# FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-02-02** | Period of Report: **2000-12-31**
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## FILER

**UNIVERSAL CORP /VA/**

CIK:**102037**| IRS No.: **540414210** | State of Incorp.:**VA** | Fiscal Year End: **0630**
Type: **10-Q** | Act: **34** | File No.: **001-00652** | Film No.: **1524118**
SIC: **5150** Farm product raw materials

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[x] Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the Period Ended December 31, 2000

OR

[_] Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the Transition Period From _______________ to _____________

Commission file number 1-652

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

| VIRGINIA | 54-0414210 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

| 1501 North Hamilton Street, Richmond, Virginia | 23230 |
|---|---|
| (Address of principal executive offices) | (Zip code) |

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

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 the number of shares outstanding of each of the Registrant's classes of Common Stock as of the latest practicable date:

Common Stock, No par value - 27,165,682 shares outstanding as of January 25, 2001

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Universal Corporation and Subsidiaries
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
Three and Six Months Ended December 31, 2000 and 1999
(In thousands of dollars, except per share data)

<TABLE>
<CAPTION>

| | THREE MONTHS | | SIX MONTHS | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| <S> | <C> | <C> | <C> | <C> |
| Sales and other operating revenues | $995,062 | $1,032,453 | $1,645,827 | $1,819,459 |
| Costs and expenses | | | | |
| Cost of goods sold | 853,756 | 891,657 | 1,382,938 | 1,552,708 |

| | | | | |
|---|---|---|---|---|
| Selling, general and administrative expenses | 78,151 | 81,389 | 147,798 | 155,763 |
| Operating Income | 63,155 | 59,407 | 115,091 | 110,988 |
| Equity in pretax earnings of unconsolidated affiliates | 523 | (674) | 1,872 | 5,922 |
| Interest expense | 17,279 | 14,764 | 32,108 | 26,540 |
| Income before income taxes and other items | 46,399 | 43,969 | 84,855 | 90,370 |
| Income taxes | 15,550 | 15,829 | 30,548 | 32,533 |
| Minority interests | 2,987 | 1,992 | 1,480 | 2,187 |
| Net Income | $ 27,862 | $ 26,148 | $ 52,827 | $ 55,650 |
| Earnings per common share | $ 1.02 | $ 0.85 | $ 1.90 | $ 1.78 |
| Diluted earnings per share | $ 1.01 | $ 0.85 | $ 1.90 | $ 1.78 |
| Retained earnings - beginning of period | | | $ 499,490 | $ 510,123 |
| Net income | | | 52,827 | 55,650 |
| Cash dividends declared ($.63 - 2000, $.61 - 1999) | | | (16,960) | (18,656) |
| Purchase of common stock | | | (25,085) | (45,006) |
| Retained earnings - end of period | | | $ 510,272 | $ 502,111 |

</TABLE>

See accompanying notes.

Universal Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)

<TABLE>
<CAPTION>

| <S> | <C> Dec. 31, 2000 | <C> June 30, 2000 |
|---|---|---|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | $ 68,287 | $ 61,395 |
| Accounts receivable | 347,168 | 358,897 |
| Advances to suppliers | 69,440 | 52,383 |
| Accounts receivable - unconsolidated affiliates | 1,866 | 12,573 |
| Inventories - at lower of cost or market: | | |
| Tobacco | 572,798 | 379,504 |
| Lumber and building products | 70,614 | 77,096 |
| Agri-products | 70,902 | 73,024 |
| Other | 29,716 | 33,068 |
| Prepaid income taxes | 10,695 | 9,283 |
| Deferred income taxes | 8,254 | 9,008 |
| Other current assets | 20,786 | 21,919 |
| Total current assets | 1,270,526 | 1,088,150 |
| Property, plant and equipment - at cost | | |
| Land | 26,330 | 27,377 |
| Buildings | 232,999 | 245,570 |
| Machinery and equipment | 526,157 | 505,323 |
| | 785,486 | 778,270 |
| Less accumulated depreciation | 436,043 | 430,925 |
| | 349,443 | 347,345 |
| Other | | |
| Goodwill | 110,841 | 113,498 |
| Other intangibles | 15,827 | 17,145 |
| Investments in unconsolidated affiliates | 76,864 | 77,046 |
| Deferred income taxes | 32,885 | 33,606 |
| Other noncurrent assets | 74,515 | 71,314 |
| | 310,932 | 312,609 |

| | | |
|---|---|---|
| | $1,930,901 | $1,748,104 |

</TABLE>

See accompanying notes.



