of income taxes, for the three and nine months ended December 31, 2007 and 2006:

	Three Months Ended December 31,		Nine Months Ended December 31,	
(in thousands of dollars)	**2007**	**2006**	**2007**	**2006**
Operating results of discontinued operations, net of income taxes	$	$ (552)	$ (191)	$ 9,953
Gain (loss) on sale of businesses, net of income taxes (a)			363	(33,285)
Impairment charge on businesses held for sale, net of income taxes (b)		(11,122)	(317)	(11,122)
Loss from discontinued operations, net of income taxes	$	$ (11,674)	$ (145)	$ (34,454)

(a) The loss on sale of businesses during the nine months ended December 31, 2006, reflects the sale of the Deli Operations. The gain on the sale of businesses during the nine months ended December 31, 2007, primarily reflects the completion of the sales of certain of the Company s other agri-products businesses, final agreement on sales price adjustments for those transactions, and final payment of selling expenses.

(b) The impairment charge on businesses held for sale during the quarter and nine months ended December 31, 2006, represents the adjustment necessary to reduce the Company s net investment in the non-tobacco agri-products businesses that were not part of the Deli Operations to estimated fair value less costs to sell. The impairment charge during the nine months ended December 31, 2007, reflects minor changes in estimated fair value for one of those businesses prior to completing its sale.

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The operating results for the Company s discontinued non-tobacco operations for the three and nine months ended December 31, 2007 and 2006, were as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
(in thousands of dollars)	**2007 (c)**	**2006 (c)**	**2007 (c)**	**2006 (c)**
Sales and other operating revenues	$	$ 73,547	$ 40,351	$ 885,501
Costs and expenses		73,940	40,472	862,356
Income (loss) before income taxes and other items		(393)	(121)	23,145
Income taxes		108		12,346
Minority interests, net of income taxes		51	70	846
Operating results of discontinued operations, net of income taxes	$	$ (552)	$ (191)	$ 9,953

(c) Deli Operations were sold in September 2006, and businesses (or the assets thereof) composing the remaining agri-products operations were sold in January 2007, May 2007, and October 2007. Results for the nine months ended December 31, 2007, reflect the agri-products businesses sold in May 2007 for two months and October 2007 for six months. Results for the three months ended December 31, 2006, reflect the non-Deli agri-products businesses for the full period. Results for the nine months ended December 31, 2006, reflect the Deli Operations for five months and the other agri-products businesses for the full period.

As permitted under the accounting standards, the Company has allocated interest expense to the discontinued operations for all periods based on the ratio of the net assets of those operations to consolidated net assets. Total interest allocated in addition to direct third-party interest incurred was $0.3 million for the nine months ended December 31, 2007, and $0.6 million and $6.6 million for the three and nine months ended December 31, 2006, respectively.

The assets and liabilities of the discontinued non-tobacco operations reflected in the accompanying consolidated balance sheets at December 31, 2006, and March 31, 2007, were composed of the following:

(in thousands of dollars)	**December 31, 2006**	**March 31, 2007**
Assets		
Cash and cash equivalents	$ 1,854	$ 240
Accounts receivable, net	29,339	16,656
Inventories:		
Agri-products	38,835	22,499
Other current assets	2,390	621
Total current assets	72,418	40,016
Property, plant and equipment, net	2,423	1,850
Other noncurrent assets	641	571
Total noncurrent assets	3,064	2,421
Total assets	$ 75,482	$ 42,437
Liabilities		
Notes payable and overdrafts	$ 683	$ 492
Accounts payable	13,830	11,712
Other current liabilities	1,012	843

Total current liabilities		15,525		13,047
Other long-term liabilities		291		267
Total noncurrent liabilities		291		267
Total liabilities	$	15,816	$	13,314

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Since the Deli Operations were sold on September 1, 2006, the balance sheet information for each period shown above reflects only the agri-products businesses that were not part of the Deli Operations. These businesses were classified as held for sale at December 31, 2006, and March 31, 2007. Accordingly, balances were reported as current assets or current liabilities in the consolidated balance sheets for those dates.

NOTE 5. RESTRUCTURING AND IMPAIRMENT COSTS

Restructuring Costs and Restructuring Liability

During the quarter ended June 30, 2007, the Company recorded restructuring costs totaling $3.3 million, representing one-time and special termination benefits associated with actions taken in certain areas of its worldwide operations. Approximately $1.1 million of the costs related to a restructuring and downsizing of the Company s operations in Canada in response to declining tobacco production in that country. Last year s decision to exit certain flue-cured growing projects in Africa accounted for approximately $1.7 million of costs, as actions to release farm managers and workers were implemented during the quarter. The remaining $0.5 million of the charge related to reorganizations in several smaller locations. The restructuring costs reflect termination benefits paid, or to be paid, to 40 management and administrative employees, plus small remuneration payments to approximately 10,500 seasonal workers released from the growing projects in Africa.

Previously, during the second half of the fiscal year ended March 31, 2006, the Company recorded restructuring and impairment costs associated with decisions to close a leaf tobacco processing facility in Danville, Virginia, and to reduce costs through voluntary and involuntary staff reductions in the United States and the closure of two administrative offices overseas. The restructuring costs totaled approximately $7.1 million and consisted of approximately $6.4 million in one-time and special termination benefits and approximately $700 thousand in lease costs on vacated office space and employee relocation costs. The termination benefits related to 353 employees whose positions were involuntarily eliminated and 31 employees who accepted voluntary separation offers. Some of the restructuring costs were paid in fiscal year 2006, and additional payments were made in fiscal years 2007 and 2008.

