

UNIVERSAL CORP /VA/
Form 10-Q
August 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

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: 001-00652

UNIVERSAL CORPORATION
(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

54-0414210
(I.R.S. Employer
Identification Number)

9201 Forest Hill Avenue,
Richmond, Virginia
(Address of principal executive offices)

23235
(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of August 1, 2011, the total number of shares of common stock outstanding was 23,226,863.

UNIVERSAL CORPORATION
FORM 10-Q
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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 June 30, (Unaudited)	
	2011	2010
Sales and other operating revenues	\$ 479,465	\$ 538,916
Costs and expenses		
Cost of goods sold	385,107	436,679
Selling, general and administrative expenses	61,578	60,183
Other income	(9,592)	—
Restructuring costs	6,859	949
Operating income	35,513	41,105
Equity in pretax earnings (loss) of unconsolidated affiliates	(3,489)	378
Interest income	357	444
Interest expense	5,533	5,126
Income before income taxes and other items	26,848	36,801
Income taxes	9,526	12,383
Net income	17,322	24,418
Less: net (income) loss attributable to noncontrolling interests in subsidiaries	(1,434)	902
Net income attributable to Universal Corporation	15,888	25,320
Dividends on Universal Corporation convertible perpetual preferred stock	(3,712)	(3,712)
Earnings available to Universal Corporation common shareholders	\$ 12,176	\$ 21,608
Earnings per share attributable to Universal Corporation common shareholders:		
Basic	\$ 0.52	\$ 0.89
Diluted	\$ 0.52	\$ 0.87
Retained earnings - beginning of year	\$ 825,751	\$ 767,213
Net income attributable to Universal Corporation	15,888	25,320
Cash dividends declared:		
Series B 6.75% Convertible Perpetual Preferred Stock	(3,712)	(3,712)
Common stock (2011 - \$0.48 per share; 2010 - \$0.47 per share)	(11,189)	(11,347)
Repurchase of common stock - cost in excess of stated capital amount	(2,827)	(8,605)
Dividend equivalents on restricted stock units	(118)	(97)
Retained earnings - end of period	\$ 823,793	\$ 768,772

See accompanying notes.

UNIVERSAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)

	June 30, 2011 (Unaudited)	June 30, 2010 (Unaudited)	March 31, 2011
ASSETS			
Current			
Cash and cash equivalents	\$93,795	\$61,781	\$141,007
Accounts receivable, net	322,690	221,053	335,575
Advances to suppliers, net	130,783	122,878	160,616
Accounts receivable - unconsolidated affiliates	47,111	42,403	10,433
Inventories - at lower of cost or market:			
Tobacco	987,379	1,152,427	742,422
Other	60,871	66,183	48,647
Prepaid income taxes	20,493	14,062	18,661
Deferred income taxes	54,479	46,058	47,009
Other current assets	77,527	72,042	73,864
Total current assets	1,795,128	1,798,887	1,578,234
Property, plant and equipment			
Land	14,186	15,740	14,851
Buildings	241,771	262,468	257,380
Machinery and equipment	537,693	535,480	555,316
	793,650	813,688	827,547
Less accumulated depreciation	(483,481)	(486,576)	(510,844)
	310,169	327,112	316,703
Other assets			
Goodwill and other intangibles	99,461	105,409	99,546
Investments in unconsolidated affiliates	113,745	95,494	115,478
Deferred income taxes	12,957	28,627	18,177
Other noncurrent assets	66,165	101,870	99,729
	292,328	331,400	332,930
Total assets	\$2,397,625	\$2,457,399	\$2,227,867

See accompanying notes

UNIVERSAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)

	June 30, 2011 (Unaudited)	June 30, 2010 (Unaudited)	March 31, 2011
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Notes payable and overdrafts	\$ 263,302	\$ 298,899	\$ 149,291
Accounts payable and accrued expenses	217,225	239,451	213,014
Accounts payable - unconsolidated affiliates	322	977	4,154
Customer advances and deposits	65,588	144,477	8,426
Accrued compensation	22,532	17,978	30,201
Income taxes payable	10,942	13,958	12,265
Current portion of long-term obligations	95,000	5,000	95,000
Total current liabilities	674,911	720,740	512,351
Long-term obligations	321,612	418,547	320,193
Pensions and other postretirement benefits	106,612	98,686	102,858
Other long-term liabilities	44,729	65,412	50,213
Deferred income taxes	45,036	38,627	42,847
Total liabilities	1,192,900	1,342,012	1,028,462
Shareholders' equity			
Universal Corporation:			
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 (219,999 at June 30, 2010, and March 31, 2011)	213,023	213,023	213,023
Common stock, no par value, 100,000,000 shares authorized, 23,226,863 shares issued and outstanding (24,155,316 at June 30, 2010, and 23,240,503 at March 31, 2011)	192,590	194,960	191,608
Retained earnings	823,793	768,772	825,751
Accumulated other comprehensive loss	(39,910)	(66,242)	(44,776)
Total Universal Corporation shareholders' equity	1,189,496	1,110,513	1,185,606
Noncontrolling interests in subsidiaries	15,229	4,874	13,799
Total shareholders' equity	1,204,725	1,115,387	1,199,405

Total liabilities and shareholders' equity	\$ 2,397,625	\$ 2,457,399	\$ 2,227,867
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See accompanying notes.

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UNIVERSAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)

	Three Months Ended June 30,	
	2011	2010
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$17,322	\$24,418
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	11,027	10,823
Amortization	400	412
Provisions for losses on advances and guaranteed loans to suppliers	4,254	2,991
Foreign currency remeasurement loss (gain), net	178	1,876
Gain on fire loss insurance settlement	(9,592)	—
Restructuring costs	6,859	949
Other, net	10,371	(1,023)
Changes in operating assets and liabilities, net	(186,063)	(303,270)
Net cash used by operating activities	(145,244)	(262,824)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(8,827)	(13,154)
Proceeds from sale of property, plant and equipment, and other	5,817	945
Proceeds from fire loss insurance settlement	9,933	—
Net cash provided (used) by investing activities	6,923	(12,209)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance (repayment) of short-term debt, net	109,662	127,985
Repayment of long-term obligations	—	(10,000)
Issuance of common stock	134	—
Repurchase of common stock	(4,004)	(10,933)
Dividends paid on convertible perpetual preferred stock	(3,712)	(3,712)
Dividends paid on common stock	(11,195)	(11,427)
Net cash provided by financing activities	90,885	91,913
Effect of exchange rate changes on cash	224	(1,052)
Net decrease in cash and cash equivalents	(47,212)	(184,172)
Cash and cash equivalents at beginning of year	141,007	245,953
Cash and cash equivalents at end of period	\$93,795	\$61,781

See accompanying notes.

UNIVERSAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Universal Corporation, with its subsidiaries (“Universal” or the “Company”), is the leading global leaf tobacco merchant and processor. 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, 2011.

NOTE 2. ACCOUNTING PRONOUNCEMENTS

Effective April 1, 2011, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update 2009-13, “Multiple-Deliverable Revenue Arrangements” (“ASU 2009-13”). ASU 2009-13 establishes a selling price hierarchy for determining the selling price of a deliverable in a multiple-deliverable arrangement. It also requires additional disclosures about methods and assumptions used to evaluate multiple-deliverable arrangements and to identify the significant deliverables within those arrangements. The adoption of ASU 2009-13 did not have a material effect on the Company’s financial statements.

In May 2011, the FASB issued Accounting Standards Update 2011-04, “Fair Value Measurement” (“ASU 2011-04”). The primary focus of ASU 2011-04 is the convergence of accounting requirements for fair value measurements and related financial statement disclosures under U.S. GAAP and International Financial Reporting Standards (“IFRS”). While ASU 2011-04 does not significantly change existing guidance for measuring fair value, it does require additional disclosures about fair value measurements and changes the wording of certain requirements in the guidance to achieve consistency with IFRS. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, and is required to be applied prospectively. The Company is currently evaluating the revised guidance to determine the effect it will have on its financial statements.

In June 2011, the FASB issued Accounting Standards Update 2011-05, “Presentation of Comprehensive Income” (“ASU 2011-05”). This guidance requires companies to present the components of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either method, amounts reclassified from OCI to net income for each reporting period must be displayed as components of both net income and OCI on the face of the financial statements. The guidance does not change the items that are reported in OCI. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011, and Universal plans to adopt it for the interim quarter ending June 30, 2012. The Company is currently evaluating the new guidance to determine the effect it will have on its financial statements.

NOTE 3. GUARANTEES, OTHER CONTINGENT LIABILITIES, AND OTHER MATTERS

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 June 30, 2011, the Company’s total exposure under guarantees issued by its operating subsidiary in Brazil for banking facilities of farmers in that country was approximately \$25 million (\$39 million face amount including unpaid accrued interest, less \$14

million recorded for the fair value of the guarantees). About 76% of these guarantees expire within one year, and 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 the third-party banks could result in a liability for the subsidiary under the related guarantees; 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 at June 30, 2011, was the face amount, \$39 million including unpaid accrued interest (\$62 million as of June 30, 2010, and \$73 million at March 31, 2011). The fair value of the guarantees was a liability of approximately \$14 million at June 30, 2011 (\$16 million at June 30, 2010, and \$21 million at March 31, 2011). In addition to these guarantees, the Company has other contingent liabilities totaling approximately \$56 million, primarily related to a bank guarantee that bonds an appeal of a 2006 fine in the European Union, as discussed below.

European Commission Fines

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 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 a fine of €11.88 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 about €12 million (approximately \$14.9 million at the September 2004 exchange rate) 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 General Court of the European Union (“General Court”). A hearing was held in June 2009, and on September 8, 2010, the General Court issued its decision, in which it reduced the amount of the Deltafina fine to €6.12 million. The General Court held in part that the Commission erred in finding Deltafina acted as the leader of the Spanish cartel, and that the Commission’s corresponding increase of the underlying fine by 50% was not justified. As a result of the General Court’s decision in September 2010, during the second quarter of fiscal year 2011, the Company reversed €5.76 million (approximately \$7.4 million) of the charge previously recorded to accrue the fine and recognized approximately \$1.2 million of interest income returned on the escrow funds. Deltafina filed an appeal to the General Court decision with the European Court of Justice on November 18, 2010. Although Deltafina believed the General Court erred in not reducing the remaining fine further based on numerous grounds, due to strategic reasons Deltafina recently withdrew its appeal. The result is to end the matter in the judicial system, and to confirm the fine reduction granted in the General Court.

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’s 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 at the June 30, 2011 exchange rate) 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 either the Commission’s Statement of Objections or the facts. In January 2006, the Company and Deltafina each filed appeals in the General Court. Deltafina’s appeal was held on September 28, 2010. For strategic reasons related to the defense of the Deltafina appeal, Universal withdrew its appeal. Based on consultation with outside legal counsel, the Company believes it is probable that Deltafina will prevail in the appeals process and has not accrued a charge for the fine. If

the Company and Deltafina are ultimately found liable for the full amount of the fine, then accumulated interest on the fine would also be due and payable. Accumulated interest totaled approximately €5.7 million (about \$8.3 million) at June 30, 2011. Deltafina has provided a bank guarantee to the Commission in the amount of the fine plus accumulated interest in order to stay execution during the appeals process. The Company expects the General Court will issue a decision in this matter in September 2011.

