UNIVERSAL CORP /VA/
Form 10-K
May 26, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED MARCH 31, 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)

Registrant's telephone number, including area code: 804-359-9311

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act.
Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates, based upon the closing sales price on the New York Stock Exchange of the registrant's common stock on September 30, 2010, the last day of the registrant's most recently completed second fiscal quarter, was approximately $825 million.

As of May 23, 2011, the total number of shares of common stock outstanding was 23,160,312.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the 2011 Proxy Statement for the Annual Meeting of Shareholders of the registrant is incorporated by reference into Part III hereof.

UNIVERSAL CORPORATION

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General

This Annual Report on Form 10-K, which we refer to herein as our Annual Report, contains “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, as amended (the “Exchange Act”). Among other things, these statements relate to Universal Corporation’s financial condition, results of operations and future business plans, operations, opportunities, and prospects. In addition, Universal Corporation 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 (the “SEC”) 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,” a 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, but are not limited to: anticipated levels of demand for and supply of our products and services; costs incurred in providing these products and services; timing of shipments to customers; changes in market structure; government regulation; product taxation; industry consolidation and evolution; changes in exchange rates; and general economic, political, market, and weather conditions. For a description of factors that may cause actual results to differ materially from such forward-looking statements, see Item 1A, “Risk Factors.” 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. In addition, the discussion of the impact of current trends on our business in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Other Information Regarding Trends and Management’s Actions” in Item 7 should be read carefully in connection with evaluating our business and the forward-looking statements contained in this Annual Report.

This Annual Report uses the terms “Universal,” “the Company,” “we,” “us,” and “our” to refer to Universal Corporation and it subsidiaries when it is not necessary to distinguish among Universal Corporation and its various operating subsidiaries or when any distinction is clear from the context in which it is used.

PART I

Item 1. Business

A. The Company

Overview

We are the leading global leaf tobacco merchant and processor. We operate in over 30 countries on five continents. Tobacco has been our principal focus since our founding in 1918. The largest portion of our business involves the procurement, processing, packing, and supply of flue-cured and burley leaf tobacco to manufacturers of consumer tobacco products. The reportable segments for our flue-cured and burley tobacco operations are North America and Other Regions. We also have a third reportable segment, Other Tobacco Operations, which comprises our dark tobacco business, our oriental tobacco joint venture, and certain tobacco-related services. We generated approximately $2.6 billion in consolidated revenues and earned approximately $258 million in total segment operating income in fiscal year 2011. Universal Corporation is a holding company that operates through numerous directly and indirectly owned subsidiaries. Universal Corporation’s primary subsidiary is Universal Leaf Tobacco Company, Incorporated. See Exhibit 21, “Subsidiaries of the Registrant,” for additional subsidiary information.

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Key Operating Principles

We believe that by following several key operating principles we can continue to produce good financial returns from our business and enhance shareholder value. These key operating principles are:

- Strategic collaboration. We work closely with both our customers and suppliers to ensure that we deliver a product that meets our customers' needs and to promote a strong supplier base. We believe these relationships are particularly appropriate to the leaf tobacco industry where volume at an appropriate price is a key factor in long-term profitability. We work to secure adequate factory volumes in all markets where we operate, but we balance that objective with the cost of sourcing incremental volumes in markets where we provide financing to farmers. Collaboration supports the optimization of our inventory levels to reduce risk during market downturns by enabling us to target our tobacco production contracts against customer purchase indications. Our challenge is to adapt our business model to meet our customers' evolving needs while continuing to provide stability of supply and the high level of service that distinguishes our product.

- Strong local management. We operate with strong local management in major leaf tobacco markets. We believe that having strong local management in each origin helps us better identify and adjust to changes in market conditions and provides us with specific market knowledge quickly. We believe this is a key factor in our ability to continue to deliver the high quality, competitively priced products that our customers expect.

- Diversified sources. We strive to maintain diversified sources of leaf tobacco to minimize reliance on any one sourcing area so long as customers are willing to support such diversity. Although proportions vary with relative crop sizes, historically, South America has provided between 25% and 35% of the aggregate volume of flue-cured and burley tobacco that we handle, and North America and Africa each have provided between 20% and 30% of that aggregate volume. However, industry changes, in particular lower processing volumes in the United States, may affect the relative quantities that we handle. These changes are discussed in more detail in Item 7 under "Other Information Regarding Trends and Management Actions."

- Low-cost quality producer. Our goal is to be the low-cost producer of quality products and services for our customers. We focus on producing a compliant product in a cost-effective manner. We sponsor farmer programs in good agricultural practices, the reduction of non-tobacco related materials, product traceability, environmental sustainability, and social responsibility, among others.

- Financial strength. We believe that our financial strength is important, because it enables us to fund our business efficiently and make investments in our business when an appropriate opportunity is identified. We believe that lower interest and capital costs give us a competitive advantage. Our financial strength also affords us financial flexibility in dealing with customer requirements and market changes. We work to sustain our creditworthiness.

Additional Information

Our website address is www.universalcorp.com. We post regulatory filings on this website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. These filings include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 reports on Forms 3, 4, and 5, and any amendments to those reports filed with or furnished to the SEC. Access to these filings on our website is available free of charge. Copies are also available, without charge, from Universal Corporation Investor Relations, 9201 Forest Hill Avenue, Richmond, VA, 23235. Reports filed with the SEC may be viewed at www.sec.gov or obtained at the SEC Public Reference Room in Washington, D.C. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. We also post our press releases on our website. Information on our website is not deemed to be incorporated by reference into this Annual Report.

In addition, our Corporate Governance Guidelines, Code of Conduct, and charters for the Audit Committee, the Executive Committee, the Executive Compensation, Nominating and Corporate Governance Committee, the Pension Investment Committee, and the Finance Committee are available free of charge to shareholders and the public through the "Corporate Governance" section of our website. Printed copies of the foregoing are available to any shareholder upon written request to our Treasurer at the address set forth on the cover of this Annual Report or may be requested through our website, www.universalcorp.com.

B. Description of Business

General

Our business involves buying, processing, packing, storing, shipping, and financing leaf tobacco for sale to, or for the account of, manufacturers of consumer tobacco products throughout the world. Buying leaf tobacco involves contracting with and financing farmers in many origins. We do not manufacture cigarettes or other consumer tobacco products. Through various operating subsidiaries and unconsolidated affiliates located in tobacco-growing countries around the world, we process and sell flue-cured and burley tobaccos, as well as dark air-cured and oriental tobaccos. We also provide value-added services to our customers, including blending, chemical and physical testing of tobacco, managing just-in-time inventory, and manufacturing reconstituted sheet tobacco. Flue-cured, burley, and oriental tobaccos are used principally in the manufacture of cigarettes, and dark air-cured tobaccos are used mainly in the manufacture of cigars, pipe tobacco, and smokeless tobacco products. We generate our revenues from product sales, processing fees, and fees for other services. Over 75% of our volume is derived from sales to customers with major market positions and with whom we have long-standing relationships. Our sales consist primarily of flue-cured and burley tobaccos. For the fiscal year ended March 31, 2011, our flue-cured and burley operations accounted for 89% of our revenues and 89% of our segment operating income.

Because unprocessed, or "green," tobacco is a perishable product, processing of leaf tobacco is an essential service to our customers. Our processing of leaf tobacco includes grading in the factories, blending, quality picking, separation of leaf from the stems, drying, and packing to precise moisture targets for proper aging. Accomplishing these tasks generally requires investments in plants and machinery in areas where the tobacco is grown. Processed tobacco that has been properly packed can be stored by customers for a number of years prior to use, but most processed tobacco is used within two to three years.

We are a major purchaser and processor in the chief exporting regions for flue-cured and burley tobacco throughout the world. We estimate that we have historically purchased between 20% and 30% of the annual production of such tobaccos in Brazil and between 35% and 45% in Africa. These percentages can change from year to year based on the size, price, and quality of the crops, and recent customer vertical integration moves could also affect them. In the United States, we sell processed U.S. tobacco to cigarette manufacturers, and we process U.S. flue-cured and burley tobacco on a fee basis. We have a major processing facility in the United States, which handled about 45% of U.S. flue-cured and burley tobacco production in fiscal year 2011. We expect our relative volumes handled in the United States to be lower in the coming fiscal year. These changes are described elsewhere in Item 7 under "Other Information Regarding Trends and Management Actions." We participate in the procurement, processing, and sale of oriental tobacco through ownership of a 49% equity interest in what we believe to be the largest oriental leaf tobacco merchant in the world, Socotab, L.L.C. In addition, we maintain a presence, and in certain cases, a leading presence, in virtually all other major tobacco growing regions in the world. We believe that our leading position in the leaf tobacco industry is based on our operating presence in all of the major sourcing areas, our ability to meet customer style, volume, and quality requirements, our expertise in dealing with large numbers of farmers, our long-standing relationships with customers, our development of processing equipment and technologies, and our financial position.

We also have a leading position in worldwide dark tobacco markets. Our dark tobacco operations are located in most of the major producing countries and in other smaller markets. We operate in major dark tobacco producing countries, including the United States, the Dominican Republic, Indonesia, Paraguay, the Philippines, Nicaragua, and Brazil. Dark tobaccos are typically used in the manufacture of cigars, pipe tobacco, and smokeless tobacco products, and as components of certain "roll-your-own" cigarette products.

Sales are made by our sales force and, to a much smaller degree, through the use of commissioned agents. Most customers are long-established tobacco product manufacturers.

We conduct our business in varying degrees in a number of countries, including Argentina, Bangladesh, Brazil, Canada, the Dominican Republic, Ecuador, France, Germany, Guatemala, Hungary, India, Indonesia, Italy, Malawi, Mexico, Mozambique, the Netherlands, Nicaragua, Paraguay, the People's Republic of China, the Philippines, Poland, Russia, Singapore, South Africa, Spain, Switzerland, Tanzania, the United States, Zambia, and Zimbabwe. In addition, Socotab, L.L.C. has oriental tobacco operations in Bulgaria, Macedonia, and Turkey.

In the majority of the countries where we operate, including Argentina, Brazil, Guatemala, Hungary, Indonesia, Italy, Mexico, Mozambique, the Philippines, Poland, Tanzania, the United States, Zambia, and Zimbabwe, we contract directly with tobacco farmers or tobacco farmer cooperatives, in most cases before harvest, and thereby take the risk that the delivered quality and quantity may not meet market requirements. In many countries outside the United States, we also provide agronomy services and crop advances of, or for, seed, fertilizer, and other supplies. In Malawi, Zambia, and Zimbabwe, we also purchase tobacco under auction systems.

Our foreign operations are subject to international business risks, including unsettled political conditions, expropriation, import and export restrictions, exchange controls, and currency fluctuations. During the tobacco season in many of the countries listed above, we advance funds, guarantee local loans, or do both, each in substantial amounts, for the eventual purchase of tobacco. The majority of these seasonal advances and loan guarantees mature in one year or less upon the farmers' delivery of contracted tobaccos. Most advances to farmers are denominated in local currency, which is a source of foreign currency exchange rate risk. Most tobacco sales are denominated in U.S. dollars, which reduces our foreign currency exchange risk after the tobacco has been purchased. See Item 1A, "Risk Factors" for further information about our foreign currency exchange risk.

For a discussion of recent developments and trends in, and factors that may affect, our business, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 1A, "Risk Factors."

Seasonality

Our operations are seasonal in nature. Tobacco in Brazil is usually purchased from January through July, while buying in Malawi, Mozambique, and other African countries typically begins around April and continues through late fall. Farmers begin to sell U.S. flue-cured tobacco in late July, and the marketing season lasts for approximately four months. These overlapping marketing periods tend to mitigate the overall effects of seasonality on our financial performance in most fiscal years.

We normally operate each of our processing plants for seven to nine months of the year. During this period for each region, inventories of green tobacco, inventories of processed tobacco, and trade accounts receivable normally reach peak levels in succession. We normally finance this expansion of current assets with cash, short-term notes payable to banks, and customer advances, and these funding sources normally reach their peak usage in each region during its respective purchasing or processing period. Our balance sheet at our fiscal year end reflects seasonal expansions in working capital in South America, Central America, and Western Europe.

Customers

A material part of our business is dependent upon a few customers. For the year ended March 31, 2011, each of Philip Morris International, Inc., Japan Tobacco Inc., and Imperial Tobacco Group, PLC, including its respective affiliates, accounted for 10% or more of our revenues. The loss of, or substantial reduction in business from, any of these customers could have a material adverse effect on our results. We have long-standing relationships with these customers. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview" and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Other Information Regarding Management's Actions and Trends."

