UNIVERSAL CORP /VA/
Form DEF 14A
June 30, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Universal Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

ANNUAL MEETING OF SHAREHOLDERS

June 30, 2004

Dear Shareholder:

You are cordially invited to attend the 2004 Annual Meeting of Shareholders of Universal Corporation, which is to be held in the Company s headquarters building located at 1501 North Hamilton Street, Richmond, Virginia, on Thursday, August 5, 2004, commencing at 2:00 p.m. Eastern Standard Time. At the meeting, you will be asked to elect four directors to serve three-year terms, and to re-approve the Universal Corporation Executive Officer Annual Incentive Plan, as amended.

Whether or not you plan to attend the meeting, it is important that your shares be represented and voted at the meeting. You can vote by signing, dating, and returning the enclosed proxy card or voting instruction. Also, registered shareholders and participants in plans holding shares of the Company s Common Stock may vote by telephone or over the Internet. Instructions for using these convenient services are set forth in the instructions for voting that are attached to the proxy card. Beneficial owners of shares held in street name should follow the enclosed instructions for voting their shares. I hope you will be able to attend the meeting, but even if you cannot, please vote your shares as soon as you can.

Sincerely,

/s/ ALLEN B. KING
ALLEN B. KING
Chairman, President,

and Chief Executive Officer

Universal Corporation

P.O. Box 25099

Richmond, Virginia 23260

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of Universal Corporation (the Company) will be held in the Company s headquarters building located at 1501 North Hamilton Street, Richmond, Virginia, on Thursday, August 5, 2004, at 2:00 p.m. Eastern Standard Time, for the following purposes:

(1) to elect four directors to serve three-year terms;

(2) to re-approve the Universal Corporation Executive Officer Annual Incentive Plan, as amended; and

(3) to act upon such other matters as may properly come before the meeting or any adjournments thereof.

Only holders of record of shares of the Company s Common Stock at the close of business on June 22, 2004, shall be entitled to vote at the meeting.

By Order of the Board of Directors,

George C. Freeman, III
Secretary

June 30, 2004

PROXY STATEMENT

The enclosed proxy is solicited by the Board of Directors of the Company. A shareholder may revoke the proxy at any time prior to its use. Proxies properly executed and received by the Secretary prior to the Annual Meeting of Shareholders (the Annual Meeting) and not revoked will be voted in accordance with the terms thereof. Registered shareholders and participants in plans holding shares of the Company s Common Stock (Common Stock) are urged to deliver proxies and voting instructions by calling a toll-free telephone number, by using the Internet, or by completing and mailing the enclosed proxy or voting instruction. The telephone and Internet voting procedures are designed to authenticate shareholders and plan participants identities, to allow shareholders and plan participants to give their voting instructions, and to confirm that such instructions have been recorded properly. Instructions for voting by telephone or over the Internet are set forth on the enclosed proxy card or voting instruction. Registered shareholders and plan participants may also send their proxies or voting instructions by completing, signing, and dating the enclosed proxy or voting instruction and returning it as promptly as possible in the enclosed postage-paid envelope. If your shares are held in street name with your bank or broker, please follow the instructions for voting attached to the proxy card that is enclosed with this Proxy Statement.

The Company will pay all of the costs associated with the proxy solicitation. Proxies are being solicited by mail and may also be solicited in person or by telephone, telefacsimile, or other means of electronic transmission by directors, officers, and employees of the Company. The Company will reimburse banks, brokerage firms, and other custodians, nominees, and fiduciaries for their reasonable expenses in forwarding proxy materials to the beneficial owners of the shares of Common Stock. It is contemplated that additional solicitation of proxies will be made by D. F. King & Co., Inc., 77 Water Street, New York, New York 10005, at an anticipated cost to the Company of approximately $4,000, plus reimbursement of out-of-pocket expenses.

The Company changed its fiscal year to March 31 from June 30, effective March 31, 2004. Fiscal year 2004 information in this Proxy Statement covers the nine-month period from July 1, 2003, through March 31, 2004, and all references to fiscal year 2004 in this document refer to that period except as otherwise noted. Information for prior fiscal years covers the twelve-month periods from July 1 to June 30.

This Proxy Statement will be mailed on or about June 30, 2004, to registered holders of Common Stock.

VOTING RIGHTS

The Company had outstanding, as of June 22, 2004, 25,515,489 shares of Common Stock, each of which is entitled to one vote. A majority of the shares entitled to vote, represented in person or by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. Only shareholders of record at the close of business on June 22, 2004, will be entitled to vote.

The Company is not aware of any matters that are to come before the Annual Meeting other than those described in this Proxy Statement. However, if other matters do properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy card to exercise the discretionary authority conferred by the proxy to vote such proxy in accordance with their best judgment.

Proposal One

ELECTION OF DIRECTORS

Four directors are to be elected at the Annual Meeting for terms of three years. Seven other directors have been elected to terms expiring in 2005 or 2006, as indicated below. The following pages set forth certain information for each nominee and each incumbent director as of March 31, 2004, except as otherwise noted. With the exception of Chester A. Crocker, all of the nominees and all the incumbent directors listed below were directors previously elected by the shareholders.