Advances to Suppliers

In some regions where the Company operates, it provides agronomy services and seasonal advances of seed, fertilizer, and other supplies to tobacco farmers for crop production, or makes seasonal cash advances to farmers for the procurement of those inputs. These advances are short term, are repaid upon delivery of tobacco to the Company, and are reported in advances to suppliers in the consolidated balance sheet. Primarily in Brazil, the Company has made long-term advances to tobacco farmers to finance curing barns and other farm infrastructure. In addition, due to low crop yields and other factors, in some years individual farmers may not deliver sufficient volumes of tobacco to fully repay their seasonal advances, and the Company may extend repayment of those advances into the following crop year. The long-term portion of advances is included in other noncurrent assets in the consolidated balance sheet. Both the current and the long-term portions of advances to suppliers are reported net of allowances recorded when the Company determines that amounts outstanding are not likely to be collected. Short-term and long-term advances to suppliers totaled \$227 million at June 30, 2011, \$205 million at June 30, 2010, and \$271 million at March 31, 2011. The related valuation allowances totaled \$83 million at June 30, 2011, \$57 million at June 30, 2010, and \$74.9 million at March 31, 2011, and were estimated based on the Company's historical loss information and crop projections. The allowances were increased by provisions for estimated uncollectible amounts of approximately \$4.3 million and \$3.0 million in the three month periods ended June 30, 2011 and 2010, respectively. These provisions are included in selling, general, and administrative expenses in the consolidated statements of income. Interest on advances is recognized in earnings upon the farmers' delivery of tobacco in payment of principal and interest. Recognition of interest is discontinued when an advance is not expected to be fully collected.

Fire Loss Insurance Settlement

In June 2011, an operating subsidiary of the Company in Europe completed final settlement of an insurance claim related to a fire in 2010 that destroyed a portion of its facility and temporarily suspended factory operations. The Company and its subsidiary maintained general liability, business interruption, and replacement cost property insurance coverage on the facility. As part of the final settlement, the subsidiary received approximately \$9.9 million of insurance proceeds to cover the cost of reconstructing the damaged portion of the facility and replacing equipment that was destroyed in the fire. A gain of approximately \$9.6 million was recorded on the involuntary conversion of those assets in the quarter ended June 30, 2011, and is reported in Other Income in the consolidated statement of income and retained earnings. In addition, the subsidiary received insurance proceeds totaling approximately \$6.9 million for business interruption related to the fire. Approximately \$4.8 million of the business interruption recovery was recognized in earnings in fiscal year 2011, and the remaining \$2.1 million was recognized in the quarter ended June 30, 2011. In the consolidated statement of cash flows, the insurance proceeds attributable to the property and equipment destroyed in the fire are reported in cash flows from investing activities. All other insurance proceeds received during fiscal year 2011 or with the final claim settlement in June have been reported in cash flows from operating activities. Reconstruction of the facility has been completed and the factory was fully operational at June 30, 2011.

Statutory Severance and Pension Obligations in Malawi

Effective June 1, 2011, new Employment and Pension legislation was enacted into law in Malawi. The new legislation changed prior law related to statutory severance benefits by eliminating the requirement to pay those benefits to employees in cases of normal retirement. At the same time, the legislation created a new requirement to provide pension benefits to employees who meet specified service criteria. The pension benefit to which employees are entitled under the new law at June 1, 2011 is generally equivalent to the accumulated statutory severance benefit under the old law, but it considers any pension or gratuity benefits previously or currently provided to employees under a company's private pension programs. The Company's operating subsidiary in Malawi has historically provided pension and gratuity payments to specified employee groups that reduce or offset the pension obligations provided

under the new law. The Malawi subsidiary accounted for the enactment of the new legislation in its financial statements during the quarter ended June 30, 2011 by reversing approximately \$4 million of the statutory severance liability no longer required under the new law. Certain aspects of the new law have not yet been fully defined, and additional implementation guidance is expected to be issued by the government at a later date. Further adjustments to the severance and pension liabilities could be required as that guidance becomes available.

Recoverable Value-Added Tax Credits

In many foreign countries, the Company's local operating subsidiaries pay significant amounts of value-added tax ("VAT") on purchases of unprocessed and processed tobacco, crop inputs, packing materials, and various other goods and services. In some countries, VAT is a national tax, and in other countries it is assessed at the state level. Items subject to VAT vary from jurisdiction to jurisdiction, as do the rates at which the tax is assessed. When tobacco is sold to customers in the country of origin, the operating subsidiaries generally collect VAT on those sales. The subsidiaries are normally permitted to offset those VAT payments against the collections and remit only the incremental VAT collections to the tax authorities. When tobacco is sold for export, VAT is normally not assessed. In countries where tobacco sales are predominately for export markets, VAT collections generated on downstream sales are often not sufficient to fully offset the subsidiaries' VAT payments. In those situations, unused VAT credits can accumulate. Some jurisdictions have procedures that allow companies to apply for refunds of unused VAT credits from the tax authorities, but the refund process often takes an extended period of time and it is not uncommon for refund applications to be challenged or rejected in part on technical grounds. Other jurisdictions may permit companies to sell or transfer unused VAT credits to third parties in private transactions, although approval for such transactions must normally be obtained from the tax authorities, limits on the amounts that can be transferred are usually imposed, and the proceeds realized may be heavily discounted from the face value of the credits. Due to these factors, local operating subsidiaries in some countries can accumulate significant balances of VAT credits over time. The Company reviews these balances on a regular basis and records valuation allowances on the credits to reflect amounts that are not expected to be recovered, as well as discounts anticipated on credits that are expected to be sold or transferred. At June 30, 2011, the aggregate balance of recoverable tax credits held by the Company's subsidiaries totaled approximately \$85 million, and the related valuation allowance totaled approximately \$25 million.

During the quarter ended June 30, 2011, tax authorities in Brazil completed an audit of inter-state VAT filings by the Company's operating subsidiary there and issued assessments for tax, penalties, and interest for tax periods from 2006 through 2009 totaling approximately \$30 million based on the exchange rate for the Brazilian currency at quarter-end. Management of the operating subsidiary and outside counsel are currently reviewing the details of the assessment and preparing a formal response. The subsidiary plans to contest the full amount of the assessment. Management and counsel believe that errors were made by the tax authorities in determining portions of the assessment and that various defenses support the subsidiary's positions. No liability has been recorded at June 30, 2011, as no loss is considered probable at this time.

