UNIVERSAL CORP /VA/
Form 10-Q
February 08, 2011

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, 2010

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 x 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 x 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 x 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 o No x

As of February 1, 2011, the total number of shares of common stock outstanding was 23,455,653.

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, 2010	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009
	(Unaudited)		(Unaudited)	
Sales and other operating revenues	$ 688,208	$ 661,205	$ 1,891,312	$ 1,925,235
Costs and expenses				
Cost of goods sold	534,164	516,541	1,501,757	1,493,864
Selling, general and administrative expenses	74,826	75,719	186,658	216,789
Other income	(19,368)	—	(19,368)	—
Restructuring and impairment costs	10,995	—	13,964	—
Operating income	87,591	68,945	208,301	214,582
Equity in pretax earnings (loss) of unconsolidated affiliates	(1,439)	7,783	953	17,029
Interest income	754	130	2,614	926
Interest expense	6,257	5,438	17,245	20,287
Income before income taxes and other items	80,649	71,420	194,623	212,250
Income taxes	23,064	22,946	58,837	65,300
Net income	57,585	48,474	135,786	146,950
Less: net (income) loss attributable to noncontrolling interests in subsidiaries	(5,287)	(2,778)	(6,337)	(4,994)
Net income attributable to Universal Corporation	52,298	45,696	129,449	141,956
Dividends on Universal Corporation convertible perpetual preferred stock	(3,712)	(3,712)	(11,137)	(11,137)
Earnings available to Universal Corporation common shareholders	$ 48,586	$ 41,984	$ 118,312	$ 130,819
Earnings per share attributable to Universal Corporation common shareholders:				
Basic	$ 2.05	$ 1.70	$ 4.93	$ 5.27
Diluted	$ 1.82	$ 1.54	$ 4.46	$ 4.78
Retained earnings - beginning of year			$ 767,213	$ 686,960
Net income attributable to Universal Corporation			129,449	141,956
Cash dividends declared:				
Series B 6.75% Convertible Perpetual Preferred Stock			(11,137)	(11,137)
Common stock (2010 - $1.41 per share; 2009 - $1.38 per share)			(33,891)	(34,384)
Dividend equivalents on restricted stock units			(316)	(286)
Repurchase of common stock - cost in excess of stated capital amount			(27,074)	(13,006)
Retained earnings - end of period			$ 824,244	$ 770,103

See accompanying notes.

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

	December 31, 2010 (Unaudited)	December 31, 2009 (Unaudited)	March 31, 2010
ASSETS			
Current			
Cash and cash equivalents	$ 91,427	$ 164,170	$ 245,953
Accounts receivable, net	292,490	255,847	266,960
Advances to suppliers, net	132,815	134,209	167,400
Accounts receivable - unconsolidated affiliates	35,978	26,550	11,670
Inventories - at lower of cost or market:			
Tobacco	940,168	770,708	812,186
Other	50,551	50,716	52,952
Prepaid income taxes	8,633	14,632	13,514
Deferred income taxes	43,669	48,711	47,074
Other current assets	65,784	64,234	75,367
Total current assets	1,661,515	1,529,777	1,693,076
Land	15,490	16,147	16,036
Buildings	265,390	259,912	266,350
Machinery and equipment	552,575	535,278	532,824
	833,455	811,337	815,210
Less accumulated depreciation	(512,413)	(483,349)	(485,723)
	321,042	327,988	329,487
Other assets			
Goodwill and other intangibles	99,602	106,000	105,561
Investments in unconsolidated affiliates	103,821	124,503	106,336
Deferred income taxes	36,373	13,961	30,073
Other noncurrent assets	96,493	122,057	106,507
	336,289	366,521	348,477
Total assets	$ 2,318,846	$ 2,224,286	$ 2,371,040

See accompanying notes.

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

	December 31, 2010 (Unaudited)	December 31, 2009 (Unaudited)	March 31, 2010
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Notes payable and overdrafts	$ 204,769	$ 151,252	$ 177,013
Accounts payable and accrued expenses	180,054	196,126	259,576
Accounts payable - unconsolidated affiliates	15,355	17,398	6,464
Customer advances and deposits	87,934	38,032	107,858
Accrued compensation	19,029	25,143	30,097
Income taxes payable	11,901	11,753	18,991
Current portion of long-term obligations	95,000	15,000	15,000
Total current liabilities	614,042	454,704	614,999
Long-term obligations	322,486	414,222	414,764
Pensions and other postretirement benefits	100,719	90,662	96,888
Other long-term liabilities	47,661	71,607	69,886
Deferred income taxes	44,963	41,608	46,128
Total liabilities	1,129,871	1,072,803	1,242,665
Shareholders' equity			
Universal Corporation:			
Preferred stock:			
Series A Junior Participating Preferred Stock, no par value, 5,000,000 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 December 31, 2009, and March 31, 2010)	213,023	213,023	213,023
Common stock, no par value, 100,000,000 shares authorized, 23,569,443 shares issued and outstanding (24,617,987 at December 31, 2009, and 24,325,228 at March 31, 2010)	193,263	195,679	195,001
Retained earnings	824,244	770,103	767,213
Accumulated other comprehensive loss	(53,670)	(36,084)	(52,667)
Total Universal Corporation shareholders' equity	1,176,860	1,142,721	1,122,570
Noncontrolling interests in subsidiaries	12,115	8,762	5,805
Total shareholders' equity	1,188,975	1,151,483	1,128,375
Total liabilities and shareholders' equity	$ 2,318,846	$ 2,224,286	$ 2,371,040

See accompanying notes.