Universal Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)

<TABLE>
<CAPTION>

| <S> | Dec. 31, 2000 <C> | June 30, 2000 <C> |
|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Notes payable and overdrafts | $ 364,996 | $ 356,283 |
| Accounts payable | 255,772 | 256,666 |
| Accounts payable - unconsolidated affiliates | 5,193 | 10,169 |
| Customer advances and deposits | 175,850 | 91,414 |
| Accrued compensation | 13,839 | 20,997 |
| Income taxes payable | 35,136 | 26,682 |
| Current portion of long-term obligations | 101,568 | 121,023 |
| Total current liabilities | 952,354 | 883,234 |
| Long-term obligations | 344,351 | 223,262 |
| Postretirement benefits other than pensions | 41,387 | 41,295 |
| Other long-term liabilities | 53,639 | 53,948 |
| Deferred income taxes | 6,199 | 11,749 |
| Minority interests | 36,603 | 36,837 |
| Shareholders' equity | | |
| Preferred stock, no par value, authorized 5,000,000 shares none issued or outstanding | | |
| Common stock, no par value, authorized 100,000,000 shares, issued and outstanding 27,737,797 shares (28,146,697 at June 30, 2000) | 64,007 | 66,274 |
| Retained earnings | 510,272 | 499,490 |
| Accumulated other comprehensive income | (77,911) | (67,985) |
| Total shareholders' equity | 496,368 | 497,779 |
| | $ 1,930,901 | $ 1,748,104 |

</TABLE>

See accompanying notes.



Universal Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six months ended December 31, 2000 and 1999
(In thousands of dollars)

<TABLE>
<CAPTION>

| <S> | 2000 <C> | 1999 <C> |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 52,827 | $ 55,650 |
| Adjustments to reconcile net income to net cash provided by operating activities | 17,000 | 14,000 |
| Changes in operating assets and liabilities | (91,935) | (26,332) |
| Net cash provided (used) by operating activities | (22,108) | 43,318 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |

| | | |
|---|---|---|
| Purchase of property, plant and equipment | (37,000) | (30,000) |
| Proceeds from sale of equity investment | - | 22,000 |
| Net cash provided (used) in investing activities | (37,000) | (8,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Issuance (repayment) of short-term debt, net | 9,000 | 46,000 |
| Repayment of long-term debt | (20,000) | (20,000) |
| Issuance of long-term debt | 122,000 | |
| Purchases of common stock | (28,000) | (49,000) |
| Issuance of common stock | | 1,000 |
| Dividends paid | (17,000) | (19,000) |
| Net cash provided (used) in financing activities | 66,000 | (41,000) |
| Net increase (decrease) in cash and cash equivalents | 6,892 | (5,682) |
| Cash and cash equivalents at beginning of year | 61,395 | 92,784 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 68,287 | $ 87,102 |

</TABLE>

See accompanying notes.



Universal Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2000

All figures contained herein are unaudited.

1). Universal Corporation, with its subsidiaries (the "Company"), has seasonal operations in tobacco, lumber and building products, and agri-products. Therefore, the results of operations for the quarter and six months ended December 31, 2000, are not necessarily indicative of results to be expected for the year ending June 30, 2001. All adjustments necessary to state fairly the results for such 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's presentation.

2). Contingent liabilities: The Company provides guarantees for seasonal pre-export crop financing for some of its subsidiaries and unconsolidated affiliates. In addition, certain subsidiaries provide guarantees that ensure that value-added taxes will be repaid if the crops are not exported. At December 31, 2000, total exposure under guarantees issued for banking facilities of unconsolidated affiliates and suppliers was approximately $49 million. Other contingent liabilities approximate $17 million. The Company considers the possibility of loss on any of these guarantees to be remote. The Company's Brazilian subsidiaries have been notified by the tax authorities of proposed adjustments to income tax returns filed in prior years. The total proposed adjustments, including penalties and interest, approximate $23 million. The Company believes the Brazilian tax returns filed were in compliance with the applicable tax code. The numerous proposed adjustments vary in complexity and amount. While it is not feasible to predict the precise amount or timing of each proposed adjustment, the Company believes that the ultimate disposition will not have a material adverse effect on the Company's consolidated financial position or results of operations.