Other Legal and Tax Matters

In addition to the above-mentioned matters, the Company is involved in other litigation and tax examinations incidental to its business activities. While the outcome of these matters cannot be predicted with certainty, management is vigorously defending these matters 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. RESTRUCTURING AND IMPAIRMENT COSTS

During fiscal year 2011 and continuing into fiscal year 2012, Universal has recorded restructuring and impairment costs related to initiatives to adjust various operations and reduce costs. A significant portion of the restructuring and impairment charges related to the Company's November 2010 decision to close its leaf tobacco processing facility in Simcoe, Ontario, Canada. The Company will continue to buy tobacco grown in Canada, but will process that leaf at its U.S. factory in North Carolina. The Simcoe processing facility and a separate storage complex were classified as "held for sale" at the date the decision was made to close the operations, and an impairment charge of approximately \$5.6 million was recorded in the third quarter of fiscal year 2011 to write those assets down to their fair values, net of selling costs. The sales of both properties were completed during the first quarter of fiscal year 2012 at prices approximating their adjusted book values. As of June 30, 2011, all full-time salaried employees at the Simcoe location had been terminated. During fiscal year 2011, the Company recorded approximately \$2.4 million in costs for termination benefits payable to those employees under Canadian law and \$4.1 million in pension curtailment and settlement costs related to the termination of the Canadian employees' defined benefit pension plan. The Canadian operations are included in the North America segment, and revenues and earnings for those operations were not material to that segment in recent years.

In addition to the restructuring and impairment costs related to the decision to close the facility in Canada, the Company has recorded restructuring costs associated with various other cost reduction initiatives. A significant portion of those costs represent employee termination benefits associated with voluntary early retirement offers and involuntary separations at the Company's headquarters and operating locations in the United States, South America, Africa, and Europe that are part of the North America and Other Regions reportable segments. In addition, during the three months ended June 30, 2011, the Company recorded approximately \$3.1 million in costs related to the termination of its business arrangements with a supplier and processor of tobacco in Europe in response to market changes. That cost relates to an operating subsidiary that is part of the Other Regions reportable segment.

A summary of the cumulative restructuring and impairment costs recorded through June 30, 2011, is as follows:

(in thousands of dollars)	Closure of Processing Facility in Canada	Other Restructuring and Cost Reduction Initiatives	Total
Restructuring Costs:			
Employee termination benefits	\$2,412	\$ 12,505	\$14,917
Pension curtailment and settlement costs	4,081	—	4,081
Other costs	—	3,733	3,733
	6,493	16,238	22,731
Impairment Costs:			
Property, plant and equipment	5,632	—	5,632
Total restructuring and impairment costs	\$12,125	\$ 16,238	\$28,363

The above summary includes restructuring costs of approximately \$6.9 million and \$0.9 million recorded during the quarters ended June 30, 2011 and 2010, respectively. The amounts recorded in the quarter ended June 30, 2011, included approximately \$3.8 million for employee termination benefits, primarily related to the Company's U.S. operations, and the \$3.1 million of costs incurred to exit the supplier arrangement in Europe. The restructuring costs recorded in the quarter ended June 30, 2010, consisted entirely of termination benefits related to the U.S. operations.

A reconciliation of the Company's liability for the restructuring costs outlined above (excluding pension curtailment and settlement costs) through June 30, 2011, is as follows:

(in thousands of dollars)	Employee Termination Benefits	Other Costs	Total
Fiscal Year 2011 activity:			
Costs charged to expense	\$ 11,155	\$636	\$11,791
Payments	(4,769)	(411)	(5,180)
Balance at March 31, 2011	6,386	225	6,611
Fiscal Year 2012 activity through June 30, 2011:			
Costs charged to expense	3,762	3,097	\$6,859
Payments	(5,194)	(36)	\$(5,230)
Balance at June 30, 2011	\$4,954	\$3,286	\$8,240

The employee termination benefits outlined in the tables above relate to approximately 250 total employees, including those affected by the facility closure in Canada. The majority of the restructuring liability at June 30, 2011, will be paid before the end of fiscal year 2012. Universal continually reviews its business for opportunities to realize efficiencies, reduce costs, and realign its operations in response to business changes. The Company expects to incur additional restructuring costs and may also incur asset impairment charges in future periods as business changes occur and additional cost savings initiatives are implemented.

NOTE 5. 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 June 30,	
	2011	2010
Basic Earnings Per Share		
Numerator for basic earnings per share		
Net income attributable to Universal Corporation	\$ 15,888	\$ 25,320
Less: Dividends on convertible perpetual preferred stock	(3,712)	(3,712)
Earnings available to Universal Corporation common shareholders for calculation of basic earnings per share	12,176	21,608
Denominator for basic earnings per share		
Weighted average shares outstanding	23,194	24,213
Basic earnings per share	\$ 0.52	\$ 0.89
Diluted Earnings Per Share		
Numerator for diluted earnings per share		
Earnings available to Universal Corporation common shareholders	\$ 12,176	\$ 21,608
Add: Dividends on convertible perpetual preferred stock (if conversion assumed)	—	3,712
Earnings available to Universal Corporation common shareholders for calculation of diluted earnings per share	12,176	25,320
Denominator for diluted earnings per share:		
Weighted average shares outstanding	23,194	24,213
Effect of dilutive securities (if conversion or exercise assumed)		
Convertible perpetual preferred stock	—	4,742
Employee share-based awards	319	260
Denominator for diluted earnings per share	23,513	29,215
Diluted earnings per share	\$ 0.52	\$ 0.87

For the three months ended June 30, 2011, conversion of the Company's outstanding Series B 6.75% Convertible Perpetual Preferred Stock was not assumed since the effect would have been antidilutive. For the three months ended June 30, 2011 and 2010, certain employee share-based awards were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive. These awards included stock appreciation rights and stock options totaling 585,601 shares at a weighted-average exercise price of \$51.43 for the quarter ended June 30, 2011, and 657,401 shares at a weighted-average exercise price of \$52.65 for the quarter ended June 30, 2010.