The election of each nominee for director requires the affirmative vote of the holders of a plurality of the shares of Common Stock cast in the election of directors. With a plurality vote, the nominees that receive the highest vote totals for the director positions up for election will be elected. Votes that are withheld and shares held in street name (Broker Shares) that are not voted in the election of directors will not be included in determining the number of votes cast. Unless otherwise specified in the accompanying form of proxy, it is intended that votes will be cast for the election of all of the nominees as directors. If, at the time of the Annual Meeting, any nominee should be unavailable to serve as a director, it is intended that votes will be cast, pursuant to the enclosed proxy, for such substitute nominee as may be nominated by the Board of Directors. Each nominee has consented to being named in this Proxy Statement and to serve if elected. The Board of Directors, in its business judgment, has determined that each of the nominees for election this year, and each of the standing directors except Mr. King, are independent as defined by New York Stock Exchange listing standards.

Nominees for Election Whose Terms Expire in 2007

CHESTER A. CROCKER, 62, is a professor of strategic studies at Georgetown University s Walsh School of Foreign Service (an urban, private research university), and the Chairman of the Board of Directors of the United States Institute of Peace (an independent Federal institution). He has held these positions for more than five years. Mr. Crocker is a director of ASA Limited. Mr. Crocker was recommended to the Executive Compensation, Nominating, and Corporate Governance Committee as a nominee by a non-management director of the Company.

CHARLES H. FOSTER, JR., 61, is Chairman and Chief Executive Officer of LandAmerica Financial Group, Inc. (a title insurance holding company). He has held these positions for more than five years. Mr. Foster is a director of Overnite Corporation. He is Chairman of the Finance Committee and a member of the Executive Committee and the Executive Compensation, Nominating, and Corporate Governance Committee. Mr. Foster has been a director since 1995.

THOMAS H. JOHNSON, 54, is Chairman, President, and Chief Executive Officer of Chesapeake Corporation (Chesapeake) (a specialty packaging company). From 1997 to 2000, he was President and Chief Executive Officer of Chesapeake. He is a member of the Audit Committee and the Pension Investment Committee and has been a director since 2001.

JEREMIAH J. SHEEHAN, 65, retired as Chairman of the Board and Chief Executive Officer of Reynolds Metals Company (an aluminum and aluminum foil producer) on May 4, 2000, having served in those positions since 1996. He is Chairman of the Executive Compensation, Nominating, and Corporate Governance Committee and a member of the Audit Committee and the Executive Committee. Mr. Sheehan has been a director since 1998.

The Board of Directors recommends that the shareholders vote for the nominees set forth above.

Incumbent Directors Whose Terms Expire in 2006

JOHN B. ADAMS, JR., 59, is President, Chief Executive Officer, and a director of Bowman Companies (a private land development company), positions he has held for more than five years. Mr. Adams is a member of the Audit Committee and has been a director since May 2003.

JOSEPH C. FARRELL, 68, retired as Chairman, President, and Chief Executive Officer of The Pittston Company, now known as The Brink s Company (a mineral products, transportation, and security services company), on March 1, 1998, having served in those positions for more than five years. He is a director of ASA Limited. Mr. Farrell is a member of the Executive Committee, the Executive Compensation, Nominating, and Corporate Governance Committee, and the Pension Investment Committee. He has been a director since 1996.

WALTER A. STOSCH, 67, is a principal in the accounting firm of Stosch, Dacey & George P.C., a position he has held for more than five years. Prior to that time, he was a partner in the accounting firm of Deloitte & Touche, L.L.P. He currently serves as Senate Majority Leader of the Virginia General Assembly. He is Chairman of the Audit Committee and a member of the Finance Committee. He has been a director since 2000.

EUGENE P. TRANI, 64, is President of Virginia Commonwealth University (an urban, public research university), a position he has held for more than five years. He is a director of LandAmerica Financial Group, Inc. Dr. Trani is a member of the Finance Committee and the Pension Investment Committee and has been a director since 2000.

Incumbent Directors Whose Terms Expire in 2005

ALLEN B. KING, 58, is Chairman, President, and Chief Executive Officer of the Company. Mr. King was elected Chairman on October 28, 2003. Prior to becoming President and Chief Executive Officer on January 1, 2003, Mr. King was President and Chief Operating Officer of the Company, positions he held for more than five years. Mr. King is a director of Circuit City Stores, Inc. He is Chairman of the Executive Committee and a member of the Finance Committee. Mr. King has been a director since 1989.

EDDIE N. MOORE, JR., 56, is President of Virginia State University (an urban, public research university), a position he has held for more than five years. He is a member of the Audit Committee and the Pension Investment Committee and has been a director since 2000.

HUBERT R. STALLARD, 67, retired as President and Chief Executive Officer of Bell-Atlantic Virginia, Inc., now known as Verizon Virginia Inc. (a telecommunications company), on February 29, 2000, having served in those positions since 1989. Mr. Stallard is Chairman of the Pension Investment Committee and a member of the Executive Committee and the Executive Compensation, Nominating, and Corporate Governance Committee. He has been a director since 1991.

STOCK OWNERSHIP

Principal Shareholders

The following table sets forth certain information with respect to the beneficial ownership of shares of Common Stock by each person or group known by the Company to beneficially own more than 5% of the outstanding shares of such stock.

