

UNIVERSAL CORP /VA/
Form 10-Q
February 08, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended December 31, 2006

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period From _____ to _____

Commission File Number: 1-652

UNIVERSAL CORPORATION

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

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

**1501 North Hamilton Street,
Richmond, Virginia**
(Address of principal executive offices)

23230
(Zip Code)

804-359-9311

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of February 1, 2007, the total number of shares of common stock outstanding was 25,969,265.

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UNIVERSAL CORPORATION

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS
UNIVERSAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**

(In thousands of dollars, except per share data)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006 (Unaudited)	2005 (Unaudited)	2006 (Unaudited)	2005 (Unaudited)
Sales and other operating revenues	\$ 515,914	\$ 475,729	\$ 1,509,975	\$ 1,375,345
Costs and expenses				
Cost of goods sold	378,348	376,813	1,139,393	1,084,991
Selling, general and administrative expenses	63,010	63,549	212,537	184,940
Restructuring and impairment costs	3,519	23,861	15,808	23,861
Operating income	71,037	11,506	142,237	81,553
Equity in pretax earnings of unconsolidated affiliates	9,570	6,104	5,302	3,887
Interest expense	14,347	16,966	41,961	45,270
Income before income taxes and other items	66,260	644	105,578	40,170
Income taxes	24,805	(353)	45,203	17,885
Minority interests	5,676	1,346	1,085	(1)
Income (loss) from continuing operations	35,779	(349)	59,290	22,286
Discontinued operations:				
Operating results of discontinued operations, net of income taxes	(552)	(5,320)	9,953	10,378
Loss on sale of businesses, net of income taxes			(33,285)	
Impairment charge on businesses held for sale, net of income taxes	(11,122)		(11,122)	
Income (loss) from discontinued operations, net of income taxes	(11,674)	(5,320)	(34,454)	10,378
Net income (loss)	24,105	(5,669)	24,836	32,664
Dividends on convertible perpetual preferred stock	(3,713)		(10,973)	
Earnings (loss) available to common shareholders	\$ 20,392	\$ (5,669)	\$ 13,863	\$ 32,664
Basic earnings (loss) per common share:				
From continuing operations	\$ 1.24	\$ (0.01)	\$ 1.87	\$ 0.87
From discontinued operations:				
Operating results	(0.02)	(0.21)	0.39	0.40
Loss on sale of businesses			(1.29)	
Impairment charge on businesses held for sale	(0.43)		(0.43)	
Total from discontinued operations	(0.45)	(0.21)	(1.33)	0.40
Net income (loss)	\$ 0.79	\$ (0.22)	\$ 0.54	\$ 1.27

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Diluted earnings (loss) per common share:								
From continuing operations	\$	1.17	\$	(0.01)	\$	1.87	\$	0.87
From discontinued operations:								
Operating results		(0.02)		(0.21)		0.39		0.40
Loss on sale of businesses						(1.29)		
Impairment charge on businesses held for sale		(0.36)				(0.43)		
Total from discontinued operations		(0.38)		(0.21)		(1.33)		0.40
Net income (loss)	\$	0.79	\$	(0.22)	\$	0.54	\$	1.27
Retained earnings - beginning of period					\$	697,987	\$	733,763
Net income						24,836		32,664
Cash dividends declared:								
Common stock (2006 - \$1.30 per share; 2005 - \$1.27 per share)						(33,561)		(32,644)
Series B 6.75% Convertible Perpetual Preferred Stock						(10,973)		
Retained earnings - end of period					\$	678,289	\$	733,783

See accompanying notes.

Table of Contents**UNIVERSAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands of dollars)

	December 31, 2006 (Unaudited)	December 31, 2005 (Unaudited)	March 31, 2006
ASSETS			
Current			
Cash and cash equivalents	\$ 220,438	\$ 24,756	\$ 62,486
Accounts receivable, net	289,548	273,983	212,639
Advances to suppliers, net	83,629	128,715	119,131
Accounts receivable - unconsolidated affiliates	43,709	878	16,675
Inventories - at lower of cost or market:			
Tobacco	656,329	712,396	666,708
Other	45,553	50,860	42,746
Prepaid income taxes	2,831	5,808	3,769
Deferred income taxes	27,443	12,826	22,078
Other current assets	52,511	40,496	47,338
Current assets of discontinued operations	75,482	598,778	609,028
Total current assets	1,497,473	1,849,496	1,802,598
Property, plant and equipment			
Land	17,141	17,696	16,796
Buildings	250,281	266,829	252,148
Machinery and equipment	521,608	568,715	537,343
	789,030	853,240	806,287
Less accumulated depreciation	(408,408)	(413,238)	(394,830)
	380,622	440,002	411,457
Other assets			
Goodwill and other intangibles	104,265	105,665	105,802
Investments in unconsolidated affiliates	94,242	83,953	95,988
Deferred income taxes	92,879	86,334	85,994
Other noncurrent assets	159,133	184,727	182,482
Noncurrent assets of discontinued operations		209,203	217,020
	450,519	669,882	687,286
Total assets	\$ 2,328,614	\$ 2,959,380	\$ 2,901,341

See accompanying notes.

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(In thousands of dollars)

