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 SEPTEMBER 30, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____________TO______________

Commission File Number: 001-00652

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

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

9201 Forest Hill Avenue, Richmond, Virginia 23235
(Address of principal executive offices) (Zip Code)

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

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

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

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	☑	Accelerated filer	Non-accelerated filer
Smaller reporting company		Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of November 4, 2019, the total number of shares of common stock outstanding was24,804,346.

UNIVERSAL CORPORATION
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNIVERSAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in thousands, except share and per share data)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Sales and other operating revenues	$ 475,921	$ 539,604	$ 772,836	$ 919,323
Costs and expenses				
Cost of goods sold	379,892	440,144	618,157	747,642
Selling, general and administrative expenses	52,830	45,090	103,966	108,942
Operating income	43,199	54,370	50,713	62,739
Equity in pretax earnings of unconsolidated affiliates	2,310	(614)	2,350	(75)
Other non-operating income	633	196	1,260	386
Interest income	240	299	1,248	811
Interest expense	5,136	4,593	9,164	8,542
Income before income taxes and other items	41,246	49,658	46,407	55,319
Income taxes	11,499	15,365	15,765	9,966
Net income	29,747	34,293	30,642	45,353
Less: net income attributable to noncontrolling interests in subsidiaries	(1,670)	(2,847)	(493)	(728)
Net income attributable to Universal Corporation	$ 28,077	$ 31,446	$ 30,149	$ 44,625
Earnings per share:				
Basic	$ 1.12	$ 1.25	$ 1.20	$ 1.78
Diluted	$ 1.11	$ 1.24	$ 1.19	$ 1.76
Weighted average common shares outstanding:				
Basic	25,086,580	25,152,864	25,122,283	25,108,724
Diluted	25,197,325	25,337,720	25,240,600	25,311,292
Total comprehensive income, net of income taxes	$ 14,908	$ 34,582	$ 11,456	$ 32,105
Less: comprehensive income attributable to noncontrolling interests	(1,546)	(2,742)	(492)	(464)
Comprehensive income (loss) attributable to Universal Corporation	$ 13,362	$ 31,840	$ 10,964	$ 31,641
Dividends declared per common share	$ 0.76	$ 0.75	$ 1.52	$ 1.50

See accompanying notes.

UNIVERSAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	September 30, 2019	September 30, 2018	March 31, 2019
	(Unaudited)	(Unaudited)	
ASSETS			
Current assets			
Cash and cash equivalents	$ 53,173	$ 67,876	$ 297,556
Accounts receivable, net	337,825	355,674	368,110
Advances to suppliers, net	75,828	53,823	106,850
Accounts receivable—unconsolidated affiliates	82,812	107,198	30,951
Inventories—at lower of cost or net realizable value:			
Tobacco	918,592	935,406	629,606
Other	97,536	87,958	69,611
Prepaid income taxes	13,454	17,131	14,264
Other current assets	70,338	73,862	71,197
Total current assets	1,649,558	1,698,928	1,588,145
Property, plant and equipment			
Land	22,696	23,020	22,952
Buildings	261,599	269,738	261,976
Machinery and equipment	609,320	642,915	608,191
	893,615	935,673	893,119
Less accumulated depreciation	(598,184)	(613,130)	(590,625)
	295,431	322,543	302,494
Other assets			
Operating lease right-of-use assets	34,838	—	—
Goodwill and other intangibles	97,998	98,860	97,994
Investments in unconsolidated affiliates	79,072	83,962	80,482
Deferred income taxes	16,250	20,473	13,357
Other noncurrent assets	45,085	47,480	50,712
	273,243	250,775	242,545
Total assets	$ 2,218,232	$ 2,272,246	$ 2,133,184

See accompanying notes.

UNIVERSAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	September 30, 2019	September 30, 2018	March 31, 2019
	(Unaudited)	(Unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Notes payable and overdrafts	$ 155,352	$ 148,049	$ 54,023
Accounts payable and accrued expenses	158,731	162,972	145,506
Accounts payable—unconsolidated affiliates	56	4,862	106
Customer advances and deposits	6,513	45,098	21,675
Accrued compensation	22,046	22,610	31,372
Income taxes payable	1,155	6,668	1,066
Current portion of operating lease liabilities	8,591	—	—
Current portion of long-term debt	—	—	—
Total current liabilities	352,444	390,259	253,748
Long-term debt	368,633	369,262	368,503
Pensions and other postretirement benefits	54,113	56,347	59,257
Long-term operating lease liabilities	23,331	—	—
Other long-term liabilities	56,146	41,758	43,214
Deferred income taxes	24,982	36,202	28,584
Total liabilities	879,649	893,828	753,306
Shareholders' equity			
Universal Corporation:			
Preferred stock:			
Series A Junior Participating Preferred Stock, no par value, 500,000 shares authorized, none issued or outstanding	—	—	—
Common stock, no par value, 100,000,000 shares authorized 24,841,863 shares issued and outstanding at September 30, 2019 (24,968,799 at September 30, 2018 and 24,989,946 at March 31, 2019)	324,927	324,626	326,600
Retained earnings	1,088,608	1,084,763	1,106,178
Accumulated other comprehensive loss	(114,876)	(73,048)	(95,691)
Total Universal Corporation shareholders' equity	1,298,659	1,336,341	1,337,087
Noncontrolling interests in subsidiaries	39,924	42,077	42,791
Total shareholders' equity	1,338,583	1,378,418	1,379,878
Total liabilities and shareholders' equity	$ 2,218,232	$ 2,272,246	$ 2,133,184

See accompanying notes.

UNIVERSAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Six Months Ended September 30,	
	2019	**2018**
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 30,642	$ 45,353
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	18,231	18,440
Net provision for losses (recoveries) on advances and guaranteed loans to suppliers	(1,885)	(5,408)
Foreign currency remeasurement (gain) loss, net	1,767	3,952
Restructuring payments	(298)	(27)
Other, net	(301)	(2,459)
Changes in operating assets and liabilities, net	(327,975)	(272,847)
Net cash used by operating activities	(279,819)	(212,996)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(13,308)	(20,043)
Proceeds from sale of property, plant and equipment	1,254	858
Other	—	2,000
Net cash used by investing activities	(12,054)	(17,185)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of short-term debt, net	104,003	102,489
Dividends paid to noncontrolling interests	(3,359)	(1,260)
Repurchase of common stock	(12,338)	(1,443)
Dividends paid on common stock	(37,721)	(32,430)
Other	(2,883)	(2,657)
Net cash provided by financing activities	47,702	64,699
Effect of exchange rate changes on cash	(212)	(770)
Net decrease in cash and cash equivalents	(244,383)	(166,252)
Cash and cash equivalents at beginning of year	297,556	234,128
Cash and cash equivalents at end of period	$ 53,173	$ 67,876

See accompanying notes.

UNIVERSAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Universal Corporation, which together with its subsidiaries is referred to herein as “Universal” or the “Company,” is the leading global leaf tobacco supplier. 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, 2019.

NOTE 2. ACCOUNTING PRONOUNCEMENTS

Recently Adopted Pronouncements

The Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”) effective April 1, 2019, the beginning of the current fiscal year. For leases with fixed payment arrangements, ASU 2016-02 requires a lessee to recognize lease payment obligations as a lease liability and corresponding right-of-use asset in the balance sheet for the term of the lease. This guidance superseded Topic 840 “Leases.” The Company elected the practical expedient to not include leases with terms less than 12 months on the consolidated balance sheet. The Company elected the transition package of practical expedients that retained the historical lease identification, lease classification, and treatment of initial direct costs for leases prior to the adoption of ASU 2016-02. Additionally, as permitted under the new guidance the Company elected to not separate lease and non-lease components for certain classes of leased assets, including real estate. The Company elected the modified retrospective transition adoption method. Accordingly, on the date of adoption $36.6 million of operating lease right-of use assets and corresponding operating lease liabilities of$34.2 million were recognized on the Company's consolidated balance sheet. The adoption of ASU 2016-02 did not result in a cumulative-effect adjustment to retained earnings. The disclosures required for lease accounting under the new guidance are provided in Note 7.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, "Intangibles - Goodwill and Other (Topic 350)" ("ASU 2017-04"). Under current accounting guidance, the fair value of a reporting unit to which a specific goodwill balance relates is first compared to its carrying value in the financial statements (Step 1). If that comparison indicates that the goodwill is impaired, an implied fair value for the goodwill must then be calculated by deducting the individual fair values of all other assets and liabilities, including any unrecognized intangible assets, from the total fair value of the reporting unit. ASU 2017-04 simplifies the accounting guidance by eliminating Step 2 from the goodwill impairment test and using the fair value of the reporting unit determined in Step 1 to measure the goodwill impairment loss. The updated guidance is effective for fiscal years beginning after December 15, 2019, although early adoption is permitted. The Company early adopted ASU 2017-04 effective July 1, 2019. There was no material impact to the consolidated financial statements from the adoption of ASU 2017-04.

Pronouncements to be Adopted in Future Periods

In June 2016, the FASB issued Accounting Standards Update 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (“ASU 2016-13”). ASU 2016-13 requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company will be required to adopt ASU 2016-13 effective April 1, 2020, which is the beginning of its fiscal year ending March 31, 2021, although early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-15, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of FASB Emerging Issues Task Force)" ("ASU 2018-15"). ASU 2018-15 aligns the requirements for capitalizing implementation costs in a cloud computing arrangement service contract with the requirements for capitalizing implementation costs incurred for an internal-use software license. Under that model, implementation costs are capitalized or expensed depending on the nature of the costs and the project stage during which they are incurred. Capitalized implementation costs are amortized over the term of the associated hosted cloud computing arrangement service contract on a straight-line basis, unless another systematic and rational basis is more representative of the pattern in which the entity expects to benefit from its right to access the hosted software. Capitalized implementation costs would then be assessed for impairment in a manner similar to long-

lived assets. The new guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Entities can choose to adopt the new guidance either prospectively to eligible costs incurred on or after the date the guidance is first applied or retrospectively. The Company will be required to adopt ASU 2018-15 effective April 1, 2020, which is the beginning of its fiscal year ending March 31, 2021, although early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

NOTE 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

The majority of the Company's consolidated revenue consists of sales of processed leaf tobacco to customers. The Company also earns revenue from processing leaf tobacco owned by customers and from various other services provided to customers. Payment terms with customers vary depending on customer creditworthiness, product types, services provided, and other factors. Contract durations and payment terms for all revenue categories generally do not exceed one year. Therefore, the Company has applied a practical expedient to not adjust the transaction price for the effects of financing components, as the Company expects that the period from the time the revenue for a transaction is recognized to the time the customer pays for the related good or service transferred will be one year or less. Below is a description of the major revenue-generating categories from contracts with customers.

Tobacco Sales

The majority of the Company's business involves purchasing leaf tobacco from farmers in the origins where it is grown, processing and packing the tobacco in its factories, and then transferring ownership and control of the tobacco to customers. On a much smaller basis, the Company also sources processed tobacco from third-party suppliers for resale to customers. The contracts for tobacco sales with customers create a performance obligation to transfer tobacco to the customer. Transaction prices for the sale of tobaccos are primarily based on negotiated fixed prices, but the Company does have a small number of cost-plus contracts with certain customers. Cost-plus arrangements provide the Company reimbursement of the cost to purchase and process the tobacco, plus a contractually agreed-upon profit margin. The Company utilizes the most likely amount methodology under the accounting guidance to recognize revenue for cost-plus arrangements with customers. Shipping and handling costs under tobacco sales contracts with customers are treated as fulfillment costs and included in the transaction price. Taxes assessed by government authorities on the sale of leaf tobacco products are excluded from the transaction price. At the point in time that the customer obtains control over the tobacco, which is typically aligned with physical shipment under the contractual terms with the customer, the Company completes its performance obligation and recognizes the revenue for the sale.