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

	Nine Months Ended December 31, 2010	2009
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 135,786	$ 146,950
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	32,474	30,888
Amortization	1,220	1,791
Provisions for losses on advances and guaranteed loans to suppliers	19,554	19,148
Foreign currency remeasurement loss (gain), net	(1,368)	7,219
Gain on assignment of farmer contracts and sale of related assets	(19,368)	—
Restructuring and impairment costs	13,964	—
Other, net	(9,366)	(2,841)
Changes in operating assets and liabilities, net	(262,251)	(148,345)
Net cash provided (used) by operating activities	(89,355)	54,810
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(31,801)	(42,923)
Proceeds from assignment of farmer contracts and sale of related assets	34,946	—
Proceeds from sale of property, plant and equipment, and other	2,512	3,356
Net cash provided (used) by investing activities	5,657	(39,567)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance (repayment) of short-term debt, net	22,510	(23,935)
Issuance of long-term obligations	—	99,208
Repayment of long-term obligations	(15,000)	(79,500)
Dividends paid to noncontrolling interests	(100)	(105)
Issuance of common stock	—	205
Repurchase of common stock	(33,450)	(15,342)
Dividends paid on convertible perpetual preferred stock	(11,137)	(11,137)
Dividends paid on common stock	(34,011)	(34,315)
Other	—	(943)
Net cash used by financing activities	(71,188)	(65,864)
Effect of exchange rate changes on cash	360	2,165
Net decrease in cash and cash equivalents	(154,526)	(48,456)
Cash and cash equivalents at beginning of year	245,953	212,626
Cash and cash equivalents at end of period	$ 91,427	$ 164,170

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 world's leading 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, 2010.

NOTE 2. ACCOUNTING PRONOUNCEMENTS

Recent Pronouncements Adopted Through December 31, 2010

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162" ("SFAS 168"). This Statement established the newly-developed FASB Accounting Standards Codification ("Codification") as the single source of authoritative U.S. generally accepted accounting principles ("GAAP") for all nongovernmental entities. All guidance in the Codification carries the same level of authority, and all changes or additions to GAAP are now issued as Accounting Standards Updates ("ASU's"). In addition to the Codification, rules and interpretive releases of the U.S. Securities and Exchange Commission ("SEC") under federal securities laws remain sources of authoritative GAAP for SEC registrants. Universal was required to adopt SFAS 168 effective September 30, 2009. SFAS 168 did not make any changes to existing accounting guidance that impacted the Company's accounting and financial reporting.

Through December 31, 2010, Universal adopted the following recent accounting pronouncements:

- FASB Accounting Standards Update 2010-06, "Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"), which was issued by the FASB in January 2010 and is effective for interim and annual financial statements for fiscal years beginning after December 15, 2009. ASU 2010-06 expands and clarifies the disclosure requirements related to fair value measurements. It requires companies to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 of the fair value hierarchy and describe the reasons for the transfers. In addition, information about purchases, sales, issuances, and settlements on a gross basis is required in the reconciliation of Level 3 fair-value measurements. ASU 2010-06 also clarifies existing fair value measurement disclosure guidance related to level of disaggregation, fair value inputs, and valuation techniques. Universal was required to apply most provisions of the new guidance effective April 1, 2010, the beginning of the current fiscal year. The adoption of ASU 2010-06 did not have a material effect on the Company's financial statements.

- FASB Staff Position No. 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" ("FSP 132(R)-1"), adopted effective March 31, 2010. This pronouncement, which is now a part of Topic 715 of the Codification, requires expanded disclosures about plan assets of defined benefit pension or other postretirement benefit plans. The new disclosures include information about investment allocation decisions, categories of plan assets, the inputs and valuation techniques used to measure the fair value of those assets, and significant concentrations of credit risk. The disclosures required by FSP 132(R)-1 were included in the Company's annual financial statements at March 31, 2010, and did not have a material effect on those financial statements.

Pronouncements to be Adopted in Future Periods

In addition to the above accounting pronouncements adopted through December 31, 2010, the following pronouncement has been issued and will become effective in fiscal year 2012:

- FASB Accounting Standards Update 2009-13, "Multiple-Deliverable Revenue Arrangements" ("ASU 2009-13"), which was issued by the FASB in October 2009. 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 the methods and assumptions used to evaluate multiple-deliverable arrangements and to identify the significant deliverables within those arrangements. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which means that Universal will be required to adopt the guidance effective April 1, 2011, the beginning of its fiscal year 2012. The Company is evaluating the potential impact of ASU 2009-13, but does not currently expect that it will have a material effect 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 December 31, 2010, the Company's total exposure under guarantees issued by its operating subsidiary in Brazil for banking facilities of farmers in that country was approximately $77 million ($97 million face amount including unpaid accrued interest, less $20 million recorded for the fair value of the guarantees). About 94% 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 December 31, 2010, was the face amount, $97 million including unpaid accrued interest ($155 million as of December 31, 2009, and $112 million at March 31, 2010). The fair value of the guarantees was a liability of approximately $20 million at December 31, 2010 ($26 million at December 31, 2009, and $26 million at March 31, 2010). In addition to these guarantees, the Company has other contingent liabilities totaling approximately $51 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 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 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. Deltafina filed an appeal to the General Court decision with the European Court of Justice on November 18, 2010. Although Deltafina agreed with the General Court that there was no basis for finding that Deltafina had acted as the leader of the Spanish cartel, Deltafina believed the General Court erred in not reducing the remaining fine further based on numerous grounds. A hearing has not been set and an ultimate resolution to the matter could take several years. The Company had deposited funds in an escrow account with the Commission in February 2005 in an amount equal to the original fine. The Company received funds from escrow in an amount equal to the reduction by the General Court plus interest that had accrued thereon. As a result of the General Court's decision in September 2010, during the quarter ended September 30, 2010, 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. The reversal of the fine is included in selling, general and administrative expense in the consolidated statement of income.