UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended June 30, 2008

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)**

804-359-9311

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant 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 x Accelerated filer ¨ Non-accelerated filer ¨

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

As of August 1, 2008, the total number of shares of common stock outstanding was 25,410,740.

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UNIVERSAL CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
UNIVERSAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(In thousands of dollars, except per share data)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
	(Unaudited)	
Sales and other operating revenues	$ 506,287	$ 450,217
Costs and expenses		
Cost of goods sold	403,253	366,049
Selling, general and administrative expenses	64,847	51,107
Restructuring costs		3,304
Operating income	38,187	29,757
Equity in pretax earnings (loss) of unconsolidated affiliates	(50)	1,143
Interest income	950	4,288
Interest expense	7,666	11,391
Income before income taxes and other items	31,421	23,797
Income taxes	10,281	9,156
Minority interests, net of income taxes	29	(3,537)
Income from continuing operations	21,111	18,178
Income from discontinued operations, net of income taxes		530
Net income	21,111	18,708
Dividends on convertible perpetual preferred stock	(3,712)	(3,713)
Earnings available to common shareholders	$ 17,399	$ 14,995
Basic earnings per common share:		
From continuing operations	$ 0.65	$ 0.53
From discontinued operations		0.02
Net income	$ 0.65	$ 0.55
Diluted earnings per common share:		
From continuing operations	$ 0.64	$ 0.52
From discontinued operations		0.02
Net income	$ 0.64	$ 0.54
Retained earnings beginning of year	$ 711,655	$ 682,232
Net income	21,111	18,708
Cash dividends declared:		

Series B 6.75% Convertible Perpetual Preferred Stock	(3,712)	(3,713)
Common stock (2008 $0.45 per share; 2007 $0.44 per share)	(12,382)	(12,054)
Repurchase of common stock cost in excess of stated capital amount	(45,350)	
Adoption of Financial Accounting Standards Board Interpretation 48 (FIN 48) as of April 1, 2007		(10,870)
Retained earnings end of period	$ 671,322	$ 674,303

See accompanying notes.

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UNIVERSAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)

	June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)	March 31, 2008
ASSETS			
Current			
Cash and cash equivalents	$ 141,805	$ 320,764	$ 186,070
Short-term investments	28,939		58,889
Accounts receivable, net	224,854	213,100	231,107
Advances to suppliers, net	116,254	66,717	149,376
Accounts receivable unconsolidated affiliates	16,183	47,343	43,718
Inventories at lower of cost or market:			
Tobacco	965,244	814,564	602,945
Other	63,766	45,713	42,562
Prepaid income taxes	13,005	9,036	17,696
Deferred income taxes	24,281	22,824	22,737
Other current assets	93,216	54,099	61,960
Current assets of discontinued operations		8,295	
Total current assets	1,687,547	1,602,455	1,417,060
Property, plant and equipment			
Land	16,516	16,795	16,460
Buildings	256,470	242,966	254,737
Machinery and equipment	517,272	519,097	519,695
	790,258	778,858	790,892
Less accumulated depreciation	(463,345)	(422,401)	(456,059)
	326,913	356,457	334,833
Other assets			
Goodwill and other intangibles	106,413	104,371	106,647
Investments in unconsolidated affiliates	115,744	105,931	116,185
Deferred income taxes	50,164	78,285	49,632
Other noncurrent assets	92,922	130,343	109,755
	365,243	418,930	382,219
Total assets	$ 2,379,703	$ 2,377,842	$ 2,134,112

See accompanying notes.

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UNIVERSAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)