Processing Revenue

Processing and packing of customer-owned leaf tobacco is a short-duration process. Processing charges are primarily based on negotiated fixed prices per unit of weight processed. Under normal operating conditions, customer-owned raw tobacco that is placed into the production line exits as processed and packed tobacco within one hour and is then later transported to customer-designated storage facilities. The revenue for these services is recognized when the performance obligation is satisfied, which is generally when processing is completed. The Company's operating history and contract analyses indicate that customer requirements for processed tobacco are consistently met upon completion of processing.

Other Revenue

From time to time, the Company enters into various arrangements with customers to provide other value-added services that may include blending, chemical and physical testing of tobacco, and service cutting for select manufacturers. These other arrangements are a much smaller portion of the Company's business, are typically less frequent, and are separate and distinct contractual agreements from the Company's tobacco sales or processing arrangements with customers. The transaction prices and timing of revenue recognition of these items are determined by the specifics of each contract.

Disaggregation of Revenue from Contracts with Customers

The following table disaggregates the Company's revenue by significant revenue-generating category:

(in thousands of dollars)	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Tobacco sales	$ 449,431	$ 509,632	$ 717,488	$ 854,769
Processing revenue	16,701	17,394	35,135	39,101
Other sales and revenue from contracts with customers	8,381	10,520	17,791	18,646
Total revenue from contracts with customers	474,513	537,546	770,414	912,516
Other operating sales and revenues	1,408	2,058	2,422	6,807
Consolidated sales and other operating revenues	$ 475,921	$ 539,604	$ 772,836	$ 919,323

Other operating sales and revenues consists principally of interest on advances to suppliers and dividend income from unconsolidated affiliates.

NOTE 4. GUARANTEES, OTHER CONTINGENT LIABILITIES, AND OTHER MATTERS

Guarantees and Other Contingent Liabilities

Guarantees of Bank Loans and Other Contingent Liabilities

Guarantees of bank loans to tobacco growers for crop financing have long been industry practice in Brazil and support the farmers' production of tobacco there. The Company's operating subsidiary in Brazil had guarantees outstanding at September 30, 2019, all of which expire within one year. 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 its obligations to the third-party banks could result in a liability for the subsidiary under the related guarantees; however, in that case, the subsidiary would have recourse against the farmers. The maximum potential amount of future payments that the Company's subsidiary could be required to make at September 30, 2019, was the face amount, $5 million including unpaid accrued interest ($29 million at September 30, 2018, and $17 million at March 31, 2019). The fair value of the guarantees was a liability of approximately $0.1 million at September 30, 2019 ($0.9 million at September 30, 2018, and $0.8 million at March 31, 2019). In addition to these guarantees, the Company has other contingent liabilities totaling approximately $1 million at September 30, 2019, primarily related to outstanding letters of credit.

Value-Added Tax Assessments in Brazil

As further discussed below, the Company's local operating subsidiaries pay significant amounts of value-added tax ("VAT") in connection with their operations, which generate tax credits that they normally are entitled to recover through offset, refund, or sale to third parties. In Brazil, VAT is assessed at the state level when green tobacco is transferred between states. The Company's operating subsidiary there pays VAT when tobaccos grown in the states of Santa Catarina and Parana are transferred to its factory in the state of Rio Grande do Sul for processing. The subsidiary has received assessments for additional VAT plus interest and penalties from tax authorities for the states of Santa Catarina and Parana based on audits of the subsidiary's VAT filings for specified periods. In June 2011, tax authorities for the state of Santa Catarina issued assessments for tax, interest, and penalties for periods from 2006 through 2009 totaling approximately $11 million. In September 2014, tax authorities for the state of Parana issued an assessment for tax, interest, and penalties for periods from 2009 through 2014 totaling approximately $13 million. Those amounts are based on the exchange rate for the Brazilian currency at September 30, 2019. Management of the operating subsidiary and outside counsel believe that errors were made by the tax authorities for both states in determining all or significant portions of these assessments and that various defenses support the subsidiary's positions.

With respect to the Santa Catarina assessments, the subsidiary took appropriate steps to contest the full amount of the claims. As of September 30, 2019, a portion of the subsidiary's arguments had been accepted, and the outstanding assessment had been reduced. The reduced assessment, together with the related accumulated interest through the end of the current reporting period, totaled approximately $11 million (at the September 30, 2019 exchange rate). The subsidiary is continuing to contest the full remaining amount of the assessment. While the range of reasonably possible loss is zero up to the full $11 million remaining assessment with

interest, based on the strength of the subsidiary's defenses, no loss within that range is considered probable at this time and no liability has been recorded at September 30, 2019.

With respect to the Parana assessment, management of the subsidiary and outside counsel challenged the full amount of the claim. A significant portion of the Parana assessment was based on positions taken by the tax authorities that management and outside counsel believe deviate significantly from the underlying statutes and relevant case law. In addition, under the law, the subsidiary's tax filings for certain periods covered in the assessment were no longer open to any challenge by the tax authorities. In December 2015, the Parana tax authorities withdrew the initial claim and subsequently issued a new assessment covering the same tax periods. The new assessment totaled approximately $5 million at the September 30, 2019 exchange rate, reflecting a substantial reduction from the original $13 million assessment. Notwithstanding the reduction, management and outside counsel continue to believe that the new assessment is not supported by the underlying statutes and relevant case law and have challenged the full amount of the claim. The range of reasonably possible loss is considered to be zero up to the full $5 million assessment. However, based on the strength of the subsidiary's defenses, no loss within that range is considered probable at this time and no liability has been recorded at September 30, 2019.

In both states, the process for reaching a final resolution to the assessments is expected to be lengthy, and management is not currently able to predict when either case will be concluded. Should the subsidiary ultimately be required to pay any tax, interest, or penalties in either case, the portion paid for tax would generate VAT credits that the subsidiary may be able to recover.

Tanzania Fair Competition Commission Proceeding

In June 2012, the Company's Tanzanian subsidiary, Tanzania Leaf Tobacco Company Ltd. ("TLTC"), entered into a two crop-year supply agreement for unprocessed "green" tobacco with a newly-formed Tanzanian subsidiary of one of the Company's major customers. The agreement involved green tobacco purchases from four of the approximately 400 grower cooperatives in Tanzania, which allowed the customer and its Tanzanian subsidiary on a small test basis to evaluate whether it would be a viable alternative for the customer to establish its own vertically integrated supply operations in that market. Prior to that time, the customer's subsidiary did not exist, and it only purchased processed Tanzanian tobacco from tobacco dealers in specified amounts and only for certain grades and stalk positions. In contrast, the agreement with TLTC required the customer's subsidiary to purchase green tobacco on a "run of crop" basis. "Run of crop" requires the purchase of all green tobacco produced on the tobacco plant, regardless of grade or stalk position. The agreement, therefore, enabled the customer's subsidiary on a small test basis to evaluate the quality of green tobacco purchased on a "run of crop" basis and to assess how such tobacco would be suited to the customer's tobacco requirements. The customer unilaterally elected to establish its own vertically integrated supply operations in Tanzania after the expiration of the agreement, and its subsidiary began purchasing green tobacco directly from Tanzanian grower cooperatives during the second crop year thereafter.

Despite the pro-competitive object and effect of the agreement between TLTC and the customer's subsidiary, in October 2016, the Tanzania Fair Competition Commission ("FCC") notified TLTC and the customer's subsidiary that it reviewed the agreement and provisionally concluded that it infringed Tanzania antitrust law by having the object and effect of preventing competition in the purchase of unprocessed green tobacco in the area in which the four grower cooperatives were located. The FCC also provisionally concluded that the Company's U.S. subsidiary, Universal Leaf Tobacco Company, Inc. ("ULT"), and additional subsidiaries of the customer, were jointly and severally liable for the actions of TLTC and the customer's Tanzanian subsidiary, respectively. TLTC and ULT submitted a written response contesting the FCC's allegations, and on February 27, 2018, the FCC issued its decision to TLTC and ULT which ignored TLTC's and ULT's submissions and confirmed its initial conclusion that the agreement infringed Tanzanian antitrust law. In its decision, the FCC concluded incorrectly that the parties to the agreement unfairly benefited in the amount of $105 thousand. The FCC arbitrarily assessed a fine jointly against TLTC and ULT of approximately $197 million and a fine jointly against the customer's Tanzanian subsidiary and another subsidiary of the customer exceeding $1 billion.

TLTC and ULT have worked closely with expert legal advisors and economists on this matter. Based on these engagements and consultations, the Company firmly believes the FCC's allegations are frivolous and clearly without merit or support from the facts, law or economic analysis. The Company further believes the FCC's proceedings were rife with irregularities and did not comply with applicable legal and regulatory procedures with respect to this matter, including failing to establish jurisdiction over ULT or to offer a legal justification for including ULT in the proceeding. To the contrary, the Company believes the facts, law, and economic analysis clearly support the legality and pro-competitive nature of the agreement and support a proper conclusion that there was no infringement of Tanzania antitrust law, and the agreement had no negative impact on the Tanzania tobacco market. The Company further believes the FCC's proposed fine is ludicrous, unwarranted, and contrary to Tanzania law. TLTC and ULT immediately appealed the FCC findings to the Tanzania Fair Competition Tribunal, which immediately stayed the execution of any FCC fines. The Company is unable to predict how long the appeal process will take; however, the Company believes it could last several years. At this time, the Company believes that the likelihood of incurring any material liability in this matter is remote, and no amount has been recorded.

On January 22, 2019, the FCC delivered provisional findings regarding two new allegations of antitrust violations. In those two new provisional findings, the FCC has manufactured claims against ULT and ULT's subsidiaries in Tanzania, in addition to other parties in Tanzania. ULT and its Tanzania subsidiaries have already begun working closely with expert legal advisors on these matters and have prepared and submitted to the FCC proper and comprehensive responses. Based on the legal consultations to date the Company firmly believes the FCC's new allegations are frivolous and clearly without merit and lack facts, law or economic analysis to support them. In one of the two new matters, based on the Company's review of the provisional findings and consultation with counsel, the Company believes the FCC is seeking an equally large, ludicrous, unwarranted, and unlawful fine as the one sought in the current matter. The FCC's motivations for initiating these additional, spurious allegations against the Company's subsidiaries are unclear. At this time, the Company is unable to predict how long it will take to defend against the new matters including, if necessary, to appeal any final FCC decisions; however, the Company believes it could last several years. At this time, the Company believes that the likelihood of incurring any material liability in the new matters is remote, and no amount has been recorded for either one.

Other Legal and Tax Matters

Various subsidiaries of the Company are involved in 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 matters and does not currently expect that any of them will have a material adverse effect on the Company’s business or 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.

Advances to Suppliers

In many sourcing origins where the Company operates, it provides agronomy services and seasonal advances of seed, seedlings, fertilizer, and other supplies to tobacco farmers for crop production, or makes seasonal cash advances to farmers for the procurement of those inputs. These advances are short term, are repaid upon delivery of tobacco to the Company, and are reported in advances to suppliers in the consolidated balance sheets. In several origins, the Company has made long-term advances to tobacco farmers to finance curing barns and other farm infrastructure. In some years, due to low crop yields and other factors, individual farmers may not deliver sufficient volumes of tobacco to fully repay their seasonal advances, and the Company may extend repayment of those advances into future crop years. The long-term portion of advances is included in other noncurrent assets in the consolidated balance sheets. Both the current and the long-term portions of advances to suppliers are reported net of allowances recorded when the Company determines that amounts outstanding are not likely to be collected. Short-term and long-term advances to suppliers totaled $94 million at September 30, 2019, $73 million at September 30, 2018, and $129 million at March 31, 2019. The related valuation allowances totaled$16 million at September 30, 2019, $16 million at September 30, 2018, and $18 million at March 31, 2019, and were estimated based on the Company’s historical loss information and crop projections. The allowances were reduced by net recoveries of approximately $1.9 million and $5.4 million in the six-month periods ended September 30, 2019 and 2018, respectively. These net provisions and recoveries are included in selling, general, and administrative expenses in the consolidated statements of income. Interest on advances is recognized in earnings upon the farmers’ delivery of tobacco in payment of principal and interest.