	December 31, 2006 (Unaudited)	December 31, 2005 (Unaudited)	March 31, 2006
LIABILITIES AND SHAREHOLDERS EQUITY			
Current			
Notes payable and overdrafts	\$ 169,283	\$ 352,126	\$ 318,710
Accounts payable	192,797	181,690	194,862
Accounts payable - unconsolidated affiliates	10,730	245	2,727
Customer advances and deposits	122,086	139,081	98,750
Accrued compensation	13,858	11,038	16,996
Income taxes payable	34,366	11,135	11,806
Current portion of long-term obligations	22,513	169,391	8,537
Current liabilities of discontinued operations	15,816	284,796	285,418
Total current liabilities	581,449	1,149,502	937,806
Long-term obligations	548,769	771,750	762,201
Postretirement benefits other than pensions	45,733	44,785	45,560
Other long-term liabilities	112,489	103,604	123,227
Deferred income taxes	34,038	24,755	31,072
Noncurrent liabilities of discontinued operations		24,317	18,805
Total liabilities	1,322,478	2,118,713	1,918,671
Minority interests	14,934	32,460	17,799
Shareholders' equity			
Preferred stock:			
Series A Junior Participating Preferred Stock, no par value, 500,000 authorized shares, none issued or outstanding			
Series B 6.75% Convertible Perpetual Preferred Stock, no par value, 5,000,000 authorized shares, 220,000 issued and outstanding shares (none at December 31, 2005, and 200,000 at March 31, 2006)			
	213,024		193,546
Common stock, no par value, 100,000,000 authorized shares, 25,923,058 issued and outstanding shares (25,715,109 at December 31, 2005, and 25,748,306 at March 31, 2006)			
	130,564	118,933	120,618
Retained earnings	678,289	733,783	697,987
Accumulated other comprehensive loss	(30,675)	(44,509)	(47,280)
Total shareholders' equity	991,202	808,207	964,871
Total liabilities and shareholders' equity	\$ 2,328,614	\$ 2,959,380	\$ 2,901,341

See accompanying notes.

Table of Contents**UNIVERSAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands of dollars)

	Nine Months Ended December 31, 2006 2005 (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS:		
Net income	\$ 24,836	\$ 32,664
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:		
Net loss (income) from discontinued operations	34,454	(10,378)
Depreciation	36,662	35,607
Amortization	1,488	2,428
Provisions for losses on advances to suppliers	30,250	9,020
Restructuring and impairment costs	15,808	23,861
Other, net	1,807	(9,461)
Changes in operating assets and liabilities, net	(30,986)	(84,378)
Net cash provided (used) by operating activities of continuing operations	114,319	(637)
CASH FLOWS FROM INVESTING ACTIVITIES OF CONTINUING OPERATIONS:		
Purchase of property, plant and equipment	(20,915)	(48,071)
Proceeds from sale of businesses, less \$20,345 cash of businesses sold	379,379	
Proceeds from sale of property, plant, and equipment and other	1,494	1,955
Net cash provided (used) by investing activities of continuing operations	359,958	(46,116)
CASH FLOWS FROM FINANCING ACTIVITIES OF CONTINUING OPERATIONS:		
Issuance (repayment) of short-term debt, net	(118,814)	73,488
Repayment of long-term debt	(200,000)	(20,662)
Issuance of convertible perpetual preferred stock, net of issuance costs	19,478	
Issuance of common stock	5,910	1,413
Dividends paid on common stock	(33,561)	(32,644)
Dividends paid on convertible perpetual preferred stock	(10,973)	
Other	(1,325)	(4,029)
Net cash provided (used) by financing activities of continuing operations	(339,285)	17,566
Net cash provided (used) by continuing operations	134,992	(29,187)
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Net cash provided by operating activities of discontinued operations	36,776	55,154
Net cash used by investing activities of discontinued operations	(9,417)	(23,403)
Net cash used by financing activities of discontinued operations	(6,766)	(30,425)
Net cash provided by discontinued operations	20,593	1,326
Effect of exchange rate changes on cash	74	(145)
Net increase (decrease) in cash and cash equivalents	155,659	(28,006)

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Cash and cash equivalents of continuing operations at beginning of year	62,486	54,089
Cash and cash equivalents of discontinued operations at beginning of year	4,147	4,536
Less: Cash and cash equivalents of discontinued operations at end of period	1,854	5,863
Cash and cash equivalents at end of period	\$ 220,438	\$ 24,756

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

See accompanying notes.

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UNIVERSAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Universal Corporation, with its subsidiaries (the Company or Universal), has operations in tobacco and agri-products. Previously, the Company also had operations in lumber and building products; however, those businesses, along with a portion of its agri-products operations, were sold on September 1, 2006 (see Note 4). In December 2006, the Company adopted a plan to sell the remaining agri-products operations. Those businesses are held for sale and reported as discontinued operations as of December 31, 2006, in the accompanying financial statements, and an impairment charge was recorded to reduce their carrying value to estimated fair value, less costs to sell (see Note 4). The Company's worldwide tobacco business now represents its continuing operations.

Because of the seasonal nature of the Company's business, the results of operations for any fiscal quarter will not necessarily be indicative of results to be expected for other quarters or a full fiscal year. All adjustments necessary to state fairly the results for the period have been included and were of a normal recurring nature. Certain amounts in prior year statements have been reclassified to conform to the current year presentation. This Form 10-Q should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

NOTE 2. ACCOUNTING PRONOUNCEMENTS

Universal adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R), effective April 1, 2006. SFAS 123R requires that share-based payments, such as grants of stock options, restricted shares, restricted share units, and stock appreciation rights, be measured at fair value and reported as expense in a company's financial statements over the requisite service period. Disclosures related to the adoption of SFAS 123R and the Company's share-based compensation programs are provided in Note 6.

Effective April 1, 2006, the Company also adopted FASB Statement of Financial Accounting Standards No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 (SFAS 151). SFAS 151 amended Accounting Research Bulletin No. 43 (ARB 43) to clarify that abnormal amounts of production-related costs, such as idle facility expense, freight, handling costs, and wasted materials, should be recognized as current-period charges rather than being recorded as inventory cost. SFAS 151 also requires that allocation of fixed production overhead to inventory cost be based on the normal capacity of a company's production facilities. The impact of adopting SFAS 151 was not material to the Company's financial statements.

In July 2006, the FASB issued FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 requires that positions taken or expected to be taken in tax returns meet a more-likely-than-not threshold in order to be recognized in the financial statements. It also provides guidance on measuring the amount of a tax position that meets the more-likely-than-not criterion. FIN 48 is effective for fiscal years beginning after December 15, 2006, and will be adopted by Universal in the first quarter of its fiscal year ending March 31, 2008. Universal is in the process of reviewing tax positions throughout its worldwide organization, but has not yet determined the impact that FIN 48 will have on its financial statements.