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The activity in the Company s liability for restructuring costs for fiscal year 2007 and the first nine months of fiscal year 2008 was as follows:

(in thousands of dollars)	One-Time and Special Termination Benefits	Other Costs	Total
Balance at March 31, 2006	$ 4,611	$ 435	$ 5,046
Payments during fiscal year 2007:			
Quarter ended June 30, 2006	(1,769)	(61)	(1,830)
Quarter ended September 30, 2006	(657)	(61)	(718)
Quarter ended December 31, 2006	(333)	(62)	(395)
Quarter ended March 31, 2007	(521)	(61)	(582)
Balance at March 31, 2007	1,331	190	1,521
Costs and payments during fiscal year 2008:			
Costs charged to expense during quarter ended June 30, 2007	3,304		3,304
Payments during fiscal year 2008:			
Quarter ended June 30, 2007	(786)	(52)	(838)
Quarter ended September 30, 2007	(2,359)	(35)	(2,394)
Quarter ended December 31, 2007	(441)	(34)	(475)
Balance at December 31, 2007	$ 1,049	$ 69	$ 1,118

The termination benefits to employees affected by the restructuring activities in the quarter ended June 30, 2007, were paid during the quarters ended June 30, 2007, and September 30, 2007. The termination benefits to employees affected by the restructuring initiatives in fiscal year 2006 were largely paid in either fiscal year 2006 or 2007; however, a small number of employees who accepted voluntary separation offers are continuing to receive payments. During the nine months ended December 31, 2007, those payments were made to 21 employees.

Impairment Charge on Flue-Cured Tobacco Growing Projects in Zambia

Beginning in fiscal year 2002, Universal made investments in various tobacco growing projects in several African countries. Some of the projects involved the establishment and operational start-up of medium- or large-scale farms. The primary objective of the projects was to replace a portion of the volumes lost in recent years from the significant decline in production of flue-cured tobacco in Zimbabwe and thus continue to meet customer demand for African-origin flue-cured tobacco. During the quarter ended June 30, 2006, the Company began to assess certain of the growing projects to determine whether they could be expected to consistently meet planned production levels and financial targets. In connection with this review, the Company reduced its estimates of expected longer-term crop yields and related future cash flows for certain growing projects in Zambia. Carrying values of the related long-lived assets were also reviewed for potential impairment, resulting in a $12.3 million charge to reduce the carrying values to estimated fair value. Based on the Company s outlook on its overall tax position, no income tax benefit was recorded on the charge, and therefore, it reduced income from continuing operations and net income by $12.3 million, or $0.48 per share, for the nine months ended December 31, 2006. Also as a result of this review, the Company recorded a valuation allowance in the quarter ended June 30, 2006, for deferred income tax assets related to prior year operating losses in Zambia that reduced income from continuing operations and net income by an additional $4.9 million, or $0.19 per share, for the nine months ended December 31, 2006.

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During the fourth quarter of fiscal year 2007, based on further evaluation of the flue-cured growing projects in Africa, the Company made the decision to end its direct involvement in those projects at the completion of the 2006-2007 crop cycle and pursue the sale of the projects to third-party farmers who would be expected to continue growing tobacco on all or a portion of the land. As a result of this decision, the Company recorded additional impairment charges to further adjust the carrying values of growing project assets in Zambia and Malawi to estimated fair value. These impairment charges are discussed in more detail in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2007. No material impairment charges related to the growing projects were recorded during the quarter or nine months ended December 31, 2007. Zambia, Malawi, and other African countries remain important sources of flue-cured tobacco, and Universal expects to continue procuring tobacco grown by farmers in those origins.

Impairment of Equipment and Goodwill

In the quarter ended December 31, 2006, the Company recorded a $1.8 million charge for the impairment of certain leaf tobacco processing equipment previously used at its Danville, Virginia processing facility, which was closed in December 2005. Plans to redeploy that equipment at another Universal processing facility changed, and the Company decided to sell the equipment. Also in the quarter ended December 31, 2006, in conjunction with redefining its operating segments to reflect the continuing operations in the leaf tobacco business, the Company reallocated its goodwill to revised reporting units based on applicable accounting guidance. Following the reallocation, a $1.7 million charge was recorded to write off goodwill that was impaired. The combined charges totaled $3.5 million before tax, $2.3 million after tax, or $0.07 per diluted share.

NOTE 6. STOCK-BASED COMPENSATION

Universal s shareholders have approved Executive Stock Plans under which officers, employees, and outside directors of the Company may receive grants and awards of common stock, restricted stock, restricted stock units (RSUs), stock appreciation rights (SARs), incentive stock options, and non-qualified stock options. The Company s practice is to award grants of stock-based compensation to officers on an annual basis at the first regularly-scheduled meeting of the Executive Compensation, Nominating and Corporate Governance Committee of the Board of Directors in the fiscal year. Awards of restricted stock, RSUs, SARs, and non-qualified stock options are currently outstanding under the Plans. The non-qualified stock options and SARs have an exercise price equal to the market price of a share of common stock on the grant date. All stock options currently outstanding are fully vested and exercisable, and they expire ten years after the grant date. The SARs are settled in shares of common stock, vest in equal one-third tranches one, two, and three years after the grant date, and expire ten years after the grant date, except that SARs granted after fiscal year 2007 expire on the earlier of three years after the grantee s retirement date or ten years after the grant date. The RSUs vest five years from the grant date and are then paid out in shares of common stock. Under the terms of the RSU awards, grantees receive dividend equivalents in the form of additional RSUs that vest and are paid out on the same date as the original RSU grant. The Company s outside directors automatically receive shares of restricted stock following each annual meeting of shareholders. These shares vest upon the individual s retirement from service as a director.