Recoverable Value-Added Tax Credits

In many foreign countries, the Company’s local operating subsidiaries pay significant amounts of value-added tax (“VAT”) on purchases of unprocessed and processed tobacco, crop inputs, packing materials, and various other goods and services. In some countries, VAT is a national tax, and in other countries it is assessed at the state level. Items subject to VAT vary from jurisdiction to jurisdiction, as do the rates at which the tax is assessed. When tobacco is sold to customers in the country of origin, the operating subsidiaries generally collect VAT on those sales. The subsidiaries are normally permitted to offset their VAT payments against the collections and remit only the incremental VAT collections to the tax authorities. When tobacco is sold for export, VAT is normally not assessed. In countries where tobacco sales are predominately for export markets, VAT collections generated on downstream sales are often not sufficient to fully offset the subsidiaries’ VAT payments. In those situations, unused VAT credits can accumulate. Some jurisdictions have procedures that allow companies to apply for refunds of unused VAT credits from the tax authorities, but the refund process often takes an extended period of time and it is not uncommon for refund applications to be challenged or rejected in part on technical grounds. Other jurisdictions may permit companies to sell or transfer unused VAT credits to third parties in private transactions, although approval for such transactions must normally be obtained from the tax authorities, limits on the amounts that can be transferred may be imposed, and the proceeds realized may be heavily discounted from the face value of the credits. Due to these factors, local operating subsidiaries in some countries can accumulate significant balances of VAT credits over time. The Company reviews these balances on a regular basis and records valuation allowances on the credits to reflect amounts that are not expected to be recovered, as well as discounts anticipated on credits that are expected to be sold or transferred. At September 30,

2019, the aggregate balance of recoverable tax credits held by the Company's subsidiaries totaled approximately $56 million ($54 million at September 30, 2018, and $53 million at March 31, 2019), and the related valuation allowances totaled approximately $20 million ($17 million at September 30, 2018, and $17 million at March 31, 2019). The net balances are reported in other current assets and other noncurrent assets in the consolidated balance sheets.

Stock Repurchase Plan

A stock repurchase plan, which was authorized by our Board of Directors, became effective and was publicly announced on November 7, 2017 and further extended on May 29, 2019. This stock repurchase plan authorized the purchase of up to $100 million in common and/or preferred stock in open market or privately negotiated transactions, subject to market conditions and other factors. This stock repurchase program will expire on the earlier of November 15, 2020, or when the funds authorized for the program are exhausted. The program had $77.2 million of remaining capacity for repurchases of common and/or preferred stock at September 30, 2019.

NOTE 5. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Six Months Ended September 30,	
(in thousands, except share and per share data)	**2019**	**2018**	**2019**	**2018**
Basic Earnings Per Share				
Numerator for basic earnings per share				
Net income attributable to Universal Corporation	$ 28,077	$ 31,446	$ 30,149	$ 44,625
Denominator for basic earnings per share				
Weighted average shares outstanding	25,086,580	25,152,864	25,122,283	25,108,724
Basic earnings per share	$ 1.12	$ 1.25	$ 1.20	$ 1.78
Diluted Earnings Per Share				
Numerator for diluted earnings per share				
Net income attributable to Universal Corporation	$ 28,077	$ 31,446	$ 30,149	$ 44,625
Denominator for diluted earnings per share:				
Weighted average shares outstanding	25,086,580	25,152,864	25,122,283	25,108,724
Effect of dilutive securities				
Employee share-based awards	110,745	184,856	118,317	202,568
Denominator for diluted earnings per share	25,197,325	25,337,720	25,240,600	25,311,292
Diluted earnings per share	$ 1.11	$ 1.24	$ 1.19	$ 1.76

NOTE 6. INCOME TAXES

The Company operates in the United States and many foreign countries and is subject to the tax laws of many jurisdictions. Changes in tax laws or the interpretation of tax laws can affect the Company's earnings, as can the resolution of pending and contested tax issues. The Company's consolidated effective income tax rate is affected by a number of factors, including the mix of domestic and foreign earnings and the effect of exchange rate changes on deferred taxes. Effective tax rates also reflect the benefit of various tax planning opportunities, as well as the net effect of items that were accounted for on a discrete basis in each period.

The consolidated effective income tax rates for the quarter and six months ended September 30, 2019 were 28% and 34%, respectively. In the first quarter of fiscal year 2020, the Company's consolidated effective income tax rate for the six months ended September 30, 2019 was affected by a $2.8 million net tax provision related to an unresolved tax matter at a foreign subsidiary. Without the discrete item for the unresolved tax matter, the consolidated effective income tax rate for the six months ended September 30, 2019 would have been approximately 28% .

The consolidated effective income tax rates for the quarter and six months ended September 30, 2018 were approximately 31% and 18%, respectively. During the first and second quarters of fiscal year 2019, the Company reversed amounts previously recorded for dividend withholding taxes on distributed and undistributed retained earnings of a foreign subsidiary. The reversal followed the resolution of uncertainties with the local country taxing authorities with respect to the inclusion of the tax under a tax holiday applicable to the subsidiary and was attributable to retained earnings amounts previously distributed or expected to be distributed prior to the expiration of the tax holiday. Without the dividend withholding tax reversal, the consolidated effective income tax rates for the quarter and six months would have been approximately 33% and 32%, respectively.

NOTE 7. LEASES

The Company, as a lessee, enters into operating leases for land, buildings, equipment, and vehicles. For all operating leases with terms greater than 12 months and with fixed payment arrangements, a lease liability and corresponding right-of-use asset are recognized in the balance sheet for the term of the lease by calculating the net present value of future lease payments. On the date of lease commencement, the present value of lease liabilities is determined by discounting the future lease payments by the Company's collateralized incremental borrowing rate, adjusted for the lease term and currency of the lease payments. If a lease contains a renewal option that the Company is reasonably certain to exercise, the Company accounts for the original lease term and expected renewal term in the calculation of the lease liability and right-of-use asset.

The following table sets forth the right-of-use assets and lease liabilities for operating leases included in the Company's consolidated balance sheet:

(in thousands)		September 30, 2019
Assets		
Operating lease right-of-use assets	$	34,838
Liabilities		
Current portion of operating lease liabilities		8,591
Long-term operating lease liabilities		23,331
Total operating lease liabilities	$	31,922

The following table sets forth the location and amount of operating lease costs included in the Company's consolidated statement of income:

	Three Months Ended September 30,		Six Months Ended September 30,	
(in thousands)	2019		2019	
Income Statement Location				
Cost of goods sold	$	2,591	$	5,209
Selling, general, and administrative expenses		2,064		4,050
Total operating lease costs[(1)]	$	4,655	$	9,259

(1) Includes variable operating lease costs.

For the fiscal year ended March 31, 2019, the Company recorded $17.6 million of total expense for operating leases.

The following table reconciles the undiscounted cash flows to the operating lease liabilities in the Company's consolidated balance sheet:

(in thousands)		September 30, 2019
Maturity of Operating Lease Liabilities		
2020 (excluding the six months ended September 30, 2019)	$	5,369
2021		8,807
2022		5,636
2023		4,309
2024		3,293
2025 and thereafter		9,995
Total undiscounted cash flows for operating leases	$	37,409
Less: Imputed interest		(5,487)
Total operating lease liabilities	$	31,922

As of September 30, 2019, the Company has entered into additional operating leases that have not yet commenced, representing$1.0 million of future payments.

The following table sets forth supplemental information related to operating leases:

	Three Months Ended September 30,		Six Months Ended September 30,	
(in thousands, except lease term and incremental borrowing rate)	2019		2019	
Supplemental Cash Flow Information				
Cash paid for amounts included in the measurement of operating lease liabilities	$	4,213	$	7,259
Right-of-use assets obtained in exchange for new operating leases	$	3,633	$	4,101
Weighted Average Remaining Lease Term (years)				6.15
Weighted Average Collateralized Incremental Borrowing Rate				4.75%

NOTE 8. DERIVATIVES AND HEDGING ACTIVITIES

Universal is exposed to various risks in its worldwide operations and uses derivative financial instruments to manage two specific types of risks – interest rate risk and foreign currency exchange rate risk. Interest rate risk has been managed by entering into interest rate swap agreements, and foreign currency exchange rate risk has been managed by entering into forward and option foreign currency exchange contracts. However, the Company's policy also permits other types of derivative instruments. In addition, foreign currency exchange rate risk is also managed through strategies that do not involve derivative instruments, such as using local borrowings and other approaches to minimize net monetary positions in non-functional currencies. The disclosures below provide additional information about the Company's hedging strategies, the derivative instruments used, and the effects of these activities on the consolidated statements of income and comprehensive income and the consolidated balance sheets. In the consolidated statements of cash flows, the cash flows associated with all of these activities are reported in net cash provided by operating activities.

Cash Flow Hedging Strategy for Interest Rate Risk

In February 2019, the Company entered into receive-floating/pay-fixed interest rate swap agreements that were designated and qualify as hedges of the exposure to changes in interest payment cash flows created by fluctuations in variable interest rates on two outstanding non-amortizing bank term loans that were funded as part of a new bank credit facility in December 2018. Although no significant ineffectiveness is expected with this hedging strategy, the effectiveness of the interest rate swaps is evaluated on a quarterly basis. At September 30, 2019, the total notional amount of the interest rate swaps was$370 million, which corresponded with the aggregate outstanding balance of the term loans.

Previously, the Company had receive-floating/pay-fixed interest rate swap agreements that were designated and qualified as cash flow hedges for two outstanding non-amortizing bank loans that were repaid concurrent with closing on the new bank credit facility. Those swap agreements were subsequently terminated in February 2019 concurrent with the inception of the new swap

agreements. The fair value of the previous swap agreements, approximately$5.4 million, was received from the counterparties upon termination and is being amortized from accumulated other comprehensive loss into earnings as a reduction of interest expense through the original maturity dates of those agreements.