NOTE 6. COMPREHENSIVE INCOME

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

(in thousands of dollars - all amounts net of income taxes)	Three Months Ended June 30,	
	2011	2010
Net income	\$ 17,322	\$ 24,418
Foreign currency translation adjustment	2,564	(11,406)
Foreign currency hedge adjustment.	2,298	(2,198)
Total comprehensive income	22,184	10,814
Less: comprehensive income attributable to noncontrolling interests in subsidiaries (including foreign currency translation adjustment)	(1,430)	931
Comprehensive income attributable to Universal Corporation.	\$ 20,754	\$ 11,745

NOTE 7. INCOME TAXES

The Company is subject to the tax laws of many jurisdictions. Changes in tax laws or the interpretation of tax laws can affect the Company's earnings, as can the resolution of pending and contested tax issues. The consolidated income tax rate is affected by a number of factors, including the mix of domestic and foreign earnings and investments, local tax rates of subsidiaries, repatriation of foreign earnings, and the Company's ability to utilize foreign tax credits.

The consolidated effective income tax rate was approximately 35.5% for the quarter ended June 30, 2011, and approximately 33.5% for the quarter ended June 30, 2010. The rate for the quarter ended June 30, 2010 was lower than the 35% U.S. federal statutory rate primarily due to earnings of subsidiaries in the Company's African region, which allowed the recognition of foreign tax credits.

NOTE 8. DERIVATIVES AND HEDGING ACTIVITIES

Universal is exposed to various risks in its worldwide operations and uses derivative financial instruments to manage two specific types of risks – interest rate risk and foreign currency exchange rate risk. Interest rate risk has been managed by entering into interest rate swap agreements, and foreign currency exchange rate risk has been managed by entering into forward foreign currency exchange contracts. However, the Company’s policy also permits other instruments. In addition, management works to manage foreign currency exchange rate risk by minimizing net monetary positions in non-functional currencies, which may include using local borrowings. The disclosures below provide additional information about the Company’s hedging strategies, the derivative instruments used, and the effects of these activities on the consolidated statements of income and the consolidated balance sheets. In the consolidated statements of cash flows, the cash flows associated with all of these activities are reported in net cash provided (used) by operating activities.

Fair Value Hedging Strategy for Interest Rate Risk

The Company has entered into interest rate swap agreements to manage its exposure to interest rate risk, with a strategy of maintaining a level of floating rate debt that approximates the interest rate exposure on its committed inventories. The strategy is implemented by borrowing at floating interest rates and converting a portion of the Company’s fixed-rate debt to floating rates. The interest rate swap agreements allow the Company to receive amounts equal to the fixed interest payments it is obligated to make on the underlying debt instruments in exchange for making floating-rate interest payments that are adjusted semi-annually based on changes in the benchmark interest rate.

The Company’s interest rate swap agreements are designated and qualify as hedges of the exposure to changes in the fair value of the underlying debt instruments created by fluctuations in prevailing market interest rates. In all cases, the critical terms of each interest rate swap agreement match the terms of the underlying debt instrument, and there is no hedge ineffectiveness. The total notional amount of the Company’s receive-fixed/pay-floating interest rate swaps was \$245 million at June 30, 2011, March 31, 2011, and June 30, 2010.

Cash Flow Hedging Strategy for Foreign Currency Exchange Rate Risk Related to Forecast Purchases of Tobacco and Related Processing Costs

The majority of the tobacco production in most countries outside the United States where Universal operates is sold in export markets at prices denominated in U.S. dollars. However, purchases of tobacco from farmers and most processing costs (such as labor and energy) in those countries are usually denominated in the local currency. Changes in exchange rates between the U.S. dollar and the local currencies where tobacco is grown and processed affect the ultimate U.S. dollar cost of the processed tobacco and therefore can adversely impact the gross profit earned on the sale of that tobacco. Since the Company is able to reasonably forecast the volume, timing, and local currency cost of its tobacco purchases and processing costs, it has routinely entered into forward contracts to sell U.S. dollars and buy the local currency at future dates that coincide with the expected timing of the portion of those purchases and costs on which customer sales and pricing have been agreed. By considering those pricing arrangements with key customers, this strategy substantially offsets the variability of future U.S. dollar cash flows for tobacco purchases and processing costs for the foreign currency notional amount hedged. The hedging strategy has been used mainly for tobacco purchases and processing costs in Brazil, where the large crops, the terms of sale to customers, and the availability of derivative markets make it particularly desirable to manage the related foreign exchange rate risk.

For the crops bought, processed, and sold in fiscal years 2011 and 2012, all contracts related to tobacco purchases in Brazil were designated and qualify as hedges of the future cash flows associated with the forecast purchases of tobacco. As a result, except for insignificant amounts related to any ineffective portion of the hedging strategy, changes in fair values of the forward contracts have been recognized in comprehensive income as they occurred, but

only recognized in earnings upon sale of the related tobacco to third-party customers. Forward contracts related to processing costs have not been designated as hedges, and gains and losses on those contracts have been recognized in earnings on a mark-to-market basis.

From March through June 2011, the Company hedged approximately \$184 million U.S. dollar notional amount related to 2010-2011 crop tobacco purchases in Brazil. Additional forward contracts totaling approximately \$49 million U.S. dollar notional amount were entered to mitigate currency exposure on processing costs related to that crop. Purchases of the 2010-2011 crop are expected to be completed in August 2011, and all forward contracts to hedge those purchases will mature and be settled by that time. For all hedge gains and losses recorded in accumulated other comprehensive loss at June 30, 2011, the Company expects to complete the sale of the tobacco and recognize the amounts in earnings in fiscal year 2012. At June 30, 2011, all hedged forecast purchases of tobacco not yet completed remained probable of occurring within the originally designated time periods and, as a result, no hedges had been discontinued. As noted above, changes in the fair values of forward contracts related to processing costs are recognized in earnings each quarter on a mark-to-market basis.

From March through July 2010, the Company hedged approximately \$109 million U.S. dollar notional amount related to 2009-2010 crop tobacco purchases in Brazil, and additional forward contracts totaling approximately \$58 million U.S. dollar notional amount were entered to mitigate currency exposure on processing costs related to that crop. Purchases of the 2009-2010 crop were completed in July 2010, and all forward contracts to hedge those purchases matured and were settled by that time. All hedge gains and losses recorded in accumulated other comprehensive loss were recognized in cost of goods sold with the sale of the tobacco during fiscal year 2011, and changes in the fair values of forward contracts related to processing costs were recognized in earnings on a mark-to-market basis each quarter.