	June 30, 2008 (Unaudited)	June 30, 2007 (Unaudited)	March 31, 2008
LIABILITIES AND SHAREHOLDERS EQUITY			
Current			
Notes payable and overdrafts	$ 260,590	$ 124,221	$ 126,229
Accounts payable and accrued expenses	233,493	259,117	210,354
Accounts payable unconsolidated affiliates	119	27	10,343
Customer advances and deposits	165,945	132,434	21,030
Accrued compensation	19,128	15,874	25,484
Income taxes payable	7,133	12,863	8,886
Current portion of long-term obligations		164,000	
Current liabilities of discontinued operations		2,757	
Total current liabilities	686,408	711,293	402,326
Long-term obligations	399,496	398,122	402,942
Pensions and other postretirement benefits	91,776	103,218	88,278
Other long-term liabilities	81,828	86,728	84,958
Deferred income taxes	44,072	30,663	36,795
Total liabilities	1,303,580	1,330,024	1,015,299
Minority interests	3,171	2,286	3,182
Shareholders equity			
Preferred stock:			
Series A Junior Participating Preferred Stock, no par value, 500,000 shares authorized, none issued or outstanding			
Series B 6.75% Convertible Perpetual Preferred Stock, no par value, 5,000,000 shares authorized, 219,999 shares issued and outstanding (219,999 at June 30, 2007, and March 31, 2008)	213,023	213,023	213,023
Common stock, no par value, 100,000,000 shares authorized, 26,095,635 shares issued and outstanding (27,356,307 at June 30, 2007, and 27,162,150 at March 31, 2008)	200,763	196,809	206,436
Retained earnings	671,322	674,303	711,655
Accumulated other comprehensive loss	(12,156)	(38,603)	(15,483)
Total shareholders equity	1,072,952	1,045,532	1,115,631
Total liabilities and shareholders equity	$ 2,379,703	$ 2,377,842	$ 2,134,112

See accompanying notes.

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UNIVERSAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)

	Three Months Ended June 30, 2008	2007
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS:		
Net income	$ 21,111	$ 18,708
Adjustments to reconcile net income to net cash used by operating activities of continuing operations:		
Net loss (income) from discontinued operations		(530)
Depreciation	10,292	10,813
Amortization	249	393
Provisions for losses on advances and guaranteed loans to suppliers	3,766	780
Restructuring costs		3,304
Other, net	10,003	(2,469)
Changes in operating assets and liabilities, net	(182,739)	(73,597)
Net cash used by operating activities of continuing operations	(137,318)	(42,598)
CASH FLOWS FROM INVESTING ACTIVITIES OF CONTINUING OPERATIONS:		
Purchase of property, plant and equipment	(6,126)	(6,851)
Purchases of short-term investments	(9,658)	
Maturities and sales of short-term investments	39,608	
Proceeds from sale of business, less cash of business sold		25,156
Proceeds from sale of property, plant and equipment, and other	3,866	110
Net cash provided by investing activities of continuing operations	27,690	18,415
CASH FLOWS FROM FINANCING ACTIVITIES OF CONTINUING OPERATIONS:		
Issuance (repayment) of short-term debt, net	127,318	(13,761)
Issuance of common stock	37	15,773
Repurchase of common stock	(47,229)	
Dividends paid on convertible perpetual preferred stock	(3,712)	(3,713)
Dividends paid on common stock	(11,729)	(12,054)
Other		(1)
Net cash provided (used) by financing activities of continuing operations	64,685	(13,756)
Net cash used by continuing operations	(44,943)	(37,939)
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Net cash provided by operating activities of discontinued operations		3,149
Net cash used by investing activities of discontinued operations		(5)
Net cash used by financing activities of discontinued operations		(2,443)
Net cash provided by discontinued operations		701
Effect of exchange rate changes on cash	678	65

Net decrease in cash and cash equivalents	(44,265)	(37,173)
Cash and cash equivalents of continuing operations at beginning of year	186,070	358,236
Cash and cash equivalents of discontinued operations at beginning of year		239
Less: Cash and cash equivalents of discontinued operations at end of period		538
Cash and cash equivalents at end of period	$ 141,805	$ 320,764

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 (Universal or the Company), is one of the world s leading leaf tobacco merchants and processors. The Company previously had operations in lumber and building products and in agri-products. The lumber and building products businesses, along with a portion of the agri-products operations, were sold during fiscal year 2007. The remaining agri-products businesses, or the assets of those businesses, were sold during fiscal year 2008. The lumber and building products operations and the agri-products operations are reported as discontinued operations for all periods in the Company s financial statements.

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, 2008.

NOTE 2. ACCOUNTING PRONOUNCEMENTS

Recent Pronouncements Adopted Through June 30, 2008

Effective April 1, 2008, Universal adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157) as it applies to financial assets and financial liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. As originally issued, SFAS 157 also applied to nonfinancial assets and nonfinancial liabilities; however, the FASB subsequently issued additional guidance that delayed the effective date for those items until fiscal years beginning after November 15, 2008, except where they are currently required to be recognized or disclosed at fair value in the financial statements on at least an annual basis. Universal does not have any nonfinancial assets or nonfinancial liabilities that are required to be recognized or disclosed at fair value on at least an annual basis. The FASB also issued subsequent guidance to exclude fair value measurements related to leases from the scope of SFAS 157, except where they relate to leases assumed in a business combination. The adoption of SFAS 157 with respect to the Company s financial assets and liabilities did not have a material effect on the Company s operating results or financial position. The required disclosures about fair value measurements are provided in Note 10. The Company is continuing to evaluate the impact of adopting SFAS 157 for its nonfinancial assets and liabilities.