Name of Beneficial Owner	Number of Shares	Percent of Class (%)[1]
Dreman Value Management, LLC 520 East Cooper Avenue, Suite 230-4 Aspen, Colorado 81611 Deutsche Bank AG Taunusanlage 12, D-60323 Frankfurt am Main Federal Republic of Germany	3,188,444[2]	12.5
AXA 25 avenue Matignon 75008 Paris, France AXA Assurances I.A.R.D. Mutuelle 370 rue Saint Honore 75001 Paris, France AXA Assurances Vie Mutuelle 370 rue Saint Honore 75001 Paris, France AXA Courtage Assurance Mutuelle 26 rue Louis le Grand 75002 Paris, France AXA Financial, Inc. 1290 Avenue of the Americas New York, New York 10104	1,340,455[3]	5.3

1 The percents shown in the table are based on 25,515,489 shares of Common Stock outstanding on June 22, 2004.

2 Dreman Value Management LLC, acting as investment adviser to various investment companies, held sole voting power over 462,993 shares of Common Stock, shared voting power over 2,725,451 shares of Common Stock, and sole dispositive power over 3,188,444 shares of Common Stock as reported on a Schedule 13G filed with the Securities and Exchange Commission on February 5, 2004. According to an amended Schedule 13G filed with the Securities and Exchange Commission on April 13, 2004, Deutsche Bank AG, acting as a parent or holding company, through its subsidiaries, held sole voting power over 2,576,477 shares of Common Stock, sole dispositive power over 2,576,692 shares of Common Stock and shared dispositive power over 1,000 shares of Common Stock. The amended Schedule 13G also indicates the following: 1) Deutsche Investment Management Americas Inc., a subsidiary of Deutsche Bank AG, acting as investment advisor to various investment companies, held sole voting and dispositive power over 2,569,420 shares of Common Stock; and 2) Deutsche Bank Trust Company Americas, a subsidiary of Deutsche Bank AG, acting as a bank, held sole voting power over 7,057 shares of Common Stock, sole dispositive power over 7,272 shares of Common Stock, and shared dispositive power over 1,000 shares of Common Stock. Dreman Value Management, LLC is not an affiliated company of Deutsche Bank AG, but manages accounts held by Deutsche Bank AG. The Company s management believes, based on discussions with Dreman Value Management, LLC and Deutsche Bank AG and a review of their filings with the Securities and Exchange Commission, that the shares reported by Deutsche

Bank AG in its amended Schedule 13G are included in the amount identified by Dreman Value Management, LLC in its Schedule 13G.

3 As reported on a Schedule 13G, filed on February 10, 2004. The Schedule 13G indicates that AXA holds its reported shares as an affirmed member of a group, which includes the entities listed above with AXA. Each member of the group is reported as holding sole voting power over 1,124,475 shares of Common Stock, shared voting power over 5,725 shares of Common Stock, and sole dispositive power over 1,340,445 shares of Common Stock.

Directors and Executive Officers

The following table sets forth as of June 22, 2004, certain information with respect to the beneficial ownership of shares of Common Stock by (i) each director or nominee, (ii) each executive officer listed in the Summary Compensation Table (the Named Executive Officers), and (iii) all directors and executive officers as a group.

Name of Beneficial Owner	Number of Shares [1,2]	Percent of Class
John B. Adams, Jr.	3,000	*
Chester A. Crocker	0	*
Joseph C. Farrell	25,430	*
Charles H. Foster, Jr.	14,500	*
Thomas H. Johnson	8,300	*
Allen B. King	139,913	*
Eddie N. Moore, Jr.	8,265	*
Hartwell H. Roper	86,830	*
Jeremiah J. Sheehan	11,459	*
Hubert R. Stallard	13,201	*
James H. Starkey, III	67,563	*
Walter A. Stosch	9,100	*
William L. Taylor	77,512	*
Eugene P. Trani	9,266	*
Jack M. M. van de Winkel	500	*
All directors, nominees and executive officers as a group (17 persons)	492,570	1.9%

* Percentage of ownership is less than 1% of the outstanding shares of Common Stock.

1 The number of shares of Common Stock shown in the table includes 95,000 shares that certain directors and executive officers of the Company have the right to acquire through the exercise of stock options within 60 days following June 22, 2004. The table does not include shares that certain officers of the Company may acquire upon the exercise of stock options that, except under extraordinary circumstances, are automatically exercisable at not less than six-month intervals when at least a minimum stock price appreciation has occurred.

2 The number of shares of Common Stock shown in the table includes 67,506 shares held for executive officers in the Employees Stock Purchase Plan of Universal Leaf Tobacco Company, Incorporated (Universal Leaf). The Employees Stock Purchase Plan of Universal Leaf held 807,218 shares or 3.2% of the shares of Common Stock outstanding on June 22, 2004. The number of shares also includes 400 shares that are jointly or solely held by minor children or other children living at home or held in fiduciary capacities. Such shares may be deemed to be beneficially owned by the rules of the Securities and Exchange Commission but inclusion of the shares in the table does not constitute admission of beneficial ownership.