We had commitments from customers for approximately $571 million of the tobacco in our inventories at March 31, 2011. Based upon historical experience, we expect that at least 90% of such orders will be delivered during fiscal year 2012. Most of our product requires shipment via oceangoing vessels to reach customer destinations. Delays in the delivery of orders can result from such factors as container availability, port access and capacity, and changing customer requirements for shipment.

As more fully described in Note 1 to the consolidated financial statements in Item 8 of this Annual Report, we recognize sales revenue at the time that title to the tobacco and risk of loss passes to our customer. Individual shipments may be large, and since the customer typically specifies shipping dates, our financial results may vary significantly between reporting periods due to timing of sales. In some markets, principally the United States, we process tobacco that is owned by our customers, and we recognize the revenue for that service when the processing is completed.

Competition

The leaf tobacco industry is highly competitive. Competition among leaf tobacco merchants is based on the ability to meet customer specifications in the buying, processing, and financing of tobacco, and on the price charged for products and services. Competition varies depending on the market or country involved. The number of competitors varies from country to country, but there is competition in most areas to buy and sell the available tobacco. Our principal competitor is Alliance One International, Inc. ("Alliance One"). Alliance One operates in many of the countries where we operate. Based on our estimates, we do not believe that worldwide market shares differ substantially between the two companies. Most of our major customers are partially vertically integrated, and thus, also compete with us for the purchase of leaf tobacco in many of the major markets.

In most major markets, smaller competitors are very active. These competitors typically have lower overhead requirements and provide less support to customers and farmers. Due to their lower cost structures, they can often offer a price on products that is lower than our price. However, we believe that we provide quality controls that add value for our customers in an increasingly regulated world and make our products highly competitive.

Reportable Segments

We evaluate the performance of our business by geographic region, although the dark air-cured and oriental tobacco businesses are each evaluated on the basis of their worldwide operations. Performance of the oriental tobacco operations is evaluated based on our equity in the pretax earnings of our affiliate. Under this structure, we have the following primary operating segments: North America, South America, Africa, Europe, Asia, Dark Air-Cured, Oriental, and Special Services. North America, South America, Africa, Europe, and Asia are primarily involved in flue-cured and burley leaf tobacco operations for supply to cigarette manufacturers. Dark Air-Cured supplies dark air-cured tobacco principally to manufacturers of cigars, pipe tobacco, and smokeless tobacco products, and Oriental supplies oriental tobacco to cigarette manufacturers. From time to time, the segments may trade in tobaccos that differ from their main varieties, but those activities are not significant to their overall results. Special Services provides just-in-time inventory services and laboratory services including physical and chemical product testing for customers.

The five regional operating segments serving our cigarette manufacturer customers share similar characteristics in the nature of their products and services, production processes, class of customer, product distribution methods, and regulatory environment. Based on the applicable accounting guidance, four of the regions – South America, Africa, Europe, and Asia – are aggregated into a single reporting segment, Other Regions, because they also have similar economic characteristics. North America is reported as an individual operating segment, because its economic characteristics differ from the other regions, generally because its operations do not require significant working capital investments for crop financing and inventory and because toll processing is an important source of its operating income. The Dark Air-Cured, Oriental, and Special Services segments, which have differing characteristics in some of the categories mentioned above, are reported together as Other Tobacco Operations, because each is below the measurement threshold for separate reporting.

Financial Information about Segments

Our North America and Other Regions reportable segments, which represent our flue-cured and burley tobacco operations, accounted for 13% and 76% of our revenues and 23% and 66% of our segment operating income, respectively, in fiscal year 2011. Our Other Tobacco Operations reportable segment accounted for 11% of our revenues and 11% of our segment operating income in fiscal year 2011. Sales and other operating revenues and operating income attributable to our reportable segments for each of the last three fiscal years, along with segment assets for each reportable segment at March 31, 2011, 2010, and 2009, are set forth in Note 15 to the consolidated financial statements, which are included in Item 8 of this Annual Report. Information with respect to the geographic distribution of our revenues and long-lived assets is also set forth in Note 15 to the consolidated financial statements.

C. Employees

We employed over 26,000 employees throughout the world during the fiscal year ended March 31, 2011. We estimated this figure because the majority of our personnel are seasonal employees.

D. Research and Development

We did not expend material amounts for research and development during the fiscal years ended March 31, 2011, 2010, or 2009.

E. Patents, etc.

We hold no material patents, licenses, franchises, or concessions.

F. Government Regulation, Environmental Matters, and Other Matters

Our business is subject to general governmental regulation in the United States and in foreign jurisdictions where we conduct business. Such regulation includes, but is not limited to, matters relating to environmental protection. To date, governmental provisions regulating the discharge of material into the environment have not had a material effect upon our capital expenditures, earnings, or competitive position. See Item 1A, "Risk Factors" for a discussion of government regulations and other factors that may affect our business.

Item 1A. Risk Factors

Operating Factors

The leaf tobacco industry is highly competitive, and we are heavily reliant on a few large customers.

We are one of two major independent global competitors in the highly competitive leaf tobacco industry, both of whom are reliant upon a few large customers. The loss of one of those large customers or a significant decrease in their demand for our products or services could significantly decrease our sales of products or services, which would have a material adverse effect on our results of operations. The competition among leaf tobacco merchants is based on the ability to meet customer specifications in the buying, processing, and financing of tobacco, and on the price charged for products and services. We believe that we consistently meet our customers' specifications and charge competitive prices. Because we rely upon a few significant customers, the consolidation, significant vertical integration, or failure of any of these large or significant customers could contribute to a significant decrease in our sales of products and services.

We have seen an increase in competition for both the purchase and sale of leaf from small leaf tobacco merchants in some of the markets where we conduct business. Some of these small leaf tobacco merchants have expanded to operate in more than one country. Since they typically provide little or no support to farmers, these small leaf tobacco merchants typically have lower overhead requirements than we do. Due to their lower cost structures, they often can offer a price on products that is lower than our price. We have also seen an increase in our customers directly sourcing leaf tobacco from farmers to meet some of their raw material needs. Direct sourcing is likely to provide our customers with some quantities of tobacco which they prefer not to use in their existing blends and that may be offered for sale. These increases in competition for both the sale and purchase of leaf could reduce the volume of the leaf we handle and could negatively impact our financial results.

Our financial results can be significantly affected by changes in the balance of supply and demand for leaf tobacco.

Because we are a leaf tobacco merchant, our financial results can be significantly affected by changes in the overall balance of worldwide supply and demand for leaf tobacco. The demand for tobacco, which is based upon customers' expectations of their future requirements, can change from time to time depending upon internal and external factors affecting the demand for their products. Our customers' expectations and their demand for leaf tobacco are influenced by a number of factors, including:

- trends in the global consumption of cigarettes,
- trends in sales of cigars and other tobacco products, and
- levels of competition among our customers.

The world supply of leaf tobacco at any given time is a function of current tobacco production, inventories held by manufacturers, and the volumes of uncommitted stocks of processed tobacco held by leaf tobacco merchants from prior years' production. Production of tobacco in a given year may be significantly affected by such factors as:

- weather and natural disasters, including any adverse weather conditions that may result from climate change,
- crop infestation and disease,
- availability of crop inputs,
- volume of annual tobacco plantings and yields realized by farmers,
- farmer elections to grow crops other than tobacco,
- elimination of government subsidies to farmers, and

- demographic shifts that change the number of farmers or the amount of land available to grow tobacco.

Any significant change in these factors could cause a material imbalance in the supply of and demand for tobacco, which would affect our results of operations.

Our financial results will vary according to growing conditions, customer requirements, and other factors. These factors also limit the ability to accurately forecast our future performance and increase the risk of an investment in our common stock or other securities.

Our financial results, particularly our year-over-year quarterly comparisons, may be significantly affected by variations in tobacco growing seasons and fluctuations in crop sizes. The timing of the cultivation and delivery of tobacco is dependent upon a number of factors, including weather and other natural events, and our processing schedules and results of operations can be significantly altered by these factors. In addition, the potential impact of climate change is uncertain and may vary by geographic region. The possible effects, as described in various public accounts, could include changes in rainfall patterns, water shortages, changing storm patterns and intensities, and changing temperature levels that could adversely impact our costs and business operations and the supply and demand for leaf tobacco. Our operations also rely on dependable and efficient transportation services. A disruption in transportation services, as a result of climate change or otherwise, may also significantly impact our results of operations.

Further, the timing and unpredictability of customer orders and shipments may require us to keep tobacco in inventory or otherwise increase our risk and may also result in variations in quarterly and annual financial results. We base sales recognition on the passage of ownership, usually with shipment of product. Since individual shipments may represent significant amounts of revenue, our quarterly and annual financial results may vary significantly depending on the needs and shipping instructions of our customers and the availability of transportation services. These fluctuations result in varying volumes and sales in given periods, which also reduce the comparability of financial results.

Major shifts in customer requirements for tobacco supply may significantly affect our operating results.

If our customers significantly alter their requirements for tobacco volumes from certain regions, we may have to change our production facilities and alter our fixed asset base in certain origins. Permanent or long-term reduction in demand for tobacco from origins where we have operations may trigger restructuring and impairment charges. We may also need to make significant capital investments in other regions to develop the needed infrastructure to meet customer supply requirements.

In areas where we purchase leaf tobacco directly from farmers, we bear the risk that the tobacco we receive will not meet quality and quantity requirements.

When we contract directly with tobacco farmers or tobacco farmer cooperatives, which is the method we use to purchase tobacco in most countries, we bear the risk that the tobacco delivered may not meet customer quality and quantity requirements. If the tobacco does not meet such market requirements, we may not be able to meet all of our customers' orders, and such failure would have an adverse effect on profitability and results of operations. Because in a contract market we buy all of the farmers' production, which encompasses many styles, we also have a risk that not all of that production will be readily marketable. In addition, in many foreign countries where we purchase tobacco directly from farmers, we provide them with financing. Unless we receive marketable tobacco that meets the quality and quantity specifications of our customers, we bear the risk that we will not be able to fully recover our crop advances or recover them in a reasonable period of time.

Weather and other conditions can affect the marketability of our products.

Tobacco crops are subject to vagaries of weather and the environment that can, in some cases, change the quality or size of the crops. If a weather event is particularly severe, such as a major drought or hurricane, the affected crop could be destroyed or damaged to an extent that it would be less desirable to manufacturers, which would result in a reduction in revenues. If such an event is also widespread, it could affect our ability to acquire the quantity of products required by our customers. In addition, other factors can affect the marketability of tobacco, including, among other things, the presence of:

- excess residues of pesticides, fungicides, and herbicides,
- foreign matter, and
- genetically modified organisms.

A significant event impacting the condition or quality of a large amount of any of the crops that we buy could make it difficult for us to sell these products or to fill customers’ orders.

Regulatory and Governmental Factors

Government efforts to regulate the production and consumption of tobacco products could have a significant impact on the businesses of our customers, which would, in turn, affect our results of operations.

The U.S. federal government and certain state and local governments have taken or proposed actions that may have the effect of reducing U.S. consumption of tobacco products and indirectly reducing demand for our products and services. These activities have included:

- restrictions on the use of tobacco products in public places and places of employment,
- legislation authorizing the U.S. Food and Drug Administration (the "FDA") to regulate the manufacturing and marketing of tobacco products,
- increases in the federal, state, and local excise taxes on cigarettes and other tobacco products, and
- the policy of the U.S. government to link certain federal grants to the enforcement of state laws restricting the sale of tobacco products.

Numerous other legislative and regulatory anti-smoking measures have been proposed at the federal, state, and local levels. The United States only produces about 8% of the cigarettes manufactured outside of the People's Republic of China.

A number of foreign governments and global non-government organizations also have taken or proposed steps to restrict or prohibit tobacco product advertising and promotion, to increase taxes on tobacco products, to indirectly limit the use of certain types of tobacco, and to discourage tobacco product consumption. A number of such measures are included in the Framework Convention on Tobacco Control ("FCTC"), which was negotiated and promoted globally under the auspices of the World Health Organization ("WHO"). We cannot predict the extent to which the efforts of governments or non-governmental agencies to reduce tobacco consumption might affect the business of our primary customers. However, a significant decrease in worldwide tobacco consumption brought about by existing or future governmental laws and regulations would reduce demand for tobacco products and services and could have a material adverse effect on our results of operations.

Government actions can have a significant effect on the sourcing of tobacco. If some of the current efforts are successful, we could have difficulty obtaining sufficient tobacco to meet our customers' requirements, which could have an adverse effect on our performance and results of operations.