Cash Flow Hedging Strategy for Foreign Currency Exchange Rate Risk Related to Sales of Crop Inputs, Forecast Purchases of Tobacco, and Related Processing Costs

The majority of the tobacco production in most countries outside the United States where Universal operates is sold in export markets at prices denominated in U.S. dollars. However, sales of crop inputs (such as seeds and fertilizers) to farmers, purchases of tobacco from farmers, and most processing costs (such as labor and energy) in those countries are usually denominated in the local currency. Changes in exchange rates between the U.S. dollar and the local currencies where tobacco is grown and processed affect the ultimate U.S. dollar sales of crop inputs and cost of processed tobacco. From time to time, the Company enters into forward and option contracts to buy U.S. dollars and sell the local currency at future dates that coincide with the sale of crop inputs to farmers. In the case of forecast purchases of tobacco and the related processing costs, the Company enters into forward and option contracts to sell U.S. dollars and buy the local currency at future dates that coincide with the expected timing of a portion of the tobacco purchases and processing costs. These strategies offset the variability of future U.S. dollar cash flows for sales of crop inputs, tobacco purchases, and processing costs for the foreign currency notional amount hedged. These hedging strategies have been used mainly for sales of crop inputs, tobacco purchases, and processing costs in Brazil, although the Company has entered forward contracts to hedge exchange rate risk for a portion of the forecast tobacco purchases from the 2019 crop in Mozambique. The aggregate U.S. dollar notional amount of forward and option contracts entered for these purposes during the first six months of fiscal years2020 and 2019 was as follows:

	Six Months Ended September 30,	
(in millions of dollars)	**2019**	**2018**
Tobacco purchases	$ 72.0	$ 59.8
Processing costs	26.3	18.1
Crop input sales	21.7	—
Total	$ 120.0	$ 77.9

The increased U.S. dollar notional amounts for tobacco purchases and processing costs hedged during thesix months ended September 30, 2019, primarily reflect purchase and processing hedges entered into for the 2020 crop year in Brazil, which historically were entered into during the fourth quarter of the fiscal year. All contracts related to tobacco purchases were designated and qualify as hedges of the future cash flows associated with the forecast purchases of tobacco. As a result, changes in fair values of the forward contracts have been recognized in comprehensive income as they occurred, but only recognized in earnings upon sale of the related tobacco to third-party customers. Forward and option contracts related to sales of crop inputs and processing costs have not been designated as hedges, and gains and losses on those contracts have been recognized in earnings on a mark-to-market basis.

For substantially all hedge gains and losses related to 2019 crops recorded in accumulated other comprehensive income atSeptember 30, 2019, the Company expects to complete the sale of the tobacco and recognize the amounts in earnings during fiscal year 2020. Purchases of the 2019 Brazilian crop are expected to be completed by August 2019, and all forward contracts to hedge these purchases will mature and be settled by that time. For hedged gains and losses related to the 2020 Brazilian crop recorded in accumulated other comprehensive income at September 30, 2019, the Company expects to complete the sale of tobacco and recognize the amounts in earnings during fiscal year 2021.

Hedging Strategy for Foreign Currency Exchange Rate Risk Related to Net Local Currency Monetary Assets and Liabilities of Foreign Subsidiaries

Most of the Company's foreign subsidiaries transact the majority of their sales in U.S. dollars and finance the majority of their operating requirements with U.S. dollar borrowings, and therefore use the U.S. dollar as their functional currency. These subsidiaries normally have certain monetary assets and liabilities on their balance sheets that are denominated in the local currency. Those assets and liabilities can include cash and cash equivalents, accounts receivable and accounts payable, advances to farmers and suppliers, deferred income tax assets and liabilities, recoverable value-added taxes, operating lease liabilities, and other items. Net monetary assets and liabilities denominated in the local currency are remeasured into U.S. dollars each reporting period, generating gains and losses that the Company records in earnings as a component of selling, general, and administrative expenses. The level of net monetary assets or liabilities denominated in the local currency normally fluctuates throughout the year based on the operating cycle, but it is most common for monetary assets to exceed monetary liabilities, sometimes by a significant amount. When this

situation exists and the local currency weakens against the U.S. dollar, remeasurement losses are generated. Conversely, remeasurement gains are generated on a net monetary asset position when the local currency strengthens against the U.S. dollar. To manage a portion of its exposure to currency remeasurement gains and losses, the Company enters into forward contracts to buy or sell the local currency at future dates coinciding with expected changes in the overall net local currency monetary asset position of the subsidiary. Gains and losses on the forward contracts are recorded in earnings as a component of selling, general, and administrative expenses for each reporting period as they occur, and thus directly offset the related remeasurement losses or gains in the consolidated statements of income for the notional amount hedged. The Company does not designate these contracts as hedges for accounting purposes. The contracts are generally arranged to hedge the subsidiary's projected exposure to currency remeasurement risk for specified periods of time, and new contracts are entered as necessary throughout the year to replace previous contracts as they mature. The Company is currently using forward currency contracts to manage its exposure to currency remeasurement risk in Brazil. The total notional amounts of contracts outstanding at September 30, 2019 and 2018, and March 31, 2019, were approximately $36.0 million, $24.6 million, and $24.8 million, respectively. To further mitigate currency remeasurement exposure, the Company's foreign subsidiaries may utilize short-term local currency financing during certain periods. This strategy, while not involving the use of derivative instruments, is intended to minimize the subsidiary's net monetary position by financing a portion of the local currency monetary assets with local currency monetary liabilities, thus hedging a portion of the overall position.

Several of the Company's foreign subsidiaries transact the majority of their sales and finance the majority of their operating requirements in their local currency, and therefore use their respective local currencies as the functional currency for reporting purposes. From time to time, these subsidiaries sell tobacco to customers in transactions that are not denominated in the functional currency. In those situations, the subsidiaries routinely enter into forward exchange contracts to offset currency risk for the period of time that a fixed-price order and the related trade account receivable are outstanding with the customer. The contracts are not designated as hedges for accounting purposes.

Effect of Derivative Financial Instruments on the Consolidated Statements of Income

The table below outlines the effects of the Company's use of derivative financial instruments on the consolidated statements of income:

	Three Months Ended September 30,		Six Months Ended September 30,	
(in thousands of dollars)	2019	2018	2019	2018
Cash Flow Hedges - Interest Rate Swap Agreements				
Derivative				
Effective Portion of Hedge				
Gain (loss) recorded in accumulated other comprehensive loss	$ (5,443)	$ 1,119	$ (15,255)	$ 2,675
Gain (loss) reclassified from accumulated other comprehensive loss into earnings	$ (220)	$ 441	$ (225)	$ 732
Gain on terminated interest rate swaps amortized from accumulated other comprehensive loss into earnings	$ 779	$ —	$ 1,558	$ —
Location of gain (loss) reclassified from accumulated other comprehensive loss into earnings	Interest expense			
Ineffective Portion of Hedge				
Gain (loss) recognized in earnings	$ —	$ —	$ —	$ —
Location of gain (loss) recognized in earnings	Selling, general and administrative expenses			
Hedged Item				
Description of hedged item	Floating rate interest payments on term loan			
Cash Flow Hedges - Foreign Currency Exchange Contracts				
Derivative				
Effective Portion of Hedge				
Gain (loss) recorded in accumulated other comprehensive loss	$ (1,993)	$ 101	$ 39	$ (2,930)
Gain (loss) reclassified from accumulated other comprehensive loss into earnings	$ 276	$ (529)	$ 265	$ (554)
Location of gain (loss) reclassified from accumulated other comprehensive loss into earnings	Cost of goods sold			
Ineffective Portion and Early De-designation of Hedges				
Gain (loss) recognized in earnings	$ —	$ —	$ —	$ —
Location of gain (loss) recognized in earnings	Selling, general and administrative expenses			
Hedged Item				
Description of hedged item	Forecast purchases of tobacco in Brazil and Mozambique			
Derivatives Not Designated as Hedges - Foreign Currency Exchange Contracts				
Gain (loss) recognized in earnings	$ (2)	$ 2,688	$ 49	$ (2,757)
Location of gain (loss) recognized in earnings	Selling, general and administrative expenses			

For the interest rate swap agreements, the effective portion of the gain or loss on the derivative is recorded in accumulated other comprehensive loss and any ineffective portion is recorded in selling, general and administrative expenses.

For the forward foreign currency exchange contracts designated as cash flow hedges of tobacco purchases in Brazil and Mozambique, a net hedge gain of approximately $0.1 million remained in accumulated other comprehensive loss at September 30, 2019. That balance reflects gains and losses on contracts related to the 2019 and 2020 Brazil crops and 2019 Mozambique crop, less the amount reclassified to earnings related to tobacco sold through September 30, 2019. The balance in accumulated other comprehensive loss associated with the 2019 crops in Brazil and Mozambique is expected to be recognized in earnings as a component

of cost of goods sold in fiscal year 2020 as those tobaccos are sold to customers. The balance in accumulated other comprehensive loss related to the 2020 Brazil crop is expected to be recognized in earnings in fiscal year 2021 as that tobacco is sold to customers. Based on the hedging strategy, as the gain or loss is recognized in earnings, it is expected to be offset by a change in the direct cost for the tobacco or by a change in sales prices if the strategy has been mandated by the customer. Generally, margins on the sale of the tobacco will not be significantly affected.

Effect of Derivative Financial Instruments on the Consolidated Balance Sheets

The table below outlines the effects of the Company's derivative financial instruments on the consolidated balance sheets at September 30, 2019 and 2018, and March 31, 2019:

	Derivatives in a Fair Value Asset Position				Derivatives in a Fair Value Liability Position			
		Fair Value as of				Fair Value as of		
(in thousands of dollars)	Balance Sheet Location	September 30, 2019	September 30, 2018	March 31, 2019	Balance Sheet Location	September 30, 2019	September 30, 2018	March 31, 2019
Derivatives Designated as Hedging Instruments								
Interest rate swap agreements	Other non-current assets	$ —	$ 10,205	$ —	Other long-term liabilities	$ 21,381	$ —	$ 6,351
Foreign currency exchange contracts	Other current assets	—	—	307	Accounts payable and accrued expenses	762	—	—
Total		$ —	$ 10,205	$ 307		$ 22,143	$ —	$ 6,351
Derivatives Not Designated as Hedging Instruments								
Foreign currency exchange contracts	Other current assets	$ 45	$ 142	$ 233	Accounts payable and accrued expenses	$ 532	$ 384	$ 386
Total		$ 45	$ 142	$ 233		$ 532	$ 384	$ 386

Substantially all of the Company's foreign exchange derivative instruments are subject to master netting arrangements whereby the right to offset occurs in the event of default by a participating party. The Company has elected to present these contracts on a gross basis in the consolidated balance sheets.

NOTE 9. FAIR VALUE MEASUREMENTS

Universal measures certain financial and nonfinancial assets and liabilities at fair value based on applicable accounting guidance. The financial assets and liabilities measured at fair value include money market funds, trading securities associated with deferred compensation plans, interest rate swap agreements, forward foreign currency exchange contracts, and guarantees of bank loans to tobacco growers. The application of the fair value guidance to nonfinancial assets and liabilities primarily includes the determination of fair values for goodwill and long-lived assets when indicators of potential impairment are present.

Under the accounting guidance, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework for measuring fair value is based on a fair value hierarchy that distinguishes between observable inputs and unobservable inputs. Observable inputs are based on market data obtained from independent sources. Unobservable inputs require the Company to make its own assumptions about the value placed on an asset or liability by market participants because little or no market data exists.

There are three levels within the fair value hierarchy:

Level	Description
1	quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date;
2	quoted prices in active markets for similar assets or liabilities, or quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability; and
3	unobservable inputs for the asset or liability.

As permitted under the accounting guidance, the Company uses net asset value per share ("NAV") as a practical expedient to measure the fair value of its money market funds. The fair values for those funds are presented under the heading "NAV" in the tables that follow in this disclosure. In measuring the fair value of liabilities, the Company considers the risk of non-performance in determining fair value. Universal has not elected to report at fair value any financial instruments or any other assets or liabilities that are not required to be reported at fair value under current accounting guidance.