Effective April 1, 2008, the Company also adopted FASB Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 gives companies the option to report certain financial instruments and other items at fair value on an item-by-item basis (the fair value option) with changes in fair value reported in earnings. The Company did not elect the fair value option for any financial assets or liabilities that were not already being measured and reported at fair value; therefore, the adoption of SFAS 159 had no impact on its financial statements.

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Universal adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), effective April 1, 2007. FIN 48 clarified the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. It requires that positions taken or expected to be taken in tax returns meet a more-likely-than-not threshold based solely on their technical merit 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. As a result of adopting FIN 48, the Company recognized a net increase of approximately $10.9 million in its liability related to uncertain tax positions, which was accounted for as a decrease in the April 1, 2007, balance of retained earnings.

Pronouncements to be Adopted in Future Periods

In addition to the above accounting pronouncements adopted through June 30, 2008, the following pronouncements or specific provisions of pronouncements have been issued and will become effective in future periods:

The measurement timing provisions of FASB 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). These provisions are effective for fiscal years ending after December 15, 2008, and require that the funded status of defined benefit plans be measured as of the balance sheet date, thereby eliminating the option allowed under the prior guidance, and previously used by the Company, to measure funded status at a date up to three months before the balance sheet date. Universal will adopt these measurement timing provisions in fiscal year 2009 by next measuring its plans at March 31, 2009. Upon adoption, the Company expects to record a direct adjustment to reduce retained earnings by approximately $2 million ($3 million before income taxes), reflecting the expense attributable to the intervening three-month transition period. Changes in the fair value of plan assets and benefit obligations for the full fifteen-month period between the fiscal year 2008 and 2009 measurement dates will be recognized in other comprehensive income for fiscal year 2009.

FASB Statement of Financial Accounting Standards No. 141R, Business Combinations (SFAS 141R), which requires that companies record assets acquired, liabilities assumed, and noncontrolling interests in business combinations at fair value, separately from goodwill, as of the acquisition date. This approach differs from the cost allocation approach provided under current accounting guidance and can result in recognition of a gain at acquisition date if the cost to acquire a business is less than the net fair value of the assets acquired, liabilities assumed, and noncontrolling interests. SFAS 141R also provides new guidance on recording assets and liabilities that arise from contingencies in a business combination, and it requires that transaction costs associated with business combinations be charged to expense instead of being recorded as part of the cost of the acquired business. It is effective for fiscal years beginning after December 15, 2008, which means that Universal will apply the guidance to any business combinations occurring on or after April 1, 2009.

FASB Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 151 (SFAS 160).

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SFAS 160 requires that noncontrolling interests in subsidiaries that are included in a company s consolidated financial statements, commonly referred to as minority interests, be reported as a component of shareholders equity in the balance sheet. It also requires that a company s consolidated net income and comprehensive income include the amounts attributable to both the company s interest and the noncontrolling interest in the subsidiary, identified separately in the financial statements. Finally, the new guidance requires certain disclosures about noncontrolling interests in the consolidated financial statements. SFAS 160 is effective for fiscal years beginning after December 15, 2008. Universal has various subsidiaries with noncontrolling interests and will begin applying the new guidance in fiscal year 2010. Adoption of SFAS 160 is not expected to have a material impact on the Company s financial statements.

FASB Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 amends FASB Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities and several other accounting pronouncements to require enhanced disclosures about derivatives and hedging activities that are aimed at improving the transparency and understanding of those activities for financial statement users. It requires additional disclosures explaining the objectives and strategies for using derivative instruments, how those instruments and the related hedged items are accounted for, and how they affect the company s financial position, results of operations, and cash flows. SFAS 161 is effective for interim periods and fiscal years beginning after November 15, 2008, which means that Universal will be initially required to make the disclosures in its financial statements for the fiscal year ending March 31, 2009, although earlier application is permitted. Universal uses interest rate swaps and forward foreign currency exchange contracts from time to time to minimize interest rate and foreign currency risk, and will make the required additional disclosures upon adoption of SFAS 161.