The WHO, through the FCTC, has created a formal study group to identify and assess crop diversification initiatives and alternatives to leaf tobacco growing in countries whose economies depend upon tobacco production. The study group began its work in February 2007. If certain countries were to partner with the FCTC study group and seek to eliminate or significantly reduce leaf tobacco production, we could encounter difficulty in sourcing leaf tobacco to fill customer requirements, which could have an adverse effect on our results of operations.

Certain recommendations by the WHO, through FCTC, may cause shifts in customer usage of certain styles of tobacco. As seen in countries like Canada and Brazil, efforts have been taken to eliminate ingredients from the manufacturing process for tobacco products. Such decisions could cause a change in requirements for certain styles of tobacco in particular countries. Shifts in customer demand from one type of tobacco to another could create sourcing difficulties as requirements move from one origin to another.

In addition, continued government and public emphasis on environmental issues, including climate change, conservation, and natural resource management, could result in new or more stringent forms of regulatory oversight of industry activities, which may lead to increased levels of expenditures for environmental controls, land use restrictions affecting us or our suppliers, and other conditions that could have a material adverse effect on our business, financial condition, and results of operations. For example, certain aspects of our business generate carbon emissions. Regulatory restrictions on greenhouse gas emissions have been proposed. These may include limitations on such emissions, taxes or emission allowance fees on such emissions, various restrictions on industrial operations, and other measures that could affect land-use decisions, the cost of agricultural production, and the cost and means of processing and transporting our products. These actions could adversely affect our business, financial condition, and results of operations.

Because we conduct a significant portion of our operations internationally, political and economic uncertainties in certain countries could have an adverse effect on our performance and results of operations.

Our international operations are subject to uncertainties and risks relating to the political stability of certain foreign governments, principally in developing countries and emerging markets, and also to the effects of changes in the trade policies and economic regulations of foreign governments. These uncertainties and risks, which include undeveloped or antiquated commercial law, the expropriation or nationalization of assets, and the authority to revoke or refuse to renew business licenses and work permits, may adversely impact our ability to effectively manage our operations in those countries. For example, in the past, we have experienced significant year-to-year fluctuations in earnings due to changes in the Brazilian government's economic policies, and government actions in Zimbabwe reduced the tobacco crop there, causing us to shift sourcing of tobacco to other countries. We have substantial capital investments in South America and Africa, and the performance of our operations in those regions can materially affect our earnings. If the political situation in any of the countries where we conduct business were to deteriorate significantly, our ability to recover assets located there could be impaired. To the extent that we do not replace any lost volumes of tobacco with tobacco from other sources, or we incur increased costs related to such replacement, our financial condition, results of operations, or both would suffer.

Changes in tax laws in the countries where we do business may adversely affect our results of operations.

Through our subsidiaries, we are subject to the tax laws of many jurisdictions. Changes in tax laws or the interpretation of tax laws can affect our earnings, as can the resolution of various pending and contested tax issues. In most jurisdictions, we regularly have audits and examinations by the designated tax authorities, and additional tax assessments are common. We believe that we routinely comply with applicable tax laws in the jurisdictions where we operate, and we vigorously contest all significant tax assessments where we believe we are in compliance with the tax laws.

Financial Factors

Failure of our customers or farmers to repay extensions of credit could materially impact our results of operations.

We extend credit to both farmers and customers. A significant bad debt provision related to amounts due could adversely affect our results of operations. In addition, crop advances to farmers are generally secured by the farmers' agreement to deliver green tobacco. In the event of crop failure, delivery failure, or permanent reductions in crop sizes, full recovery of advances may never be realized, or otherwise could be delayed until future crops are delivered. See Notes 1 and 14 to the consolidated financial statements in Item 8 for more information on these extensions of credit.

Fluctuations in foreign currency exchange rates may affect our results of operations.

We account for most of our tobacco operations using the U.S. dollar as the functional currency. The international tobacco trade generally is conducted in U.S. dollars, and we finance most of our tobacco operations in U.S. dollars. Although this generally limits foreign exchange risk to the economic risk that is related to leaf purchase and production costs, overhead, and income taxes in the source country, significant currency movements could materially impact our results of operations. Changes in exchange rates can make a particular crop more or less expensive in U.S. dollar terms. If a particular crop is viewed as expensive in U.S. dollar terms, it may be less attractive in the world market. This could negatively affect the profitability of that crop and our results of operations. In certain tobacco markets that are primarily domestic, the local currency is the functional currency. Examples of these markets are Hungary and Poland. Similarly the local currency is the functional currency in other markets, such as Western Europe, where export sales have been denominated primarily in local currencies. In these markets, reported earnings are affected by the translation of the local currency into the U.S. dollar. See Item 7A, “Qualitative and Quantitative Disclosure About Market Risk” for additional discussion related to foreign currency exchange risk.

Our purchases of tobacco are generally made in local currency, and we also provide farmer advances that are denominated in the local currency. We account for currency remeasurement gains or losses on those advances as period costs, and they are usually accompanied by offsetting increases or decreases in the purchase cost of tobacco, which is priced in the local currency. The effect of differences in the cost of tobacco is generally not realized in our earnings until the tobacco is sold, which often occurs in a quarter or fiscal year subsequent to the recognition of the related remeasurement gains or losses. The difference in timing could affect our profitability in a given quarter or fiscal year. For example, during fiscal year 2009, we recorded remeasurement losses of more than $40 million related to a significant devaluation of the Brazilian currency.

We have used currency hedging strategies to reduce our foreign currency exchange rate risks in some markets. In addition, where we source tobacco in countries with illiquid or nonexistent forward foreign exchange markets, we often manage our foreign exchange risk by matching funding for inventory purchases with the currency of sale and by minimizing our net investment in these countries. To the extent that we have net monetary assets or liabilities in local currency, we may have currency remeasurement gains or losses that will affect our results of operations.

Changes in interest rates may affect our results of operations.

In our business, customers usually either pre-finance purchases or pay market rates of interest for inventory purchased on order. From time to time, we borrow long-term debt at fixed rates. Through hedging agreements, we may swap the interest rates on our existing fixed-rate debt to floating market interest rates to better match the interest rates that we charge our customers. To the extent we are unable to match these interest rates, a decrease in short-term interest rates could increase our net financing costs. In addition, at times we may have significant amounts of cash invested. Decreases in short-term interest rates reduce the income we derive from those investments. Changes in interest rates also affect expense related to our defined benefit pension plan, as described elsewhere in these "Risk Factors."

Low investment performance by our defined benefit pension plan assets may increase our pension expense and may require us to fund a larger portion of our pension obligations, thus, diverting funds from other potential uses.

We sponsor a domestic defined benefit pension plan that covers certain eligible employees. Our results of operations may be positively or negatively affected by the amount of income or expense we record for this plan. U.S. generally accepted accounting principles (GAAP) require that we calculate income or expense for the plans using actuarial valuations. These valuations reflect assumptions about financial market and other economic conditions, which may change based on changes in key economic indicators. The most significant year-end assumptions we used to estimate pension income or expense for fiscal year 2011 are the discount rate and the expected long-term rate of return on plan assets. In addition, we are required to make an annual measurement of plan assets and liabilities, which may result in a significant change to shareholders' equity through a reduction or increase to "Funded status of pension and other postretirement benefits." At the end of fiscal year 2011, the projected benefit obligation of our U.S. pension plans was $211 million and assets were $178 million. For a discussion regarding how our financial statements can be affected by pension plan accounting policies, see "Critical Accounting Estimates – Pension and Other Postretirement Benefit Plans" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and in Note 11 to the consolidated financial statements in Item 8. Although GAAP expense and pension funding contributions are not directly related, key economic factors that affect GAAP expense would also likely affect the amount of cash we would contribute to pension plans under requirements of the Employee Retirement Income Security Act (ERISA). Failure to achieve expected returns on plan assets could also result in an increase to the amount of cash we would be required to contribute to pension plans.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Except as noted, we own the following significant properties (greater than 500,000 square feet):

Location	Principal Use	Area (Square Feet)
Flue-Cured and Burley Leaf Tobacco Operations:		
North America:		
United States		
Nash County, North Carolina	Factory and storages	1,304,000
Canada		
Simcoe, Ontario (1)	Factory and storages	569,000
Other Regions:		
Brazil		
Santa Cruz	Factory and storages	2,670,000
Joinville (2)	Factory and storages	1,450,000
Venancio Aires	Storages	860,000
Malawi		
Lilongwe	Factory and storages	942,000
Mozambique		
Tete	Factory and storages	748,000
Philippines		
Pasig City	Factory and storages	672,000
Tanzania		
Morogoro	Factory and storages	803,000
Zimbabwe		
Harare (3)	Factory and storages	1,445,000
Other Tobacco Operations:		
United States		
Lancaster, Pennsylvania	Factory and storages	735,000

(1) Held for sale at March 31, 2011. Sale of the factory was completed in May 2011.
(2) Leased from a third party.
(3) Owned by an unconsolidated subsidiary.

We lease headquarters office space of about 45,000 square feet at 9201 Forest Hill Avenue in Richmond, Virginia, which we believe is adequate for our current needs.

Our business involves, among other things, storing and processing green tobacco and storing processed tobacco. We operate processing facilities in major tobacco growing areas. In addition, we require tobacco storage facilities that are in close proximity to the processing facilities. We own most of the tobacco storage facilities, but we lease additional space as needs arise, and expenses related to such leases are not material. We believe that the properties currently utilized in our tobacco operations are maintained in good operating condition and are suitable and adequate for our purposes at our current volumes.

In addition to our significant properties listed above, we own other processing facilities in the following countries: Germany, Hungary, Italy, the Netherlands, the Philippines, Poland, and the United States. In addition, we have ownership interests in processing plants in Guatemala and Mexico and have access to processing facilities in other areas, such as Argentina, India, the People's Republic of China, South Africa, and Zambia. Socotab L.L.C., an oriental tobacco joint venture in which we own a noncontrolling interest, owns tobacco processing plants in Turkey, Macedonia, and Bulgaria.

Except for the Lancaster, Pennsylvania facility, the facilities described above are engaged primarily in processing tobacco used by manufacturers in the production of cigarettes. The Lancaster facility, as well as facilities in Brazil, the Dominican Republic, Indonesia, and Paraguay, process tobacco used in making cigar, pipe, and smokeless products, as well as components of certain "roll-your-own" products.

Item 3. 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 for "colluding on the prices paid to, and the quantities bought from, the tobacco growers in Spain." Two of our 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. We 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 our 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 to date and an ultimate resolution to the matter could take several years. We had deposited funds in an escrow account with the Commission in February 2005 in an amount equal to the original fine. We 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 second quarter of fiscal year 2011, we 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.

European Commission Fines in Italy

In 2002, we reported that we were aware that the Commission was investigating certain aspects of the tobacco leaf markets in Italy. Deltafina buys and processes tobacco in Italy. We reported that we did not believe that the Commission investigation in Italy would result in penalties being assessed against us or our subsidiaries that would be material to our earnings. The reason we held this belief was that we 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, we 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 conditional 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 the disclosure would affect Deltafina's immunity. On November 15, 2005, we received notification that the Commission had imposed fines totaling €30 million (about $42 million at the March 31, 2011 exchange rate) on Deltafina and Universal Corporation jointly for infringing European Union antitrust law in connection with the purchase and processing of tobacco in the Italian raw tobacco market.

We do not believe that the decision can be reconciled with the Commission's Statement of Objections or the facts. In January 2006, Deltafina and Universal Corporation 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, we withdrew our appeal. Based on consultation with outside legal counsel, we believe it is probable that Deltafina will prevail in the appeals process and we have not accrued a charge for the fine. If both Deltafina and Universal Corporation 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 million (about $8 million) at March 31, 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.

Other Legal Matters

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

Item 4. (Removed and Reserved)

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Equity

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "UVV." The following table sets forth the high and low sales prices per share of the common stock on the NYSE Composite Tape, based upon published financial sources, and the dividends declared on each share of common stock for the quarter indicated.

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2011					
Cash dividends declared		$0.47	$0.47	$0.48	$0.48
Market price range	High	55.92	44.82	43.34	43.72
	Low	38.38	35.44	37.05	37.74
2010					
Cash dividends declared		$0.46	$0.46	$0.47	$0.47
Market price range	High	38.29	44.02	49.48	55.19
	Low	29.27	33.46	41.27	45.36
2009					
Cash dividends declared		$0.45	$0.45	$0.46	$0.46
Market price range	High	64.96	55.63	52.03	35.17
	Low	45.00	44.24	29.83	25.82

Our current dividend policy anticipates the payment of quarterly dividends in the future. However, the declaration and payment of dividends to holders of common stock is at the discretion of the Board of Directors and will be dependent upon our future earnings, financial condition, and capital requirements. Under the terms of our Series B 6.75% Convertible Perpetual Preferred Stock (the "Preferred Stock"), we may not declare or pay dividends on our common stock unless dividends on the Preferred Stock for the four most recent consecutive dividend periods have been declared and paid. The Preferred Stock contains provisions that prohibit the payment of cash dividends if certain income and shareholders' equity levels are not met. Under certain of our credit facilities, we must meet financial covenants relating to minimum tangible net worth and maximum levels of debt. If we were not in compliance with them, these financial covenants could restrict our ability to pay dividends. We were in compliance with all such covenants at March 31, 2011. At May 23, 2011, there were 1,448 holders of record of our common stock. See Notes 6 and 12 to the consolidated financial statements in Item 8 for more information on debt covenants and equity securities.