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During the nine months ended December 31, 2007 and 2006, Universal issued the following stock-based awards, representing the regular annual grants to officers and outside directors of the Company:

	Nine Months Ended December 31, 2007	2006
SARs:		
Number granted	272,800	265,500
Exercise price	$ 62.66	$ 36.03
Grant date fair value	$ 14.64	$ 8.11
RSUs:		
Number granted	68,200	66,400
Grant date fair value	$ 62.66	$ 36.03
Restricted Shares:		
Number granted	11,500	20,000
Grant date fair value	$ 49.78	$ 35.26

The grant date fair value of the SARs was estimated using the Black-Scholes pricing model and the following assumptions:

	2007	2006
Expected term	5.0 years	6.0 years
Expected volatility	26.1%	31.6%
Expected dividend yield	2.81%	4.77%
Risk-free interest rate	5.00%	4.67%

Fair value expense for stock-based compensation is recognized ratably over the period from grant date to the earlier of: (1) the vesting date of the award, or (2) the date the grantee is eligible to retire without forfeiting the award. For grantees who are already eligible to retire at the date an award is granted, the total fair value of the award is recognized as expense at the date of grant. As a result, Universal incurs higher stock compensation expense in the first quarter of each fiscal year when grants are awarded than in the other three quarters. Expense is also increasing from year to year at the present time due to the inclusion of multiple years awards to grantees who are not yet retirement eligible. For the three months ended December 31, 2007 and 2006, the Company recorded total stock-based compensation expense of approximately $1.0 million and $0.5 million, respectively. For the nine months ended December 31, 2007 and 2006, the Company recorded total stock-based compensation expense of approximately $6.6 million and $3.7 million, respectively. The Company expects to recognize stock-based compensation expense of approximately $1.4 million during the remaining three months of fiscal year 2008.

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NOTE 7. COMPREHENSIVE INCOME

Comprehensive income for each period presented in the consolidated statements of income and retained earnings was as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
(in thousands of dollars - all amounts net of income taxes)	**2007**	**2006**	**2007**	**2006**
From continuing operations:				
Income from continuing operations	$ 50,752	$ 35,779	$ 109,403	$ 59,290
Foreign currency translation adjustment	3,508	3,105	10,304	7,220
Foreign currency hedge adjustment	(1,355)	(635)	(849)	(414)
Comprehensive income from continuing operations	52,905	38,249	118,858	66,096
From discontinued operations:				
Loss from discontinued operations		(11,674)	(145)	(34,454)
Foreign currency translation adjustment		700		(2,695)
Foreign currency hedge adjustment				4,195
Minimum pension liability				8,301
Comprehensive loss from discontinued operations		(10,974)	(145)	(24,653)
Total comprehensive income	$ 52,905	$ 27,275	$ 118,713	$ 41,443

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NOTE 8. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share.

(in thousands, except per share data)	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2007	Nine Months Ended December 31, 2006
Basic Earnings (Loss) Per Share				
Numerator for basic earnings (loss) per share				
From continuing operations:				
Income from continuing operations	$ 50,752	$ 35,779	$ 109,403	$ 59,290
Less: Dividends on convertible perpetual preferred stock	(3,712)	(3,713)	(11,137)	(10,973)
Earnings available to common shareholders from continuing operations	47,040	32,066	98,266	48,317
From discontinued operations:				
Earnings (loss) available to common shareholders from discontinued operations		(11,674)	(145)	(34,454)
Net income available to common shareholders	$ 47,040	$ 20,392	$ 98,121	$ 13,863
Denominator for basic earnings (loss) per share				
Weighted average shares outstanding	27,357	25,815	27,285	25,775
Basic earnings (loss) per share:				
From continuing operations	$ 1.72	$ 1.24	$ 3.60	$ 1.87
From discontinued operations		(0.45)	(0.01)	(1.33)
Net income per share	$ 1.72	$ 0.79	$ 3.59	$ 0.54
Diluted Earnings (Loss) Per Share				
Numerator for diluted earnings (loss) per share				
From continuing operations:				
Earnings available to common shareholders from continuing operations	$ 47,040	$ 32,066	$ 98,266	$ 48,317
Add: Dividends on convertible perpetual preferred stock (if conversion assumed)	3,712	3,713	11,137	
Earnings available to common shareholders from continuing operations for calculation of diluted earnings (loss) per share	50,752	35,779	109,403	48,317
From discontinued operations:				
Earnings (loss) available to common shareholders from discontinued operations		(11,674)	(145)	(34,454)
Net income available to common shareholders	$ 50,752	$ 24,105	$ 109,258	$ 13,863
Denominator for diluted earnings (loss) per share:				
Weighted average shares outstanding	27,357	25,815	27,285	25,775
Effect of dilutive securities (if conversion or exercise assumed)				
Convertible perpetual preferred stock	4,711	4,708	4,710	
Employee share-based awards	373	111	385	69
Denominator for diluted earnings (loss) per share	32,441	30,634	32,380	25,844
Diluted earnings (loss) per share:				

From continuing operations	$	1.56	$	1.17	$	3.38	$	1.87
From discontinued operations				(0.38)		(0.01)		(1.33)
Net income per share	$	1.56	$	0.79	$	3.37	$	0.54

For the nine months ended December 31, 2006, conversion of the Company s outstanding Series B 6.75% Convertible Perpetual Preferred Stock was not assumed since the effect was antidilutive to earnings per share from continuing operations.

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NOTE 9. OPERATING SEGMENTS

The principal approach used by management to evaluate the Company s performance is by geographic region, although some components of the business are evaluated on the basis of their worldwide operations. The Company evaluates the performance of its segments based on operating income after allocated overhead expenses (excluding significant non-recurring charges or credits), plus equity in pretax earnings of unconsolidated affiliates.