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

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). SFAS 158 requires employers who sponsor defined benefit pension or postretirement plans to recognize the overfunded or underfunded status of each plan as an asset or liability in the balance sheet and to recognize actuarial gains and losses and prior service costs and credits that are not included in pension or postretirement benefit expense as a component of comprehensive income. SFAS 158 also requires that the funded status of plans be measured as of the balance sheet date, thereby eliminating the option allowed under the prior guidance to measure the funded status at a date up to 90 days before the balance sheet date. SFAS 158 is effective for fiscal years ending after December 15, 2006, except for the requirement to measure funded status as of the balance sheet date, which is effective for fiscal years ending after December 15, 2008. Universal is reviewing the guidance in SFAS 158 and, based on information from the most recent actuarial valuation, currently expects that the adoption of SFAS 158 will result in an increase in accumulated other comprehensive loss of approximately \$15 million to \$25 million.

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

Guarantees and Other Contingent Liabilities

Guarantees of bank loans to growers for crop financing and construction of curing barns or other tobacco producing assets are industry practice in Brazil and support the farmers production of tobacco there. At December 31, 2006, total exposure under subsidiaries guarantees issued for banking facilities of Brazilian farmers was approximately \$228 million. About 66% of these guarantees expire within one year, and nearly all of the remainder expire within five years. The Company withholds payments due to the farmers on delivery of tobacco and forwards those payments to the third-party bank. Failure of farmers to deliver sufficient quantities of tobacco to the Company to cover their obligations to third-party banks could result in a liability for the Company under the related guarantee; however, in that case, the Company would have recourse against the farmers. The maximum potential amount of future payments that the Company s subsidiary could be required to make is the face amount, \$228 million, and any unpaid accrued interest. The accrual recorded for the value of the guarantees was approximately \$12 million and \$6 million at December 31, 2006 and 2005, respectively, and approximately \$8 million at March 31, 2006. In addition to these guarantees, the Company has contingent liabilities related to the unsecured portion of a bank guarantee for European Commission fines in Italy and to other legal matters, as discussed below.

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European Commission Fines and Other Legal Matters

European Commission Fines in Spain

In October 2004, the European Commission (the Commission) imposed fines on five companies active in the raw Spanish tobacco processing market totaling 20 million (approximately \$25 million) for colluding on the prices paid to, and the quantities bought from, the tobacco growers in Spain. Two of the Company's subsidiaries, including Deltafina, S.p.A. (Deltafina), an Italian subsidiary, were among the five companies assessed fines. In its decision, the Commission imposed a fine of 11.88 million (approximately \$14.8 million) on Deltafina. Deltafina did not and does not purchase or process raw tobacco in the Spanish market, but was and is a significant buyer of tobacco from some of the Spanish processors. The Company recorded a charge of approximately \$14.9 million in the second quarter of fiscal year 2005 to accrue the full amount of the fines assessed against the Company's subsidiaries.

In January 2005, Deltafina filed an appeal in the Court of First Instance of the European Communities. The appeal process is likely to take several years to complete, and the ultimate outcome is uncertain. The Company has deposited funds in an escrow account with the Commission in the amount of the fine in order to stay execution during the appeal process.

European Commission Fines in Italy

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

On December 28, 2004, the Company received a preliminary indication that the Commission intended to revoke Deltafina's immunity for disclosing in April 2002 that it had applied for immunity. Neither the Commission's Leniency Notice of February 19, 2002, nor Deltafina's letter of provisional immunity, contains a specific requirement of confidentiality. The potential for such disclosure was discussed with the Commission in March 2002, and the Commission never told Deltafina that disclosure would affect Deltafina's immunity. On November 15, 2005, the Company received notification from the Commission that the Commission had imposed fines totaling 30 million (about \$36 million) on Deltafina and the Company jointly for infringing European Union antitrust law in connection with the purchase and processing of tobacco in the Italian raw tobacco market.

The Company does not believe that the decision can be reconciled with the Commission's Statement of Objections and facts. The Company and Deltafina each have appealed the decision to the Court of First Instance of the European Communities. Based on consultation with outside legal counsel, the Company believes it is probable that it will prevail in the appeals process and has not accrued a charge for the fine. Deltafina has provided a bank guarantee to the Commission in the amount of the fine in order to stay execution during the appeal process. A cash deposit of 8 million (about \$10 million) secures a portion of the bank guarantee.

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U.S. Foreign Corrupt Practices Act

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

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

Employment Litigation Verdict

In September 2006, a California jury decided a case involving an employment matter at one of the Company's agri-products subsidiaries in favor of the plaintiffs and awarded them compensatory damages of approximately \$0.2 million and punitive damages of \$25 million. In December 2006, upon motion of the Company, the trial court substantially reduced the punitive damages to approximately \$1.25 million, bringing the total amount of the award to approximately \$1.45 million. In January 2007, plaintiffs filed a motion for attorneys' fees, which is pending before the trial court. The plaintiffs have also filed a notice of appeal with the appeals court seeking, in part, a review of the decision of the lower court to reduce the amount of the award. The Company and the other defendants have also filed a notice of appeal, as the Company believes there are errors in the decision of the court despite the significant reduction in punitive damages. The Company has accrued the probable liability that it ultimately expects to incur in this case, which includes the compensatory and punitive damages awarded by the trial court and outside counsel's estimate of the likely attorneys' fees that may be awarded. While the Company feels confident in its assessment of its probable liability, additional charges could be incurred in a future period in an amount material to the Company's financial statements if the ultimate liability, including attorneys' fees for certain of the plaintiffs, significantly exceeds the amount accrued to date.

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Other Legal Matters

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

Investment in Zimbabwe Operations

The Company deconsolidated its operations in Zimbabwe as of January 1, 2006, under U.S. accounting requirements that apply under certain conditions to foreign subsidiaries that are subject to foreign exchange controls and other government restrictions. After deconsolidation, the Company recorded a non-cash impairment charge during the quarter ended March 31, 2006, to adjust the investment in those operations to estimated fair value. The investment is now accounted for using the cost method and is reported on the balance sheet in investments in unconsolidated affiliates. Business operations in Zimbabwe were not impacted by the financial reporting change or the non-cash charge, and the Company intends to continue its operations there. At December 31, 2006, the remaining investment in the Zimbabwe operations was approximately \$5.8 million. In addition to that investment, the Company has a net foreign currency translation loss associated with those operations of approximately \$7.2 million, which remains a component of accumulated other comprehensive loss.