Purchases of Equity Securities

The following table summarizes our repurchases of our common stock for the three-month period ended March 31, 2011:

Period (1)	Total Number of Shares Repurchased	Average Price Paid Per Share (2)	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs (3)	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (3)
January 1, 2011 to January 31, 2011	113,790	$ 39.15	113,790	$ 92,378,796
February 1, 2011 to February 28, 2011	105,650	40.17	105,650	88,135,005
March 1, 2011 to March 31, 2011	109,500	42.23	109,500	83,510,350
Total	328,940	$ 40.51	328,940	$ 83,510,350

(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 include broker commissions paid in the transactions.

(3) A stock repurchase plan, which was authorized by our Board of Directors, became effective and was publicly announced on November 5, 2009. It 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 program will expire on the earlier of November 15, 2011, or when we have exhausted the funds authorized for the program.

Item 6. Selected Financial Data

	Fiscal Years Ended March 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share data, ratios and number of shareholders)				
Summary of Operations					
Sales and other operating revenues	$2,571,527	$2,491,738	$2,554,659	$2,145,822	$2,007,272
Income from continuing operations	$164,550	$170,345	$132,561	$116,484	$73,751
Income (loss) from discontinued operations	$—	$—	$—	$(145)	$(36,059)
Net income.	$164,550	$170,345	$132,561	$116,339	$37,692
Net income attributable to Universal Corporation (1)	$156,565	$168,397	$131,739	$119,156	$44,352
Earnings available to Universal Corporation common shareholders	$141,715	$153,547	$116,889	$104,306	$29,667
Return on beginning common shareholders' equity	15.6%	18.8%	13.0%	12.8%	3.8%
Earnings (loss) per share attributable to Universal Corporation common shareholders:					
Basic:					
From continuing operations	$5.94	$6.21	$4.57	$3.83	$2.53
From discontinued operations	$—	$—	$—	$(0.01)	$(1.39)
Net income	$5.94	$6.21	$4.57	$3.82	$1.14
Diluted:					
From continuing operations	$5.42	$5.68	$4.32	$3.71	$2.52
From discontinued operations	$—	$—	$—	$(0.01)	$(1.39)
Net income	$5.42	$5.68	$4.32	$3.70	$1.13
Financial Position at Year End					
Current ratio	3.08	2.75	2.74	3.33	2.23
Total assets	$2,227,867	$2,371,040	$2,138,176	$2,186,761	$2,328,822
Long-term obligations	$320,193	$414,764	$331,808	$402,942	$398,952
Working capital	$1,065,883	$1,078,077	$954,044	$1,028,732	$852,391
Total Universal Corporation shareholders' equity	$1,185,606	$1,122,570	$1,029,473	$1,115,631	$1,030,733
General					
Ratio of earnings to fixed charges	9.41	9.43	5.54	4.66	3.16
Ratio of earnings to combined fixed charges and preference dividends	5.17	5.29	3.55	3.16	2.29
Number of common shareholders	1,447	1,518	1,597	1,708	1,807
Weighted average common shares outstanding:					
Basic	23,859	24,732	25,570	27,263	25,935
Diluted	28,888	29,662	30,466	32,186	26,051
Dividends per share of convertible perpetual preferred stock (annual)	$67.50	$67.50	$67.50	$67.50	$67.50
	$1.90	$1.86	$1.82	$1.78	$1.74

Dividends per share of common stock (annual)					
Book value per common share	$41.85	$37.39	$32.66	$33.23	$30.34

(1)We hold less than a 100% financial interest in certain consolidated subsidiaries, and a portion of net income is attributable to the noncontrolling interests in those subsidiaries.

Since the early part of fiscal year 2008, our operations have consisted solely of our worldwide tobacco business. Prior to that time, we also owned lumber and building products and agri-products operations. The assets, liabilities, revenues, and expenses of the lumber and building products and agri-products businesses are reflected as discontinued operations for all applicable periods in the above table.

The calculations of the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preference dividends are shown in Exhibit 12. Fixed charges primarily represent interest expense we incurred during the designated reporting period, and preference dividends represent the pre-tax equivalent of dividends on preferred stock.

Significant items included in the operating results in the above table are as follows:

- Fiscal Year 2011 – $7.4 million reversal of a portion of a charge recorded in fiscal year 2005 to accrue a fine imposed by the European Commission on Deltafina, S.p.A., our subsidiary in Italy, related to tobacco buying practices in Spain. The reversal reflected a favorable European Union's General Court decision in Deltafina's appeal of the fine. We also recorded a $19.4 million gain on the assignment of farmer contracts and sale of related assets in Brazil to an operating subsidiary of a major customer. In addition to those items, which benefited fiscal year 2011 earnings, we recorded $21.5 million in restructuring and impairment costs during the year. A significant portion of those costs related to our decision to close our leaf tobacco processing operations in Canada and sell the assets of those operations. Restructuring charges were also recorded to recognize costs associated with voluntary early retirement offers in our U.S. operations and additional voluntary and involuntary separations in various other locations. On a combined basis, the net effect of these items increased income before income taxes by $5.3 million, and increased net income by $3.3 million, or about $0.12 per diluted share.

- Fiscal Year 2009 – $50.6 million in losses from currency remeasurement and exchange, primarily caused by the effect of the rapid devaluation of the Brazilian currency between June and December 2008. The effect of these losses was a reduction in net income of $32.9 million, or $1.08 per diluted share.

- Fiscal Year 2008 – $29.3 million in gains from currency remeasurement and exchange, reflecting the general strengthening of world currencies against the U.S. dollar and mark-to-market gains realized on forward contracts to hedge tobacco purchases in Brazil. We also recorded $12.9 million in restructuring costs, consisting partly of $7.9 million in severance and voluntary termination benefits associated with the downsizing of our operations in Canada, the release of farm managers and workers employed in flue-cured tobacco growing projects that we exited in Zambia and Malawi, a workforce reduction in our operations in Malawi, a decision to close and consolidate a sales and logistics office in Europe, and other cost reduction initiatives at several smaller locations. In addition, restructuring costs included $5 million of curtailment losses associated with actions taken to terminate a small defined benefit pension plan and freeze another small plan. We also recorded a separate charge of $7.8 million to accrue an obligation established by Malawi court rulings that require employers there to provide severance benefits in addition to company-sponsored pension benefits in employee retirement or termination situations. Those rulings also expanded the qualified compensation on which the severance benefit is based. In addition to these costs, our results for the fiscal year included a gain of $6.5 million on the sale of surplus timberland in Brazil. On a combined basis, the net effect of these items increased income before noncontrolling interest and income taxes by $15.1 million, and increased income from continuing operations and net income by $10.3 million, or $0.32 per diluted share.

- Fiscal Year 2007 – $30.9 million in impairment charges, primarily related to our exit from flue-cured growing projects in Africa at the end of the 2006-07 crop year. After noncontrolling interest and income tax effects, the charges reduced income from continuing operations and net income by $24.2 million, or $0.93 per diluted share. In addition, we recorded provisions for uncollectible farmer advances in Brazil and in several African countries totaling $31.9 million. Over half of those provisions related to the growing projects that we exited. The results also included lower-of-cost-or-market inventory provisions of $12.8 million related to tobacco produced in those African growing projects. After noncontrolling interest and income tax effects, the provisions reduced income from continuing operations and net income by $27.5 million, or $1.06 per diluted share. We also recorded a net loss on the sale of a significant portion of our non-tobacco operations and an impairment charge on the remaining non-tobacco operations held for sale. We completed the sale of those operations in fiscal year 2008. On a combined basis, those items created a loss from discontinued operations and reduced net income by $44.5 million before income taxes, $45.0 million after tax, or $1.74 per diluted share.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations is provided to enhance the understanding of, and should be read in conjunction with, Part I, Item 1, "Business" and Item 8, "Financial Statements and Supplementary Data." For information on risks and uncertainties related to our business that may make past performance not indicative of future results, or cause actual results to differ materially from any forward-looking statements, see "General," and Part I, Item 1A, "Risk Factors."

OVERVIEW

We are the leading global leaf tobacco merchant and processor. We derive most of our revenues from sales of processed tobacco to manufacturers of tobacco products throughout the world and from fees and commissions for specific services.

During the last three years, we have seen a rapidly developing supply cycle that began with shortages following the short African burley crops in 2008. Those shortages prompted customers to build inventories from the ensuing crops, and the intensity of that demand for all types of cigarette leaf, coupled with competition with commodity crops, increased the price of leaf at the farm level, which is a normal way of increasing supply. As leaf has become more available and prices have been influenced by a weakening U.S. dollar, customers have begun to reduce inventories. Lower cigarette demand in developed markets may have also have contributed to those reductions. The industry has now reached oversupply conditions, primarily in cigarette tobaccos. We are beginning to see the traditional effects of oversupply: margin pressures, falling leaf prices at the farm level, and increasing uncommitted dealer inventories. Each of the fiscal years in the period is described in the following information:

In fiscal year 2009, green tobacco costs were very high during most of the purchasing season, and farmers' costs for fertilizer and other input materials to produce crops for the following year were high as well. Green tobacco prices increased in U.S. dollar terms as the dollar weakened against most currencies early in the year. Those prices also increased in local currency terms to protect supply against competition from commodity crops, which were in great demand. By the end of the year, economic conditions had changed the environment and reduced the pressure on costs heading into fiscal year 2010. The U.S. dollar had strengthened as well, also reducing costs; however, because of the long product cycle, a significant portion of our cost in some areas had been incurred before the dollar strengthened.

In fiscal year 2010, the market was in balance with no significant amounts of uncommitted inventory in the hands of the dealer group. Large African burley crops that had threatened to create some excess were absorbed by the market. Although we began to see increased customer concern about costs, the higher cost of leaf was passed through in selling prices. One of our customers, Japan Tobacco, Inc., responded to higher crop costs and leaf supply concerns by announcing that they were preparing to source some of their leaf directly in the United States, Brazil, and Malawi.

In fiscal year 2011, we continued to see large burley crops while flue-cured production was reduced somewhat by a weather issue in Brazil. During the year, we began to see the signs of oversupply in lower margins and elevated dealer inventories. In addition, we assigned farmer contracts in Brazil to a subsidiary of Philip Morris International as part of their efforts to increase their direct sourcing capability there. In response to the customer efforts in direct sourcing and our need to reduce costs in an oversupplied market, we began a process of reviewing each of our operations with the purpose of rationalizing global operations to fit the new market conditions. That process has given rise to numerous cost-saving initiatives, and it is continuing.

We achieved strong results for fiscal year 2011, particularly in light of the challenging market conditions that we faced. Recent customer efforts to obtain leaf directly from farmers have changed parts of our business. In the last two years, both Japan Tobacco and Philip Morris International have taken steps to purchase more of their leaf needs directly from farmers. As we have said, we believe we have already experienced the effects of Japan Tobacco's increase in direct leaf procurement on our volumes in fiscal year 2011 in the United States, Malawi, and Brazil. Philip Morris International's assumption of farmer contracts will reduce our purchases of Brazilian leaf in fiscal year 2012. We continue to expect that, after contracts expire this month, our processing volumes in the United States will decline significantly. As we noted last year, we estimate that reduction will cause a decrease of about $30 million in operating income. We have had some success in broadening our customer base and expanding the services we offer our customers. However, in the near term, we will not be able to replace all the processing volumes lost in the United States.

At the same time, we are experiencing the effects of leaf oversupply that we have been predicting, and we expect to see the financial impact of lower leaf prices and tighter margins that typify such cycles in fiscal year 2012. We believe that during the two prior fiscal years of higher than normal demand, a number of customers increased their leaf inventory levels. Those higher inventories, combined with softer cigarette sales in some markets, have led to reduced leaf demand for current crops, evidenced by slower than normal purchasing in major markets.