NOTE 3. GUARANTEES AND OTHER CONTINGENT LIABILITIES

Guarantees and Other Contingent Liabilities

Guarantees of bank loans to growers for crop financing and construction of curing barns or other tobacco producing assets are industry practice in Brazil and support the farmers production of tobacco there. At June 30, 2008, the Company s total exposure under guarantees issued by its operating subsidiary in Brazil for banking facilities of farmers in that country was approximately $180 million. About 57% of these guarantees expire within one year, and nearly all of the remainder expire within five years. The subsidiary withholds payments due to the farmers on delivery of tobacco and forwards those payments to the third-party banks. Failure of farmers to deliver sufficient quantities of tobacco to the subsidiary to cover their obligations to third-party banks could result in a liability for the subsidiary under the related guarantee; however, in that case, the subsidiary would have recourse against the farmers. The maximum potential amount of future payments that the Company s subsidiary could be required to make is the face amount, $180 million, and any unpaid accrued interest ($170 million plus unpaid accrued interest as of June 30, 2007, and $218 million plus unpaid accrued interest at March 31, 2008). The accrual recorded for the fair value of the guarantees was approximately $14 million and $9 million at June 30, 2008 and 2007, respectively, and approximately $13 million at March 31, 2008. The accrual was increased by approximately $1.3 million in the quarter ended June 30, 2008, due to the adoption of SFAS 157 (see Notes 1 and 10). In addition to these guarantees, the Company has other contingent liabilities totaling approximately $59 million, primarily related to a bank guarantee that bonds an appeal of a 2006 fine in the European Union, 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 for colluding on the prices paid to, and the quantities bought from, the tobacco growers in Spain. Two of the Company s subsidiaries, Tabacos Espanoles S.A. (TAES), a purchaser and processor of raw tobacco in Spain, and Deltafina, S.p.A. (Deltafina), an Italian subsidiary, were among the five companies assessed fines. In its decision, the Commission imposed a fine of 108,000 on TAES and 11.88 million on Deltafina. Deltafina did not and does not purchase or process raw tobacco in the Spanish market, but was and is a significant buyer of tobacco from some of the Spanish processors. The Company recorded a charge of 11.988 million (approximately $14.9 million at the September 2004 exchange rate) in the second quarter of fiscal year 2005 to accrue the full amount of the fines assessed against the Company s subsidiaries.

In January 2005, Deltafina filed an appeal in the Court of First Instance of the European Communities. The outcome of the appeal is uncertain, and an ultimate resolution to the matter could take several years. 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. This deposit is accounted for as a non-current asset.

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 $47 million at the June 30, 2008 exchange rate) on Deltafina and the Company jointly for infringing European Union antitrust law in connection with the purchase and processing of tobacco in the Italian raw tobacco market.

The Company does not believe that the decision can be reconciled with the Commission s Statement of Objections and the 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 plus accrued interest in order to stay execution during the appeal process.

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. These payments 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 had been issued.

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 what sanctions the U.S. authorities may 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 this matter.

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.

NOTE 4. DISCONTINUED OPERATIONS

As discussed in Note 1, Universal implemented actions during fiscal years 2007 and 2008 to divest its non-tobacco businesses, which included lumber and building products operations and agri-product operations. The lumber and building products businesses and a portion of the agri-products operations were sold during fiscal year 2007. The remaining agri-product businesses, or the assets of those businesses, were sold during fiscal year 2008. For the quarter ended June 30, 2007, the Company reported income from discontinued operations, net of income taxes, of $530,000, most of which represented earnings from operating two of the agri-product businesses prior to sale. At June 30, 2007, the Company reported current assets of discontinued operations of approximately $8.3 million and current liabilities of discontinued operations of approximately $2.8 million. These balances reflected assets and liabilities of one agri-products business that was subsequently sold in October 2007, and primarily consisted of trade accounts receivable, inventories, and trade accounts payable.