Recurring Fair Value Measurements

At September 30, 2019 and 2018, and at March 31, 2019, the Company had certain financial assets and financial liabilities that were required to be measured and reported at fair value on a recurring basis. These assets and liabilities are listed in the tables below and are classified based on how their values were determined under the fair value hierarchy or the NAV practical expedient:

	September 30, 2019				
		Fair Value Hierarchy			
(in thousands of dollars)	**NAV**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Money market funds	$ 2,032	$ —	$ —	$ —	$ 2,032
Trading securities associated with deferred compensation plans	—	16,100	—	—	16,100
Foreign currency exchange contracts	—	—	45	—	45
Total financial assets measured and reported at fair value	$ 2,032	$ 16,100	$ 45	$ —	$ 18,177
Liabilities					
Guarantees of bank loans to tobacco growers	$ —	$ —	$ —	$ 137	$ 137
Interest rate swap agreements	—	—	21,381	—	21,381
Foreign currency exchange contracts	—	—	1,293	—	1,293
Total financial liabilities measured and reported at fair value	$ —	$ —	$ 22,674	$ 137	$ 22,811

	September 30, 2018				
		Fair Value Hierarchy			
(in thousands of dollars)	NAV	Level 1	Level 2	Level 3	Total
Assets					
Money market funds	$ 1,708	$ —	$ —	$ —	$ 1,708
Trading securities associated with deferred compensation plans	—	17,344	—	—	17,344
Interest rate swap agreements	—	—	10,205	—	10,205
Foreign currency exchange contracts	—	—	142	—	142
Total financial assets measured and reported at fair value	$ 1,708	$ 17,344	$ 10,347	$ —	$ 29,399
Liabilities					
Guarantees of bank loans to tobacco growers	$ —	$ —	$ —	$ 919	$ 919
Foreign currency exchange contracts	—	—	384	—	384
Total financial liabilities measured and reported at fair value	$ —	$ —	$ 384	$ 919	$ 1,303

	March 31, 2019				
		Fair Value Hierarchy			
(in thousands of dollars)	NAV	Level 1	Level 2	Level 3	Total
Assets					
Money market funds	$ 156,864	$ —	$ —	$ —	$ 156,864
Trading securities associated with deferred compensation plans	—	16,315	—	—	16,315
Foreign currency exchange contracts	—	—	540	—	540
Total financial assets measured and reported at fair value	$ 156,864	$ 16,315	$ 540	$ —	$ 173,719
Liabilities					
Guarantees of bank loans to tobacco growers	$ —	$ —	$ —	$ 803	$ 803
Interest rate swap agreements	—	—	6,351	—	6,351
Foreign currency exchange contracts	—	—	386	—	386
Total financial liabilities measured and reported at fair value	$ —	$ —	$ 6,737	$ 803	$ 7,540

Money market funds

The fair value of money market funds, which are reported in cash and cash equivalents in the consolidated balance sheets, is based on NAV, which is the amount at which the funds are redeemable and is used as a practical expedient for fair value. These funds are not classified in the fair value hierarchy, but are disclosed as part of the fair value table above.

Trading securities associated with deferred compensation plans

Trading securities represent mutual fund investments that are matched to employee deferred compensation obligations. These investments are bought and sold as employees defer compensation, receive distributions, or make changes in the funds underlying their accounts. Quoted market prices (Level 1) are used to determine the fair values of the mutual funds.

Interest rate swap agreements

The fair values of interest rate swap agreements are determined based on dealer quotes using a discounted cash flow model matched to the contractual terms of each instrument. Since inputs to the model are observable and significant judgment is not required in determining the fair values, interest rate swaps are classified within Level 2 of the fair value hierarchy.

Foreign currency exchange contracts

The fair values of forward and option foreign currency exchange contracts are also determined based on dealer quotes using a discounted cash flow model matched to the contractual terms of each instrument. Since inputs to the model are observable and significant judgment is not required in determining the fair values, forward and option foreign currency exchange contracts are classified within Level 2 of the fair value hierarchy.

Guarantees of bank loans to tobacco growers

The Company guarantees bank loans to tobacco growers in Brazil for crop financing. In the event that the farmers default on their payments to the banks, the Company would be required to perform under the guarantees. The Company regularly evaluates the likelihood of farmer defaults based on an expected loss analysis and records the fair value of its guarantees as an obligation in its consolidated financial statements. The fair value of the guarantees is determined using the expected loss data for all loans outstanding at each measurement date. The present value of the cash flows associated with the estimated losses is then calculated at a risk-adjusted interest rate that is aligned with the expected duration of the liability and includes an adjustment for nonperformance risk. This approach is sometimes referred to as the "contingent claims valuation method." Although historical loss data is an observable input, significant judgment is required in applying this information to the portfolio of guaranteed loans outstanding at each measurement date and in selecting a risk-adjusted interest rate. Significant increases or decreases in the risk-adjusted interest rate may result in a significantly higher or lower fair value measurement. The guarantees of bank loans to tobacco growers are therefore classified within Level 3 of the fair value hierarchy.

A reconciliation of the change in the balance of the financial liability for guarantees of bank loans to tobacco growers (Level 3) for the six months ended September 30, 2019 and 2018 is provided below.

	Six Months Ended September 30,	
(in thousands of dollars)	2019	2018
Balance at beginning of year	$ 803	$ 974
Payments under the guarantees and transfers to allowance for loss on direct loans to farmers (removal of prior crop year loans from portfolio)	(651)	(688)
Provision for loss or transfers from allowance for loss on direct loans to farmers (addition of current crop year loans)	(5)	808
Change in discount rate and estimated collection period	(7)	53
Currency remeasurement	(3)	(228)
Balance at end of period	$ 137	$ 919

Long-term Debt

The fair value of the Company's long-term debt, including the current portion, was approximately $370 million at each of the balance sheet dates September 30, 2019, September 30, 2018, and March 31, 2019. The Company estimates the fair value of its long-term debt using Level 2 inputs which are based upon quoted market prices for the same or similar obligations or on calculations that are based on the current interest rates available to the Company for debt of similar terms and maturities.

Nonrecurring Fair Value Measurements

Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events, changes in business conditions, or other circumstances provide an indication that such assets may be impaired. Due to business changes that affected the leaf tobacco market in Tanzania and the Company's operations there, an impairment charge of the the long-lived assets in Tanzania was recorded in fiscal year 2019 to reduce their carrying value to fair value at March 31, 2019. The long-lived assets consist principally of the Company's processing facility and equipment, storage facilities, tobacco buying and receiving stations, employee housing, and vehicles and transportation equipment. The aggregate fair value of those assets was approximately $17 million at March 31, 2019. The fair values of the property, plant and equipment were determined based principally on a probability-weighting of the discounted cash flows expected under multiple operating and disposition scenarios. Significant judgment was required in estimating the amount and timing of the future cash flows associated with the use and disposition of the assets, as well as the probabilities associated with the respective

operating and disposition scenarios. Accordingly, the nonrecurring measurement of the fair value of these assets is classified within Level 3 of the fair value hierarchy.

NOTE 10. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company sponsors several defined benefit pension plans covering U.S. salaried employees and certain foreign and other employee groups. These plans provide retirement benefits based primarily on employee compensation and years of service. The Company also sponsors defined benefit plans that provide postretirement health and life insurance benefits for eligible U.S. employees attaining specific age and service levels, although postretirement life insurance is no longer provided for active employees.

The components of the Company's net periodic benefit cost were as follows:

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended September 30,		Three Months Ended September 30,	
(in thousands of dollars)	**2019**	**2018**	**2019**	**2018**
Service cost	$ 1,477	$ 1,452	$ 53	$ 58
Interest cost	2,710	2,485	331	330
Expected return on plan assets	(4,190)	(3,694)	(29)	(25)
Net amortization and deferral	698	902	(153)	(194)
Net periodic benefit cost	$ 695	$ 1,145	$ 202	$ 169

	Pension Benefits		Other Postretirement Benefits	
	Six Months Ended September 30,		Six Months Ended September 30,	
(in thousands of dollars)	**2019**	**2018**	**2019**	**2018**
Service cost	$ 3,066	$ 2,907	$ 106	$ 117
Interest cost	5,447	4,966	664	670
Expected return on plan assets	(8,406)	(7,388)	(56)	(50)
Net amortization and deferral	1,396	1,804	(305)	(388)
Net periodic benefit cost	$ 1,503	$ 2,289	$ 409	$ 349

During the six months ended September 30, 2019, the Company made contributions of approximately $4.7 million to its pension plans. Additional contributions of $1.3 million are expected during the remaining six months of fiscal year 2020.

NOTE 11. STOCK-BASED COMPENSATION

Universal's shareholders have approved Executive Stock Plans ("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 Compensation Committee of the Board of Directors (the "Compensation Committee") in the fiscal year following the public release of the Company's financial results for the prior year. The Compensation Committee administers the Company's Plans consistently, following previously defined guidelines. In recent years, the Compensation Committee has awarded only grants of RSUs and PSAs. Awards of restricted stock, RSUs, and PSAs are currently outstanding under the Plans. 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 at the end of a three-year performance period that begins with the year of the grant, are paid out in shares of common stock shortly after 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 RSUs following each annual meeting of shareholders and previously received restricted stock. RSUs awarded to outside directors vest in one year for the 2020 Stock

Incentive Plan or three years for any prior Incentive Plans after the grant date, and restricted shares vest upon the individual's retirement from service as a director.

During the six-month periods ended September 30, 2019 and 2018, Universal issued the following stock-based awards, representing the regular annual grants to officers and outside directors of the Company:

	Six Months Ended September 30,	
	2019	2018
RSUs:		
Number granted	67,040	71,200
Grant date fair value	$ 57.54	$ 66.30
PSAs:		
Number granted	46,300	54,800
Grant date fair value	$ 50.16	$ 57.12

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 to officers 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. The Company accounts for forfeitures of stock-based awards as they occur. For the six-month periods ended September 30, 2019 and 2018, the Company recorded total stock-based compensation expense of approximately $3.7 million and $5.7 million, respectively. The Company expects to recognize stock-based compensation expense of approximately $2.2 million during the remaining six months of fiscal year 2020.

NOTE 12. OPERATING SEGMENTS

The principal approach used by management to evaluate the Company's performance is by geographic region, although the dark air-cured and oriental tobacco businesses are each 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 the pretax earnings (loss) of unconsolidated affiliates. Operating results for the Company's reportable segments for each period presented in the consolidated statements of income and comprehensive income were as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
(in thousands of dollars)	**2019**	**2018**	**2019**	**2018**
SALES AND OTHER OPERATING REVENUES				
Flue-Cured and Burley Leaf Tobacco Operations:				
North America	$ 57,612	$ 67,782	$ 85,271	$ 183,338
Other Regions [1]	355,757	398,087	557,822	606,019
Subtotal	413,369	465,869	643,093	789,357
Other Tobacco Operations [2]	62,552	73,735	129,743	129,966
Consolidated sales and other operating revenue	$ 475,921	$ 539,604	$ 772,836	$ 919,323
OPERATING INCOME				
Flue-Cured and Burley Leaf Tobacco Operations:				
North America	$ 5,472	$ 8,296	$ 6,362	$ 17,248
Other Regions [1]	32,525	45,562	28,710	43,545
Subtotal	37,997	53,858	35,072	60,793
Other Tobacco Operations [2]	7,512	(102)	17,991	1,871
Segment operating income	45,509	53,756	53,063	62,664
Deduct: Equity in pretax (earnings) loss of unconsolidated affiliates [3]	(2,310)	614	(2,350)	75
Consolidated operating income	$ 43,199	$ 54,370	$ 50,713	$ 62,739

(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. Sales and other operating revenues for this reportable segment include limited amounts for Oriental because the business is accounted for on the equity method and its financial results consist principally of equity in the pretax earnings (loss) of unconsolidated affiliates.

(3) Equity in pretax earnings (loss) of unconsolidated affiliates is included in segment operating income (Other Tobacco Operations segment), but is reported below consolidated operating income and excluded from that total in the consolidated statements of income and comprehensive income.