Operating results for the Company s reportable segments for each period presented in the consolidated statements of income and retained earnings were as follows:

(in thousands of dollars)	Three Months Ended December 31, 2007	2006	Nine Months Ended December 31, 2007	2006
SALES AND OTHER OPERATING REVENUES				
Flue-cured and burley leaf tobacco operations:				
North America	$ 133,319	$ 123,477	$ 222,004	$ 253,489
Other regions (1)	373,670	344,424	1,258,781	1,100,910
Subtotal	506,989	467,901	1,480,785	1,354,399
Other tobacco operations (2)	66,105	43,805	197,856	148,388
Consolidated sales and other operating revenues	$ 573,094	$ 511,706	$ 1,678,641	$ 1,502,787
OPERATING INCOME				
Flue-cured and burley leaf tobacco operations:				
North America	$ 19,395	$ 19,765	$ 18,364	$ 27,169
Other regions (1)	52,016	45,939	147,928	106,520
Subtotal	71,411	65,704	166,292	133,689
Other tobacco operations (2)	16,202	14,214	29,283	22,470
Segment operating income	87,613	79,918	195,575	156,159
Less:				
Equity in pretax earnings of unconsolidated affiliates (3)	8,477	9,570	7,231	5,302
Restructuring and impairment costs (4)		3,519	3,304	15,808
Consolidated operating income	$ 79,136	$ 66,829	$ 185,040	$ 135,049

(1) Includes South America, Africa, Europe, and Asia regions, as well as inter-region eliminations.
(2) Includes Dark Air-Cured, Special Services and Oriental, as well as inter-company eliminations. Sales and other operating revenues for this reportable segment include limited amounts for Oriental because its financial results consist principally of equity in the pretax earnings of an unconsolidated affiliate.
(3) Item is included in segment operating income, but not included in consolidated operating income.
(4) Item is not included in segment operating income, but is included in consolidated operating income.

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NOTE 10. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company has several defined benefit pension plans covering U.S. salaried employees and certain foreign and other employee groups. These plans provide retirement benefits based primarily on employee compensation and years of service. The Company also provides postretirement health and life insurance benefits for eligible U.S. employees attaining specific age and service levels.

The components of the Company s net periodic benefit cost for its continuing operations were as follows:

(in thousands of dollars)	Pension Benefits Three Months Ended December 31, 2007	2006	Other Postretirement Benefits Three Months Ended December 31, 2007	2006
Service cost	$ 1,432	$ 1,499	$ 271	$ 306
Interest cost	3,257	3,163	762	867
Expected return on plan assets	(3,044)	(2,696)	(41)	(43)
Net amortization and deferral	810	1,193	(12)	168
Net periodic benefit cost	$ 2,455	$ 3,159	$ 980	$ 1,298

(in thousands of dollars)	Pension Benefits Nine Months Ended December 31, 2007	2006	Other Postretirement Benefits Nine Months Ended December 31, 2007	2006
Service cost	$ 4,290	$ 4,506	$ 812	$ 919
Interest cost	9,751	9,491	2,285	2,602
Expected return on plan assets	(9,132)	(8,100)	(122)	(130)
Settlement cost		1,345		
Net amortization and deferral	2,505	2,911	(36)	504
Net periodic benefit cost	$ 7,414	$ 10,153	$ 2,939	$ 3,895

During the nine months ended December 31, 2007, the Company made contributions of $3.9 million to its pension plans. Additional contributions of approximately $6 million are expected during the remaining three months of the fiscal year.

NOTE 11. INCOME TAXES

The Company s consolidated effective income tax rate on pretax earnings from continuing operations for both the quarter and nine months ended December 31, 2007, was approximately 36%. The rate was higher than the 35% U.S. federal statutory rate primarily due to excess foreign taxes recorded in countries where the tax rates exceed the U.S. rate, as well as state taxes on income earned in the U.S.

For the quarter and nine months ended December 31, 2006, the effective income tax rates were approximately 37% and 43%, respectively. The rate for the quarter was primarily influenced by excess foreign taxes and U.S. state taxes. The higher effective tax rate for the nine-month period was primarily due to changes in the Company s tax position in Zambia. As a result of those changes, no income tax benefit was recorded on the $12.3 million impairment charge on flue-cured tobacco growing projects in that country and a valuation allowance of $4.9 million was provided on deferred tax assets related to prior year operating losses there. That impact was partially offset by a reduction in the valuation allowance on deferred tax assets due to the method of attributing income taxes to discontinued operations under the applicable accounting guidance. Without these items, the Company s effective income tax rate for the quarter and nine months ended December 31, 2006, would have been approximately 37%.

Universal adopted Financial Accounting Standards Board Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), effective April 1, 2007, and recorded a cumulative effect adjustment of $10.9 million, increasing its liability for unrecognized tax benefits, interest, and penalties and reducing the balance of retained earnings. At April 1, 2007, the Company had $14.3 million of unrecognized tax benefits, of which $7.4 million could have an effect on the effective tax rate if recognized. The Company recognizes accrued interest related to unrecognized tax benefits as interest expense, and it recognizes penalties as a component of income tax expense. At April 1, 2007, $2.4 million was accrued for the potential payment of interest, and $3.7 million was accrued for the potential payment of penalties. If all or part of the amount accrued for potential payment of penalties is not ultimately incurred, the reversal would have an effect on the effective tax rate.

During the quarter ended September 30, 2007, the Company reached a favorable resolution with respect to an uncertain tax position in one of its foreign tax jurisdictions, which reduced its liability for unrecognized tax positions by approximately $0.9 million and the amounts accrued for the potential payment of interest by approximately $1.2 million. These amounts were recorded as income tax expense and interest expense prior to the adoption of FIN 48. At December 31, 2007, the Company had $13.5 million of unrecognized tax benefits, of which $1.1 million could have an effect on the effective tax rate if recognized. The balance of unrecognized tax benefits includes $3.0 million related to tax positions for which it is reasonably possible that the total amounts could change significantly within the following twelve months. This amount reflects a possible decrease in unrecognized tax benefits that could result from the completion and resolution of tax audits and expiration of open tax years in various tax jurisdictions.