Section 16(a) Beneficial Ownership Reporting Compliance

The Company s directors and executive officers are required under Section 16(a) of the Securities Exchange Act of 1934, as amended, to file reports of ownership and changes in ownership of Common Stock with the Securities and Exchange Commission and the New York Stock Exchange. Copies of those reports must also be furnished to the Company.

Based solely on a review of the copies of reports furnished to the Company and the written representations of its directors and executive officers, the Company believes that, during the preceding fiscal year, all filing requirements applicable to directors and executive officers were satisfied.

CORPORATE GOVERNANCE AND COMMITTEES

The business and affairs of the Company are managed under the direction of the Board of Directors in accordance with the Virginia Stock Corporation Act and the Company s Articles of Incorporation and Bylaws. Members of the Board are kept informed of the Company s business through discussions with the Chairman, President, and Chief Executive Officer and other officers by reviewing materials provided to them and by participating in meetings of the Board and its committees. The corporate governance practices followed by the Company are summarized below.

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines that set forth the practices of the Board with respect to the qualification and selection of directors, director orientation and continuing education, director responsibilities, Board composition and performance, director access to management and independent advisors, director compensation, management evaluation and succession, evaluation of the Board s performance, and various other issues. The Guidelines are available to shareholders and the public free of charge under the Investor/Corporate Governance section of the Company s website at *www.universalcorp.com.* A printed copy is available to any shareholder free of charge upon written request to the Treasurer of the Company, at Universal Corporation, 1501 North Hamilton Street, Richmond, Virginia 23230.

The Board of Directors, in its business judgment, has determined that nine of its ten members are independent as defined by the New York Stock Exchange listing standards. In reaching this conclusion, the Board evaluated each director in light of the specified independence tests set forth in the New York Stock Exchange listing standards. In addition, the Board considered whether the Company and its subsidiaries conduct business and have other relationships with organizations of which certain members of the Board or members of their immediate families are or were directors or officers. The Board evaluated such relationships, if any, with respect to each director except Mr. King, the Company s Chairman, President, and Chief Executive Officer, and determined that no such relationships were material.

Code of Ethics

The Board of Directors has adopted a Business Ethics Policy applicable to directors, officers, and employees of the Company and each of its subsidiaries and controlled affiliates. The Business Ethics Policy includes the New York Stock Exchange requirements for a Code of Business Conduct and Ethics and the Securities and Exchange Commission requirements for a Code of Ethics for Senior Financial Officers. The Business Ethics Policy addresses such topics as protection and proper use of Company assets, compliance with applicable laws and regulations, accuracy and preservation of records, accounting and financial reporting, conflicts of interest, and insider trading. The Business Ethics Policy is available to shareholders and the public free of charge under the   Investor/Corporate Governance   section of the Company s website at *www.universalcorp.com.* A printed copy is available to any shareholder free of charge upon written request to the Treasurer at the address set forth above.

Board and Committee Meeting Attendance

In 2003, there were four meetings of the Board of Directors. Each director attended 75% or more of the total number of meetings of the Board and of the committees on which he served.

Executive Sessions

The independent directors of the Board meet in executive session at least annually without management or employee directors present. The independent directors designate the director who will preside at the executive session. This year, the independent directors designated Mr. Stallard as the presiding director. The presiding director is responsible for advising the Chairman and/or the Chief Executive Officer of the outcome of any decisions reached or suggestions made at these sessions. Executive sessions where non-employee directors meet on an informal basis may be scheduled either before or after each regularly scheduled Board meeting.

Communications with Directors

Shareholders may at any time direct communications to the Board as a whole, to the director who presides at the executive sessions of the non-management directors, or to any individual member of the Board, through the Company s website or by contacting the Company s Secretary. The Company s website contains an e-mail address established for receipt of shareholder communications, and provides the full mailing address for communications to be delivered via the Company s Secretary.

Shareholders making such communications are encouraged to state that they are shareholders and provide the exact name in which their shares of Common Stock are held and the number of shares held. Each shareholder communicating with the Board will receive a written acknowledgement from the Company s Secretary after receipt of the communication sent in the manner described above. After screening such communications, the Company s Secretary will distribute communications to the intended recipient(s) as appropriate.

Committees of the Board

The standing committees of the Board of Directors are the Executive Committee; the Audit Committee; the Executive Compensation, Nominating, and Corporate Governance Committee; the Finance Committee; and the Pension Investment Committee.

Executive Committee

The Executive Committee has the authority to act for the Board of Directors on most matters during the intervals between Board meetings. The members of the Executive Committee are Messrs. King (Chairman), Farrell, Foster, Sheehan, and Stallard. The Executive Committee met five times during the fiscal year ended March 31, 2004. The Board, in its business judgment, has determined that all members of the Executive Committee except Mr. King are independent as defined by the New York Stock Exchange listing standards.