3). On July 1, 2000, the Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities". The adoption of this standard did not have a material impact on the quarterly consolidated financial position or results of operations for the Company.

4). In the fourth quarter of fiscal year 2000, plans were approved to reduce the Company's U. S. cost structure including the consolidation of tobacco processing facilities and a corresponding reduction in the number of employees. In fiscal year 2000, the consolidated statement of income included an $11 million pretax charge related to the plan. The charge includes $7 million of severance costs related to 108 employees in purchasing, processing, and sales. During the three-and six-month periods ended December 31, 2000, the Company paid $1 million and $3.8 million in cash payments to 49 and 105 employees, respectively. No additional restructuring costs were recorded during the quarter.



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

| Periods ended December 31, | Three Months 2000 | Three Months 1999 | Six Months 2000 | Six Months 1999 |
|---|---|---|---|---|
| Net income (in thousands of dollars) | $ 27,862 | $ 26,148 | $ 52,827 | $ 55,650 |
| Denominator for earnings per share: | | | | |
| Weighted average shares | 27,428,352 | 30,803,630 | 27,741,728 | 31,247,956 |
| Effect of dilutive securities: | | | | |
| Employee stock options | 99,754 | 5,521 | 52,607 | 10,592 |
| Denominator for diluted earnings per share | 27,528,106 | 30,809,151 | 27,794,335 | 31,258,548 |
| Earnings per share | $ 1.02 | $ 0.85 | $ 1.90 | $ 1.78 |
| Diluted earnings per share | $ 1.01 | $ 0.85 | $ 1.90 | $ 1.78 |

6). Comprehensive Income:

| Periods ended December 31, (in thousands of dollars) | THREE MONTHS 2000 | THREE MONTHS 1999 | SIX MONTHS 2000 | SIX MONTHS 1999 |
|---|---|---|---|---|
| Net income | $ 27,862 | $ 26,148 | $ 52,827 | $ 55,650 |
| Foreign currency translation adjustment | (10,151) | (4,661) | (9,926) | (3,838) |
| Comprehensive income | $ 17,711 | $ 21,487 | $ 42,901 | $ 51,812 |

7). Segments are based on product categories. The Company evaluates performance based on segment operating income and equity in pretax earnings of unconsolidated affiliates.

| Periods ended December 31, (in thousands of dollars) | THREE MONTHS 2000 | THREE MONTHS 1999 | SIX MONTHS 2000 | SIX MONTHS 1999 |
|---|---|---|---|---|
| SALES AND OTHER OPERATING REVENUES | | | | |
| Tobacco | $ 758,076 | $ 767,945 | $1,160,321 | $ 1,281,718 |
| Lumber/building products | 123,038 | 138,801 | 252,700 | 280,822 |
| Agri-products | 113,948 | 125,707 | 232,806 | 256,919 |
| Consolidated total | $ 995,062 | $ 1,032,453 | $1,645,827 | $ 1,819,459 |
| OPERATING INCOME | | | | |
| Tobacco | $ 58,411 | $ 52,964 | $ 105,191 | $ 102,213 |
| Lumber/building products | 6,100 | 6,724 | 13,750 | 15,533 |
| Agri-products | 4,053 | 3,578 | 7,810 | 8,636 |
| Total | 68,564 | 63,266 | 126,751 | 126,382 |
| Less: | | | | |
| Corporate expenses | 4,886 | 4,533 | 9,788 | 9,472 |
| Equity in pretax earnings of unconsolidated affiliates | 523 | (674) | 1,872 | 5,922 |
| Consolidated total | $ 63,155 | $ 59,407 | $ 115,091 | $ 110,988 |



8). Short- and Long-Term Debt: Subsequent to the end of the quarter, the Company issued in the public market $20 million in 7.5% medium-term notes due on January 26, 2004. During the quarter, the Company issued an aggregate $97 million of fixed rate medium-term notes ranging in maturity from 3 to 10 years and ranging in rate from 8% to 8.5%. The Company also issued $25 million in floating rate medium term notes due November 30, 2004; the current rate of interest in those notes is 8.10%. The proceeds of these issues were used for general corporate purposes.