Periodic cycles of under- and oversupply of leaf are not unusual in our business, and we have successfully navigated oversupplied markets throughout the history of the company. Although dealer unsold inventories are currently not excessive, we expect them to grow significantly during this season. Our uncommitted inventories are still at a manageable level, and we are working aggressively to avoid accumulating excess inventories during the oversupply period. However, we will not be able to avoid some accumulation of unsold inventory or the inevitable pressure on margins that comes with an oversupply.

We believe that our discipline and conservative capital structure will stand us in good stead during this period. In addition, our cost-saving restructuring initiatives are well underway, and we will continue to review our operations to control or reduce costs. We have continued to assert the value that the dealer industry adds to the system, both to the manufacturer and farmer, and that is especially important in today’s markets.

RESULTS OF OPERATIONS

Fiscal Year Ended March 31, 2011, Compared to the Fiscal Year Ended March 31, 2010

For the fiscal year ended March 31, 2011, diluted earnings per share were $5.42, down about 5% from last year's record earnings of $5.68 per diluted share. Net income attributable to Universal Corporation for fiscal year 2011 was $156.6 million, a decrease of 7% compared to $168.4 million last year, primarily due to lower results in our South American operations and Oriental tobacco joint venture. Revenues for fiscal year 2011 were $2.6 billion, a 3% increase compared to last year, reflecting higher selling prices on lower volumes shipped during the period. The price increases were generally related to higher green leaf costs and the effects of a weak U.S. dollar.

Results for fiscal year 2011 also include the effects of several non-recurring items, which provided a net pretax benefit of $5.3 million, or about $0.12 per diluted share. During the third fiscal quarter, we recorded a net gain of $19.4 million before taxes, or $0.44 per diluted share, to recognize the assignment of tobacco production contracts with approximately 8,100 farmers in Brazil, along with the sale of related assets, to a subsidiary of Philip Morris International ("PMI"). In addition, the second fiscal quarter included a benefit of $7.4 million before taxes, or $0.17 per diluted share, for the reversal of a portion of a previously recorded European Commission fine after a favorable court ruling. These gains were largely offset by the effects of combined restructuring and impairment charges associated with our initiatives to adjust various operations and reduce costs, including a significant portion related to the closure of our Simcoe operations in Canada. Most of the restructuring costs represent accruals for employee termination benefits at operating locations in North America, South America, Africa, and Europe and at corporate headquarters. Total restructuring and impairment costs for the fiscal year ended March 31, 2011, were $21.5 million, or $0.49 per diluted share, of which about $5.6 million are noncash charges.

Cost of goods sold increased by nearly 6% due to the influence on leaf prices of a weaker U.S. dollar and higher farm input costs, as well as a lower proportion of stem in the sales mix. Selling, general, and administrative expenses decreased by more than $33 million, or 12%, compared to last year. Predominant factors in the reduced expense for the year included the $7.4 million reversal of the European Commission fine, an $11 million comparative benefit from net currency remeasurement and exchange gains in the current year compared with net losses in the prior year, last year's accruals for costs associated with the Foreign Corrupt Practices Act ("FCPA") matter, and lower compensation expense.

Interest expense for the year decreased by $1.2 million as the impact of higher average debt balances was outweighed by lower average effective interest rates. Interest income increased by $1.5 million compared to last year primarily due to the recognition of interest income on the return of funds escrowed to bond the appeal of the European Commission fine.

The consolidated effective income tax rate for the twelve months ended March 31, 2011, was approximately 32% versus nearly 34% for fiscal year 2010. In both cases, the full year rate was lower than the 35% U.S. federal statutory rate due to the recognition of foreign tax credits and to the reversal of previously recorded liabilities for uncertain tax positions based on favorable resolution or expiration of statutes of limitations for the related tax years.

Flue-cured and Burley Leaf Tobacco Operations

For the fiscal year ended March 31, 2011, operating income for the flue-cured and burley tobacco operations was about $229 million, a 4% decrease compared to the prior year's record $240 million results. The decrease was caused primarily by reduced volumes and margins in some operations within the Other Regions segment. Revenues for the group were relatively flat as reduced volumes for the year in South America, Europe, and North America, were balanced by higher volumes in Africa and Asia.

Operating income of $170 million for the Other Regions segment was down about 7% compared to the prior year. Earnings in Africa increased over the previous year on higher sales volumes as well as additional third-party processing. The region also benefited from net gains on foreign currency remeasurement and exchange compared to net losses in the prior year. Asia results were improved for the year as well, primarily due to higher volumes from larger crops in the Philippines and better margins related to lower unit costs on those volumes. South America results were down significantly, affected by lower volumes sold from both Brazil and Argentina. A smaller Brazilian crop due to weather conditions, significantly lower customer demand for Argentine leaf, and the effects of customer inventory corrections all reduced volumes. Margins also declined on higher unit production costs and higher green leaf prices. Earnings in Europe were also down for the fiscal year on lower volumes and margins, lower exchange gains this year, and the translation effects of a stronger dollar against the Euro and other European currencies. Overall results for this segment benefited from lower selling, general, and administrative expenses caused by the previously mentioned currency gains as well as lower overhead expenses, in part related to FCPA and employment costs in the prior year. Although overall volumes for the Other Regions segment were down, cost of sales increased on higher leaf costs, in part due to the weaker dollar. Overall segment revenues were up as those higher costs of leaf were reflected in selling prices.

The North America segment reported improved operating income of $59 million as lower U.S. volumes from the fiscal year 2011 crop were offset by sales of carryover crops, additional third-party processing business in the United States, and lower overhead charges. Revenues for the segment were down by about 5% on reduced sales volumes despite improved product mix. Cost of sales for this segment was lower on overall lower volumes sold, while selling, general and administrative costs benefited from overhead reductions.

Other Tobacco Operations

In the Other Tobacco Operations segment, operating income for fiscal year 2011 declined by 28% to about $29 million, due primarily to significantly lower results from the oriental tobacco joint venture on reduced sales volumes on customer inventory adjustments as well as lower margins and smaller currency remeasurement gains. Dark tobacco results were flat compared with the prior fiscal year as the effects of increased volumes and reductions in domestic overhead costs were reduced by lower earnings resulting from the weather-damaged Indonesian crop, which is also expected to affect next fiscal year's results. Revenues for this segment increased by 20% to $287 million, primarily related to higher sales in the just-in-time services group, increased dark tobacco shipments after a soft beginning to the prior year, and higher imports of oriental tobacco into the United States. Those higher volumes also caused an increase in cost of sales while selling general and administrative costs were flat.

Fiscal Year Ended March 31, 2010, Compared to the Fiscal Year Ended March 31, 2009

Diluted earnings per share for the fiscal year ended March 31, 2010, were $5.68, up 31% from last year's results of $4.32 per diluted share in the fiscal year ended March 31, 2009. Net income improved by 28% to a record $168 million. Results for fiscal year 2009 had been overshadowed by large currency losses in South America. Those losses were not repeated in fiscal year 2010, accounting for a large portion of the change. Revenues were down by about 2%, reflecting lower volumes in several areas, offset by improved sales mix as lower priced by-products constituted a smaller proportion of total sales. Lower volumes were primarily attributable to shipment delays during fiscal year 2010 in some regions, lower trading volumes in North America, and last year's accelerated shipments of dark tobacco during fiscal year 2009.

Cost of sales was 4% lower primarily because of lower volumes in some segments, and lower costs in areas where currency changes lowered inventory costs. Selling, general, and administrative expenses decreased by about $24 million, or 8%, compared to last year. The primary factor in the reduced expense for fiscal year 2010 was lower currency remeasurement and exchange losses, which were down $45 million. That change more than offset the effect of other items, including higher incentive compensation expense, higher legal and professional costs, and lower gains on the sale of property and equipment.

Compared to fiscal year 2009, interest expense was about $11 million lower, largely due to the reduction in short-term borrowing rates during the year. About 70% of our debt was based on variable interest rates. The rate reduction also reduced interest income during fiscal year 2010.

Income tax expense increased by $22 million as a slightly higher effective tax rate was applied to higher income before taxes. Although the rate was higher than the rate in fiscal year 2009, it remained below the U.S. statutory rate in fiscal year 2010, primarily because of the reversal of liabilities previously recorded for uncertain tax positions based on the expiration of statutes of limitations for the related tax years and other factors. Those adjustments more than offset an accrual to record U.S. income taxes on earnings that were previously considered to be permanently reinvested offshore, as well as other smaller adjustments.

Flue-cured and Burley Leaf Tobacco Operations

Fiscal year 2010 operating income for our flue-cured and burley operations was up 27%, to $240 million, which was a record for the group. The $51 million increase was primarily related to lower currency costs, but fiscal year 2010 also saw much higher Asian trading volumes and the benefits of management’s focus on improving the profitability of smaller operations that had been marginal performers in past years. Revenue for this group was off slightly as lower volumes in most regions were largely offset by the Asian increases.

In the North America segment, the effects of lower U.S. trading volumes, lower sales of carryover crops, and a smaller Canadian crop were more than offset by improvements in smaller operations, which included better experience with farmer receivables and improved pricing. The segment’s operating income increased 19%, to $57 million. The volume reductions were primarily in sales of lamina rather than by-products, and the combination of lower volumes and sales mix caused revenues to decline by 14%, and caused a decrease in cost of sales as well. Selling, general, and administrative expenses were also down in this segment, mainly reflecting lower provisions against farmer receivables.

Results for the Other Regions segment improved by 30%, to $183 million, largely on the strength of lower currency costs in fiscal year 2010. The reduction in currency costs primarily benefited South American operations where the rapid strengthening of the U.S. dollar in fiscal year 2009 caused a loss in value of local currency balances, primarily related to farmer receivables. The U.S. dollar remained relatively strong through the following spring and reduced the cost of the crop sold in fiscal year 2010. Asian trading volumes increased for the second consecutive year. African results were down slightly as delayed shipments related to logistical issues hampered performance, despite significant catch-up shipments late in the year. In Europe, higher green leaf costs proved difficult to recover in sales prices, although improvement in smaller operations benefited the region. Revenues for the Other Regions segment increased based primarily on the higher Asian trading volumes. Cost of sales declined as the stronger U.S. dollar near the beginning of fiscal year 2010 reduced costs despite higher local pricing in many areas. Selling, general, and administrative expenses were down substantially for the group on lower currency related costs for fiscal year 2010.

Other Tobacco Operations

Results for the Other Tobacco Operations segment were down by 5%, or about $1.9 million, compared to the fiscal year ended March 31, 2009, mainly due to lower earnings from the dark tobacco group. Near the end of fiscal year 2009, the dark tobacco operations experienced a surge in sales as customers accelerated purchases in anticipation of the enactment of U.S. excise tax increases. The dark tobacco group also incurred costs to consolidate their U.S. processing operations in fiscal year 2010. Results for the oriental tobacco joint venture benefited from a decrease in interest expense.

Segment revenues were lower in fiscal year 2010 compared to fiscal year 2009. Dark tobacco revenues declined on reduced volumes compared to fiscal year 2009's accelerated shipments. Although the oriental tobacco joint venture is not a consolidated operation, it sells some leaf to a consolidated Universal subsidiary for import to customers in the United States. The revenue from those sales is included in revenues for Other Tobacco Operations. Some of those sales have been carried over into fiscal year 2011 and reduced revenues for fiscal year 2010. Segment volume reductions also reduced cost of sales. Selling, general, and administrative expenses for the segment decreased, primarily reflecting currency benefits in fiscal year 2010.

Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") has issued the following Accounting Standard Updates that are relevant to our accounting and financial reporting and will become effective in future periods:

- 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 we will be required to adopt the guidance effective April 1, 2011, the beginning of our fiscal year 2012. The adoption of ASU 2009-13 is not expected to have a material effect on our financial statements.

- FASB Accounting Standards Update 2011-04, "Fair Value Measurement" ("ASU 2011-04"), which was issued in May 2011. 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. We are currently evaluating the revised guidance to determine the effect it will have on our financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the fiscal year ended March 31, 2011, our operations generated positive operating cash flows. Seasonal working capital requirements were higher during the year as the weaker dollar and higher crop input prices increased the cost of green tobacco. Despite these requirements, we had more than sufficient liquidity to meet our needs. We also continued our conservative financial policies, maintained our discipline on using our free cash flow, and reduced our leverage ratios while returning funds to shareholders.

Our liquidity and capital resource requirements are predominantly short-term in nature and primarily relate to working capital required for seasonal 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, although crop size, prices paid to farmers, and currency fluctuations affect requirements during each year. 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 avoid liquidity risk.