Hedging Strategy for Foreign Currency Exchange Rate Risk Related to Net Local Currency Monetary Assets and Liabilities of Foreign Subsidiaries

Most of the Company's foreign subsidiaries transact the majority of their sales in U.S. dollars and finance the majority of their operating requirements with U.S. dollar borrowings, and therefore use the U.S. dollar as their functional currency. These subsidiaries normally have certain monetary assets and liabilities on their balance sheets that are denominated in the local currency. Those assets and liabilities can include cash and cash equivalents, accounts receivable and accounts payable, advances to farmers and suppliers, deferred income tax assets and liabilities, recoverable value-added taxes, and other items. Net monetary assets and liabilities denominated in the local currency are remeasured into U.S. dollars each reporting period, generating gains and losses that the Company records in earnings as a component of selling, general and administrative expenses. The level of net monetary assets or liabilities denominated in the local currency normally fluctuates throughout the year based on the operating cycle, but it is most common for monetary assets to exceed monetary liabilities, sometimes by a significant amount. When this situation exists and the local currency weakens against the U.S. dollar, remeasurement losses are generated. Conversely, remeasurement gains are generated on a net monetary asset position when the local currency strengthens against the U.S. dollar. Due to the size of its operations and the fact that it provides significant financing to farmers for crop production, the Company's subsidiary in Brazil has significant exposure to currency remeasurement gains and losses due to fluctuations in exchange rates at certain times of the year. To manage a portion of its exposure to currency remeasurement gains and losses in Brazil during fiscal year 2011, the Company entered into forward contracts to sell the Brazilian currency and buy U.S. dollars at future dates coinciding with expected changes in the overall net local currency monetary asset position of the subsidiary. Gains and losses on the forward contracts were recorded in earnings as a component of selling, general, and administrative expenses for each reporting period as they occurred, and thus directly offset the related remeasurement losses or gains in the consolidated statements of income for the notional amount hedged. Accordingly, the Company did not designate these contracts as hedges for accounting purposes. The notional amount of these contracts totaled approximately \$60 million in U.S. dollars. All of the contracts were entered and settled during the quarter ended June 30, 2010. No contracts have been entered for this purpose in fiscal year 2012. To further mitigate currency remeasurement exposure, some of the Company's foreign subsidiaries have obtained short-term local currency financing during certain periods. This strategy, while not involving the use of derivative instruments, is intended to minimize the subsidiary's net monetary position by financing a portion of the local currency monetary assets with local currency monetary liabilities and thus hedging a portion of the overall position.

The Company has several foreign subsidiaries that transact the majority of their sales and finance the majority of their operating requirements in their local currency, and therefore use their respective local currencies as the functional currency for reporting purposes. From time to time, these subsidiaries sell tobacco to customers in transactions that are not denominated in the functional currency. In those situations, the subsidiaries routinely enter into forward exchange contracts to offset currency risk for the period of time that a fixed-price order and the related trade account receivable are outstanding with the customer. The contracts are not designated as hedges for accounting purposes.

Effect of Derivative Financial Instruments on the Consolidated Statements of Income

The table below outlines the effects of the Company's use of derivative financial instruments on the consolidated statements of income for the quarters ended June 30, 2011 and 2010.

(in thousands of dollars)	Three Months Ended June 30,	
	2011	2010
Fair Value Hedges - Interest Rate Swap Agreements		
Derivative		
Gain (loss) recognized in earnings	\$ 1,419	\$ 3,782
Location of gain (loss) recognized in earnings	Interest expense	
Hedged Item		
Description of hedged item	Fixed rate long-term debt	
Gain (loss) recognized in earnings	\$ (1,419)	\$ (3,782)
Location of gain (loss) recognized in earnings	Interest expense	
Cash Flow Hedges - Forward Foreign Currency Exchange Contracts		
Derivative		
Effective Portion of Hedge		
Gain (loss) recorded in accumulated other comprehensive loss	\$ 3,447	\$ (371)
Gain (loss) reclassified from accumulated other comprehensive loss into earnings	\$ 438	\$ (43)
Location of gain (loss) reclassified from accumulated other comprehensive loss into earnings	Cost of goods sold	
Ineffective Portion and Early De-designation of Hedges		
Gain (loss) recognized in earnings	\$ 796	\$ 99
Location of gain (loss) recognized in earnings	Selling, general and administrative expenses	
Hedged Item		
Description of hedged item	Forecast purchases of tobacco in Brazil	
Derivatives Not Designated as Hedges - Forward Foreign Currency Exchange Contracts		
Contracts related to forecast processing costs and forecast purchases of tobacco, primarily in Brazil		
Gain (loss) recognized in earnings	\$ 1,585	\$ 187
Location of gain (loss) recognized in earnings	Selling, general and administrative expenses	
Contracts related to net local currency monetary assets and liabilities of subsidiary in Brazil		
Gain (loss) recognized in earnings	\$ —	\$ 661
Location of gain (loss) recognized in earnings	Selling, general and administrative expenses	

Contracts related to fixed-price orders and accounts receivable of non-U.S. dollar subsidiaries

Gain (loss) recognized in earnings	\$ 452	\$ (744)
Location of gain (loss) recognized in earnings		Selling, general and administrative expenses
Total gain (loss) recognized in earnings for forward foreign currency exchange contracts not designated as hedges	\$ 2,037	\$ 104

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For the interest rate swap agreements designated as fair value hedges, since the hedges have no ineffectiveness, the gain or loss recognized in earnings on the derivative is offset by a corresponding loss or gain on the underlying hedged debt.