9). Depreciation and amortization for the three- and six-month periods are as follows:

| | THREE MONTHS | | SIX MONTHS | |
|---|---|---|---|---|
| Periods ended December 31, | 2000 | 1999 | 2000 | 1999 |
| (in thousands of dollars) | | | | |
| Depreciation | $ 10,345 | $ 10,838 | $ 21,118 | $ 22,822 |
| Amortization | $ 2,230 | $ 1,876 | $ 3,840 | $ 3,273 |



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

## Liquidity and Capital Resources

Working capital at December 31, 2000, was $318 million compared to $205 million at June 30, 2000. The increase in working capital was the net result of an increase in current assets of $182 million, primarily from a seasonal increase in tobacco inventories, which was partially offset by an increase in current liabilities of $69 million. The working capital accounts fluctuate between December and June primarily due to seasonality. In the United States, tobacco working capital needs are normally at their lowest point at June 30. In the first quarter of the fiscal year, the United States flue-cured tobacco markets open and tobacco is purchased and shipped to factories for processing. This processing continues during the second quarter and this is reflected at December 31 in increased tobacco inventories of $193 million along with increases in the total of notes payable and customer advances of $93 million. The mix of notes payable and customer advances is dependent on both the company's and its customers' borrowing capabilities, interest rates and exchange rates. The company does not purchase material quantities of tobacco in the United States on a speculative basis; thus the respective increase in United States inventory represents tobacco that has been committed to customers.

Generally, the company's international tobacco operations conduct business in United States dollars, thereby limiting foreign exchange risk to local production and overhead costs. Agri-product and lumber operations enter into foreign exchange contracts to hedge firm purchase and sales commitments for terms of less than six months. Interest rate risk is limited because customers in the tobacco business usually pre-finance purchases or pay market rates of interest for inventory purchased for their accounts.

The company continues its share purchase programs, which have been in progress since May 6, 1998. As of January 25, 2001, the company had purchased 9 million shares of Universal common stock for approximately $241 million. The programs provide for purchases of up to $300 million. Currently, about 27.2 million common shares are outstanding.

During the first quarter of fiscal year 2001, Universal registered with the Securities and Exchange Commission $400 million in debt securities. The securities are intended to be issued over time as medium-term notes as an additional source of liquidity for general corporate purposes. Pursuant to that medium-term note program, Universal has issued $122 million in notes with maturity dates from October of 2003 to December of 2010. The notes were issued with both fixed and variable interest rates. The interest rates on the notes issued to date range from 8% to 8.5%. The proceeds were used general corporate purposes. Management believes that the liquidity and capital resources of the company at December 31, 2000, remain adequate to support the company's foreseeable operating needs.

## Results of Operations

'Sales and Other Operating Revenues' decreased $37 million or 4% in the second quarter of fiscal year 2001 and $174 million for the six-month period ending December 31, 2001. Tobacco revenues were down by $10 million; lumber and building products revenues were down by $16 million; and agri-products revenues declined $11 million during the quarter. The six-month decline in revenue compared to the comparable period last year comprised $121 million for tobacco, $28 million for lumber and building products, and $24 million for agri-products. The lower tobacco revenues resulted from delays in shipments from Zimbabwe and smaller U.S. crops. In addition, dark tobacco operations were negatively affected in the six months by shipment delays. The reduction in lumber and building products revenues was primarily related to the stronger U.S. dollar, and agri-products continued to experience difficult markets for sunflower seeds.

Fiscal year 2001 segment operating income in the second quarter was up by 8% or $5 million compared to the same period last year. The results for the six-month period resulted in a slight increase of $369 thousand. Tobacco segment operating income was up almost 3% to $105 million for the six-month period, despite the recognition of a $4.1 million gain on the sale of a joint venture interest in the first quarter of the prior year, which made the comparison more difficult. In addition, there were lower costs in the United States associated with operating fewer processing facilities this year. Lumber and building products operating income declined 9% in the second quarter and 11% for the six-month period compared to the same periods last year, as the sharp decline in the euro exchange rate more than offset improved local currency sales. The euro was weaker on average by 19% in the quarter and 16% in the six months when compared to a year ago. Operating income for the agri-products business improved by 13% in the second quarter; however it was down by 6% for the six months. The quarterly results reflected improved market conditions for tea, and dried fruit and nuts. However, very competitive conditions for confectionery sunflower seed continued in the quarter and adversely affected results for the quarter and the six months.