NOTE 4. DISCONTINUED OPERATIONS

During the nine months ended December 31, 2006, Universal implemented the following actions to divest all of its non-tobacco operations:

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

In the quarter ended December 31, 2006, a plan to sell the remaining businesses in the agri-products segment was approved and is expected to be completed within the next six to twelve months.

As a result of these actions, the Company's worldwide leaf tobacco business represents its continuing operations as of December 31, 2006. The operating results and the assets and liabilities of the non-tobacco businesses are reported as discontinued operations for all periods presented in the accompanying consolidated financial statements. The assets and liabilities of the businesses remaining to be sold were classified as held for sale as of December 12, 2006, the date the Company approved the plan of sale. They are reported as current assets and current liabilities of discontinued operations at December 31, 2006. As discussed further below, the Company recorded a net loss of \$33.3 million on the sale of the Deli Operations in the quarter ended September 30, 2006, and an impairment charge of \$11.1 million related to the other agri-products businesses held for sale in the quarter ended December 31, 2006.

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Sale of Deli Operations

On September 1, 2006, Universal completed the sale of the non-tobacco businesses managed by its wholly-owned subsidiary, Deli Universal, Inc. (Deli) to NVDU Acquisition, B.V., a newly-formed entity owned by affiliates of a Netherlands-based merchant bank, a Netherlands-based private company, and managers of the businesses that were sold. As discussed above, these businesses comprised the Company's entire lumber and building products segment and a portion of its agri-products segment. The total value of the transaction was approximately \$567 million. After selling and other expenses, Universal realized a net value of \$552 million, consisting of net cash proceeds of \$398 million and the buyer's assumption of \$154 million of debt with the acquired businesses. The Company recorded a net loss on the sale of \$33.3 million in the quarter ended September 30, 2006, consisting of a pretax loss of \$32.8 million and income tax expense of \$0.5 million primarily related to net deferred tax assets that will not be realized as a result of the sale. The sales price and loss on sale are subject to adjustment based on final settlement under the terms of the agreement with the buyer.

Plan to Sell Remaining Agri-Products Operations

In December 2006, Universal approved a plan to sell the remaining non-tobacco agri-products businesses that were not part of the sale of the Deli Operations. The Company expects to sell these businesses in multiple transactions within the next six to twelve months. A pretax impairment charge of \$11.1 million was recorded in the quarter ended December 31, 2006, to reduce the Company's aggregate net investment in these businesses to estimated fair value less costs to sell. Based on its consolidated income tax position, the Company does not expect to realize a tax benefit on the expected loss on the sale of these businesses and has not recorded an income tax benefit on the impairment charge. The sale of one of the agri-products businesses was completed in January 2007. That transaction was not material to the results of operations or financial condition of the Company.

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

	Three Months Ended December 31,					
	2006			2005		
	Deli Operations (1)	Other Agri- Product Operations	Total	Deli Operations	Other Agri- Product Operations	Total
Sales and other operating revenues	\$	\$ 73,547	\$ 73,547	\$ 315,946	\$ 87,104	\$ 403,050
Costs and expenses		73,940	73,940	313,828	93,492	407,320
Income (loss) before income taxes and other items		(393)	(393)	2,118	(6,388)	(4,270)
Income taxes		108	108	756	378	1,134
Minority interest		51	51	(225)	141	(84)
Operating results of discontinued operations, net of income taxes	\$	\$ (552)	\$ (552)	\$ 1,587	\$ (6,907)	\$ (5,320)

	Nine Months Ended December 31,					
	2006			2005		
	Deli Operations (1)	Other Agri- Product Operations	Total	Deli Operations	Other Agri- Product Operations	Total
Sales and other operating revenues	\$ 651,672	\$ 233,829	\$ 885,501	\$ 1,033,916	\$ 248,966	\$ 1,282,882
Costs and expenses	618,472	243,884	862,356	1,010,432	252,887	1,263,319
Income (loss) before income taxes and other items	33,200	(10,055)	23,145	23,484	(3,921)	19,563
Income taxes	11,786	560	12,346	8,384	489	8,873
Minority interest	585	261	846	297	15	312
Operating results of discontinued operations, net of income taxes	\$ 20,829	\$ (10,876)	\$ 9,953	\$ 14,803	\$ (4,425)	\$ 10,378

(1) Deli Operations were sold on September 1, 2006. Results for the nine-month period ended December 31, 2006, reflect those operations for only the five-month period ended September 1, 2006.

As required under the applicable accounting guidance, the results shown above do not reflect depreciation expense after July 6, 2006, for the Deli Operations and December 12, 2006, for the other agri-products operations, which are the respective dates they were classified as held for sale. This increased the earnings of the Deli Operations for the five-month period ended September 1, 2006, by approximately \$3.3 million before taxes and \$2.1 million after taxes. The effect of discontinuing depreciation at the held for sale date was not material for the other agri-products operations. In addition, as permitted under the accounting standards, the Company has allocated interest expense to the discontinued operations for all periods based on the ratio of the net assets of those operations to consolidated net assets. For the Deli Operations, total interest allocated in addition to direct third-party interest incurred was \$4.8 million for the five months ended September 1, 2006, and \$3.0 million and \$9.2 million for the three and nine months ended December 31, 2005, respectively. For the other agri-products operations, total interest allocated in addition to direct third-party interest incurred was \$0.6 million and \$1.9 million for the three and nine months ended December 31, 2006, respectively, and \$0.8 million and \$2.4 million for the three and nine months ended December 31, 2005, respectively.