We believe that our financial resources are adequate to support our capital needs for at least the next twelve months. Our seasonal working capital requirements typically increase from March to September by as much as $300 million. That funding requirement is primarily related to our Other Regions segment and includes purchasing crops in South America and Africa. The amount can vary significantly depending upon such factors as crop sizes, the price of leaf, the relative strength of the U.S. dollar, and shipment and customer payment timing differences. We deal with this uncertainty by maintaining substantial credit lines and cash balances. In addition to our operating requirements for working capital, we have $95 million in medium-term notes maturing in September 2011, and we expect to provide around $10 million in funding to our pension plans. Available capital resources from our cash balances, a committed credit facility, and uncommitted credit lines exceed those anticipated needs. After balancing our capital structure, any excess cash flow from operations after dividends and capital expenditures will be available to fund expansion, purchase our stock, or otherwise enhance shareholder value.

Cash Flow

Our operations provided about $54 million in operating cash flows in fiscal year 2011, and we received $40 million from the assignment of farmer assets and the sale of related assets to an affiliate of Philip Morris International in Brazil and from other asset sales. Using those funds and some of our cash balances, we spent $39 million on capital projects, returned $60 million to shareholders in the form of dividends, reduced our total debt by $42 million, and spent $47 million on repurchases of our common stock. Cash flow from customer advances and deposits was $194 million lower in fiscal year 2011. These funds vary from year to year based on customer needs and buying patterns. At March 31, 2011, cash balances totaled $141 million.

Working Capital

Working capital at March 31, 2011, was nearly $1.1 billion, flat with last year's level. However, many of the components of working capital changed significantly. Cash and cash equivalents decreased by almost $105 million. Most of that decline reflected lower customer deposits and advances which were $99 million below March 31, 2010 levels. Accounts receivable balances were $69 million higher, primarily due to African shipments that were delayed into the quarter ended March 31, 2011. Accounts payable decreased by $47 million in large part due to decreased tobacco purchases in South America. We are growing less tobacco in Brazil this year, and farmer crop deliveries are slower than normal.

Tobacco inventories at March 31, 2011, were down almost $70 million. Lower inventories in North America due to sales of carryover crops there and lower current crop purchases in Brazil were partially offset by higher inventories in Africa on larger crops and in Europe on higher tobacco cost. We usually finance inventory 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. We generally do not purchase material quantities of tobacco on a speculative basis. However, when we contract directly with farmers, we are obligated to buy their entire crop. Our uncommitted tobacco inventories increased by approximately $10 million to $171 million, or about 23% of tobacco inventory. Uncommitted inventories at March 31, 2010, were $161 million, which represented 20% of tobacco inventory.

Share Repurchase Activity

We continued to repurchase shares of our common stock during fiscal year 2011. In November 2009, the Board of Directors approved a new share repurchase program, which superseded an expiring program. The program expires on November 15, 2011 and authorizes purchases of up to $150 million of our common stock. Under the authorization, we will purchase shares from time to time in the open market or in privately negotiated transactions at prices not exceeding prevailing market rates. In determining our level of common share repurchase activity, our intent is to use only cash available after meeting our capital investment, dividend, and working capital requirements. As a result, our execution of the repurchase program may vary as we realize changes in cash flow generation and availability. In fiscal year 2011, we purchased 1,113,125 shares of our common stock at a total cost of about $46.7 million, based on trading dates. At March 31, 2011, our available authorization under our current share repurchase program was $83.5 million, and approximately 23.2 million common shares were outstanding.

Capital Spending

Our capital expenditures are generally limited to those that add value for the customer, replace or maintain equipment, increase efficiency, or position us for future growth. Our capital expenditures were approximately $39 million in fiscal year 2011, $58 million in fiscal year 2010, and $36 million in fiscal year 2009. Depreciation expense was approximately $44 million in fiscal year 2011 and $41 million in each of fiscal years 2010 and 2009. Our intent is to limit routine capital spending to a level below depreciation expense in order to maintain strong cash flow. We currently have no major capital expenditures planned in fiscal year 2012. However, from time to time we may undertake additional projects pursuant to customer requirements.

Outstanding Debt and Other Financing Arrangements

We consider the sum of notes payable and overdrafts, long-term debt (including current portion), and customer advances and deposits, less cash, cash equivalents, and short-term investments on our balance sheet to be our net debt. We also consider our net debt plus shareholders' equity to be our total capitalization. Net debt decreased by $37 million to $432 million during the twelve months ended March 31, 2011. The decrease primarily reflects lower customer deposits and notes payable and overdrafts offsetting lower cash balances. Net debt as a percentage of capitalization was approximately 27% at March 31, 2011, down from 29% at March 31, 2010, and it was lower than our target range of 35% to 45% of total capitalization. We repaid $15 million in maturing long-term debt during fiscal year 2011, and we have $95 million maturing during fiscal year 2012. We also have an active, undenominated shelf registration filed with the SEC, which provides for future issuance of additional debt or equity securities.

As of March 31, 2011, we, together with our consolidated affiliates, had approximately $549 million in uncommitted lines of credit, of which approximately $399 million were unused and available to support seasonal working capital needs. We also had approximately $141 million in cash and cash equivalents, and we have a five-year committed revolving credit facility totaling $400 million. We entered into the facility in August 2007, and it will mature on August 31, 2012. As of March 31, 2011, we had no borrowings under the facility. Under the terms of our bank agreement, we must maintain certain levels of tangible net worth and observe restrictions on debt levels. We were in compliance with all such covenants at March 31, 2011.

Derivatives

From time to time, we use interest rate swap agreements to manage our exposure to changes in interest rates. These agreements typically adjust interest rates on designated long-term obligations from fixed to variable. The swaps are accounted for as fair value hedges. At March 31, 2011, the fair value of our outstanding interest rate swap agreements was $10.2 million, and the notional amount swapped was $245 million. In fiscal year 2011, active swaps reduced interest expense by $8 million.

We also enter forward contracts from time to time to hedge certain foreign currency exposures, primarily related to forecast purchases of tobacco and related processing costs in Brazil as well as our net monetary asset exposure in the local currency there. We generally account for our hedges of forecast tobacco purchases as cash flow hedges. At March 31, 2011, the fair value of our open contracts designated as hedges was approximately $2.4 million. We also had other forward contracts outstanding that were not designated as hedges, and the fair value of those contracts was not material at March 31, 2011. For additional information, see Note 9 to the consolidated financial statements in Item 8.

Pension Funding

Funds supporting our ERISA-regulated U.S. defined benefit pension plans increased by $14 million to $178 million because of gains in the investment portfolio during the fiscal year. By April 30, 2011, the market value of the fund was about $182 million. The accumulated benefit obligation ("ABO") and the projected benefit obligation ("PBO") were approximately $190 million and $211 million, respectively, as of March 31, 2011. The ABO and PBO are calculated on the basis of certain assumptions that are outlined in Note 11 to the consolidated financial statements in Item 8. We expect to make contributions of about $5 million to our ERISA-regulated plans during the next year. It is our policy to monitor the performance of the funds and to review the adequacy of our funding and plan contributions.

Contractual Obligations

Our contractual obligations as of March 31, 2011, were as follows:

(in thousands of dollars)	Total	2012	2013-2014	2015-2016	After 2016
Notes payable and long-term debt (1)	$610,362	$266,923	$239,272	$104,167	$—
Operating lease obligations	50,153	19,176	15,196	8,467	7,314
Inventory purchase obligations:					
Tobacco	648,787	555,980	92,807	—	—
Agricultural materials	46,025	46,025	—	—	—
Other purchase obligations	9,110	8,930	180	—	—
Total	$1,364,437	$897,034	$347,455	$112,634	$7,314

(1) Includes interest payments. Interest payments on $149 million of variable rate debt were estimated on the basis of March 31, 2011 rates.

In addition to principal and interest payments on notes payable and long-term debt, our contractual obligations include operating lease payments, inventory purchase commitments, and capital expenditure commitments. Operating lease obligations represent minimum payments due under leases for various production, storage, distribution, and other facilities, as well as vehicles and equipment. Tobacco inventory purchase obligations primarily represent contracts to purchase tobacco from farmers. The amounts shown above are estimates since actual quantities purchased will depend on crop yield and prices will depend on the quality of the tobacco delivered. About half of our crop year contracts to purchase tobacco are with farmers in Brazil. We have partially funded our tobacco purchases in Brazil and in other regions with advances to farmers and other suppliers, which totaled approximately $161 million at March 31, 2011. In addition, we have guaranteed bank loans to farmers in Brazil that relate to a portion of our tobacco purchase obligations there. At March 31, 2011, we were contingently liable under those guarantees for outstanding balances of approximately $73 million (including accrued interest), and we had recorded a liability of approximately $21 million for the fair value of those guarantees. As tobacco is purchased and the related bank loans are repaid, our contingent liability is reduced.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing the financial statements in accordance with GAAP, we are required to make estimates and assumptions that have an impact on the assets, liabilities, revenue, and expense amounts reported. These estimates can also affect our supplemental information disclosures, including information about contingencies, risk, and financial condition. We believe, given current facts and circumstances, our estimates and assumptions are reasonable, adhere to GAAP, and are consistently applied. However, changes in the assumptions used could result in a material adjustment to the financial statements. Our critical accounting estimates and assumptions are in the following areas:

Inventories

Inventories of tobacco are valued at the lower of cost or market with cost determined under the specific cost method. Raw materials are clearly identified at the time of purchase. We track the costs associated with raw materials in the final product lots, and maintain this identification through the time of sale. We also capitalize direct and indirect costs related to processing raw materials. This method of cost accounting is referred to as the specific cost or specific identification method. We write down inventory for changes in market value based upon assumptions related to future demand and market conditions if the indicated market value is below cost. Future demand assumptions can be impacted by changes in customer sales, changes in customers' inventory positions and policies, competitors' pricing policies and inventory positions, changing customer needs, and varying crop sizes and qualities. Market conditions that differ significantly from those assumed by management could result in additional write-downs. We experience inventory write-downs routinely. Inventory write-downs in fiscal years 2011, 2010, and 2009 were $8.5 million, $1.3 million, and $3.5 million, respectively.

Advances to Suppliers and Guarantees of Bank Loans to Suppliers

We provide agronomy services and seasonal crop advances of, or for, seed, fertilizer, and other supplies. These advances are short term in nature and are customarily repaid upon delivery of tobacco to us. Primarily in Brazil, we have also made long-term advances to tobacco farmers to finance curing barns and other farm infrastructure. In Brazil, we also guarantee both short-term and long-term loans made to farmers for the same purposes. In some years, due to low crop yields and other factors, individual farmers may not deliver sufficient volumes of tobacco to repay maturing advances. In that case, we may extend repayment of the advances into the following crop year or satisfy the guarantee by acquiring the loan from the bank. In either situation, we will incur losses whenever we are unable to recover the full amount of the loans and advances. At each reporting period, we must make estimates and assumptions in determining the valuation allowance for advances to farmers and the liability to accrue for our obligations under bank loan guarantees.

Recoverable Value-Added Tax Credits

In many foreign countries, we 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 we sell tobacco to customers in the country of origin, we generally collect VAT on those sales. We are normally permitted to offset our VAT payments against those 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 our tobacco sales are predominately for export markets, we often do not generate enough VAT collections on downstream sales to fully offset our VAT payments. In those situations, we can accumulate unused VAT credits. 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, in some countries we can accumulate significant balances of VAT credits over time. We review these balances on a regular basis, and we record valuation allowances on the credits to reflect amounts that we do not expect to recover, as well as discounts anticipated on credits we expect to sell or transfer. In determining the appropriate valuation allowance to record in a given jurisdiction, we must make various estimates and assumptions about factors affecting the ultimate recovery of the VAT credits. At March 31, 2011, the gross balance of recoverable tax credits (primarily VAT) totaled approximately $75 million, and the related valuation allowance totaled approximately $22 million.

Goodwill

We review the carrying value of goodwill for potential impairment on an annual basis and at any time that events or business conditions indicate that it may be impaired. We follow applicable accounting guidance in determining the fair value of goodwill, which normally involves the use of discounted cash flow models (Level 3 of the fair value hierarchy under GAAP). The calculations in these models are normally not based on observable market data from independent sources and therefore require significant management judgment with respect to operating earnings growth rates and the selection of an appropriate discount rate. Neither a one-percentage-point increase in the discount rate assumption nor a one-percentage-point decline in the cash flow growth rate assumption would result in an impairment charge. However, significant changes in estimates of future cash flows, such as those caused by unforeseen events or changes in market conditions could result in an impairment charge. The majority of our goodwill relates to our reporting unit in Brazil.