For the forward foreign currency exchange contracts designated as cash flow hedges of tobacco purchases in Brazil, a net hedge gain of approximately \$5.4 million remained in accumulated other comprehensive loss at June 30, 2011. That balance reflects net gains on open and settled contracts, less the amount reclassified to earnings related to tobacco sold through June 30, 2011. The balance in accumulated other comprehensive loss will be recognized in earnings as a component of cost of goods sold during fiscal year 2012 as the remaining 2010-2011 Brazilian crop tobacco is sold to customers. Based on the hedging strategy, as the gain or loss is recognized in earnings, it is expected to be offset by a change in the direct cost for the tobacco or by a change in sales prices if the strategy has been mandated by the customer. Generally, margins on the sale of the tobacco will not be significantly affected.

Effect of Derivative Financial Instruments on the Consolidated Balance Sheets

The table below outlines the effects of the Company's derivative financial instruments on the consolidated balance sheets at June 30, 2011 and 2010, and March 31, 2011:

(in thousands of dollars)	Derivatives in a Fair Value Asset Position			Derivatives in a Fair Value Liability Position			
	Balance Sheet Location	Fair Value as of June 30, 2011	Fair Value as of June 30, 2010	Balance Sheet Location	Fair Value as of June 30, 2011	Fair Value as of June 30, 2010	Fair Value as of March 31, 2011
Derivatives Designated as Hedging Instruments							
Interest rate swap agreements	Other non-current assets	\$ 11,612	\$ 13,547	Long-term obligations	\$ —	\$ —	\$ —
Forward foreign currency exchange contracts	Other current assets	758	157	Accounts payable and accrued expenses	—	5	—
Total		\$ 12,370	\$ 13,704		\$ —	\$ 5	\$ —
Derivatives Not Designated as Hedging Instruments							
Forward foreign currency exchange contracts	Other current assets	\$ 1,185	\$ 918	Accounts payable and accrued expenses	\$ 103	\$ 443	\$ 243
Total		\$ 1,185	\$ 918		\$ 103	\$ 443	\$ 243

NOTE 9. FAIR VALUE MEASUREMENTS

Universal measures certain financial and nonfinancial assets and liabilities at fair value based on applicable accounting guidance. The financial assets and liabilities measured at fair value include money market funds, trading securities associated with deferred compensation plans, interest rate swap agreements, forward foreign currency exchange contracts, and guarantees of bank loans to tobacco growers. The application of the fair value guidance to nonfinancial assets and liabilities primarily includes assessments of goodwill and long-lived assets for potential impairment.

Under the accounting guidance, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework for measuring fair value under the guidance is based on a fair value hierarchy that distinguishes between observable inputs (i.e., inputs that are based on market data obtained from independent sources) and unobservable inputs (i.e., inputs that require the Company to make its own assumptions about market participant assumptions because little or no market data exists). There are three levels within the fair value hierarchy:

Level	Description
1	quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date;
2	quoted prices in active markets for similar assets or liabilities, or quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability; and
3	unobservable inputs for the asset or liability.

In measuring the fair value of liabilities, the Company considers the risk of non-performance in determining fair value.

At June 30, 2011, the Company had certain financial assets and financial liabilities that were required to be measured and reported at fair value on a recurring basis. These assets and liabilities are listed in the table below and classified based on how their values were determined under the fair value hierarchy:

(in thousands of dollars)	June 30, 2011			Total
	Level 1	Level 2	Level 3	
Assets:				
Money market funds	\$7,300	\$—	\$—	\$7,300
Trading securities associated with deferred compensation plans	20,773	—	—	20,773
Interest rate swaps	—	11,612	—	11,612
Forward foreign currency exchange contracts.	—	1,943	—	1,943
Total assets	\$28,073	\$13,555	\$—	\$41,628
Liabilities:				
Guarantees of bank loans to tobacco growers	\$—	\$—	\$13,414	\$13,414
Forward foreign currency exchange contracts.	—	103	—	103
Total liabilities.	\$—	\$103	\$13,414	\$13,517

Money market funds

The fair values of money market funds, which are reported in cash and cash equivalents in the consolidated balance sheets, are based on quoted market prices (Level 1). The fair values of the Company's money market funds approximate cost due to the short-term maturities and high credit quality of the issuers of the underlying securities.

Trading securities associated with deferred compensation plans

Trading securities represent mutual fund investments that are matched to employee deferred compensation obligations. These investments are bought and sold as employees defer compensation, receive distributions, or make changes in the funds underlying their accounts. Quoted market prices (Level 1) are used to determine the fair values of the mutual funds and their underlying securities.

Interest rate swaps

The fair values of interest rate swap contracts are determined based on dealer quotes using a discounted cash flow model matched to the contractual terms of each instrument. Since inputs to the model are observable and significant judgment is not required in determining the fair values, interest rate swaps are classified within Level 2 of the fair value hierarchy.

Forward foreign currency exchange contracts

The fair values of forward foreign currency exchange contracts are also determined based on dealer quotes using a discounted cash flow model matched to the contractual terms of each instrument. Since inputs to the model are observable and significant judgment is not required in determining the fair values, forward foreign currency exchange contracts are classified within Level 2 of the fair value hierarchy.

Guarantees of bank loans to tobacco growers

The fair values of the Company's guarantees of bank loans to tobacco growers are determined by using internally-tracked historical loss data for such loans to develop an estimate of future losses under the guarantees outstanding at the measurement date. The present value of the cash flows associated with those estimated losses is then calculated at a risk-adjusted interest rate. This approach is sometimes referred to as the "contingent claims valuation method." Although historical loss data is an observable input, significant judgment is required in applying this information to the portfolio of guaranteed loans outstanding at each measurement date and in selecting a risk-adjusted interest rate. The guarantees of bank loans to tobacco growers are therefore classified within Level 3 of the fair value hierarchy.

A reconciliation of the change in the balance of the financial liability for guarantees of bank loans to tobacco growers (Level 3) for the three months ended June 30, 2011, is as follows:

(in thousands of dollars)	Three Months Ended June 30, 2011
Balance at beginning of year	\$ 20,699
Transfer to allowance for loss on direct loans to farmers (removal of prior crop year loans from portfolio and addition of current crop year loans)	(8,085)
Change in discount rate and estimated collection period	280
Currency remeasurement.	520
Balance at end of period	\$ 13,414

The effects of currency remeasurement and the change in discount rate and estimated collection period are recorded in earnings and reported in selling, general, and administrative expense.