Universal and its subsidiaries file a U.S. federal income tax return, as well as returns in several U.S. states and a number of foreign jurisdictions. As of April 1, 2007, the Company s earliest open tax year for U.S. federal income tax purposes was its fiscal year ended March 31, 2005. Open tax years in state and foreign jurisdictions generally range from three to six years.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q and the following Management s Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Among other things, these statements relate to the Company s financial condition, results of operation, and future business plans, operations, opportunities, and prospects. In addition, the Company and its representatives may from time to time make written or oral forward-looking statements, including statements contained in other filings with the Securities and Exchange Commission and in reports to shareholders. These forward-looking statements are generally identified by the use of words such as we expect, believe, anticipate, could, should, may, plan, will, predict, estimate, and similar expressions or words of similar import. These forward-looking statements are based upon management s current knowledge and assumptions about future events and involve risks and uncertainties that could cause actual results, performance, or achievements to be materially different from any anticipated results, prospects, performance, or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include: anticipated levels of demand for and supply of its products and services; costs incurred in providing these products and services; timing of shipments to customers; changes in market structure; changes in exchange rates; and general economic, political, market, and weather conditions. For a further description of factors that may cause actual results to differ materially from such forward-looking statements, see Item 1A, Risk Factors of our Annual Report on Form 10-K for the fiscal year ended March 31, 2007. We caution investors not to place undue reliance on any forward-looking statements as these statements speak only as of the date when made, and we undertake no obligation to update any forward-looking statements made in this report. This Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended March 31, 2007.

Liquidity and Capital Resources

Overview

Our liquidity and capital resource requirements are predominantly short-term in nature and primarily relate to working capital required for tobacco crop purchases. Working capital needs are seasonal within each geographic region. The geographic dispersion and the timing of working capital needs permit us to predict our general level of cash requirements. The marketing of the crop in each geographic area is heavily influenced by weather conditions and follows the cycle of buying, processing, and shipping of the tobacco crop. The timing of individual customer shipping requirements may change the level or the duration of crop financing. Despite a predominance of short-term needs, we maintain a relatively large portion of our total debt as long-term to reduce liquidity risk.

During a typical second half of our fiscal year, inventory and other working capital elements contract, as major crops in Africa are being shipped and shipment of South American crops is nearing completion. In fiscal year 2008, we had lower than normal

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working capital investment earlier in the year because of smaller burley crops in Africa and a reduction in Canadian crop sizes. By the end of the third quarter, the normal contraction of working capital had been accelerated by earlier shipments of crops from Africa and Brazil and changes in delivery terms for some customers. As a result, operating cash flow increased and cash balances grew significantly. Although this seasonal pattern is typical, we have shipped a larger proportion of current crops and inventory levels are lower than we have experienced in recent years. We believe that crop investments will revert to normal patterns in the coming crop cycle.

Operations

Operating activities provided $203 million of cash flow during the nine months ended December 31, 2007. Tobacco inventory fell by about $109 million during the period due to earlier shipments and smaller crops. Tobacco inventory levels were $169 million below the December 31, 2006 levels, primarily due to rapid shipment of the crops in South America and Africa, the reduction in Canadian crop sizes, and lower inventories held for customers by the Special Services segment. Inventory is usually financed with a mix of cash, notes payable, and customer deposits, depending on our borrowing capabilities, interest rates, and exchange rates, as well as those of our customers. During the nine months, accounts receivable fell by about $27 million reflecting the earlier delivery pattern. In the same period, advances from customers decreased by $47 million and trade accounts payable declined by $46 million.

We generally do not purchase material quantities of tobacco on a speculative basis. At December 31, 2007, our uncommitted inventories were $64 million, or about 13% of total tobacco inventory, compared to $120 million, or about 20% of our March 31, 2007, inventory, and $109 million, or about 17% of our December 31, 2006, inventory. The effect of the decreased volumes of uncommitted inventories was partially offset by increased inventory cost due to the weak U.S. dollar.

Investing

During the nine months ended December 31, 2007, we invested about $18 million in fixed assets, which was $13 million less than our depreciation expense of $31 million. Our intent is to limit routine capital spending to a level below depreciation expense in order to maintain strong cash flow. Through the third quarter last year, capital spending was about $21 million. Depreciation expense was lower in the current fiscal year, primarily because of the sale of certain assets and the closure of others in fiscal year 2007.

In addition, during the quarter, our Italian subsidiary deposited 22 million (about $32 million) in additional funds as collateral for a bank guarantee to the European Commission in order to stay execution during the appeal process of fines imposed in 2005. Those fines are more fully described in Note 3 of Notes to Consolidated Financial Statements. The total cash deposit of 30 million (about $44 million) secured the bank guarantee and is classified as a non-current asset.

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Financing

Total debt and customer advances decreased by over $50 million to $776 million during the nine months ended December 31, 2007, as we used cash on hand to fund our operating needs and repay $14 million in medium-term notes that matured during the period. Net of cash and cash equivalents, total debt and customer advances has decreased by about $195 million since March 31, 2007, and by about $368 million since December 31, 2006, due to higher operating cash flows from working capital reductions, the sale of our remaining non-tobacco businesses, and the proceeds from the issuance of stock pursuant to executive stock options. We plan to use cash on hand to retire $150 million in medium-term notes maturing in February 2008.

In August 2007, we entered into a new five-year revolving bank credit agreement and terminated an existing five-year revolving credit facility. The new agreement provides for a revolving credit facility of $400 million, which matures in August 2012. The covenants under the new facility require that we maintain a minimum level of tangible net worth and observe limits on debt levels. As of December 31, 2007, we were in compliance with the covenants of our debt agreements. Our notes payable and overdrafts and current maturities of long-term debt totaled $290 million. We had the entire $400 million available under our new committed revolving credit facility and $502 million in cash. In addition, we had more than $400 million in unused, uncommitted credit lines.

On November 7, 2007, we announced that our Board of Directors had approved the purchase of up to $150 million of our common stock through November 2009. The purchases will be carried out from time to time on the open market or in privately negotiated transactions at prices not exceeding prevailing market rates. The purchases are expected to be funded primarily from our operating cash flow. During the quarter ended December 31, 2007, we purchased 79 thousand shares of common stock for an aggregate cost of $4.1 million. We currently have approximately 27.3 million common shares outstanding. We believe that our liquidity and capital resources at December 31, 2007, remained adequate to support our foreseeable operating needs.