Audit Committee

The responsibilities of the Audit Committee include the review of the scope and the results of the work of the independent public accountants and internal auditors, the review of the adequacy of internal accounting controls, and the selection and appointment of independent public accountants. The Audit Committee operates under a written charter last amended by the Board in October 2002. The Audit Committee Charter is available under the Investor/Corporate Governance section of the Company s website at *www.universalcorp.com.*

The members of the Audit Committee are Messrs. Stosch (Chairman), Adams, Johnson, Moore, and Sheehan. The Board of Directors has determined that each of the Audit Committee members is independent, as defined under the applicable independence standards set forth in regulations of the Securities and Exchange Commission and the New York Stock Exchange listing standards. The Board has also determined that all of the Audit Committee members are financially literate as defined by the New York Stock Exchange listing standards. In accordance with the applicable regulations of the Securities and Exchange Commission, the Board of Directors has further determined that the Audit Committee contains at least one audit committee financial expert as defined by such regulations Walter A. Stosch, the Chairman of the Audit Committee. The fact that the Board did not name any additional Audit Committee members as audit committee financial experts does not in any way imply that other members do not meet that definition.

The Audit Committee met six times during the fiscal year ended March 31, 2004. Additional information with respect to the Audit Committee is discussed below under Audit Information.

Executive Compensation, Nominating, and Corporate Governance Committee

The Executive Compensation, Nominating, and Corporate Governance Committee performs the responsibilities of the Board of Directors relating to compensation of the Company s executives. The committee s responsibilities include reviewing and approving corporate goals and objectives relevant to compensation of the Company s Chief Executive Officer, evaluating the Chief Executive Officer s performance in light of those goals and objectives, and determining and approving the Chief Executive Officer s compensation level based on this evaluation; making recommendations to the Board with respect to annual and long-term incentive compensation and equity-based plans; evaluating the performance of, and determining the salaries, incentive compensation, and executive benefits for senior management; and administering the Company s equity-based, deferred and other compensation plans. For additional information regarding the activities of the committee, see Report of Executive Compensation, Nominating, and Corporate Governance Committee on page 11 of this Proxy Statement. The committee also develops qualifications for director candidates, recommends to the Board of Directors persons to serve as directors of the Company and monitors developments in, and makes recommendations to the Board concerning, corporate governance practices. The committee acts as the Company s nominating committee. The committee operates under a written charter last amended by the Board in April 2004. The committee s Charter is available under the Investor/Corporate Governance section of the Company s website at *www.universalcorp.com.*

The members of the Executive Compensation, Nominating, and Corporate Governance Committee are Messrs. Sheehan (Chairman), Farrell, Foster, and Stallard, all of whom the Board, in its business judgment, has determined are independent as defined by the New York Stock Exchange listing standards. The committee met four times during the fiscal year ended March 31, 2004.

Shareholders entitled to vote for the election of directors may submit candidates for consideration by the committee if the Company receives timely written notice, in proper form, for each such recommended director nominee. If the notice is not timely and in proper form, the nominee will not be considered by the committee. To be timely for the 2005 Annual Meeting, the notice must be received within the time frame set forth in Proposals for 2005 Annual Meeting on page 26 of this Proxy Statement. To be in proper form, the notice must include each nominee s written consent to be named as a nominee and to serve, if elected, and information about the shareholder making the nomination and the person nominated for election. These requirements are more fully described in the Company s Bylaws and Corporate Governance Guidelines. The committee does not differentiate between Board candidates submitted by Board members or those submitted by shareholders with respect to evaluating candidates. All Board candidates are considered based upon various criteria, such as their broad-based business skills and experience, prominence, and reputation in their profession, a global business and social perspective, concern for the long-term interests of the shareholders, knowledge of the Company s or related industries, and personal and professional integrity, ethics, and judgment all in the context of an assessment of the perceived needs of the Board at that point in time. Because the needs of the Board change from time to time, the committee has not established specific minimum qualifications that must be met by potential new directors. However, the Board believes that, as a matter of policy, there should be a substantial majority of independent directors on the Board.

Finance Committee

The Finance Committee has the responsibility of establishing the Company s financial policies and controlling the use of its financial resources. The members of the Finance Committee are Messrs. Foster (Chairman), King, Trani, and Stosch. The Board, in its business judgment, has determined that all members of the Finance Committee except Mr. King are independent as defined by the New York Stock Exchange listing standards. The Finance Committee met two times in 2003.

Pension Investment Committee

The Pension Investment Committee establishes the investment policies, selects investment advisors and portfolio managers, and monitors the performance of investments of the pension plans, the retirement plans and other qualified employee benefit plans of Universal Leaf and the Company s other U.S. subsidiaries. The members of the Pension Investment Committee are Messrs. Stallard (Chairman), Farrell, Johnson, Moore, and Trani, all of whom the Board, in its business judgment, has determined are independent as defined by the New York Stock Exchange listing standards. The Pension Investment Committee met three times during the fiscal year ended March 31, 2004.

Annual Meeting Attendance

The Company expects and encourages each member of the Board of Directors to attend the annual meeting of shareholders when it is reasonably practical for the director to do so. All of the directors attended the 2003 Annual Meeting of Shareholders.

DIRECTORS COMPENSATION

Each director who is not an officer of the Company receives an annual retainer of $30,000, a fee of $1,500 for each Board meeting attended, and a fee of $1,500 for each committee meeting attended. A non-employee director may elect to receive his annual retainer in cash, shares of Common Stock, or an option to purchase such shares. If option payment is elected, the number of shares of Common Stock covered by the option is determined by dividing the Black-Scholes value per share on the date of grant into 125% of the cash value of the annual retainer.