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NOTE 5. RESTRUCTURING COSTS

During the quarter ended June 30, 2007, the Company recorded restructuring costs totaling $3.3 million, representing one-time and special termination benefits associated with actions taken in certain areas of its worldwide operations. Approximately $1.1 million of the costs related to a restructuring and downsizing of the Company s operations in Canada in response to declining tobacco production in that country. In addition, the Company s decision to exit certain flue-cured growing projects in Africa accounted for approximately $1.7 million of costs, as actions to release farm managers and workers were implemented during the quarter. The remaining $0.5 million of the charge related to reorganizations in several smaller locations. The restructuring costs reflected termination benefits paid, or to be paid, to 40 management and administrative employees, plus small remuneration payments to approximately 10,500 seasonal workers released from the growing projects in Africa.

In addition to the restructuring costs recorded during the quarter ended June 30, 2007, Universal recorded other restructuring costs during the fiscal years ended March 31, 2006, and March 31, 2008, associated with various other actions taken to streamline, restructure, or exit various activities and functions in certain areas of its worldwide operations. A significant portion of the restructuring costs were paid prior to the end of fiscal year 2008, and nearly all of the remainder will be paid by the end of fiscal year 2009. During the quarter ended June 30, 2008, payments of employee termination benefits were made to 33 employees. The activity in the Company s liability for restructuring costs for fiscal year 2008 and the first quarter of fiscal year 2009 was as follows:

(in thousands of dollars)	Employee Termination Benefits	Other Costs	Total
Balance at March 31, 2007	$ 1,331	$ 190	$ 1,521
Costs charged to expense during fiscal year 2008:			
Quarter ended June 30, 2007	3,304		3,304
Quarter ended March 31, 2008	3,413		3,413
Payments during fiscal year 2008:			
Quarter ended June 30, 2007	(786)	(52)	(838)
Quarter ended September 30, 2007	(2,359)	(35)	(2,394)
Quarter ended December 31, 2007	(441)	(34)	(475)
Quarter ended March 31, 2008	(1,376)	(69)	(1,445)
Balance at March 31, 2008	3,086		3,086
Payments during fiscal year 2009:			
Quarter ended June 30, 2008	(642)		(642)
Balance at June 30, 2008	$ 2,444	$	$ 2,444

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NOTE 6. STOCK-BASED COMPENSATION

Universal s shareholders have approved Executive Stock Plans under which officers, directors, and employees of the Company may receive grants and awards of common stock, restricted stock, restricted stock units (RSUs), performance share awards (PSAs), stock appreciation rights (SARs), incentive stock options, and non-qualified stock options. The Company s practice is to award grants of stock-based compensation to officers on an annual basis at the first regularly-scheduled meeting of the Executive Compensation, Nominating and Corporate Governance Committee of the Board of Directors (the Compensation Committee) in the fiscal year. Awards of restricted stock, RSUs, PSAs, SARs, and non-qualified stock options are currently outstanding under the Plans. The non-qualified stock options and SARs have an exercise price equal to the market price of a share of common stock on the grant date. All stock options currently outstanding are fully vested and exercisable, and they expire ten years after the grant date. The SARs are settled in shares of common stock, vest in equal one-third tranches one, two, and three years after the grant date, and expire ten years after the grant date, except that SARs granted after fiscal year 2007 expire on the earlier of three years after the grantee s retirement date or ten years after the grant date. The RSUs vest five years from the grant date and are then paid out in shares of common stock. Under the terms of the RSU awards, grantees receive dividend equivalents in the form of additional RSUs that vest and are paid out on the same date as the original RSU grant. The PSAs vest three years from the grant date, are paid out in shares of common stock at the vesting date, and do not carry rights to dividends or dividend equivalents prior to vesting. Shares ultimately paid out under PSA grants are dependent on the achievement of predetermined performance measures established by the Compensation Committee and can range from zero to 150% of the stated award. The Company s outside directors automatically receive shares of restricted stock following each annual meeting of shareholders. These shares vest upon the individual s retirement from service as a director.

During the quarters ended June 30, 2008 and 2007, Universal issued the following stock-based awards, representing the regular annual grants to officers of the Company:

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
SARs:		
Number granted	132,000	272,800
Exercise price	$ 51.32	$ 62.66
Grant date fair value	$ 11.65	$ 14.64
RSUs:		
Number granted	36,500	68,200
Grant date fair value	$ 51.32	$ 62.66
PSAs:		
Number granted	31,600	
Grant date fair value	$ 45.96	$

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

	2008	2007
Expected term	5.0 years	5.0 years
Expected volatility	31.3%	26.1%
Expected dividend yield	3.50%	2.81%
Risk-free interest rate	3.32%	5.00%