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The assets and liabilities of the discontinued non-tobacco operations reflected in the accompanying consolidated balance sheets were composed of the following:

	December 31, 2006		December 31, 2005			March 31, 2006	
	Other Agri- Products Operations (1)	Deli Operations	Other Agri- Product Operations	Total	Deli Operations	Other Agri- Product Operations	Total
Assets							
Cash and cash equivalents	\$ 1,854	\$ 4,070	\$ 1,793	\$ 5,863	\$ 2,538	\$ 1,608	\$ 4,146
Accounts receivable, net	29,339	178,490	36,951	215,441	215,014	38,360	253,374
Inventories:							
Lumber and building products		160,478		160,478	170,331		170,331
Agri-products	38,835	104,263	98,826	203,089	94,237	71,885	166,122
Other current assets	2,390	8,284	5,623	13,907	10,223	4,832	15,055
Total current assets	72,418	455,585	143,193	598,778	492,343	116,685	609,028
Property, plant and equipment, net	2,423	160,939	2,524	163,463	167,577	3,063	170,640
Goodwill and other intangibles		28,775	377	29,152	29,951	377	30,328
Other noncurrent assets	641	15,622	966	16,588	15,417	635	16,052
Total noncurrent assets	3,064	205,336	3,867	209,203	212,945	4,075	217,020
Total assets	\$ 75,482	\$ 660,921	\$ 147,060	\$ 807,981	\$ 705,288	\$ 120,760	\$ 826,048
Liabilities							
Notes payable and overdrafts	\$ 683	\$ 101,963	\$ 753	\$ 102,716	\$ 129,877	\$ 14	\$ 129,891
Accounts payable	13,830	122,407	39,673	162,080	124,347	13,523	137,870
Other current liabilities	1,012	19,454	546	20,000	17,005	652	17,657
Total current liabilities	15,525	243,824	40,972	284,796	271,229	14,189	285,418
Other long-term liabilities	291	13,951	350	14,301	12,491	364	12,855
Deferred income taxes		10,016		10,016	5,950		5,950
Total noncurrent liabilities	291	23,967	350	24,317	18,441	364	18,805
Total liabilities	\$ 15,816	\$ 267,791	\$ 41,322	\$ 309,113	\$ 289,670	\$ 14,553	\$ 304,223

(1) Other agri-products operations were classified as held for sale at December 31, 2006. Accordingly, balances were classified as current assets or current liabilities in the consolidated balance sheet for that date.

NOTE 5. RESTRUCTURING AND IMPAIRMENT COSTS

Universal recorded charges in the quarter ended December 31, 2006 to reflect impairment of certain equipment and goodwill. In addition, during the nine months ended December 31, 2006, the Company recorded an impairment charge related to certain flue-cured tobacco growing projects in the African country of Zambia. In the prior fiscal year, the Company recorded restructuring and impairment costs in the three- and nine-month periods ended December 31, 2005, related to the closure of a leaf tobacco processing facility and other cost reduction initiatives. These charges are described in more detail below.

Impairment of Equipment and Goodwill

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In the quarter ended December 31, 2006, the Company recorded a \$1.8 million charge for the impairment of certain leaf tobacco processing equipment previously used at its Danville, Virginia processing facility, which was closed in December 2005. Plans to redeploy that equipment at another Universal processing facility changed, and it will now be sold. Also in the quarter ended December 31, 2006, in conjunction with redefining its operating segments to reflect the continuing operations in the leaf tobacco business, the Company reallocated its goodwill to revised reporting units based on applicable accounting guidance. Following the

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reallocation, a \$1.7 million charge was recorded to write off goodwill that was impaired. The combined charges totaled \$3.5 million before tax, \$2.3 million after tax, or \$0.07 per diluted share.

Impairment Charge on Flue-Cured Tobacco Growing Projects in Zambia

Since fiscal year 2002, Universal has invested in various tobacco growing projects in several African countries. Some of these projects involve the establishment and operational start-up of medium or large-scale farms. The primary objective of the projects was to replace a portion of the volumes lost in recent years from the significant decline in production of flue-cured tobacco in Zimbabwe and thus continue to meet customer demand for African-origin flue-cured tobacco. Normally, several crop years are required to assess whether a growing project will be able to consistently meet planned production levels. During the quarter ended June 30, 2006, progress toward completion of the latest crop cycle allowed the Company to begin evaluating those growing projects with sufficient history to make a reliable assessment. In connection with that review, the Company reduced its estimates of expected longer-term crop yields and related future cash flows for certain growing projects in Zambia based on actual yields achieved since inception of the projects and other operational factors. Carrying values of the assets were also reviewed for potential impairment using the undiscounted cash flow estimates. Based on its review, the Company determined that those growing project investments were impaired and recorded a charge of \$12.3 million in the quarter ended June 30, 2006 to reduce the carrying values of the related long-lived assets to estimated fair value based on the discounted cash flows. Based on the Company's outlook on its overall tax position, no income tax benefit was recorded on the charge, and therefore, it reduced the Company's net income by \$12.3 million, or \$0.48 per share. Also as a result of this review, the Company recorded a valuation allowance in the quarter ended June 30, 2006 for deferred tax assets related to prior year operating losses in Zambia that reduced net income by an additional \$4.9 million, or \$0.19 per share. Additional discussion of this valuation allowance is provided in Note 11.

Zambia and other African countries remain important sources of flue-cured tobacco. The Company will continue to evaluate its growing project investments on an ongoing basis. Based on current crop yield and cash flow estimates, no other impaired assets have been identified. However, if any of the growing projects produce yields significantly below expectations in the future, it is possible that additional impairments would be indicated.

Table of Contents*Closure of Danville Processing Facility and Other Cost Reduction Initiatives*

During the quarter ended December 31, 2005, the Company recorded restructuring and impairment costs totaling approximately \$23.9 million before tax, \$15.5 million after tax, or \$0.60 per share. The components of the total pretax charge were as follows:

	Closure of Danville Processing Facility	Other Cost Reduction Initiatives	Total
Restructuring costs:			
One-time termination benefits	\$ 1,746	\$ 390	\$ 2,136
Other costs		485	485
	1,746	875	2,621
Impairment costs:			
Land, building and equipment	21,240		21,240
Total restructuring and impairment costs	\$ 22,986	\$ 875	\$ 23,861

As indicated above, the majority of the restructuring costs and all of the impairment costs were associated with the Company's decision to close its leaf tobacco processing facility in Danville, Virginia, and consolidate all of its flue-cured and burley tobacco processing in the United States into its Nash County, North Carolina factory. The closure of the Danville facility, which was effective in December 2005, was the result of the significant decline in U.S. tobacco production since 2000. The remaining restructuring costs were associated with other cost reduction initiatives, including the closure of two administrative offices outside the United States.

