UST INC
Form 10-Q/A
May 13, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549-1004

FORM 10-Q/A

AMENDMENT NO. 1

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended March 31, 2004

OR

o 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 0-17506

UST Inc.

(Exact name of registrant as specified in its charter)

Delaware	06-1193986
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 West Putnam Avenue, Greenwich, CT	06830
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (203) 661-1100

NONE

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).
Yes x No o

Number of Common shares ($.50 par value) outstanding at March 31, 2004 165,514,805

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EXPLANATORY NOTE

The sole purpose of this amendment is to amend and restate Part I. Item 2 of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 to substitute the date March 20, 2004 for February 19, 2004 as set forth in the third paragraph of the section entitled Smokeless Tobacco Segment. In accordance with Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, Registrant has included in this amendment only Part I, Item 2; Section (a) of Part II, Item 6; and Exhibits 31.1, 31.2 and 32. Except as set forth above, the information contained in the original filing is not amended hereby.

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UST Inc.
PART I FINANCIAL INFORMATION

Item 2. Management s Discussion and Analysis of Operations and Financial Condition

MANAGEMENT S DISCUSSION AND ANALYSIS
OF OPERATIONS AND FINANCIAL CONDITION
(Unaudited)

The following discussion and analysis of Registrant s consolidated results of operations and financial condition should be read in conjunction with the condensed consolidated financial statements and notes to the condensed consolidated financial statements within this Form 10-Q as well as the consolidated financial statements and notes thereto, included in Registrant s 2003 Form 10-K. Herein Registrant makes forward-looking statements that involve risks, uncertainties and assumptions. Actual results may differ materially from those anticipated in those forward-looking statements as a result of various factors, including, but not limited to, those presented under Cautionary Statement Regarding Forward-Looking Information within Management s Discussion and Analysis.

OVERVIEW

UST Inc. is a holding company for its wholly-owned subsidiaries: U.S. Smokeless Tobacco Company and International Wine & Spirits, Ltd. Through its largest subsidiary, U.S. Smokeless Tobacco Company, Registrant is a leading manufacturer and marketer of moist smokeless tobacco products, including brands such as Copenhagen, Skoal, Red Seal and Rooster. Through International Wine & Spirits, Ltd., Registrant produces and markets premium wines sold nationally under the Chateau Ste. Michelle, Columbia Crest, Conn Creek and Villa Mt. Eden labels, and sparkling wine under the Domaine Ste. Michelle label.

Registrant conducts its business principally in the United States. Registrant s operations are divided primarily into two segments, Smokeless Tobacco and Wine. Registrant s international operations, which are not significant, are not included within either of these segments and are reported as All Other Operations.

In connection with a previously announced agreement to resolve an action brought under the antitrust laws by a smokeless tobacco competitor, Registrant plans to transfer its cigar operation to such competitor during the second quarter of 2004. Results for this operation are included within Discontinued Operations.

RESULTS OF OPERATIONS
FIRST QUARTER OF 2004 COMPARED WITH FIRST QUARTER OF 2003

CONSOLIDATED RESULTS

	Three Months Ended March 31,	
	2004	**2003**
Net sales	$433,317	$417,601
Net earnings	121,689	110,843
Basic earnings per share	.74	.66
Diluted earnings per share	.73	.66

For the first quarter of 2004, consolidated net sales increased 3.8 percent to $433.3 million, operating income increased 6.1 percent to $212.5 million, and net earnings increased 9.8 percent to $121.7 million compared to the corresponding 2003 period. The net sales increase was primarily due to higher selling prices for moist smokeless tobacco products. Basic earnings per share were $.74 and diluted earnings per share were $.73 in 2004, which reflected an increase of 12.1 percent and 10.6 percent, respectively, over the first quarter of 2003.

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The consolidated gross margin percentage decreased in the first quarter of 2004, mainly due to an inventory write-down at a second-tier subsidiary and higher returned goods for moist smokeless tobacco products, partially offset by higher selling prices for such products. Selling, advertising and administrative expenses for the first quarter of 2004 compared favorably to the corresponding prior year period, primarily due to a $4.4 million charge, recorded in 2003, related to the bankruptcy filing by a significant smokeless tobacco customer. Also affecting this favorable comparison were lower administrative and other expenses, primarily legal costs, partially offset by higher salaries and related costs and incremental spending for direct selling and advertising initiatives for the Smokeless Tobacco segment. Corporate expenses increased slightly for the first quarter of 2004, due to higher professional fees.

Registrant s selling, advertising and administrative expenses include legal expenses, which incorporate, among other things, costs of administering and litigating product liability claims. For the first quarters of 2004 and 2003, outside legal fees and other internal and external costs incurred in connection with administering and litigating product liability claims were $2.2 million and $2.9 million, respectively.

Net interest expense remained level as there was no change in the average amount or rate of debt outstanding. Income taxes increased slightly for the first quarter of 2004 as higher earnings before taxes were partially offset by the release of $4.8 million of certain state income tax reserves, due to the expiration of various statutes of limitations in the applicable jurisdictions. The effective tax rate decreased to 36.6 percent for the first quarter of 2004 from 38.5 percent in the corresponding 2003 period, primarily as a result of the release of the state income tax reserves.