Results of Operations

Income from continuing operations for the third quarter of fiscal year 2008, which ended on December 31, 2007, increased by 42% to $50.8 million, or $1.56 per diluted share. In the same quarter last year, continuing operations earned $35.8 million, or $1.17 per diluted share. For fiscal year 2008, the third quarter s results reflected higher earnings in the Other Regions segment of our flue-cured and burley operations, as well as Other Tobacco Operations. Earnings also benefited from lower net interest expense. Last year s net income for the quarter totaled $24.1 million, or $0.79 per diluted share, including results from discontinued operations. There was no income or loss from discontinued operations in the quarter ended December 31, 2007, as we had completed the sale of our non-tobacco operations at the beginning of the period.

For the nine months ended on December 31, 2007, we earned $109.4 million from continuing operations, or $3.38 per diluted share, compared to $59.3 million, or $1.87 per diluted share last year. The significant improvement in the nine-month results was caused by a number of factors, including shipment timing, lower net interest expense, lower charges this year related to our African flue-cured growing projects, and our lower effective tax rate. The favorable comparisons were offset in part by significantly lower margins in Africa, after adjusting for last year s charges, combined with lower carryover sales and lower old-crop burley sales by the North America segment. In addition, higher currency remeasurement and transaction gains offset some of the increased costs related to the weaker U.S. dollar. Net income for the nine months, including results from discontinued operations, was $109.3 million, or $3.37 per diluted share, compared to $24.8 million, or $0.54 per diluted share, for the same period in the prior year.

Sales and other operating revenues were up 12% in each period, totaling $573 million in the quarter and $1.7 billion for the nine months. In the quarter, the growth was principally due to higher volumes in Europe, Asia, Africa, and the Special Services group, as well as the impact of currency changes. A significant part of the volume increase was related to shipment timing. For the nine months, the increase was more widely dispersed and caused by higher volumes and higher leaf prices in U.S. dollar terms in most regions.

The North America segment of the flue-cured and burley operations reported operating income of $19.4 million for the quarter, nearly level with the prior year, despite the effect of crop reductions in Canada and the absence of last year s sales of old-crop U.S. burley. Higher volumes of current crop tobacco in most origins combined with improved pricing in some areas largely offset those negative factors, and the net effect caused an 8% increase in revenues for the quarter.

For the nine months, the North America segment reported operating income of $18.4 million compared to $27.2 million in the prior year. The reduction reflected lower carryover sales in the United States this year, the effect of old-crop U.S. burley sales last year, increased operating costs associated with handling the drought-affected crop in the United States, and the significant reduction of the Canadian crop. Pricing and volume improvements in some origins mitigated part of the decline in earnings caused by those factors. In addition, last year s results reflected a $3 million gain on the sale of idle assets. Revenues for this segment fell by $31.5 million, to $222 million, compared to last year.

The Other Regions segment of the flue-cured and burley operations earned $52.0 million, up 13% from the same quarter in fiscal year 2007, driven by improvement in operations in Europe and Asia. The segment also recognized higher income that had been deferred on sales of leaf to another segment to provide just-in-time delivery services. That leaf has now been delivered to customers. Despite higher volumes due to accelerated shipments, African results fell, reflecting lower margins as smaller crops, higher farm prices, and the weaker U.S. dollar increased unit costs significantly. Europe saw improvement in the quarter due to earlier shipments, better product mix, and additional blending and sheet volumes, while Asia s comparisons improved with the absence of last year s flood-related costs in the Philippines and additional trading volumes, some of which represented shipment delays earlier in the year. Revenues for this segment increased by $29 million in the quarter. In several origins, higher gains from currency remeasurement and transactions offset part of the increased costs related to purchasing and processing tobacco with weaker U.S. dollars.

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For the nine months, the Other Regions segment of the flue-cured and burley operations earned $147.9 million compared to $106.5 million last year, an increase of nearly 39%. The increase reflected improved results in all regions. In addition to the improvements in Europe and Asia and recognition of deferred income that benefited the quarter, the nine-month period reflected lower charges for inventory and farmer receivables this year, primarily in Africa, which contributed $26 million to the comparison. Currency remeasurement and transaction gains mitigated only some of the effects of the weaker U.S. dollar on costs. The segment also benefited from larger crops in the Philippines where flooding reduced last year s crops and lower overhead costs in Africa and Asia. Those improvements were partially offset by lower operating margins in Africa, after adjusting for last year s charges, on higher volumes shipped as the African season rapidly draws to a close. Revenues for the Other Regions segment increased by about 14% to $1.3 billion.

The Other Tobacco Operations segment results improved by $2 million in the quarter to $16.2 million and revenues increased by $22 million to $66 million. Most of these increases related to accelerated sales volumes for the Special Services group as part of the business is being absorbed by regional operations. That change was also primarily responsible for the 30% increase in segment operating income for the nine months and a 33% growth in revenues. Earnings from our oriental tobacco joint venture were also up for the nine months, mainly due to a gain from the sale of an investment, and remeasurement gains, which partially offset the adverse effect of currency changes on its costs.

Selling, general and administrative expenses, which are included in segment operating results, fell by over $15 million in the quarter, primarily related to currency benefits of approximately $10 million from transactions and from remeasurement of net foreign currency asset positions as the U.S. dollar weakened. For the nine months, selling, general, and administrative expenses dropped by approximately $39 million. In addition to an $18 million reduction in provisions for farmer receivables, expenses for the nine-month period were offset by a $21 million increase in net foreign exchange remeasurement and transaction gains. Of the transaction gains, about $7 million is due to forward currency exchange contracts related to certain customer sales contracts. The forward contracts were not accounted for as hedges, and mark-to-market gains were included in income as they occurred. The effect of the weaker U.S. dollar on costs is widely dispersed through our results and is not offset against currency gains in reporting those gains. Increases in corporate overhead for stock-based compensation and incentive compensation were partially offset by lower legal fees.