Fair value expense for stock-based compensation is recognized ratably over the period from grant date to the earlier of: (1) the vesting date of the award, or (2) the date the grantee is eligible to retire without forfeiting the award. For employees who are already eligible to retire at the date an award is granted, the total fair value of all non-forfeitable awards is recognized as expense at the date of grant. As a result, Universal typically incurs higher stock compensation expense in the first quarter of each fiscal year when grants are awarded than in the other three quarters. For PSAs, the Company generally recognizes fair value expense ratably over the performance and vesting period based on management s judgment of the ultimate award that is likely to be paid out based on the achievement of the predetermined performance measures. For the three months ended June 30, 2008 and 2007, the Company recorded total stock-based compensation expense of approximately $1.6 million and $4.6 million, respectively. The significant decline in expense for the quarter ended June 30, 2008, as compared to the prior year period, was due in part to retirements of several senior officers during fiscal year 2008 and in part to reduced award levels and related fair values for the awards granted during the first quarter of fiscal year 2009. The Company expects to recognize stock-based compensation expense of approximately $3 million during the remaining nine months of fiscal year 2009.

NOTE 7. COMPREHENSIVE INCOME

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

	Three Months Ended June 30,	
(in thousands of dollars all amounts net of income taxes)	**2008**	**2007**
From continuing operations:		
Income from continuing operations	$ 21,111	$ 18,178
Foreign currency translation adjustment	1,730	2,034
Foreign currency hedge adjustment	1,595	339
Comprehensive income from continuing operations	24,436	20,551
From discontinued operations:		
Income from discontinued operations		530
Comprehensive income from discontinued operations		530
Total comprehensive income	$ 24,436	$ 21,081

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NOTE 8. EARNINGS PER SHARE

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

(in thousands, except per share data)	Three Months Ended June 30, 2008	2007
Basic Earnings Per Share		
Numerator for basic earnings per share		
From continuing operations:		
Income from continuing operations	$ 21,111	$ 18,178
Less: Dividends on convertible perpetual preferred stock	(3,712)	(3,713)
Earnings available to common shareholders from continuing operations	17,399	14,465
From discontinued operations:		
Earnings available to common shareholders from discontinued operations		530
Net income available to common shareholders	$ 17,399	$ 14,995
Denominator for basic earnings per share		
Weighted average shares outstanding	26,897	27,126
Basic earnings per share:		
From continuing operations	$ 0.65	$ 0.53
From discontinued operations		0.02
Net income per share	$ 0.65	$ 0.55
Diluted Earnings Per Share		
Numerator for diluted earnings per share		
From continuing operations:		
Earnings available to common shareholders from continuing operations	$ 17,399	$ 14,465
Add: Dividends on convertible perpetual preferred stock (if conversion assumed)		
Earnings available to common shareholders from continuing operations for calculation of diluted earnings per share	17,399	14,465
From discontinued operations:		
Earnings available to common shareholders from discontinued operations		530
Net income available to common shareholders	$ 17,399	$ 14,995
Denominator for diluted earnings per share:		
Weighted average shares outstanding	26,897	27,126
Effect of dilutive securities (if conversion or exercise assumed)		
Convertible perpetual preferred stock		
Employee share-based awards	218	433
Denominator for diluted earnings per share	27,115	27,559
Diluted earnings per share:		
From continuing operations	$ 0.64	$ 0.52

From discontinued operations		0.02
Net income per share	$ 0.64	$ 0.54

For the three months ended June 30, 2008 and 2007, conversion of the Company s outstanding Series B 6.75% Convertible Perpetual Preferred Stock was not assumed since the effect was antidilutive to earnings per share from continuing operations.

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NOTE 9. OPERATING SEGMENTS

The principal approach used by management to evaluate the Company s performance is by geographic region, although some components of the business are evaluated on the basis of their worldwide operations. The Company evaluates the performance of its segments based on operating income after allocated overhead expenses (excluding significant non-recurring charges or credits), plus equity in pretax earnings of unconsolidated affiliates.

Operating results for the Company s reportable segments for each period presented in the consolidated statements of income and retained earnings were as follows:

	Three Months Ended June 30,	
(in thousands of dollars)	**2008**	**2007**
SALES AND OTHER OPERATING REVENUES		
Flue-cured and burley leaf tobacco operations:		
North America	$ 48,427	$ 34,764
Other regions (1)	401,485	343,287