DISCONTINUED OPERATIONS

Net earnings for the first quarters of 2004 and 2003 include $.9 million and $.4 million, net of income tax benefits, respectively, in losses from discontinued operations. Discontinued operations reflect the results of Registrant s cigar operation, which it plans to transfer to a smokeless tobacco competitor in the second quarter in connection with the previously announced agreement to resolve an antitrust action.

SMOKELESS TOBACCO SEGMENT

	Three Months Ended March 31,	
	2004	**2003**
Net sales	$379,221	$367,778
Operating profit	210,966	199,859

For the first quarter of 2004, net sales for the Smokeless Tobacco segment increased 3.1 percent to $379.2 million and accounted for approximately 87.5 percent of consolidated net sales. This increase was due to higher selling prices for moist smokeless tobacco products, partially offset by increased sales incentive spending and an unfavorable product mix between premium and price value products, along with slightly lower moist smokeless tobacco net unit volume, which included higher returned goods. The increase in returned goods was primarily a result of changing dynamics in the marketplace, along with higher promotional and new product activity. Sales incentives for the first quarter of 2004 included costs associated with Registrant s new brand-building customer incentive plan, the STEPS Rewards program.

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Overall net unit volume for moist smokeless tobacco products decreased 0.2 percent to 153.7 million cans for the first quarter of 2004. This net unit volume comparison was negatively impacted by a series of military overseas shipments of 3 million cans in the first quarter of 2003, as troop deployment to the Middle East began. Net can sales for the first quarter of 2004 included 12.3 million cans of new products launched within the last three years, representing approximately 8 percent of total moist smokeless unit volume. These new products included Skoal Long Cut Vanilla Blend, Copenhagen and Skoal Pouches, Skoal Fine Cut 70th Anniversary fiberboard product and new Red Seal products. Promotional unit volume was approximately 6.1 million cans, representing 4 percent of net unit volume for the quarter. Premium moist smokeless tobacco can sales decreased 2.3 percent, while non-premium can sales increased 21.9 percent during this period. Red Seal, Registrant s primary non-premium product, accounted for 10.3 percent of Registrant s first quarter 2004 total moist smokeless tobacco unit volume, as compared to 8.7 percent in the corresponding 2003 period.

Registrant s Retail Activity Data Share & Volume Tracking System (RAD-SVT), which measures shipments to retail, indicates that for the 26-week period ended March 20, 2004, total smokeless category retail shipments increased 3.9 percent over the similar prior year period, on a can-volume basis. The premium segment declined 2.5 percent, while the value segments, which include price value and sub-price value, increased 24.7 percent during the same period. Registrant s share declined 2.6 percentage points to 71.7 percent. RAD-SVT information is provided as an indication of current domestic moist smokeless tobacco industry trends from wholesale to retail and is not intended as a basis for measuring Registrant s financial performance. This information can vary significantly from Registrant s actual results due to the fact that Registrant reports shipments to wholesale, while RAD-SVT measures shipments from wholesale to retail. In addition, differences in the time periods measured, as well as new product introductions and promotions affect comparisons of Registrant s actual results to those from RAD-SVT.

Cost of products sold increased 9.7 percent in the first quarter of 2004, primarily due to higher unit costs for moist smokeless tobacco products and an inventory write-down at a second-tier subsidiary. Segment gross profit increased 1.9 percent from the corresponding 2003 period, primarily due to higher selling prices for moist smokeless tobacco products, partially offset by the factors adversely impacting cost of products sold. The gross profit percentage decreased from the first quarter of 2003, as the increased moist smokeless tobacco unit costs, inventory write-down and higher returned goods more than offset the effect of the higher selling prices on moist smokeless tobacco products.

Selling and advertising expenses for the first quarter of 2004 increased over the similar 2003 period, primarily due to higher spending on direct marketing programs, mainly in connection with Registrant s initiatives to attract adult smokers through a direct mail campaign and one-on-one marketing. This increased spending was partially offset by lower spending associated with a customer sales alliance program, which was replaced with the STEPS Rewards program in mid-quarter 2004. Indirect selling expenses increased in 2004, primarily due to higher salaries and related costs, which include the effect of merit increases. Administrative expenses decreased significantly compared to the similar 2003 period, primarily as a result of the $4.4 million charge, recorded in 2003, in connection with accounts receivable due from a significant wholesale customer that has filed for bankruptcy, lower legal spending and other administrative cost reductions.

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Segment operating profit for the first quarter of 2004 increased 5.6 percent to $211 million compared to the corresponding 2003 period.

WINE SEGMENT

	Three Months Ended March 31,	
	2004	2003
Net sales	$45,319	$42,973
Operating profit	6,475	5,926

Wine segment net sales increased 5.5 percent, accounting for approximately 10.5 percent of consolidated 2004 net sales. This increase was primarily attributable to a 6.1 percent growth in premium case volume. This volume growth was driven by new product introductions, such as Two Vines and Red Diamond. Case volume for Chateau Ste. Michelle and Columbia Crest, Registrant s two leading brands, was up 4.1 percent and 3 percent, respectively, compared to the corresponding 2003 period. These two brands accounted for 81.2 percent of Registrant s total first quarter 2004 premium wine case volume.