We recorded higher interest income and lower interest expense as a result of funds provided by tobacco operations, the sale of our non-tobacco businesses, asset sales, and executive stock option exercises. Net interest savings were $4.3 million for the quarter and $15.8 million for the nine months. The effective income tax rate for the nine months, at approximately 36%, is higher than the U.S. federal statutory income tax rate primarily because of U.S. state income taxes and excess foreign taxes recorded in countries where the tax rates exceed U.S. rates. In addition, the restructuring charges in the nine-month period provided tax benefits at a rate that was below the statutory rate, which increased the effective tax rate. For the full fiscal year, the rate is expected to be slightly below 37%. The effective tax rate last year for the nine-month period was 42.8%. We did not record any tax benefit on our $12.3 million asset impairment charge last year since we believed that we would be unable to utilize the net operating loss carryforward generated by the charge. A valuation allowance of $4.9 million on deferred tax assets associated with Zambia also increased last year s effective tax rate. That impact was partially offset by a reduction in the valuation allowance on deferred tax assets due to the method of attributing income taxes to discontinued operations under the applicable accounting guidance.

Results for the third fiscal quarter and the nine months have improved despite difficult supply shortages and rapidly rising costs that were due in part, to the weak U.S. dollar. Much of our improvement came from the reduction of restructuring charges and provisions for inventory valuation and farmer advances. However, our inventories have fallen by over 25% since last year, primarily reflecting the smaller crops in Africa and Canada and more rapid shipment of leaf during fiscal year 2008. That acceleration of shipments, which has led to near completion of yearly shipping in some origins, and the accompanying substantial reduction in total inventories, is likely to mean lower shipments in future quarters. We will continue to work with our customers to mitigate the effect of the weak dollar on our unit costs. Despite these many challenges, we believe that we have been taking the necessary actions to improve our performance. Our business model is sound, and we believe that because of our dedication to producing quality leaf and service to our customers, we will continue to be successful in the long term.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rates

Interest rate risk is limited in the tobacco business because major customers usually pre-finance purchases or pay market rates of interest for inventory purchased for their accounts. Our tobacco customers pay interest on tobacco purchased for their order. That interest is paid at rates based on current markets for variable-rate debt. If we fund our committed tobacco inventory with fixed-rate debt, we may not be able to recover interest at that fixed rate if current market interest rates were to fall. As of December 31, 2007, tobacco inventory of $487 million included about $423 million in inventory that was committed for sale to customers and about $64 million that was not committed. Committed inventory, after deducting $86 million in customer deposits, represents our net exposure of $337 million. We maintain a portion of our debt at variable interest rates either directly or through interest rate exchange agreements in order to mitigate interest rate risk related to carrying fixed-rate debt. Debt carried at variable interest rates was about $190 million at December 31, 2007. A hypothetical 1% change in short-term interest rates would result in a change in annual interest expense of approximately $1.9 million, and that amount would be more than offset with changes in customer charges.

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In addition, a significant portion of our cash balances, which totaled $502 million at December 31, 2007, are invested at variable interest rates. At December 31, 2007, cash levels, a 1% change in short-term interest rates would result in an annual interest income change between $4.5 million and $5.0 million.

Currency

The international tobacco trade generally is conducted in U.S. dollars, thereby limiting foreign exchange risk to that which is related to production costs, overhead, and income taxes in the source country. Most of the operations are accounted for using the U.S. dollar as the functional currency. Because there are no forward foreign exchange markets in many of our major countries of tobacco origin, we generally manage our foreign exchange risk by matching funding for inventory purchases with the currency of sale, which is usually the U.S. dollar, and by minimizing our net investment in individual countries. In these countries, we are vulnerable to currency gains and losses to the extent that any local currency net monetary balances do not offset each other. In addition, changes in local currency exchange rates make tobacco more or less attractive in U.S. dollar terms. In some situations where customer contracts have fixed dollar pricing and forward foreign exchange markets exist, we may enter forward contracts to mitigate the risk of currency exchange rate changes.

In certain tobacco markets that are primarily domestic, we use the local currency as the functional currency. Examples of these domestic markets are Canada, Hungary, and Poland. In each case, reported earnings are affected by the translation of the local currency into the U.S. dollar.

Derivatives Policies

Hedging interest rate exposure using swaps and hedging foreign exchange exposure using forward contracts are specifically contemplated to manage risk in keeping with management s policies. We may use derivative instruments, such as swaps, forwards, or futures, which are based directly or indirectly upon interest rates and currencies to manage and reduce the risks inherent in interest rate and currency fluctuations.

We do not utilize derivatives for speculative purposes, and we do not enter into market risk-sensitive instruments for trading purposes. Derivatives are transaction specific so that a specific debt instrument, contract, or invoice determines the amount, maturity, and other specifics of the hedge. Counterparty risk is limited to institutions with long-term debt ratings of A or better.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports we file under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer evaluated, with the participation of other members of management, the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, management concluded that our disclosure controls and procedures were effective. There were no changes in our internal controls over financial reporting identified in connection with this evaluation that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

European Commission Fines in Spain

In October 2004, the European Commission (the Commission) imposed fines on five companies active in the raw Spanish tobacco processing market totaling 20 million (approximately $29 million) for colluding on the prices paid to, and the quantities bought from, the tobacco growers in Spain. Two of the Company s subsidiaries, Tabacos Espanoles S.A. (TAES), a purchaser and processor of raw tobacco in Spain, and Deltafina, S.p.A. (Deltafina), an Italian subsidiary, were among the five companies assessed fines. In its decision, the Commission imposed a fine of 108,000 on TAES and 11.88 million (approximately $17 million) on Deltafina. Deltafina did not and does not purchase or process raw tobacco in the Spanish market, but was and is a significant buyer of tobacco from some of the Spanish processors. The Company recorded a charge of approximately $14.9 million in the second quarter of fiscal year 2005 to accrue the full amount of the fines assessed against the Company s subsidiaries.

In January 2005, Deltafina filed an appeal in the Court of First Instance of the European Communities. The outcome of the appeal is uncertain, and an ultimate resolution to the matter could take several years. The Company has deposited funds in an escrow account with the Commission in the amount of the fine in order to stay execution during the appeal process. This deposit is accounted for as a non-current asset.