The one-time termination benefits related to 32 full-time employees and 313 hourly employees whose positions were eliminated upon closure of the Danville facility. The other restructuring costs represented lease costs on vacated office space, termination benefits, and employee relocation costs associated with the closing and consolidation of administrative offices. The impairment costs represented adjustments to write down the carrying value of the land, building, and equipment at the Danville facility to fair value.

Table of Contents*Restructuring Liability*

As noted above, the restructuring costs recorded in the quarter ended December 31, 2005, were related to the closure of the Danville facility and other cost reduction initiatives. The Company recorded additional restructuring costs in the quarter ended March 31, 2006, including special termination benefits related to a voluntary separation program. The following is a reconciliation of the Company's liability for restructuring costs since the initial costs were recorded in the quarter ended December 31, 2005:

	One-Time and Special Termination Benefits	Other Costs	Total
Costs and payments in fiscal year 2006			
Quarter ended December 31, 2005:			
Costs charged to expense	\$ 2,136	\$ 485	\$ 2,621
Payments		(141)	(141)
Balance at December 31, 2005	2,136	344	2,480
Quarter ended March 31, 2006:			
Costs charged to expense	4,219	211	4,430
Payments	(1,744)	(120)	(1,864)
Balance at March 31, 2006	4,611	435	5,046
Payments in fiscal year 2007			
Quarter ended June 30, 2006	(1,769)	(61)	(1,830)
Quarter ended September 30, 2006	(657)	(61)	(718)
Quarter ended December 31, 2006	(333)	(62)	(395)
Balance at December 31, 2006	\$ 1,852	\$ 251	\$ 2,103

The payments for termination benefits during the nine months ended December 31, 2006, were made to 33 employees. Of the remaining restructuring liability, approximately \$1.6 million will be paid during the next twelve months, and the majority of the remaining balance will be paid by the end of fiscal year 2008.

NOTE 6. STOCK-BASED COMPENSATION**Adoption of FASB Statement No. 123R**

As discussed in Note 2, Universal adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R), effective April 1, 2006. Previously, the Company accounted for stock-based compensation awards in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), as permitted under SFAS 123, Accounting for Stock-Based Compensation, and made required disclosures of the pro forma effect of fair value recognition for those awards. Prior to the fiscal year that ended March 31, 2006, stock options with an exercise price equal to the market price of the underlying common stock at grant date were the primary form of stock-based compensation awarded. These instruments had no intrinsic value at grant date under APB 25 and therefore did not result in compensation expense being recognized in the financial statements. During fiscal year 2006, the Company revised its compensation program to substitute annual grants of restricted stock units (RSUs) and restricted stock for a portion of the customary stock option grants awarded in prior years. The program was further revised in the current fiscal year to provide annual grants of stock-settled stock appreciation rights (SARs) in place of the remaining portion of the customary stock option grants. These changes represent refinements in program design only, and the Company is still authorized to award stock options and other forms of share-based compensation under its shareholder-approved executive stock plans.

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Under SFAS 123R, the Company is required to recognize the cost of services received from employees and outside directors in exchange for stock-based compensation based on the fair value of the awards. The Company adopted SFAS 123R using the modified prospective transition method. Under this method, the Company began recognizing fair value compensation expense on April 1, 2006, but did not restate prior periods. The amount of compensation expense was based on the guidance in SFAS 123R for SARs, RSUs, and restricted stock granted after the April 1, 2006, adoption date, and on the guidance in SFAS 123 for all unvested RSUs granted before that date.

Awards Granted During the Nine Months Ended December 31, 2006

In June 2006, Universal issued grants of 265,500 SARs and 66,400 RSUs to officers of the Company. The SARs have a 10-year term, vest in equal one-third tranches one, two, and three years after grant date, and have an exercise price of \$36.03, which was the market price at grant date. The RSUs vest five years from grant date and are then paid out in shares of common stock. Under the terms of those awards, grantees receive dividend equivalents in the form of additional RSUs which vest and are paid out on the same date as the original RSU grant. The Company's outside directors automatically receive shares of restricted stock following the Annual Meeting of Shareholders.

Determination of the Fair Value of Stock-Based Compensation

The grant date fair value of the SARs awarded in June 2006 was estimated to be \$8.11 per SAR using the Black-Scholes pricing model and the following assumptions:

Expected term	6.0 years
Expected volatility	31.6%
Expected dividend yield	4.77%
Risk-free interest rate	4.67%

The expected term of the SARs was based on the Company's historical stock option exercise data for instruments with comparable features and economic characteristics. The expected volatility was estimated based on historical volatility of the Company's common stock using weekly closing prices. The expected dividend yield was based on the annualized quarterly dividend rate and the market price of the common stock at grant date. The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the grant date for securities with a remaining term equal to the expected term of the SARs.

The fair value of the RSUs and restricted stock is based on the market price of the common stock on the grant date.

Recognition of Compensation Expense

Fair value expense for stock-based compensation is recognized ratably over the period from grant date to the earlier of (1) the vesting date of the award, or (2) the date the grantee is eligible to retire without forfeiting the award. For employees who are already eligible to retire at the date an award is granted, the total fair value of the award is recognized as expense at the date of grant. For RSUs granted prior to the adoption of SFAS 123R, the Company is recognizing expense based on the fair value method under SFAS 123R; however, consistent with its prior pro forma disclosures, that expense is recognized ratably over the full vesting period of the award, with acceleration of the remaining unrecognized expense in the event an employee elects to retire before the stated vesting date.