Universal has not elected to report at fair value any financial instruments or other items not otherwise required to be reported at fair value under current accounting guidance.

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 were as follows:

(in thousands of dollars)	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2011	2010	2011	2010
Service cost	\$ 1,290	\$ 1,240	\$ 189	\$ 204
Interest cost	3,451	3,547	578	624
Expected return on plan assets	(3,709)	(3,696)	(34)	(36)
Net amortization and deferral	1,342	996	(58)	(78)
Net periodic benefit cost	\$ 2,374	\$ 2,087	\$ 675	\$ 714

During the quarter ended June 30, 2011, the Company made contributions of approximately \$2.1 million to its qualified and non-qualified pension plans. Additional contributions of approximately \$7.2 million are expected during the remaining nine months of fiscal year 2012.

NOTE 11. STOCK-BASED COMPENSATION

Universal's shareholders have approved Executive Stock Plans ("Plans") under which officers, directors, and employees of the Company may receive grants and awards of common stock, restricted stock, restricted stock units ("RSUs"), performance share awards ("PSAs"), 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 (the "Compensation Committee") in the fiscal year following the public release of the Company's financial results for the prior year. The Compensation Committee administers the Company's Plans consistently following previously defined guidelines. Awards of restricted stock, RSUs, PSAs, 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 closing price of a share of the Company's 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 PSAs vest three years from the grant date, are paid out in shares of common stock at the vesting date, and do not carry rights to dividends or dividend equivalents prior to vesting. Shares ultimately paid out under PSA grants are dependent on the achievement of predetermined performance measures established by the Compensation Committee and can range from zero to 150% of the stated award. The Company's outside directors automatically receive restricted stock units or shares of restricted stock following each annual meeting of shareholders. RSUs awarded to outside directors vest three years after the grant date, and restricted shares vest upon the individual's retirement from service as a director.

During the three-month periods ended June 30, 2011 and 2010, Universal issued the following stock-based awards, representing the regular annual grants to officers of the Company:

	Three Months Ended June 30,	
	2011	2010
SARs:		
Number granted	170,400	153,600
Exercise price	\$37.86	\$39.71
Grant date fair value	\$7.46	\$8.35
RSUs:		
Number granted	57,100	38,400
Grant date fair value	\$37.86	\$39.71
PSAs:		
Number granted	42,600	38,400
Grant date fair value	\$31.95	\$33.95

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

	2011		2010	
Expected term	5.0 years		5.0 years	
Expected volatility	35.8	%	35.3	%
Expected dividend yield	5.07	%	4.73	%
Risk-free interest rate	1.66	%	2.36	%

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 employees who are already eligible to retire at the date an award is granted, the total fair value of all non-forfeitable awards is recognized as expense at the date of grant. As a result, Universal typically incurs higher stock compensation expense in the first quarter of each fiscal year when grants are awarded than in the other three quarters. For PSAs, the Company generally recognizes fair value expense ratably over the performance and vesting period based on management's judgment of the ultimate award that is likely to be paid out based on the achievement of the predetermined performance measures. For the three-month periods ended June 30, 2011 and 2010, the Company recorded total stock-based compensation expense of approximately \$2.5 million and \$2.0 million, respectively. The Company expects to recognize stock-based compensation expense of approximately \$3.8 million during the remaining nine months of fiscal year 2012.

NOTE 12. 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 June 30,	
	2011	2010
SALES AND OTHER OPERATING REVENUES		
Flue-cured and burley leaf tobacco operations:		
North America	\$58,629	\$63,167
Other regions (1)	358,650	401,819
Subtotal	417,279	464,986
Other tobacco operations (2)	62,186	73,930
Consolidated sales and other operating revenues	\$479,465	\$538,916
OPERATING INCOME		
Flue-cured and burley leaf tobacco operations:		
North America	\$5,577	\$3,692
Other regions (1)	20,909	32,327
Subtotal	26,486	36,019
Other tobacco operations (2)	2,805	6,413
Segment operating income	29,291	42,432
Deduct: Equity in pretax (earnings) loss of unconsolidated affiliates (3)	3,489	(378)
Restructuring costs (4)	(6,859)	(949)
Add: Other income	9,592	—
Consolidated operating income	\$35,513	\$41,105

(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.

NOTE 13. CHANGES IN SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS IN SUBSIDIARIES

A reconciliation of the changes in Universal Corporation shareholders' equity and noncontrolling interests in subsidiaries for the three months ended June 30, 2011 and 2010 is as follows:

(in thousands of dollars)	Three Months Ended June 30, 2011			Three Months Ended June 30, 2010		
	Universal Corporation	Noncontrolling Interests	Total	Universal Corporation	Noncontrolling Interests	Total
Balance at beginning of year	\$ 1,185,606	\$ 13,799	\$ 1,199,405	\$ 1,122,570	\$ 5,805	\$ 1,128,375
Changes in common stock						
Issuance of common stock	124	—	124	—	—	—
Repurchase of common stock	(661)	—	(661)	(1,578)	—	(1,578)
Accrual of stock-based compensation	2,536	—	2,536	2,002	—	2,002
Withholding of shares for grantee income taxes (SARs, RSUs, and PSAs)	(1,135)	—	(1,135)	(562)	—	(562)
Dividend equivalents on RSUs	118	—	118	97	—	97
Changes in retained earnings						
Net income (loss)	15,888	1,434	17,322	25,320	(902)	24,418
Cash dividends declared						
Series B 6.75% convertible perpetual preferred stock	(3,712)	—	(3,712)	(3,712)	—	(3,712)
Common stock	(11,189)	—	(11,189)	(11,347)	—	(11,347)
Repurchase of common stock	(2,827)	—	(2,827)	(8,605)	—	(8,605)
Dividend equivalents on RSUs	(118)	—	(118)	(97)	—	(97)
Other comprehensive income (loss)						
Translation adjustments, net of income taxes	2,568	(4)	2,564	(11,377)	—	(11,377)