The Outside Directors 1994 Deferred Income Plan permits a non-employee director to defer all or a portion of his compensation. Deferred amounts are deemed hypothetically invested as designated by the director in certain investment options offered by the Company. In 1998, this plan was amended to add a deferred stock unit fund to the investment options available under the plan. Each deferred stock unit represents a hypothetical share of Common Stock and fluctuates in value with the market price of the stock. The portion of a director s deferral account that is invested in the deferred stock unit fund is increased by the number of deferred stock units that could be purchased with Common Stock dividends paid by the Company. With respect to investment options other than the deferred stock unit fund, the Company may, but is not required to, invest the deferred amounts in a Company-owned life insurance product with parallel investment options. Subject to certain restrictions, the director may elect at the time of deferral to take cash distributions, in whole or in part, from his deferral account either prior to or following termination of service.

Pursuant to the Restricted Stock Plan for Non-Employee Directors and the 2002 Executive Stock Plan, each non-employee director is awarded 700 shares of restricted Common Stock each year following the Annual Meeting. No director may receive in the aggregate more than 2,100 shares of restricted Common Stock under these plans. Restrictions on awards under this plan expire in the event the director becomes disabled, dies, is not nominated for reelection, or is not reelected. The number of shares issued to non-employee directors will be adjusted for stock dividends, stock splits, and certain other corporate events that may occur in the future.

Under the 1994 Stock Option Plan for Non-Employee Directors and the 2002 Executive Stock Plan, each non-employee director receives an option to purchase 2,000 shares of Common Stock on the first business day following the Annual Meeting. The exercise price of all such options is the fair market value of the Common Stock on the date of grant. All of the options become exercisable six months after the date of grant and expire ten years from the date of grant. Shorter expiration periods may apply in the event an optionee dies, becomes disabled, or resigns from, or does not stand for reelection to, the Board. The options will be adjusted for stock dividends, stock splits, and certain other corporate events that may occur in the future.

As part of its overall program of charitable giving, the Company offers the directors participation in a Directors Charitable Contribution Program (the Charitable Program). The Charitable Program is funded by life insurance policies purchased by the Company on the directors. The directors derive no financial or tax benefits from the Charitable Program, because all insurance proceeds and charitable tax deductions accrue solely to the Company. However, the Company will donate up to $1,000,000 in aggregate to one or more qualifying charitable organizations recommended by that director. The donation(s) will be made by the Company in ten equal annual installments, with the first installment to be made at the later of the director s retirement from the Board or age 70; the remaining nine installments will be paid annually beginning immediately after the director s death.

Each director is also eligible to participate in a Directors Matching Gifts Program in which the Company matches directors contributions to charities. The maximum amount that can be matched in any fiscal year is $5,000 per director.

REPORT OF EXECUTIVE COMPENSATION, NOMINATING,

AND CORPORATE GOVERNANCE COMMITTEE

The Company s executive compensation and benefits program is administered by the Executive Compensation, Nominating, and Corporate Governance Committee (the Committee), which is composed entirely of non-employee directors, all of whom the Board, in its business judgment, has determined are independent as defined by the New York Stock Exchange listing standards. The goal of the program is to attract, motivate, reward, and retain the management talent required to achieve the Company s business objectives, at compensation levels that are fair and equitable and competitive with those of comparable companies. This goal is furthered by the Committee s policy of linking compensation to individual and corporate performance and by encouraging significant stock ownership by senior management in order to align the financial interests of management with those of the shareholders.

The three main components of the Company s executive compensation program are base salary, annual cash awards under incentive compensation plans adopted by the Company and its principal subsidiaries, and equity participation usually in the form of stock option grants and eligibility to participate in the Employees Stock Purchase Plan of Universal Leaf. Each year the Committee reviews the total compensation package of executive officers to ensure they meet the goals of the program. As a part of this review, the Committee considers corporate performance information, compensation survey data, the advice of consultants, and the recommendations of management. The Committee has undertaken a fundamental reappraisal of the mix, form, and calibration of the Company s executive compensation program for the 2006 fiscal year. The existing program will remain in effect for the 2005 fiscal year.

Base Salary. Base salaries for executive officers are reviewed annually to determine whether adjustments may be necessary. Factors considered by the Committee in determining base salaries for executive officers include personal performance of the executive in light of individual levels of responsibility, the overall performance and profitability of the Company during the preceding year, economic trends that may be affecting the

Company, and the competitiveness of the executive s salary with the salaries of executives in comparable positions at companies of comparable size or operational characteristics. Each factor is weighed by the Committee in a subjective analysis of the appropriate level of compensation for that executive. For purposes of assessing the competitiveness of salaries, the Committee reviews compensation data from national surveys and selected groups of companies with similar size or operational characteristics to determine ranges of total compensation and the individual components of such compensation. Such compensation data indicates that the Company s salary levels generally are below the median of such data when compared to executive positions of similar scope and responsibility.

Mr. King became the CEO of the Company on January 1, 2003, and Chairman of the Board on October 28, 2003, and has 35 years experience with the Company. For the fiscal year beginning April 1, 2004, Mr. King s base salary was increased by the annualized rate of 3.3% after a thorough review and evaluation by the Committee of the competitiveness of Mr. King s salary and total cash compensation to those of other Chief Executive Officers at comparable companies.