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For the three and nine months ended December 31, 2006, the Company recorded total stock-based compensation expense of approximately \$0.5 million and \$3.7 million, respectively. A significant portion of the expense recorded in the nine-month period represented recognition of the full fair value of SARs and RSUs granted in June to employees who were already retirement-eligible. For the remainder of the fiscal year ending March 31, 2007, the Company expects that it will record additional stock-based compensation expense of approximately \$0.6 million. The effect of adopting SFAS 123R on the Company's results from continuing operations, which represents the effect of higher expense than would have been recognized under the provisions of APB 25, for the three and nine months ended December 31, 2006, was as follows:

	Three Months Ended December 31, 2006	Nine Months Ended December 31, 2006
(In thousands of dollars, except per share data)		
Income from continuing operations before income taxes and other items	\$ (214)	\$ (2,957)
Income from continuing operations	(139)	(1,922)
Basic earnings per share		(0.07)
Diluted earnings per share		(0.07)

SFAS 123R requires the presentation of excess tax benefits realized from the exercise or payment of stock-based awards in the financing section of the cash flow statement, which is a change from previous guidance. Awards exercised or paid during the nine months ended December 31, 2006, were not significant, so the adoption of the new standard did not materially affect net cash flows from operating or financing activities. At December 31, 2006, the Company had \$3.7 million of unrecognized compensation expense related to stock-based awards, which will be recognized over a weighted-average period of approximately 1.6 years.

Table of Contents**Pro Forma Effect of Fair Value-Based Method on Prior Comparative Periods**

Had the Company adopted the fair value-based recognition provisions of SFAS 123 for comparative periods prior to the adoption of SFAS 123R, the pro forma effect on income from continuing operations and earnings per share would have been as follows:

	Three Months Ended December 31, 2005	Nine Months Ended December 31, 2005
(In thousands of dollars, except per share data - all amounts net of income taxes)		
Income (loss) from continuing operations	\$ (349)	\$ 22,286
Stock-based compensation cost under fair value accounting	(1,028)	(3,655)
Pro forma income (loss) from continuing operations under fair value method	\$ (1,377)	\$ 18,631
Basic earnings (loss) per share from continuing operations	\$ (0.01)	\$ 0.87
Per share stock-based compensation cost under fair value accounting	(0.04)	(0.14)
Pro forma basic earnings (loss) per share from continuing operations	\$ (0.05)	\$ 0.73
Diluted earnings (loss) per share from continuing operations	\$ (0.01)	\$ 0.87
Per share stock-based compensation cost under fair value accounting	(0.04)	(0.14)
Pro forma diluted earnings (loss) per share from continuing operations	\$ (0.05)	\$ 0.73

Table of Contents**NOTE 7. EARNINGS PER SHARE**

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
(In thousands, except per share data)				
Basic Earnings (Loss) Per Share				
Numerator for basic earnings (loss) per share				
From continuing operations:				
Income (loss) from continuing operations	\$ 35,779	\$ (349)	\$ 59,290	\$ 22,286
Less: Dividends on convertible perpetual preferred stock	(3,713)		(10,973)	
Earnings (loss) available to common shareholders from continuing operations	32,066	(349)	48,317	22,286
From discontinued operations:				
Operating results	(552)	(5,320)	9,953	10,378
Loss on sale of businesses			(33,285)	
Impairment charge on businesses held for sale	(11,122)		(11,122)	
Earnings (loss) available to common shareholders from discontinued operations	(11,674)	(5,320)	(34,454)	10,378
Net income (loss) available to common shareholders	\$ 20,392	\$ (5,669)	\$ 13,863	\$ 32,664
Denominator for basic earnings (loss) per share				
Weighted average shares outstanding	25,815	25,715	25,775	25,698
Basic earnings (loss) per share:				
From continuing operations	\$ 1.24	\$ (0.01)	\$ 1.87	\$ 0.87
From discontinued operations:				
Operating results	(0.02)	(0.21)	0.39	0.40
Loss on sale of businesses			(1.29)	
Impairment charge on businesses held for sale	(0.43)		(0.43)	
Total from discontinued operations	(0.45)	(0.21)	(1.33)	0.40
Net income (loss) per share	\$ 0.79	\$ (0.22)	\$ 0.54	\$ 1.27
Diluted Earnings (Loss) Per Share				
Numerator for diluted earnings (loss) per share				
From continuing operations:				
Earnings (loss) available to common shareholders from continuing operations	\$ 32,066	\$ (349)	\$ 48,317	\$ 22,286
Add: Dividends on convertible perpetual preferred stock (if conversion assumed)	3,713			
Earnings (loss) available to common shareholders from continuing operations for calculation of diluted earnings (loss) per share	35,779	(349)	48,317	22,286
From discontinued operations:				
Operating results	(552)	(5,320)	9,953	10,378
Loss on sale of businesses			(33,285)	
Impairment charge on businesses held for sale	(11,122)		(11,122)	

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Earnings (loss) available to common shareholders from discontinued operations	(11,674)	(5,320)	(34,454)	10,378
Net income (loss) available to common shareholders	\$ 24,105	\$ (5,669)	\$ 13,863	\$ 32,664
Denominator for diluted earnings (loss) per share:				
Weighted average shares outstanding	25,815	25,715	25,775	25,698
Effect of dilutive securities (if conversion or exercise assumed)				
Convertible perpetual preferred stock	4,708			
Employee share-based awards	111		69	121
Denominator for diluted earnings (loss) per share	30,634	25,715	25,844	25,819
Diluted earnings (loss) per share:				
From continuing operations	\$ 1.17	\$ (0.01)	\$ 1.87	\$ 0.87
From discontinued operations:				
Operating results	(0.02)	(0.21)	0.39	0.40
Loss on sale of businesses			(1.29)	
Impairment charge on businesses held for sale	(0.36)		(0.43)	
Total from discontinued operations	(0.38)	(0.21)	(1.33)	0.40
Net income (loss) per share	\$ 0.79	\$ (0.22)	\$ 0.54	\$ 1.27

For the three months ended December 31, 2006, conversion of the Company's outstanding Series B 6.75% Convertible Perpetual Preferred Stock was assumed since the effect is dilutive to earnings per share from continuing operations. For the related nine-month period, the effect was antidilutive, and conversion was not assumed. The Preferred Stock was not outstanding during the three- and nine-month periods ended December 31, 2005.

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For the three months ended December 31, 2006, the effect of Preferred Stock and employee share-based awards is antidilutive to the per-share effect of the impairment charge on businesses held for sale in discontinued operations. Under the applicable financial reporting guidelines, this antidilutive effect is shown since these securities are dilutive to earnings per share from continuing operations for that period.