NOTE 13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in the accumulated balances for each component of accumulated other comprehensive income (loss) attributable to the Company for the six months ended September 30, 2019 and 2018:

	Six Months Ended September 30,	
(in thousands of dollars)	**2019**	**2018**
Foreign currency translation:		
Balance at beginning of year	$ (40,101)	$ (23,942)
Other comprehensive income (loss) attributable to Universal Corporation:		
Net gain (loss) on foreign currency translation	(5,136)	(11,687)
Less: Net (gain) loss on foreign currency translation attributable to noncontrolling interests	1	264
Other comprehensive income (loss) attributable to Universal Corporation, net of income taxes	(5,135)	(11,423)
Balance at end of period	$ (45,236)	$ (35,365)
Foreign currency hedge:		
Balance at beginning of year	$ (376)	$ (35)
Other comprehensive income (loss) attributable to Universal Corporation:		
Net gain (loss) on derivative instruments (net of tax (expense) benefit of $40 and $616)	(1,311)	(5,076)
Reclassification of (gain) loss to earnings (net of tax expense (benefit) of $(1) and $(116)) [(1)]	21	884
Other comprehensive income (loss) attributable to Universal Corporation, net of income taxes	(1,290)	(4,192)
Balance at end of period	$ (1,666)	$ (4,227)
Interest rate hedge:		
Balance at beginning of year	$ (934)	$ 6,528
Other comprehensive income (loss) attributable to Universal Corporation:		
Net gain (loss) on derivative instruments (net of tax (expense) benefit of $3,203 and $(562)	(12,052)	2,113
Reclassification of (gain) loss to earnings (net of tax expense (benefit) of $(47) and $154) [(2)]	(1,380)	(578)
Other comprehensive income (loss) attributable to Universal Corporation, net of income taxes	(13,432)	1,535
Balance at end of period	$ (14,366)	$ 8,063
Pension and other postretirement benefit plans:		
Balance at beginning of year	$ (54,280)	$ (42,615)
Other comprehensive income (loss) attributable to Universal Corporation:		
Amortization included in earnings (net of tax expense (benefit) of $(217) and $(294) [(3)]	672	1,096
Other comprehensive income (loss) attributable to Universal Corporation, net of income taxes	672	1,096
Balance at end of period	$ (53,608)	$ (41,519)
Total accumulated other comprehensive loss at end of period	$ (114,876)	$ (73,048)

(1) Gain (loss) on foreign currency cash flow hedges related to forecast purchases of tobacco is reclassified from accumulated other comprehensive income (loss) to cost of goods sold when the tobacco is sold to customers. See Note 8 for additional information.

(2) Gain (loss) on interest rate cash flow hedges is reclassified from accumulated other comprehensive income (loss) to interest expense when the related interest payments are made on the underlying debt, or as amortized to interest expense over the period to original maturity for terminated swap agreements. See Note 8 for additional information.

(3) This accumulated other comprehensive income (loss) component is included in the computation of net periodic benefit cost. See Note 10 for additional information.

NOTE 14. CHANGES IN SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS IN SUBSIDIARIES

A reconciliation of the changes in Universal Corporation shareholders' equity and noncontrolling interests in subsidiaries for thethree and six months ended September 30, 2019 and 2018 is as follows:

	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
(in thousands of dollars)	Universal Corporation	Non-controlling Interests	Total	Universal Corporation	Non-controlling Interests	Total
Balance at beginning of three-month period	$ 1,310,341	$ 41,737	$ 1,352,078	$ 1,321,677	$ 40,595	$ 1,362,272
Changes in common stock						
Repurchase of common stock	(1,800)	—	(1,800)	—	—	—
Accrual of stock-based compensation	959	—	959	1,552	—	1,552
Withholding of shares from stock-based compensation for grantee income taxes	—	—	—	(1)	—	(1)
Dividend equivalents on RSUs	253	—	253	186	—	186
Changes in retained earnings						
Net income	28,077	1,670	29,747	31,446	2,847	34,293
Cash dividends declared						
Common stock	(18,879)	—	(18,879)	(18,727)	—	(18,727)
Repurchase of common stock	(5,324)	—	(5,324)	—	—	—
Dividend equivalents on RSUs	(253)	—	(253)	(186)	—	(186)
Other comprehensive income (loss)	(14,715)	(124)	(14,839)	394	(105)	289
Other changes in noncontrolling interests						
Dividends paid to noncontrolling shareholders	—	(3,359)	(3,359)	—	(1,260)	(1,260)
Balance at end of period	$ 1,298,659	$ 39,924	$ 1,338,583	$ 1,336,341	$ 42,077	$ 1,378,418

(in thousands of dollars)	Six Months Ended September 30, 2019 Universal Corporation	Non-controlling Interests	Total	Six Months Ended September 30, 2018 Universal Corporation	Non-controlling Interests	Total
Balance at beginning of year	$ 1,337,087	$ 42,791	$ 1,379,878	$ 1,342,429	$ 42,873	$ 1,385,302
Changes in common stock						
Repurchase of common stock	(2,974)	—	(2,974)	(397)	—	(397)
Accrual of stock-based compensation	3,687	—	3,687	5,750	—	5,750
Withholding of shares from stock-based compensation for grantee income taxes	(2,883)	—	(2,883)	(2,657)	—	(2,657)
Dividend equivalents on RSUs	497	—	497	371	—	371
Changes in retained earnings						
Net income	30,149	493	30,642	44,625	728	45,353
Cash dividends declared						
Common stock	(37,858)	—	(37,858)	(37,445)	—	(37,445)
Repurchase of common stock	(9,364)	—	(9,364)	(1,046)	—	(1,046)
Dividend equivalents on RSUs	(497)	—	(497)	(371)	—	(371)
Adoption of FASB Accounting Standards Update 2016-16 eliminating deferred income taxes on unrecognized gains on intra-entity transfers of assets other than inventory	—	—	—	(1,934)	—	(1,934)
Other comprehensive income (loss)	(19,185)	(1)	(19,186)	(12,984)	(264)	(13,248)
Other changes in noncontrolling interests						
Dividends paid to noncontrolling shareholders	—	(3,359)	(3,359)	—	(1,260)	(1,260)
Balance at end of period	$ 1,298,659	$ 39,924	$ 1,338,583	$ 1,336,341	$ 42,077	$ 1,378,418

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

This Quarterly Report on Form 10-Q and the following "Management's Discussion and Analysis of Financial Condition and Results of Operations" contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Among other things, these statements relate to the Company's financial condition, results of operation, and future business plans, operations, opportunities, and prospects. In addition, the Company and its representatives may from time to time make written or oral forward-looking statements, including statements contained in other filings with the Securities and Exchange Commission and in reports to shareholders. These forward-looking statements are generally identified by the use of words such as we "expect," "believe," "anticipate," "could," "should," "may," "plan," "will," "predict," "estimate," and similar expressions or words of similar import. These forward-looking statements are based upon management's current knowledge and assumptions about future events and involve risks and uncertainties that could cause actual results, performance, or achievements to be materially different from any anticipated results, prospects, performance, or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to: product purchased not meeting quality and quantity requirements; reliance on a few large customers; our ability to maintain effective information systems and safeguard confidential information; anticipated levels of demand for and supply of our products and services; costs incurred in providing these products and services; timing of shipments to customers; changes in market structure; government regulation; product taxation; industry consolidation and evolution; changes in exchange rates and interest rates; impacts of regulation and litigation on our customers; industry-specific risks related to our food ingredient business; exposure to certain regulatory and financial risks related to climate change; changes in estimates and assumptions underlying our critical accounting policies; the promulgation and adoption of new accounting standards; new government regulations and interpretation of existing standards and regulations; and general economic, political, market, and weather conditions. For a further description of factors that may cause actual results to differ materially from such forward-looking statements, see Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended March 31, 2019. We caution investors not to place undue reliance on any forward-looking statements as these statements speak only as of the date when made, and we undertake no obligation to update any forward-looking statements made in this report. This Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended March 31, 2019.

Liquidity and Capital Resources

Overview

The first six months of our fiscal year is usually a period of significant working capital investment in both Africa and South America as crops are delivered by farmers. We funded our working capital needs in the six months ended September 30, 2019, using a combination of cash on hand, short-term borrowings, customer advances, and operating cash flows. We expect shipments to continue to be weighted to the second half of the fiscal year.

Our liquidity and capital resource requirements are predominantly short term in nature and relate to working capital for tobacco crop purchases. Working capital needs are seasonal within each geographic region. The geographic dispersion and the timing of working capital needs permit us to predict our general level of cash requirements, although crop size, prices paid to farmers, shipment and delivery timing, and currency fluctuations affect requirements each year. Peak working capital requirements are generally reached during the first and second fiscal quarters. Each geographic area follows a cycle of buying, processing, and shipping tobacco, and in many regions, we also provide agricultural materials to farmers during the growing season. The timing of the elements of each cycle is influenced by such factors as local weather conditions and individual customer shipping requirements, which may change the level or the duration of crop financing. Despite a predominance of short-term needs, we maintain a portion of our total debt as long-term to reduce liquidity risk. We also periodically have large cash balances that we utilize to meet our working capital requirements.

Operating Activities

We used $279.8 million in net cash flows to fund our operations during the six months ended September 30, 2019. That amount was $66.8 million higher than during the same period last fiscal year, largely due to the timing of crop purchases and shipments. Tobacco inventory levels increased by $289.0 million from March 31, 2019 levels to $918.6 million at September 30, 2019, on seasonal leaf purchases. Tobacco inventory levels were $16.8 million below September 30, 2018 levels. We generally do not purchase material quantities of tobacco on a speculative basis. However, when we contract directly with farmers, we are often obligated to buy all stalk positions, which may contain less marketable leaf styles. At September 30, 2019, our uncommitted inventories were $186.7 million, or about 20% of total tobacco inventory, compared to $128.0 million, or about 20% of our March 31, 2019 inventory, and $104.4 million, or about 11% of our September 30, 2018 inventory. Our uncommitted inventory levels at September 30, 2019,

remain within our target range. The level of these uncommitted inventory percentages is influenced by timing of farmer deliveries of new crops, as well as the receipt of customer orders.

Our balance sheet accounts reflected seasonal patterns in the six months ended September 30, 2019, on deliveries of crops by farmers in South America, Africa, and North America. Cash and cash equivalent and accounts receivable balances decreased by $244.4 million and $30.3 million, respectively, from March 31, 2019 levels, as we used cash, including collections on receivables, to fund seasonal working capital needs. Advances to suppliers were $75.8 million at September 30, 2019, a reduction of $31.0 million from March 31, 2019 as crops were delivered in payment of those balances, net of new advances on current crops. Accounts receivable - unconsolidated affiliates and notes payable and overdrafts were up $51.9 million and $101.3 million, respectively, from March 31, 2019 levels, on seasonal increases.

Advances to suppliers of $75.8 million at September 30, 2019, increased by $22.0 million compared to the same period in the prior fiscal year, primarily on a shift from bank loan guarantees to more direct lending to tobacco growers in Brazil. Accounts receivable - unconsolidated affiliates were down $24.4 million at September 30, 2019, compared to September 30, 2018, mainly on lower sales prices. Customer advances and deposits were down $38.6 million at September 30, 2019, compared to the same period in the prior fiscal year, largely on a decline in advances of deposits by certain customers.