Annual Cash Incentives. The Company and its principal subsidiaries have incentive compensation plans under which key management employees may receive annual cash incentive awards that vary from year to year based upon corporate, business unit, and individual performance. Pursuant to the Company s Executive Officer Annual Incentive Plan (the Incentive Plan) approved by the shareholders at the 1999 Annual Meeting and slated for a vote of approval at the Annual Meeting, with respect to the Named Executive Officers based in the United States, the bonus awards in the 2004 fiscal year were based 50% on the generation of economic profit, which is defined as consolidated earnings before interest and taxes after certain adjustments minus a capital charge equal to the weighted average cost of capital times average funds employed, and 50% on the generation of earnings per share, adjusted to exclude extraordinary gains and losses and bonus accruals under the plan. Mr. King s cash incentive award for the 2004 fiscal year was approximately 5.9% less than the award he received in fiscal year 2003. This decrease is directly attributable to the financial performance of the Company, including the Company s economic profit and adjusted earnings per share performance during fiscal year 2004. In May 2004, the Committee approved amendments to the Incentive Plan, subject to shareholder approval, that will give the Company the option of paying a portion of bonus awards under the Plan in shares of stock or stock units authorized under the 2002 Executive Stock Plan.

Equity Participation. The Committee administers the Company s 1989, 1997, and 2002 Executive Stock Plans, under which it has granted to key executive employees options to purchase shares of Common Stock based upon a determination of competitive aggregate compensation levels. The primary objective of issuing stock options is to encourage significant investment in stock ownership by management and to provide long-term financial rewards linked directly to market performance of the Company s stock. The Committee believes that significant ownership of stock by senior management is the best way to align the interests of management and the shareholders, and the Company s stock incentive program is effectively designed to further this objective.

During the 1992 fiscal year, the Committee instituted the Career Equity Ownership Program (the CEO Program) to promote an increase in the equity interest of key executives through systematic option exercises and the retention of shares. The CEO Program requires each participant to make an investment in the Company by contributing to the CEO Program currently owned shares equal to at least 10% of the number of shares subject to the initial options granted to the participant under the CEO Program. Option exercises occur automatically at not less than six-month intervals when at least a minimum stock price appreciation has occurred. The exercise price of options granted under the CEO Program is the fair market value of a share of Common Stock on the date of grant. CEO options cannot be exercised until six months after the date of grant and expire ten years from such date. Stock options granted to key executives under the CEO Program in the 2003 fiscal year were intended to meet the Committee s three-year targets for CEO Program grants and, therefore, no new option grants (excluding reload options described below) were made under the CEO Program during the 2004 fiscal year, and none are anticipated for the 2005 fiscal year (excluding reload options and possible grants to any new CEO Program participants).

Except under extraordinary circumstances or as otherwise determined by the Committee, participants have agreed that the options granted under the CEO Program may be exercised only through stock-for-stock swaps, and both the contributed shares and additional shares acquired through option exercises under the CEO Program may not be sold by the participating executives during the ten-year option term. Each option granted under the CEO Program included a reload replenishment feature that entitles participants each time a stock-for-stock exercise occurs to receive automatically a new option grant at the fair market value of a share of Common Stock on the date of grant. The number of reload options granted is equal to the number of shares contributed by a participant to effect a stock-for-stock swap. In exchange for this replenishment feature, each participant has agreed to retain in the CEO Program shares equaling at least the after-tax gain realized upon each exercise.

Over the years, the CEO Program has served the Company well. Its automatic exercise feature has delivered real share ownership into the hands of executive management. Its up-front investment and share retention features have made executive management long-term investors with skin in the game, aligning their interests with those of shareholders. Solid gains in the stock price over the term of the CEO Program have generated amounts of performance-based equity compensation, at modest dilution, which have permitted the overall executive compensation program to approach market competitive levels. However, with the expensing of stock options soon to be made mandatory, it appears likely that the accounting cost of the CEO Program will dictate consideration of other, more cost-efficient forms of equity compensation. This issue will be examined as part of the fundamental reappraisal of executive compensation referred to above.

Tax Considerations. Section 162(m) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), generally disallows a tax deduction to public companies for compensation of more than $1 million paid in any year (not including amounts deferred) to a company s chief executive officer and to the four other most highly compensated executive officers. However, the statute exempts qualifying performance-based compensation from the deduction limit if certain requirements are met. In this regard, the Company has taken appropriate actions to preserve the deductibility of stock option grants and annual cash incentive awards, and to date, all executive compensation has been either deductible or deferred. While the Company s policy is generally to preserve corporate tax deductions by qualifying compensation over $1 million paid to executive officers as performance-based, the Committee may, from time to time, conclude that compensation arrangements are in the best interests of the Company and its shareholders despite the fact that such arrangements might not, in whole or part, qualify for tax deductibility.