Interest expense increased for the quarter and six months due to higher short-term rates, higher interest rates on long-term debt, and an increase in debt during the quarter. The company's estimated effective tax rate in fiscal year 2001 is consistent with the prior year at 36%.

The company's quarterly earnings comparisons are often difficult due to such factors as timing of shipments and currency fluctuations, particularly the euro. Despite these factors, Universal achieved a good earnings performance in the quarter. Looking to the remainder of the fiscal year, management believes that world market conditions are beginning to improve for tobacco as leaf demand appears to be strengthening and unsold leaf inventories are declining. In addition, the U. S. dollar has weakened against the euro recently, which suggests more favorable earnings translations going forward for the company's lumber and building products distribution businesses. Although uncertainties remain, the company expects to have a successful year.

Readers are cautioned that the statements contained herein regarding expected earnings and expectations for the company's performance are forward-looking statements based upon management's current knowledge and assumptions about future events, including anticipated levels of production of tobacco and demand for tobacco and the company's products and services, costs incurred in providing these products and services, timing of shipments to customers and market structure. Lumber earnings could also be affected by a number of factors, including the translation effects of currency rate changes and unusual weather conditions in the Netherlands. Actual results, therefore, could vary from those expected. Reference is made to Items 1 and 7 and the Notes to the Consolidated Financial Statements in Item 8 of the company's Annual Report on Form 10-K for the fiscal year ended June 30, 2000, regarding important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of the company, including forward-looking statements contained in Item 2 of this Form 10-Q.



PART II. OTHER INFORMATION

ITEM 5. OTHER EVENTS.

In accordance with Securities and Exchange Commission Rule 10b5-1(c), certain executive officers of the Company have provided his or her securities broker with written instructions for the cashless exercise of certain options that expire on December 4, 2001, and for the sale of sufficient shares of common stock of the Company in connection with such cashless exercises to fund the exercise and the payment of associated taxes.

ItTEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits
   12. Ratio of earnings to fixed charges.*

b. Reports on Form 8-K.

   Report on Form 8-K dated October 2, 2000 filing Fixed

Rate Note that was issued on October 2, 2000.

Report on Form 8-K dated October 18, 2000 filing press release announcing conference call on October 24, 2000.

Report on Form 8-K dated October 25, 2000 filing press release announcing first quarter earnings.

Report on Form 8-K dated November 13, 2000 filing Fixed Rate Note that was issued on November 13, 2000.

Report on Form 8-K dated November 21, 2000 filing Fixed Rate Note that was issued on November 21, 2000.

Report on Form 8-K dated December 1, 2000 filing Fixed Rate Note that was issued on November 30, 2000.

Report on Form 8-K dated December 8, 2000 filing press release announcing increase in quarterly dividend.

Report on Form 8-K dated December 8, 2000 filing Fixed Rate Note that was issued on December 8, 2000.

Report on Form 8-K dated December 15, 2000 filing Fixed Rate Note that was issued on December 14, 2000.

* Filed herewith



## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 2, 2001

UNIVERSAL CORPORATION
(Registrant)

/s/ Hartwell H. Roper

Hartwell H. Roper, Vice President and Chief Financial Officer

/s/ James A. Huffman

James A. Huffman, Controller
(Principal Accounting Officer)

EXHIBIT 12. RATIO OF EARNINGS TO FIXED CHARGES

<TABLE>
<CAPTION>

| | For the six months ended December 31, 2000 | For the years ended June 30 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Pretax income from continuing operations | $ 82,983 | $177,055 | $197,719 | $231,138 | $171,941 |
| Distribution of earnings from unconsolidated affiliates | - | 4,220 | 840 | 602 | 1,509 |
| Fixed charges | 33,032 | 57,907 | 57,744 | 64,881 | 65,827 |
| Earnings | $116,015 | $239,182 | $256,303 | $296,621 | $239,277 |
| Interest | $ 32,108 | $ 56,869 | $ 56,837 | $ 63,974 | $ 64,886 |
| Amortization of premiums and other | 924 | 1,038 | 907 | 907 | 941 |
| Fixed Charges | $ 33,032 | $ 57,907 | $ 57,744 | $ 64,881 | $ 65,827 |
| Ratio of Earnings to Fixed Charges | 3.51 | 4.13 | 4.44 | 4.57 | 3.63 |

</TABLE>