Investing Activities

Our capital allocation strategy focuses on four strategic priorities: strengthening and investing for growth in our leaf tobacco business; increasing our strong dividend; exploring growth opportunities in adjacent industries and markets that utilize our assets and capabilities; and returning excess capital to our shareholders. In deciding where to invest capital resources, we look for opportunities where we believe we can earn an adequate return, leverage our assets and expertise, and enhance our farmer base. Our capital expenditures are generally limited to those that add value, replace or maintain equipment, increase efficiency, or position us for future growth. During the six months ended September 30, 2019 and 2018, we invested about $13.3 million and $20.0 million, respectively, in our property, plant and equipment. Depreciation expense was approximately $18.2 million and $18.4 million for the six months ended September 30, 2019 and 2018, respectively. Generally, our capital spending on maintenance projects is at a level below depreciation expense in order to maintain strong cash flow. In addition, from time to time, we undertake projects that require capital expenditures when we identify opportunities to improve efficiencies, add value for our customers, and position ourselves for future growth. We currently expect to spend approximately $50 to $60 million over the next twelve months on capital projects to grow and improve our businesses as well as on maintenance of our facilities. Typically, our capital expenditures for maintenance projects are less than $30 million per fiscal year.

Our Board of Directors approved our current share repurchase program in November 2017, and in May 2019, extended its expiration to November 15, 2020. The program authorizes the purchase of up to $100 million of our common stock. Under the current authorization, we may purchase shares from time to time on the open market or in privately negotiated transactions at prices not exceeding prevailing market rates. Repurchases of shares under the repurchase program may vary based on management discretion, as well as changes in cash flow generation and availability. During the three months ended September 30, 2019, we purchased 138,146 shares of common stock at an aggregate cost of $7.1 million (average price per share of $51.57). As of September 30, 2019, approximately 24.8 million shares of our common stock were outstanding and our available authorization under our current share repurchase program was $77.2 million.

Financing Activities

We consider the sum of notes payable and overdrafts, long-term debt (including any current portion), and customer advances and deposits, less cash, cash equivalents, and short-term investments on our balance sheet to be our net debt. We also consider our net debt plus shareholders' equity to be our net capitalization. Net debt as a percentage of net capitalization was approximately 27% at September 30, 2019, flat with the September 30, 2018 level, and up from the March 31, 2019 level of approximately 10%. As of September 30, 2019, we had $53.2 million in cash and cash equivalents, our short-term debt totaled $155.4 million, and we were in compliance with all covenants of our debt agreements, which require us to maintain certain levels of tangible net worth and observe restrictions on debt levels.

As of September 30, 2019, we had $355 million available under a committed revolving credit facility that will mature in December 2023, and we had about $184 million in unused, uncommitted credit lines. We also maintain an effective, undenominated universal shelf registration that provides for potential future issuance of additional debt or equity securities. We have no long-term debt maturing in fiscal year 2020. Our seasonal working capital requirements typically increase significantly between March and September and decline after mid-year. Available capital resources from our cash balances, committed credit facility, and uncommitted

credit lines exceed our normal working capital needs and currently anticipated capital expenditure requirements over the next twelve months.

Derivatives

From time to time, we use interest rate swap agreements to manage our exposure to changes in interest rates. At September 30, 2019, the fair value of our outstanding interest rate swap agreements was a liability of about $22 million, and the notional amount swapped was $370 million. We entered into these agreements to eliminate the variability of cash flows in the interest payments on our variable-rate term loans. Under the swap agreements we receive variable rate interest and pay fixed rate interest. The swaps are accounted for as cash flow hedges.

We also use derivative instruments from time to time to hedge certain foreign currency exposures, primarily related to forecast purchases of tobacco, related processing costs, and crop input sales in Brazil, as well as our net monetary balance sheet exposures in local currency there. We generally account for our hedges of forecast tobacco purchases as cash flow hedges. At September 30, 2019, the fair value of our open hedges was a net liability of about $0.8 million. We had forward and option contracts outstanding that were not designated as hedges, and the fair value of those contracts was a net liability of about $0.5 million at September 30, 2019.

Results of Operations

Amounts described as net income (loss) and earnings (loss) per diluted share in the following discussion are attributable to Universal Corporation and exclude earnings related to non-controlling interests in subsidiaries. The total for segment operating income (loss) referred to in the discussion below is a non-GAAP financial measure. This measure is not a financial measure calculated in accordance with GAAP and should not be considered as a substitute for net income (loss), operating income (loss), cash from operating activities or any other operating performance measure calculated in accordance with GAAP, and it may not be comparable to similarly titled measures reported by other companies. We have provided a reconciliation of the total for segment operating income (loss) to consolidated operating income (loss) in Note 12. "Operating Segments" to the consolidated financial statements in Item 1. We evaluate our segment performance excluding certain significant charges or credits. We believe this measure, which excludes these items that we believe are not indicative of our core operating results, provides investors with important information that is useful in understanding our business results and trends.

Net income for the first half of fiscal year 2020, which ended on September 30, 2019, was $30.1 million, or $1.19 per diluted share, compared with $44.6 million, or $1.76 per diluted share, for the same period of the prior fiscal year. Included in the results for both periods were certain non-recurring income tax items, detailed in Other Items below, which reduced diluted earnings per share by $0.11 and increased diluted earnings per share by $0.30 for the six months ended September 30, 2019 and September 30, 2018, respectively. Excluding those non-recurring items, net income and diluted earnings per share declined by $3.9 million and $0.16, respectively, for the first half of fiscal year 2020 compared to the first half of fiscal year 2019. Operating income of $50.7 million for the six months ended September 30, 2019, decreased by $12.0 million, compared to operating income of $62.7 million for the six months ended September 30, 2018.

For the second fiscal quarter ended September 30, 2019, net income was $28.1 million, or $1.11 per diluted share, compared with net income of $31.4 million, or $1.24 per diluted share, for the prior year's second fiscal quarter. Operating income for the second quarter of fiscal year 2020 decreased to $43.2 million compared with $54.4 million for the three months ended September 30, 2018. Segment operating income was $53.1 million for the first half of fiscal year 2020, a decrease of $9.6 million, and for the quarter ended September 30, 2019, was $45.5 million, a decrease of $8.2 million, both compared to the same periods last fiscal year. Results reflected earnings declines in the North America and Other Regions segments, partially offset by earnings improvements in the Other Tobacco Operations segment for the six months and quarter ended September 30, 2019, both compared to the same periods in the prior fiscal year. Consolidated revenues decreased by $146.5 million to $772.8 million for the first half of fiscal year 2020, and by $63.7 million to $475.9 million for the three months ended September 30, 2019, compared to the same periods in fiscal year 2019, on lower sales volumes and prices.

Flue-cured and Burley Leaf Tobacco Operations

Other Regions

Operating income for the Other Regions segment decreased by $14.8 million to $28.7 million for the six months and by $13.0 million to $32.5 million for the quarter ended September 30, 2019, compared with the same periods for fiscal year 2019. In both periods, volumes decreased in Africa, mainly from lower carryover crop sales and delayed shipments. In Brazil, sales volumes

were up in the six months ended September 30, 2019, on higher carryover sales, and up in both the six months and quarter ended September 30, 2019, on earlier current crop shipments, compared to the same periods in the prior fiscal year. In both periods, the product mix was less favorable in Brazil compared to the prior fiscal year. Results for Asia improved for the quarter and six months ended September 30, 2019, on higher trading volumes, largely from China. Selling, general, and administrative costs for the segment were lower for the six months ended September 30, 2019, largely on favorable foreign currency comparisons and lower customer claim costs partially offset by lower net recoveries on advances to suppliers, compared with the same period in the prior fiscal year. For the quarter ended September 30, 2019, selling, general, and administrative costs were higher than those in the quarter ended September 30, 2018, on lower net recoveries on advances to suppliers and unfavorable currency comparisons, mainly in Brazil. Revenues for the Other Regions segment of $557.8 million for the six months and $355.8 million for the quarter ended September 30, 2019, were down $48.2 million and $42.3 million, respectively, compared to the same period last year, on lower volumes and sales prices.

North America

Operating income for the North America segment of $6.4 million for the six months and $5.5 million for the quarter ended September 30, 2019, was down by $10.9 million and $2.8 million, respectively, compared to the same periods for the prior fiscal year, mainly on significantly lower carryover crop sales volumes. In the first half of fiscal year 2019, carryover crop sales volumes were higher on shipments that had been delayed due to reduced transportation availability in the United States. In addition, in the first half and second quarter of fiscal year 2020, carryover crop sales volumes were down on fewer sales of U.S. burley tobaccos and current crop sales volumes were down in Mexico due to shipment timing and smaller crop sizes, compared to the same periods in fiscal year 2019. Selling, general, and administrative costs for the North America segment were relatively flat for both the six months and quarter ended September 30, 2019, compared to the same periods in the prior fiscal year. Revenues for this segment decreased, by $98.1 million to $85.3 million for the six months, and by $10.2 million to $57.6 million for the quarter ended September 30, 2019, compared to the same periods in the prior fiscal year, on the lower carryover crop sales volumes, partly offset in the quarter by a better product mix.

Other Tobacco Operations

The Other Tobacco Operations segment operating income of $18.0 million for the first half of fiscal year 2020 reflected an increase of $16.1 million, compared with operating income of $1.9 million for this segment in the same period last fiscal year. For the quarter ended September 30, 2019, the segment's operating income of $7.5 million compared to an operating loss of $0.1 million for the same period for the prior fiscal year. In both periods, results for our dark tobacco operations were higher on improved performance from our wrapper tobacco operations in Indonesia on higher volumes and margins. Results for our oriental joint venture were up for the six months and quarter ended September 30, 2019, compared to the same periods in the prior fiscal year, on a more favorable sales mix and foreign currency comparisons. Selling, general, and administrative costs for the segment were down in both the first half and second fiscal quarter of fiscal year 2020 compared with those periods in the prior fiscal year, on favorable foreign currency comparisons, mainly in Indonesia. Revenues for the segment decreased by $0.2 million to $130.0 million for the first half, and by $11.2 million to $62.6 million for the second quarter of fiscal year 2020, largely as a result of product mix.

Other Items

Cost of goods sold in the six months and quarter ended September 30, 2019, decreased by 17% and 14% to $618.2 million and $379.9 million, respectively, both compared with the same periods in the prior fiscal year, consistent with the similar percentage decreases in revenues. Selling, general, and administrative costs for the first half of fiscal year 2020 decreased by $5.0 million to $104.0 million, mainly driven by positive foreign currency remeasurement and exchange variances, primarily in Indonesia and the Philippines, and lower customer claim costs partially offset by lower net recoveries on advances to suppliers, compared with the same period in the prior year. Selling, general, and administrative costs were up $7.7 million for the three months ended September 30, 2019, compared to the same period in the prior year, on higher legal and professional expenses and lower net recoveries on advances to suppliers.

The Company's consolidated effective tax rates for the six months and quarter ended September 30, 2019, were approximately 34% and 28%, respectively. For the six months ended September 30, 2019, the Company's income tax expense included a $2.8 million net tax accrual ($0.11 per diluted share) for an unresolved tax matter at a foreign subsidiary. Without the accrual for the unresolved tax matter, income taxes for the six months ended September 30, 2019, would have been expense of approximately $13.0 million, or a consolidated effective tax rate of approximately 28%. For the six months and quarter ended September 30, 2018, the Company's income tax expense included a $7.8 million ($0.30 per diluted share) and a $0.9 million ($0.03 per diluted share) benefit, respectively, from reversing a portion of a liability previously recorded on the cumulative retained earnings of a foreign subsidiary.

Without the dividend withholding tax reversal, income taxes for the six months ended September 30, 2018, would have been an expense of approximately $17.8 million, or a consolidated effective tax rate of approximately 32%.

General Overview

Large carryover crop sales, particularly in North America and Africa, benefited our results in fiscal year 2019, while in fiscal year 2020, reduced sales prices, softer demand, and larger flue-cured crops have put pressure on margins. All of these factors have created difficult comparisons for the first half of the current fiscal year to the same period last year. Looking forward, in this year like in prior fiscal years, our volumes and results will be heavily weighted to the second half of the fiscal year. During this fiscal year, we have also been actively positioning our Company for future success with investment projects in our tobacco business and engaging with targets in our investment pipeline in adjacent industries.