European Commission Fines in Italy

In 2002, the Company reported that it was aware that the Commission was investigating certain aspects of the leaf tobacco markets in Italy. Deltafina buys and processes tobacco in Italy. The Company reported that it did not believe that the Commission investigation in Italy would result in penalties being assessed against it or its subsidiaries that would be material to the Company s earnings. The reason the Company held this belief was that it had received conditional immunity from the Commission because Deltafina had voluntarily informed the Commission of the activities that were the basis of the investigation.

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On December 28, 2004, the Company received a preliminary indication that the Commission intended to revoke Deltafina s immunity for disclosing in April 2002 that it had applied for immunity. Neither the Commission s Leniency Notice of February 19, 2002, nor Deltafina s letter of provisional immunity, contains a specific requirement of confidentiality. The potential for such disclosure was discussed with the Commission in March 2002, and the Commission never told Deltafina that disclosure would affect Deltafina s immunity. On November 15, 2005, the Company received notification from the Commission that the Commission had imposed fines totaling 30 million (about $44 million) on Deltafina and the Company jointly for infringing European Union antitrust law in connection with the purchase and processing of tobacco in the Italian raw tobacco market.

The Company does not believe that the decision can be reconciled with facts and the Commission s Statement of Objections. The Company and Deltafina each have appealed the decision to the Court of First Instance of the European Communities. Based on consultation with outside legal counsel, the Company believes it is probable that it will prevail in the appeals process and has not accrued a charge for the fine. Deltafina has provided a bank guarantee to the Commission in the amount of the fine in order to stay execution during the appeal process. A cash deposit of 30 million (about $44 million) secures the bank guarantee and is classified as a non-current asset.

U.S. Foreign Corrupt Practices Act

As a result of a posting to the Company s Ethics Complaint hotline alleging improper activities that involved or related to certain of the Company s tobacco subsidiaries, the Audit Committee of the Company s Board of Directors engaged an outside law firm to conduct an investigation of the alleged activities. That investigation revealed that there have been payments that may have violated the U.S. Foreign Corrupt Practices Act. Those payments approximated $1 million over a five-year period. In addition, the investigation revealed activities in foreign jurisdictions that may have violated the competition laws of such jurisdictions, but the Company believes those activities did not violate U.S. antitrust laws. The Company voluntarily reported these activities to the appropriate U.S. authorities. On June 6, 2006, the Securities and Exchange Commission notified the Company that a formal order of investigation has been issued.

If the U.S. authorities determine that there have been violations of the Foreign Corrupt Practices Act, or if the U.S. authorities or the authorities in foreign jurisdictions determine there have been violations of other laws, they may seek to impose sanctions on the Company or its subsidiaries that may include injunctive relief, disgorgement, fines, penalties, and modifications to business practices. It is not possible to predict at this time whether the authorities will determine that violations have occurred, and if they do, what sanctions they might seek to impose. It is also not possible to predict how the government s investigation or any resulting sanctions may impact the Company s business, financial condition, results of operations, or financial performance, although such sanctions, if imposed, could be material to its results of operations in any quarter. The Company will continue to cooperate with the authorities in these matters.

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Other Legal Matters

In addition to the above-mentioned matters, various subsidiaries of the Company are involved in other litigation and tax examinations incidental to their business activities. While the outcome of these matters cannot be predicted with certainty, management is vigorously defending the claims and does not currently expect that any of them will have a material adverse effect on the Company s financial position. However, should one or more of these matters be resolved in a manner adverse to management s current expectation, the effect on the Company s results of operations for a particular fiscal reporting period could be material.

ITEM 1A. RISK FACTORS

As of the date of this report, there are no material changes to the risk factors previously disclosed in the Company s Annual Report on Form 10-K for the year ended March 31, 2007. In evaluating the risks of the Company, readers should carefully consider the risk factors discussed in the Company s Annual Report on Form 10-K, which could materially affect the Company s business, financial condition or operating results, in addition to the other information set forth in this report and in other filings with the Securities and Exchange Commission.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes our repurchases of equity securities for the three-month period ended December 31, 2007:

Period (1)	Total Number of Shares Repurchased	Average Price Paid Per Share(2)	Total Number of Shares Repurchased as Part of Publicly Announced Plan or Program(3)	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(3)
Oct. 1, 2007 to Oct. 31, 2007				$ 150,000,000
Nov. 1, 2007 to Nov. 30, 2007	31,840	$ 51.78	31,840	$ 148,351,325
Dec. 1, 2007 to Dec. 31, 2007	58,050	$ 51.63	58,050	$ 145,354,230
Total	89,890	$ 51.68	89,890	$ 145,354,230

(1) Repurchases are based on the date the shares were traded. This presentation differs from the consolidated statement of cash flows, where the cost of share repurchases is based on the date the transactions were settled.

(2) Amounts listed for average price paid per share includes broker commissions paid in the transactions.

(3) The stock repurchase plan, which was authorized by our Board of Directors, became effective and was publicly announced on November 7, 2007. The stock repurchase plan authorizes the purchase of up to $150 million in common stock in open market or privately negotiated transactions, subject to market conditions and other factors. The stock repurchase plan will expire on the earlier of November 15, 2009, or when we have repurchased all shares authorized for repurchase thereunder.

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ITEM 6. EXHIBITS

10.1	Universal Corporation 2007 Stock Incentive Plan, dated August 7, 2007.*
12	Ratio of Earnings to Fixed Charges, and Ratio of Earnings to Combined Fixed Charges and Preference Dividends.*
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.*
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.*

* Filed herewith

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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.

Date: February 7, 2008

UNIVERSAL CORPORATION
(Registrant)

/s/ Hartwell H. Roper
Hartwell H. Roper,

Vice President and Chief Financial Officer

/s/ Robert M. Peebles
Robert M. Peebles, Controller
(Principal Accounting Officer)