Executive Compensation, Nominating,

and Corporate Governance Committee

Jeremiah J. Sheehan, Chairman
Joseph C. Farrell
Charles H. Foster, Jr.
Hubert R. Stallard

Richmond, Virginia

May 27, 2004

PERFORMANCE GRAPH

The following graph compares the cumulative total shareholder return on Common Stock for the last five fiscal years with the cumulative total return for the same period of the Standard & Poors Midcap 400 Stock Index and the peer group index. The companies in the peer group are DIMON Incorporated and Standard Commercial Corporation. The graph assumes that $100 was invested on June 30, 1999, in Common Stock and in each of the comparative indices, in each case with dividends reinvested.

EXECUTIVE COMPENSATION

The individuals named below include the Chairman, President, and Chief Executive Officer, and the other Named Executive Officers. Information is provided for the fiscal year ended on March 31, 2004, and for the fiscal years ended on June 30, 2003 and 2002.

Summary Compensation Table

		Annual Compensation			Long Term Compensation Awards	
Name and Principal Position	Fiscal Year	Salary ($)[1]	Bonus ($)	Other Annual Compensation ($)[2]	Securities Underlying Options (#)	All Other Compensation ($)[3]
Allen B. King Chairman, President, and Chief Executive Officer	2004	585,792	1,150,435		89,286	149,358
	2003	547,514	1,223,061		305,016	104,424
	2002	448,200	772,399		144,983	99,386
William L. Taylor Vice President and Chief Administrative Officer	2004	360,040	428,725		55,252	91,085
	2003	351,141	532,303		154,516	71,686
	2002	341,281	369,781		89,990	73,194
Hartwell H. Roper Vice President and Chief Financial Officer	2004	277,636	322,848		49,559	44,112
	2003	268,483	392,966		149,414	38,840
	2002	258,801	272,986		79,995	39,340
James H. Starkey, III Vice President	2004	223,650	187,527		35,049	53,841
	2003	216,500	232,308		98,910	41,903
	2002	208,000	160,056		50,953	42,625
Jack M. M. van de Winkel Vice President; President and Chairman of the Board of Deli Universal, Inc.	2004	367,560	301,996		0	0
	2003	344,821	352,428		52,500	0
	2002	254,216	268,167		0	0

1 For comparative purposes and in accordance with applicable Securities and Exchange Commission guidance, the amounts reported under Salary for fiscal year 2004 are twelve-month totals consisting of amounts paid during the nine-month transition year ended March 31, 2004, and the three-month period ended June 30, 2003. Amounts reported under Salary for all other fiscal years reflect amounts paid during the twelve-month periods from July 1 to June 30.

2 None of the Named Executive Officers received perquisites or other personal benefits in excess of the lesser of $50,000 or 10% of his total annual salary and bonus for each reported year.

3 The amounts in the All Other Compensation column represent (i) employer contributions to the Employees Stock Purchase Plan and the Supplemental Stock Purchase Plan of Universal Leaf (the Stock

Purchase Plans), (ii) life insurance premium payments made by the Company under the Executive Insurance Program, and (iii) interest accrued to participants accounts under the Company s Deferred Income Plan (the DIP) to the extent such interest exceeded 120% of the applicable federal long-term rate under Internal Revenue Code Section 1274(d). Employer contributions to the Stock Purchase Plans on behalf of the Named Executive Officers for the 2004, 2003, and 2002 fiscal years were in the following respective amounts: Mr. King, $30,120, $29,779, and $21,550; Mr. Taylor, $19,876, $19,774, and $16,575; Mr. Roper, $10,961, $10,643, and $10,140; and Mr. Starkey, $7,853, $7,800, and $7,685. For comparative purposes and in accordance with applicable Securities and Exchange Commission guidance, the Employer contribution reported for fiscal year 2004 is a twelve-month total consisting of amounts paid during the nine-month transition year ended March 31, 2004, and the three-month period ended June 30, 2003. The Employer contributions reported for the other fiscal years reflect amounts paid during the twelve-month periods from July 1 to June 30. The life insurance premiums paid by the Company on behalf of such executive officers for the 2004, 2003, and 2002 fiscal years were in the following respective amounts: Mr. King, $119,381, $71,065, and $74,827; Mr. Taylor, $75,484, $51,912, and $56,619; Mr. Roper, $33,068, $25,316, and $26,779; and Mr. Starkey, $39,867, $25,219, and $27,536. The accruals of interest on income deferred by such executive officers under the DIP in excess of 120% of the applicable federal long-term rate under Internal Revenue Code Section 1274(d) for the 2004, 2003 and 2002 fiscal years were in the following respective amounts: Mr. King, $3,195, $3,580, and $3,009; Mr. Roper, $2,571, $2,881, and $2,421; and Mr. Starkey, $7,996, $8,884, and $7,404.

Retirement Benefits

Employees of Universal Leaf and certain of the Company s other U. S. subsidiaries are covered by a defined benefit retirement plan, which is qualified under the Internal Revenue Code, and a defined benefit supplemental retirement plan, which is a non-qualified plan intended to provide benefits in excess of limits allowed by the Internal Revenue Code. The table below shows estimated annualized benefits payable under both plans at normal retirement (age 65) based on the average salary and bonus (as reported in the Summary Compensation Table) for the highest consecutive three years. The actuarial equivalent of benefits under the supplemental retirement plan is payable in a lump sum upon retirement.