Fair Value Measurements

We hold various financial assets and financial liabilities that are required to be measured and reported at fair value in our financial statements, including money market funds, trading securities associated with deferred compensation plans, interest rate swaps, forward foreign currency exchange contracts, and guarantees of bank loans to tobacco growers in Brazil. We follow the relevant accounting guidance in determining the fair values of these financial assets and liabilities. Quoted market prices (Level 1 of the fair value hierarchy) are used in most cases to determine the fair values of money market funds and trading securities. Interest rate swaps and forward foreign currency exchange contracts are valued based on dealer quotes using discounted cash flow models matched to the contractual terms of each instrument (Level 2 of the fair value hierarchy). The fair value of the guarantees of bank loans to tobacco growers, which was approximately $21 million at March 31, 2011, is derived using an internally-developed discounted cash flow model. The model requires various inputs, including historical loss percentages for comparable loans and a risk-adjusted interest rate. Because significant management judgment is required in determining and applying these inputs to the valuation model, our process for determining the fair value of these guarantees is classified as Level 3 of the fair value hierarchy. At March 31, 2011, a 1% increase in the expected loss percentage for all guaranteed farmer loans would have increased the fair value of the guarantee obligation by approximately $0.8 million. A 1% change in the risk-adjusted interest rate would not have had a material effect on the fair value of the guarantee obligation. We incorporate credit risk in determining the fair values of our financial assets and financial liabilities, but that risk did not materially affect the fair values of any of those assets or liabilities at March 31, 2011.

Income Taxes

Our consolidated effective income tax rate is based on our expected taxable income, tax laws and statutory tax rates, and tax planning opportunities in the various jurisdictions in which we operate. Significant judgment is required in determining the effective tax rate and evaluating our tax position. The effective tax rate is applied to quarterly operating results. We are subject to the tax laws of many jurisdictions, and could be subject to a tax audit in each of these jurisdictions, which could result in adjustments to tax expense in future periods. In the event that there is a significant, unusual, or one-time item recognized in our results, the tax attributed to that discrete item would be recorded at the same time as the item.

Our accounting for uncertain tax positions requires that we review all significant tax positions taken, or expected to be taken, in income tax returns for all jurisdictions in which we operate. In this review, we must assume that all tax positions will ultimately be audited, and either accepted or rejected based on the applicable tax regulations by the tax authorities for those jurisdictions. We must recognize in our financial statements only the tax benefits associated with tax positions that are “more likely than not” to be accepted upon audit, at the greatest amount that is considered “more likely than not” to be accepted. These determinations require significant management judgment, and changes in any given quarterly or annual reporting period could affect our consolidated income tax rate.

Tax regulations require items to be included in the tax return at different times than the items are reflected in the financial statements. As a result, our effective tax rate reflected in the financial statements is different than that reported in our tax returns. Some of these differences are permanent, such as expenses that are not tax deductible, while others are related to timing issues, such as differences in depreciation methods. Timing differences create deferred tax assets and liabilities. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred or income taxes related to expenses that have not yet been recognized in the financial statements but have been deducted in our tax return. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future tax returns for which we have already recorded the tax benefit in our financial statements. We record valuation allowances for deferred tax assets when the amount of estimated future taxable income is not likely to support the use of the deduction or credit. Determining the amount of such valuation allowances requires significant management judgment, including estimates of future taxable income in multiple tax jurisdictions where we operate. Based on our periodic earnings forecasts, we project the upcoming year's taxable income to help us evaluate our ability to realize deferred tax assets. We had small net operating loss ("NOL") carryforwards in several foreign jurisdictions at March 31, 2011. Based on future estimates of taxable income and/or available tax planning strategies in those jurisdictions, we expect to fully realize those NOL carryforwards.

At the beginning of fiscal year 2010, we had approximately $52 million of undistributed earnings of foreign subsidiaries on which no provision for U.S. income taxes had been recorded because those earnings were designated as permanently reinvested. Effective March 31, 2010, we changed the classification of those earnings to reflect a change in our intent to repatriate the earnings consistent with appropriate tax planning and good business practice in the respective foreign countries. As a result of this change, approximately $3.5 million of additional income tax expense was recognized in fiscal year 2010 to record the applicable U.S. tax liability. We currently have no undistributed earnings of foreign subsidiaries that are classified as permanently reinvested.

The functional currency in most of our significant foreign operations is the U.S. dollar, as export tobacco sales are generally made in dollars. Purchasing and processing costs are usually incurred in local currency. When the U.S. dollar is weakening relative to the local currency, purchasing and processing costs increase in dollar terms, resulting in higher cost inventory. The sale of that inventory in dollars generates less taxable income in local currency, which results in lower income taxes owed when translated into U.S. dollars. This causes the effective income tax rate on dollar income to be lower than the statutory rate in the local country. The reverse can occur when the local currency is weakening relative to the U.S. dollar, thereby causing the effective income tax rate on dollar earnings to be above the statutory rate. This impact on our effective income tax rate in a country can be significant during a normal crop cycle. A prolonged period of strengthening or weakening over more than one crop may increase the impact if we sell material quantities of old crop inventories. Lower-taxed foreign source income increases our ability to use foreign tax credits. Higher-taxed foreign source income has the reverse effect. When these changes occur in our larger operations, such as our operations in Brazil, they can have a material impact on our overall tax position.

For additional disclosures on income taxes, see Notes 1 and 5 to the consolidated financial statements in Item 8.

Pension and Other Postretirement Benefit Plans

The measurement of our pension and postretirement obligations and costs are dependent on a variety of assumptions determined by management and used by our actuaries. These assumptions include estimating the present value of projected future pension payments to all plan participants, taking into consideration the likelihood of potential future events such as salary increases and demographic experience. The assumptions we have made may have an effect on the amount and timing of future contributions. The plan trustee conducts an independent valuation of the fair value of pension plan assets. The significant assumptions used in the calculation of pension and postretirement obligations are:

- Discount rate – The discount rate is based on investment yields on a hypothetical portfolio of long-term corporate bonds rated AA that align with the cash flows for our benefit obligations.

- Salary scale – The salary scale assumption is based on our long-term actual experience for salary increases, the near-term outlook, and expected inflation.

- Expected long-term return on plan assets – The expected long-term return on plan assets reflects asset allocations and investment strategy adopted by the Pension Investment Committee of the Board of Directors.

- Retirement and mortality rates – Retirement rates are based on actual plan experience along with our near-term outlook. Early retirement assumptions are based on our actual experience. Mortality rates are based on standard group annuity (RP-2000) mortality tables which have been updated to reflect improvements in projected life expectancy.

- Healthcare cost trend rates – For postretirement medical plan obligations and costs, we make assumptions on future inflationary increases in medical costs. These assumptions are based on our actual experience, along with third-party forecasts of long-term medical cost trends.

The effects of actual results differing from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense in such future periods.

Sensitivity Analysis. The effect of the indicated decrease or increase in the selected assumptions is shown below, assuming no change in benefit levels:

(in thousands of dollars)	Effect on 2011 Projected Benefit Obligation Increase (Decrease)	Effect on 2012 Annual Expense Increase (Decrease)
Changes in Assumptions for Pension Benefits		
Discount Rate:		
1% increase	$ (27,535)	$ (2,624)
1% decrease	33,438	3,084
Salary Scale:		
1% increase	6,824	1,523
1% decrease	(6,465)	(1,433)
Long-Term Rate of Return on Assets:		
1% increase	N/A	(1,990)
1% decrease	N/A	1,991
Changes in Assumptions for Other Postretirement Benefits		
Discount Rate:		
1% increase	(3,784)	(349)
1% decrease	4,491	150
Healthcare Cost Trend Rate:		
1% increase	1,386	75
1% decrease	(1,210)	(66)

See Note 11 to the consolidated financial statements in Item 8 for additional information on pension and postretirement benefit plans.

Other Estimates and Assumptions

Other management estimates and assumptions are routinely required in preparing our financial statements, including the determination of valuation allowances on accounts receivable, advances to suppliers, and certain value-added tax credits, as well as the determination of the fair value of long-lived assets. Changes in market and economic conditions, local tax laws, and other related factors are considered each reporting period, and adjustments to the accounts are made based on management’s best judgment.

OTHER INFORMATION REGARDING TRENDS AND MANAGEMENT'S ACTIONS

Our financial performance depends on our ability to obtain an appropriate price for our products and services, to secure the tobacco volumes and quality desired by our customers, and to maintain efficient operations. We continually monitor issues that may impact supply of and demand for leaf tobacco, and the volumes of leaf tobacco that we handle.

Supply

As we begin fiscal year 2012, we are experiencing the effects of oversupply evidenced by slow market activity in major markets that will affect our results this year. Successive large crops in several flue-cured sourcing areas have stimulated margin pressures from customers that are typical of an oversupplied market. Following two fiscal years of higher than normal customer demand, we believe that a number of customers have built leaf inventory levels. That factor, combined with softer cigarette sales in some markets, has led to reduced leaf demand.

Periodic cycles of under- and oversupply of leaf are not unusual in our business, and we have successfully navigated oversupplied markets throughout the history of the company. Although each one has unique features, the process is generally the same. Crop sizes are lowered to permit supply to match demand. Although current dealer unsold inventories are not excessive, we expect them to grow significantly during this season. In addition, there are new participants in several markets with some customers sourcing additional portions of their tobacco needs. These factors may prolong the effect of the oversupply on the dealer industry. We plan to work aggressively to avoid accumulating excess inventories during this period, but even if we are successful, these market conditions will cause margin reductions.

Production

Worldwide flue-cured tobacco production in fiscal year 2011 increased by 5.2% to 4.5 billion kilos. The total includes China, an extremely large market that is primarily domestic. Because very little of that tobacco is available to trade, we generally exclude Chinese crops when we consider worldwide production. On that basis, worldwide flue-cured tobacco production in fiscal year 2011 increased by about 5.8%, to 2.09 billion kilos. Burley crops declined by about 9.8% in fiscal year 2011 following two years of production increases. We estimate that at March 31, 2011, industry uncommitted flue-cured and burley inventories totaled about 115 million kilos, more than double the amount at March 31, 2010. Uncommitted inventories in the hands of dealers remain reasonable, but they have increased, signaling the start of an oversupply cycle.

We believe flue-cured production (excluding China) will increase by about 5%, to about 2.2 billion kilos in fiscal year 2012. Most of the increase will occur in Brazil where unfavorable weather conditions reduced the crop sold in fiscal year 2011, and this year weather caused higher than normal yields. Production of flue-cured tobacco, which will be sold in our fiscal year 2012, is greater than demand in almost every major market. Burley production is also forecast to increase by about 5%, with most of this increase coming from Brazil, although many areas continue to overproduce. Supplies of oriental tobacco available for trading have continued to decline as the former monopoly inventories have been reduced.

Pricing

Factors that affect green tobacco prices include competition from other crops, production costs, market conditions, and global supply and demand. We work with farmers to maintain tobacco production and to secure product at price levels that are attractive to our customers. Tobacco competes with agricultural commodity products for farmer production. As prices for soybeans, wheat, rice, and seed oils rise, green tobacco prices may have to rise to maintain tobacco production levels. This factor could provide momentum to efforts of the WHO to shift farmer production from leaf tobacco to other crops. After reductions through early 2009, commodity prices and crop production costs have risen dramatically. Any current growth in farm input costs would affect crops sold in fiscal year 2013. In the recent past, market shortages have also led to green tobacco price increases. Recent customer steps to procure leaf directly would increase competition for available leaf and could disrupt markets and further increase green tobacco prices. The market oversupply is currently mitigating these underlying trends.

We believe that recent excise tax increases and related reductions in consumption of tobacco products, particularly in the United States and Western Europe, have increased cost sensitivity of customers. We have seen an increasing customer focus on costs during this fiscal year, and we have seen the addition of excess capacity. These changes will reduce margins and volumes handled in the United States in fiscal year 2012, which could represent a reduction of about $30 million in operating income for our North America segment. We have taken steps to rationalize and reduce our processing capacity. The North Carolina factory is modern and efficient, and we will continue to work to expand our business with existing and new customers there. In addition, U.S. flue-cured leaf is becoming more attractive in the world market as the competitive position of Brazilian flue-cured leaf is being eroded by currency appreciation and increased labor costs.

Evolving European Market

We have seen some decrease in production of tobacco in the European Union (E.U.) as the staged reduction in the subsidy system there has taken effect. Although various countries have offered replacement schemes, those programs cover less of the high farm production cost, mostly connected with labor costs. So farm prices have risen to compensate for those costs, making it more difficult for E.U. tobacco to compete in the world market. In the intermediate term, we believe that the possibility for sustainable tobacco production in the E.U. exists due to the current efforts to streamline the cost structure at all levels (from farms to factories to services) and the importance of European leaf to some manufacturers. Within the general discussion on the future of the E.U. Common Agricultural Policy, it looks probable that a major driving factor will be the support of employment in the rural areas, in which framework tobacco production could reasonably be considered eligible for adequate support. We believe that if farmer commercial income does not increase, as the level of support available to farmers decreases, the volume of tobacco produced in Europe will decline over time.