NOTE 8. COMPREHENSIVE INCOME

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
(in thousands of dollars - all amounts net of income taxes)				
From continuing operations:				
Income (loss) from continuing operations	\$ 35,779	\$ (349)	\$ 59,290	\$ 22,286
Foreign currency translation adjustment	3,105	230	7,220	(2,507)
Foreign currency hedge adjustment	(635)	(744)	(414)	(741)
Unrealized gain (loss) on available-for-sale securities		(1,403)		(1,403)
Comprehensive income (loss) from continuing operations	38,249	(2,266)	66,096	17,635
From discontinued operations:				
Operating results				
Income (loss) from discontinued operations - operating results	(552)	(5,320)	9,953	10,378
Foreign currency translation adjustment	700	(1,254)	4,914	(6,924)
Minimum pension liability		(5,001)		(5,001)
Foreign currency hedge adjustment		942	(470)	963
Comprehensive income (loss) from discontinued operations - operating results	148	(10,633)	14,397	(584)
Sale of businesses				
Loss on sale of businesses			(33,285)	
Foreign currency translation adjustment			(7,609)	
Minimum pension liability			8,301	
Foreign currency hedge adjustment			4,665	
Comprehensive loss from discontinued operations -sale of businesses			(27,928)	
Impairment charge on businesses held for sale	(11,122)		(11,122)	
Total comprehensive loss from discontinued operations	(10,974)	(10,633)	(24,653)	(584)
Total comprehensive income (loss)	\$ 27,275	\$ (12,899)	\$ 41,443	\$ 17,051

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NOTE 9. OPERATING SEGMENTS

Universal previously evaluated and reported performance for the following three operating segments, which were based on product categories: tobacco, lumber and building products, and agri-products. As discussed in Note 4, the Company has approved a plan to sell its remaining agri-products businesses, following the sale of its lumber and building products segment and a portion of its agri-products segment in September 2006. With these changes, effective for the quarter ended December 31, 2006, the Company's worldwide leaf tobacco business represents its continuing operations. This business involves selecting, 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. Through various operating subsidiaries located in tobacco-growing countries around the world and a significant ownership interest in an unconsolidated affiliate, the Company processes and/or sells flue-cured and burley tobaccos, dark air-cured tobaccos, and oriental tobaccos. 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. A substantial portion of the Company's revenues are derived from sales to a limited number of large, multinational cigarette manufacturers.

The principal approach used by management to evaluate the performance of the Company's tobacco business is by geographic region, although the dark air-cured and oriental tobacco businesses are each evaluated on the basis of their worldwide operations. Oriental tobacco operations consist principally of a 49% interest in an affiliate, and performance of those operations is evaluated based on the Company's equity in the pretax earnings of that affiliate. Under this structure, the Company has the following primary operating segments: North America, South America, Africa, Europe, Asia, Dark Air-Cured, Special Services, and Oriental. North America, South America, Africa, Europe, and Asia are primarily involved in flue-cured and/or burley leaf tobacco operations for supply 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.

The five regional operating segments serving the Company's cigarette manufacturer customer base 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 because they also have similar economic characteristics. North America is reported as an individual operating segment because its economic characteristics are dissimilar from the other regions, as its operations do not require significant working capital investments for crop financing and inventory, and toll processing is an important source of its operating income. The Dark Air-Cured, Special Services and Oriental segments, which have dissimilar characteristics in some of the categories mentioned above, are reported as other tobacco operations because each is below the measurement threshold for separate reporting.

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Universal incurs overhead expenses related to senior management, finance, legal, and other functions that are centralized at its corporate headquarters, as well as functions performed at several sales and administrative offices around the world. These overhead expenses are allocated to the various operating segments, generally on the basis of tobacco volumes processed and/or sold. Management believes this method of allocation is representative of the value of the related services provided to the operating segments. The Company evaluates the performance of its segments based on operating income after allocated overhead expenses (excluding significant non-recurring charges or credits), plus equity in pretax earnings of unconsolidated affiliates.

Operating results for the Company's reportable segments for the interim periods ended December 31, 2006 and 2005, were as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
(in thousands of dollars)				
SALES AND OTHER OPERATING REVENUES				
Flue-cured and burley leaf tobacco operations:				
North America	\$ 124,620	\$ 108,372	\$ 254,990	\$ 184,154
Other regions (1)	333,189	319,308	1,083,851	1,035,308
Subtotal	457,809	427,680	1,338,841	1,219,462
Other tobacco operations (2)	58,105	48,049	171,134	155,883
Consolidated sales and other operating revenues	\$ 515,914	\$ 475,729	\$ 1,509,975	\$ 1,375,345
OPERATING INCOME (LOSS)				
Flue-cured and burley leaf tobacco operations:				
North America	\$ 20,361	\$ 11,675	\$ 28,058	\$ 11,053
Other regions (1)	49,121	21,853	112,423	83,114
Subtotal	69,482	33,528	140,481	94,167
Other tobacco operations (2)	14,644	7,943	22,866	15,134
Segment operating income	84,126	41,471	163,347	109,301
Less:				
Equity in pretax earnings of unconsolidated affiliates (3)	9,570	6,104	5,302	3,887
Restructuring and impairment costs (4)	3,519	23,861	15,808	23,861
Consolidated operating income	\$ 71,037	\$ 11,506	\$ 142,237	\$ 81,553

(1) Includes South America, Africa, Europe, and Asia regions, as well as inter-region eliminations.

(2) Includes Dark Air-Cured, Special Services and Oriental, as well as inter-company eliminations. Oriental does not contribute significantly to the reported amounts for sales and other operating revenues because its financial results consist principally of equity in the pretax earnings of an unconsolidated affiliate.

(3) Item is included in segment operating income, but not included in consolidated operating income.

(4) Item is not included in segment operating income, but is included in consolidated operating income.

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Segment assets at December 31, 2006 and 2005, and at March 31, 2006, were as follows:

	December 31, 2006	December 31, 2005	March 31, 2006
(in thousands of dollars)			
Flue-cured and burley leaf tobacco operations:			
North America	\$ 334,515	\$ 334,089	\$ 307,013
Other regions	1,580,919	1,530,360	1,467,710
Subtotal	1,915,434	1,864,449	1,774,723
Other tobacco operations	337,698	286,950	300,570
Total segment assets	2,253,132	2,151,399	