Cost of products sold increased 5.3 percent for the first quarter of 2004. Gross profit for the Wine segment increased slightly, while the gross profit percentage remained level compared to the first quarter of 2003.

Selling and advertising expenses for the first quarter decreased modestly from the first quarter of 2003. Indirect selling, administrative and other expenses increased slightly in the first quarter of 2004, primarily as a result of a planned increase in the sales force headcount to broaden distribution.

Operating profit for the Wine segment increased 9.3 percent to $6.5 million for the first quarter of 2004 versus the similar 2003 period.

ALL OTHER OPERATIONS

	Three Months Ended March 31,	
	2004	2003
Net sales	$8,777	$6,850
Operating profit	2,185	731

Net sales for all other operations increased 28.1 percent to $8.8 million compared to the corresponding 2003 period, accounting for 2 percent of consolidated net sales. Higher unit volume for moist smokeless tobacco sold by Registrant s international operation was the source of this increase. All other operations reported operating income of $2.2 million for the first quarter of 2004 versus $.7 million for the corresponding 2003 period. The improved operating results were mainly due to the higher sales results and lower selling, advertising and administrative spending.

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LIQUIDITY AND CAPITAL RESOURCES
CHANGES IN FINANCIAL CONDITION SINCE DECEMBER 31, 2003

	Three Months Ended March 31,	
	2004	**2003**
Net cash (used in) provided by:		
Operating activities	$(76,940)	$(1,136,024)
Investing activities	(5,082)	(6,916)
Financing activities	(93,333)	1,131,517

For the first quarter of 2004, net cash used in operating activities was $76.9 million compared to net cash used in operating activities of $1.136 billion in the first quarter of 2003. The 2004 amount included Registrant s payment of the $200 million cash portion of an antitrust litigation settlement with a smokeless tobacco competitor, partially offset by net cash provided by other operating activities of $123.1 million. The 2003 amount included a payment of a $1.262 billion judgment in connection with an antitrust litigation loss, partially offset by net cash provided by other operating activities of $126 million. The primary sources of cash are comprised of net earnings generated mainly by the Smokeless Tobacco segment and an increase in income taxes payable. Other than the payment of the antitrust settlement, the most significant uses of cash in operations were for the payment of accounts payable and accrued expenses. Registrant estimates that 2004 overall raw material inventory purchases and other costs, for leaf tobacco and grapes, will approximate amounts expended in 2003.

Net cash used in investing activities was $5.1 million in the first three months of 2004 compared to $6.9 million in 2003. Expenditures for both years were for the purchase of property, plant and equipment. Registrant expects spending for the 2004 capital program to approximate $71 million.

For the first quarter of 2004, Registrant s net cash used in financing activities was $93.3 million, compared to net cash provided by financing activities of $1.131 billion in the first quarter of 2003. In 2003, Registrant utilized $1.242 billion of funds held in restricted deposits to substantially pay the aforementioned antitrust award. During the first quarter of 2004, Registrant expended $37.5 million in connection with its share repurchase program. In addition, dividends paid in the first quarter of 2004 were greater than those in the corresponding 2003 period as a result of the 4 percent dividend rate increase approved by the Board of Directors in December 2003, partially offset by lower shares outstanding.

As a result of the aforementioned sources and uses of cash, Registrant s cash balance decreased $175.4 million from December 31, 2003.

As a result of the charge recorded in 2003 in connection with an agreement to resolve certain antitrust actions, Registrant reported a stockholders deficit of approximately $83.8 million as of March 31, 2004. As a general matter, a company could be restricted from paying dividends or repurchasing its common stock if it were insolvent or had insufficient capital. However, in light of Registrant s cash flows and the values inherent in Registrant as a going concern, Registrant does not anticipate that its reporting a stockholders deficit for accounting purposes will have any negative impact on its operations, cash flows, its ability to pay dividends or repurchase its common stock pursuant to its previously announced share repurchase program, or fund its capital program.

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Registrant will continue to have significant cash requirements for the remainder of 2004, primarily for payment of dividends, repurchase of common stock and capital spending. Funds generated from net earnings will be the primary means of meeting cash requirements over this period.

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

Reference is made to the section captioned Cautionary Statement Regarding Forward-Looking Information which was filed as part of Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of Registrant s 2003 Form 10-K, regarding important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by Registrant, including forward-looking statements contained in this report.

UST Inc.
PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) 31.1 Section 302 Certification (CEO)

31.2 Section 302 Certification (CFO)

32 Section 906 Certification

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SIGNATURES

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

	UST Inc.
	(Registrant)
Date: May 13, 2004	/s/ Robert T. D Alessandro
	Robert T. D Alessandro Senior Vice President and Chief Financial Officer (Principal Financial Officer)
	/s/ James D. Patracuolla
	James D. Patracuolla Vice President and Controller (Principal Accounting Officer)

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