As the leading global leaf tobacco supplier and in line with our capital allocation strategy, we continue to make disciplined investments in our leaf tobacco business where we see opportunities to grow and strengthen that business. We have recently agreed in principle with one of our major customers to provide additional sustainable tobacco supply and value-added services in the Philippines. This arrangement will provide further supply chain efficiencies, help sustain and expand our farmer base, and support our customer's long-term supply needs.

We also continue, in a disciplined and deliberate manner, to actively engage with potential targets in our pipeline for growth opportunities outside of leaf tobacco in adjacent industries and markets that we believe will utilize our assets and capabilities and deliver value to our shareholders. We consider adjacencies to be industries and markets where we can leverage our strengths such as country knowledge, agricultural expertise, and complex grower management and logistic network management. As we look to adjacent industries and explore growth opportunities within tobacco, we are dedicated to remaining the leading global leaf tobacco supplier and building on our strong history.

At the same time that we have been making investments in our leaf tobacco business and progress on our investment pipeline in adjacent industries, we have also returned value to our shareholders through dividends and share repurchases. In the first half of fiscal year 2020, we returned just over $50 million to our shareholders through dividends and share repurchases. As we enter the second half of our fiscal year, we are excited about our opportunities for new growth investments and remain focused on delivering long-term value to our shareholders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Currency

The international leaf tobacco trade generally is conducted in U.S. dollars, thereby limiting foreign exchange risk to that which is related to leaf purchase and production costs, overhead, and income taxes in the source country. We also provide farmer advances that are directly related to leaf purchases and are denominated in the local currency. Any currency gains or losses on those advances are usually offset by decreases or increases in the cost of tobacco, which is priced in the local currency. However, the effect of the offset may not occur until a subsequent quarter or fiscal year. Most of our tobacco operations are accounted for using the U.S. dollar as the functional currency. Because there are no forward foreign exchange markets in many of our major countries of tobacco origin, we often manage our foreign exchange risk by matching funding for inventory purchases with the currency of sale, which is usually the U.S. dollar, and by minimizing our net local currency monetary position in individual countries. We are vulnerable to currency remeasurement gains and losses to the extent that monetary assets and liabilities denominated in local currency do not offset each other. In addition to foreign exchange gains and losses, we are exposed to changes in the cost of tobacco due to changes in the value of the local currency in relation to the U.S. dollar. We routinely enter forward currency exchange contracts to hedge against the effects of currency movements on purchases of tobacco to reduce the volatility of costs. In addition, from time-to-time we enter forward contracts to hedge balance sheet exposures.

In certain tobacco markets that are primarily domestic, we use the local currency as the functional currency. Examples of these markets are Poland and the Philippines. In other markets, such as Western Europe, where export sales have been primarily in local currencies, we also use the local currency as the functional currency. In each case, reported earnings are affected by the translation of the local currency into the U.S. dollar.

Interest Rates

We generally use both fixed and floating interest rate debt to finance our operations. Changes in market interest rates expose us to changes in cash flows for floating rate instruments and to changes in fair value for fixed-rate instruments. We normally maintain a proportion of our debt in both variable and fixed interest rates to manage this exposure, and from time to time we may enter hedge agreements to swap the interest rates. In addition, our customers may pay market rates of interest for inventory purchased on order, which could mitigate a portion of the floating interest rate exposure. We also periodically have large cash balances and may receive deposits from customers, both of which we use to fund seasonal purchases of tobacco, reducing our financing needs. Excluding our bank term loans which were converted to fixed-rate borrowings with interest rate swaps in February 2019, debt carried at variable interest rates was approximately $155 million at September 30, 2019. Although a hypothetical 1% change in short-term interest rates would result in a change in annual interest expense of approximately $1.6 million, that amount would be at least partially mitigated by changes in charges to customers.

Derivatives Policies

Hedging interest rate exposure using swaps and hedging foreign exchange exposure using forward contracts are specifically contemplated to manage risk in keeping with management's policies. We may use derivative instruments, such as swaps, forwards, or futures, which are based directly or indirectly upon interest rates and currencies to manage and reduce the risks inherent in interest rate and currency fluctuations. When we use foreign currency derivatives to mitigate our exposure to exchange rate fluctuations, we may choose not to designate them as hedges for accounting purposes, which may result in the effects of the derivatives being recognized in our earnings in periods different from the items that created the exposure.

We do not utilize derivatives for speculative purposes, and we do not enter into market risk-sensitive instruments for trading purposes. Derivatives are transaction specific so that a specific debt instrument, forecast purchase, contract, or invoice determines the amount, maturity, and other specifics of the hedge. We routinely review counterparty risk as part of our derivative program.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports we file under the Securities Exchange Act of 1934 (the “Exchange Act”), as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer (our Principal Executive Officer) and Chief Financial Officer (our Principal Financial Officer), as appropriate, to allow for timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer evaluated, with the participation of other members of management, the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, management concluded that our disclosure controls and procedures were effective.

There have been no changes in our internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Tanzania Fair Competition Commission Proceeding

In June 2012, our Tanzanian subsidiary, Tanzania Leaf Tobacco Company Ltd. ("TLTC"), entered into a two crop-year supply agreement for unprocessed "green" tobacco with a newly-formed Tanzanian subsidiary of one of our major customers. The agreement involved green tobacco purchases from four of the approximately 400 grower cooperatives in Tanzania, which allowed the customer and its Tanzanian subsidiary on a small test basis to evaluate whether it would be a viable alternative for the customer to establish its own vertically integrated supply operations in that market. Prior to that time, the customer's subsidiary did not exist, and it only purchased processed Tanzanian tobacco from tobacco dealers in specified amounts and only for certain grades and stalk positions. In contrast, the agreement with TLTC required the customer's subsidiary to purchase green tobacco on a "run of crop" basis. "Run of crop" requires the purchase of all green tobacco produced on the tobacco plant, regardless of grade or stalk position. The agreement, therefore, enabled the customer's subsidiary on a small test basis to evaluate the quality of green tobacco purchased on a "run of crop" basis and to assess how such tobacco would be suited to the customer's tobacco requirements. The customer unilaterally elected to establish its own vertically integrated supply operations in Tanzania after the expiration of the agreement, and its subsidiary began purchasing green tobacco directly from Tanzanian grower cooperatives during the second crop year thereafter.

Despite the pro-competitive object and effect of the agreement between TLTC and the customer's subsidiary, in October 2016, the Tanzania Fair Competition Commission ("FCC") notified TLTC and the customer's subsidiary that it reviewed the agreement and provisionally concluded that it infringed Tanzania antitrust law by having the object and effect of preventing competition in the purchase of unprocessed green tobacco in the area in which the four grower cooperatives were located. The FCC also provisionally concluded that our U.S. subsidiary, Universal Leaf Tobacco Company, Inc. ("ULT"), and additional subsidiaries of the customer, were jointly and severally liable for the actions of TLTC and the customer's Tanzanian subsidiary, respectively. TLTC and ULT submitted a written response contesting the FCC's allegations, and on February 27, 2018, the FCC issued its decision to TLTC and ULT which confirmed its initial conclusion that the agreement infringed Tanzanian antitrust law. In its decision, the FCC concluded incorrectly that the parties to the agreement unfairly benefited in the amount of $105 thousand. The FCC arbitrarily assessed a fine jointly against TLTC and ULT of approximately $197 million and a fine jointly against the customer's Tanzanian subsidiary and another subsidiary of the customer exceeding $1 billion.

TLTC and ULT have worked closely with expert legal advisors and economists on this matter. Based on these engagements and consultations, we firmly believe the FCC's allegations are frivolous and clearly without merit or support from the facts, law or economic analysis. We further believe the FCC's proceedings were rife with irregularities and did not comply with applicable legal and regulatory procedures with respect to this matter, including failing to establish jurisdiction over ULT or to offer a legal justification for including ULT in the proceeding. To the contrary, we believe the facts, law and economic analysis clearly support the legality and pro-competitive nature of the agreement and support a proper conclusion that there was no infringement of Tanzania antitrust law, and the agreement had no negative impact on the Tanzania tobacco market. We further believe the FCC's proposed fine is ludicrous, unwarranted and contrary to Tanzania law. TLTC and ULT immediately appealed the FCC findings to the Tanzania Fair Competition Tribunal, which immediately stayed the execution of any FCC fines. We are unable to predict how long the appeal process will take; however, we believe it could last several years. At this time, we believe that the likelihood of incurring any material liability in this matter is remote, and no amount has been recorded.

Other Legal Matters

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

ITEM 1A. RISK FACTORS

As of the date of this report, there are no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended March 31, 2019 (the "2019 Annual Report on Form 10-K"). In evaluating our risks, readers should carefully consider the risk factors discussed in our 2019 Annual Report on Form 10-K, which could materially affect our business, financial condition or operating results, in addition to the other information set forth in this report and in our other filings with the Securities and Exchange Commission.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth our repurchases of shares of our common stock during the three-month period ended September 30, 2019:

Period [1]	Total Number of Shares Repurchased	Average Price Paid Per Share [2]	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs [3]	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [3]
July 1-31, 2019	—	$ —	—	$ 84,372,012
August 1-31, 2019	89,074	51.86	89,074	79,753,015
September 1-30, 2019	49,072	51.05	49,072	77,247,974
Total	138,146	$ 51.57	138,146	$ 77,247,974

(1) Repurchases are based on the date the shares were traded. This presentation differs from the consolidated statement of cash flows, where the cost of share repurchases is based on the date the transactions were settled.

(2) Amounts listed for average price paid per share include broker commissions paid in the transactions.

(3) A stock repurchase plan, which was authorized by our Board of Directors, became effective and was publicly announced on November 7, 2017 and further extended on May 29, 2019. This stock repurchase plan authorized the purchase of up to $100 million in common and/or preferred stock in open market or privately negotiated transactions, subject to market conditions and other factors. This stock repurchase program will expire on the earlier of November 15, 2020, or when we have exhausted the funds authorized for the program.

ITEM 6. EXHIBITS

3.1	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on April 12, 2019).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.*
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.*
101	Interactive Data File (submitted electronically herewith).*
	101.INS XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. 101.SCH XBRL Taxonomy Extension Schema Document 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document 101.DEF XBRL Taxonomy Extension Definition Linkbase Document 101.LAB XBRL Taxonomy Extension Label Linkbase Document 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section and shall not be part of any registration or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

*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.

UNIVERSAL CORPORATION

Date: November 12, 2019

(Registrant)

/s/ Johan C. Kroner

Johan C. Kroner, Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Scott J. Bleicher

Scott J. Bleicher, Vice President and Controller
(Principal Accounting Officer)

Exhibit Index

Exhibit No.	Description
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104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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*Filed herewith

Exhibit 31.1

CERTIFICATION

I, George C. Freeman, III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Universal Corporation for the period endedSeptember 30, 2019;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 12, 2019

/s/ George C. Freeman, III

George C. Freeman, III
Chairman, President, and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Johan C. Kroner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Universal Corporation for the period endedSeptember 30, 2019;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ Johan C. Kroner

Johan C. Kroner
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Universal Corporation (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report") and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, George C. Freeman, III, certify, to the best of my knowledge and belief, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2019

/s/ George C. Freeman, III

George C. Freeman, III
Chairman, President, and Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Universal Corporation (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report") and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Johan C. Kroner, certify, to the best of my knowledge and belief, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2019

/s/ Johan C. Kroner
Johan C. Kroner
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.