Demand

After the current inventory duration correction and recovery, we expect that near-term demand for leaf tobacco will be flat, primarily due to the flattening trend in world cigarette consumption. However, demand is affected by many factors including regulation and product taxation. On a year-to-year basis, we are susceptible to fluctuations in leaf supply due to crop size and leaf demand as manufacturers adjust inventories or respond to changes in cigarette markets.

Our sales consist primarily of flue-cured and burley tobaccos. Those types of tobacco, along with oriental tobaccos, are the major ingredients in American-blend cigarettes. Industry data shows that consumption of American-blend cigarettes has declined at a compound annual rate of 1.5% for the ten years that ended in 2010. Over the past ten years, industry data also shows that total world consumption of cigarettes grew at the compound annual rate of 0.7%, including annual growth of about 3.4% in China, which experienced higher increases during the second half of the period. Outside China, consumption fell by 0.8% during the ten years. These patterns indicate a shift in demand, reducing the need for burley and oriental tobaccos that are used in addition to flue-cured tobacco in American-blend cigarettes and increasing the need for flue-cured tobacco that is used in English-blend cigarettes, which are predominant in China.

In 2010, total cigar consumption in the United States increased by almost 9% to approximately 13.2 billion units. Less unfavorable U.S. federal excise tax treatment of large cigars caused a migration to that category from small cigars. Premium cigar consumption in the United States declined by 10%, to approximately 258 million units. Cigar consumption within the main E.U. markets declined by 2% - 3%, to about 6 billion units. Within the smokeless segment of the dark tobacco business, 2010 U.S. consumption of loose-leaf chewing tobacco declined by 8%, while the consumption of moist snuff products grew by about 7%. We believe that supplies of dark air-cured filler tobacco worldwide are generally in line with demand; however, volumes of dark tobacco from Europe will be negatively affected by changes in the E.U. tobacco subsidy program. Wrapper tobacco, particularly bright wrapper tobacco, is in very tight supply due to a 2010 weather-related crop disaster in Indonesia, the largest producer of that type of leaf.

Competition

In recent years, we have experienced an increase in competition from small tobacco dealers in some of the markets where we conduct business. These small competitors typically have lower overhead requirements and provide little or no support to farmers. Due to their lower cost structures, they often can offer a price for products that is lower than our price. We believe that the quality controls and farm programs we provide are necessary for our customers and make our products highly competitive. For example, we have established worldwide farm programs designed to prevent non-tobacco related materials from being introduced into the green tobacco delivered to our factories. In addition, we have established programs for good agricultural practices and have been active in social responsibility endeavors in many of the developing countries in which we do business. We believe that our major customers value these services and that our programs increase the quality of the products and services we offer. We also believe that our customers value the steady supply that we are able to provide due to our relationship with our farmer base.

In addition, we have more competitors for available leaf in the United States, Brazil, and Africa because of recent customer steps to procure tobacco directly in order to meet more of their own needs. Direct sourcing is also likely to provide our customers with some quantities of tobacco that, because they may prefer not to use it in their existing blends, may reenter the market.

Regulation

Decreased social acceptance of smoking and increased pressure from anti-smoking groups have had an ongoing adverse effect on sales of tobacco products, particularly in the United States and Western Europe. Also, a number of foreign governments have taken or proposed steps to restrict or prohibit cigarette advertising and promotion, to increase taxes on cigarettes, to prohibit smoking in public areas, and to discourage cigarette consumption. A number of such measures are included in the Framework Convention on Tobacco Control (“FCTC”), which was negotiated under the auspices of the WHO. In some cases, such restrictions are more onerous than those proposed or in effect in the United States. We cannot predict the extent to which government efforts to reduce tobacco consumption might affect the business of our primary customers. However, a significant decrease in worldwide tobacco consumption brought about by existing or future governmental laws and regulations would reduce demand for our products and services and could have a material adverse effect on our results of operations. Given recent growth in Asia, it seems unlikely that world consumption of tobacco products will decrease sharply in the next few years.

In addition, certain recommendations by the WHO, through the FCTC, may cause shifts in customer usage of certain styles of tobacco. As seen in countries like Canada and Brazil, efforts have been taken to eliminate ingredients from the manufacturing process for tobacco products. Such decisions could cause a change in requirements for certain styles of tobacco in particular countries. Shifts in customer demand from one type of tobacco to another could create sourcing issues as requirements move from one origin to another.

In 2009, the U.S. Congress passed the Family Smoking Prevention and Tobacco Control Act (“FSPTCA”). This legislation authorizes the FDA to regulate the manufacturing and marketing of tobacco products. At this time it is not possible to assess the impact FDA regulation will have on our operations or the tobacco industry.

Product Taxation

A number of governments, particularly federal and local governments in the United States and the E.U., impose excise or similar taxes on tobacco products. There has been, and will likely continue to be, new legislation proposing new or increased taxes on tobacco products. In some cases, proposed legislation seeks to significantly increase existing taxes on tobacco products, or impose new taxes on products that to date have not been subject to tax.

Industry Consolidation

An important trend in the tobacco industry in the last several years has been consolidation among manufacturers of tobacco products. For example, last year a Philip Morris International affiliate acquired Fortune Tobacco Corporation. This activity is expected to continue, particularly as further privatization of state monopolies occurs, providing opportunities for acquisitions by international manufacturers, and as multinational manufacturers expand their product and brand offerings by acquisition. Consolidation has increased the size of many of these multinational manufacturers and has increased the quantities of leaf tobacco that each one requires. This concentration trend could provide additional opportunities for us and also increase the importance of each individual customer to our results. It has also created an environment where security of supply is of increasing importance. A key success factor for leaf dealers is the ability to provide customers with the quality of leaf and the level of service they desire on a global basis at the lowest cost possible, consistent with stability of supply. In addition, the international leaf dealers have larger historical market shares with some customers than with others, which can have a disproportionate effect on our volumes.

Industry Evolution

Recent customer efforts to procure leaf directly from farmers has changed parts of our business. Both Japan Tobacco and Philip Morris International have taken steps to procure more of their leaf needs directly from farmers. We believe that the manufacturers have taken these actions for several reasons, including the desire to enhance internal expertise in leaf procurement, actively manage the leaf supply chain in an increasingly regulated environment, ensure supply, and work more directly with tobacco growers. Japan Tobacco's increase in direct leaf procurement reduced our volumes in fiscal year 2011 in our North America segment and in Malawi and Brazil in our Other Regions segment. Philip Morris International's actions will reduce volumes purchased in Brazil in our Other Regions segment in our fiscal year 2012. We have been working to replace those volumes, and have used this opportunity to broaden our customer base and expand the services we offer our customers.

Direct leaf procurement by manufacturers has been a factor in our business for many years. Our challenge continues to be to adapt our way of doing business to meet customer needs, and we have been working with some of our customers to examine our arrangements in certain markets. Some customers may purchase green tobacco from us or from farmers in markets they deem to be strategic, and contract with us through long-term agreements for individual services, such as agronomy, logistics, and processing. Most of our customers do not utilize the entire run of the crop, and so these new arrangements are likely to be supplemented by traditional purchases of processed leaf tobacco from us or other dealers.

We believe that these customer efforts are likely to strengthen our relationships over the long term. As the leading global leaf tobacco merchant and processor, we add significant value to the system, providing expertise in dealing with large numbers of farmers, providing a clearinghouse for various qualities of leaf produced in each crop, and delivering products that meet stringent customer quality specifications. We also help stabilize the tobacco markets and influence the crop at the farm level. Our key objective is to continually adapt our business model to meet our customers' evolving needs while continuing to provide stability of supply and the quality that distinguishes our products and services.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rates

After inventory is purchased, interest rate risk is limited in our business because customers usually pre-finance purchases or pay market rates of interest for inventory purchased for their accounts.

We bill our customers interest on tobacco purchased for their order at certain points in the inventory cycle. That interest is paid at rates based on current markets for variable rate debt. When we fund our committed tobacco inventory with fixed-rate debt, we might not be able to recover interest at that fixed rate if current market interest rates were to fall. As of March 31, 2011, tobacco inventory of $742 million included $571 million in inventory that was committed for sale to customers and $171 million that was not committed. Committed inventory, after deducting about $8 million in customer deposits, represents our potential net exposure of about $563 million. We normally maintain a substantial portion of our debt at variable interest rates in order to mitigate substantially interest rate risk related to carrying fixed-rate debt. At March 31, 2011, we had large cash balances that we plan to use to fund seasonal purchases of tobacco, and thus, debt carried at variable interest rates was lower than normal, at $404 million. Although a hypothetical 1% change in short-term interest rates would result in a change in annual interest expense of approximately $4.0 million, that amount would be at least partially mitigated by changes in charges to customers. Our policy is to work toward a level of floating-rate liabilities, including customer deposits, that reflects of our average committed inventory levels over time.

Significant portions of our cash and cash equivalents, which totaled $141 million at March 31, 2011, are invested at variable rates. Based on balances at March 31, 2011, a hypothetical 1% increase in interest rates would raise annual interest income by $1.4 million.

In addition, changes in interest rates affect the calculation of liabilities of our pension plan. As rates increase, the liability for present value of amounts expected to be paid under the plans decreases. Rate changes also affect expense. As of the March 31, 2011 measurement date, a 1% increase in the discount rate would have reduced the projected benefit obligation ("PBO") for pensions by $27.5 million and decreased annual pension expense by $2.6 million. Conversely, a 1% decrease in the discount rate would have increased the PBO by $33.4 million and increased annual pension expense by $3.1 million.

Currency

The international leaf tobacco trade generally is conducted in U.S. dollars, thereby limiting foreign exchange risk to that which is related to leaf purchase and production costs, overhead, and income taxes in the source country. We also provide farmer advances that are directly related to leaf purchases and are denominated in the local currency. Any currency gains or losses on those advances are usually offset by decreases or increases in the cost of tobacco, which is priced in the local currency. However, the effect of the offset may not occur until a subsequent quarter or fiscal year. Most of our tobacco 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 often 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 local currency monetary position in individual countries. We are vulnerable to currency remeasurement gains and losses to the extent that monetary assets and liabilities denominated in local currency do not offset each other. We recognized $4.4 million in net remeasurement gains in fiscal year 2011, compared to $9.3 million in net remeasurement losses in fiscal year 2010, and $46.0 million in net remeasurement losses in fiscal year 2009. We recognized $1.7 million in net foreign currency transaction gains in fiscal year 2011, compared to net transaction gains of $4.0 million in fiscal year 2010, and net transaction losses of $4.6 million in fiscal year 2009. In addition to foreign exchange gains and losses, we are exposed to changes in the cost of tobacco due to changes in the value of the local currency in relation to the U.S. dollar. For example, when we purchased the Brazilian crop in the beginning of fiscal year 2009, the local currency had appreciated significantly against the U.S. dollar. Thus, the cost of the crop increased over that of the prior year, in U.S. dollar terms. We have entered forward currency exchange contracts to hedge against the effects of currency movements on purchases of tobacco to reduce the volatility of costs, primarily pursuant to customer contracts. In addition, we have entered some forward contracts to hedge balance sheet exposures. See Note 9 to the consolidated financial statements in Item 8 for additional information about our hedging activities.

In certain tobacco markets that are primarily domestic, we use the local currency as the functional currency. Examples of these markets are Hungary, Poland, and the Philippines. In other markets, such as Western Europe, where export sales have been primarily in local currencies, we also use the local currency as the functional currency. 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. When we use foreign currency derivatives to mitigate our exposure to exchange rate fluctuations, we may choose not to designate them as hedges for accounting purposes, which may result in the effects of the derivatives being recognized in our earnings in periods different from the items that created the exposure.

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, forecast purchase, 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 8. Financial Statements and Supplementary Data

UNIVERSAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Fiscal Year Ended March 31,		
(in thousands of dollars, except per share data)	2011	2010	2009
Sales and other operating revenues	$2,571,527	$2,491,738	$2,554,659
Costs and expenses			
Cost of goods sold	2,063,194	1,949,473	2,035,318
Selling, general and administrative expenses	251,597	285,056	309,409
Other income	(19,368)	—	—
Restructuring and impairment costs	21,504	—	—
Operating income	254,600	257,209	209,932
Equity in pretax earnings of unconsolidated affiliates	8,634	22,376	20,543
Interest income	2,723	1,253	2,305
Interest expense	23,058	24,210	35,631
Income before income taxes	242,899	256,628	197,149
Income taxes	78,349	86,283	64,588