UST INC
Form 10-Q
August 10, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549-1004

FORM 10-Q

(Mark One)

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

For quarterly period ended June 30, 2001

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 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 ____

Number of Common shares ($.50 par value) outstanding at June 30, 2001
163,392,396

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UST Inc.

(Registrant)

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UST Inc.
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Dollars in thousands, except per share data)

	June 30, 2001	December 2000
	(Unaudited)	(Note
ASSETS		
Current assets		
Cash and cash equivalents	$114,527	$96,03
Accounts receivable	74,790	82,69
Inventories:		
Leaf tobacco	216,636	199,38
Products in process	133,994	141,56
Finished goods	86,488	88,73
Other materials and supplies	19,371	19,60
	456,489	449,28

Deferred income taxes	10,635	9,90
Income taxes receivable	-	28,91
Prepaid expenses and other current assets	22,673	24,56
Total current assets	679,114	691,40
Property, plant and equipment, net	352,885	358,58
Restricted deposits	593,152	505,75
Other assets	89,183	90,65
Total assets	$1,714,334	$1,646,39
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	$3,300	$3,30
Accounts payable and accrued expenses	112,769	155,17
Income taxes payable	37,275	14,39
Total current liabilities	153,344	172,87
Long-term debt	864,225	865,87
Postretirement benefits other than pensions	81,628	81,67
Deferred income taxes	181,292	186,55
Other liabilities	74,001	68,84
Contingencies (see note)	-	
Total liabilities	1,354,490	1,375,82
Stockholders' equity		
Preferred stock - par value $.10 per share:		
Authorized - 10 million shares; issued - none	-	
Common stock - par value $.50 per share:		
Authorized - 600 million shares; issued 199,213,996 shares in 2001 and 204,743,236 shares in 2000	99,607	102,37
Additional paid-in capital	522,908	526,99
Retained earnings	807,080	885,07
Accumulated other comprehensive loss	(15,989)	(13,60
	1,413,606	1,500,83
Less treasury stock - 35,821,600 shares in 2001 and 41,821,600 shares in 2000	1,053,762	1,230,26
Total stockholders' equity	359,844	270,57
Total liabilities and stockholders' equity	$1,714,334	$1,646,39

Note: The statement of financial position at December 31, 2000 has been derived from the audited financial statements at that date.

See Notes to Condensed Consolidated Financial Statements.

UST Inc.
CONDENSED CONSOLIDATED STATEMENT OF EARNINGS
(In thousands, except per share amounts)
(Unaudited)

	Three months ended June 30,		Six months ended June
	2001	2000	2001
Net sales	$422,194	$392,041	$805,159
Costs and expenses			
Cost of products sold	76,313	70,245	148,845
Excise taxes	9,361	8,596	17,618
Selling, advertising and administrative	129,974	121,054	247,674
Total costs and expenses	215,648	199,895	414,137
Operating income	206,546	192,146	391,022
Interest, net	8,627	9,714	17,514
Earnings before income taxes	197,919	182,432	373,508
Income taxes	76,251	70,185	143,833
Net earnings	$121,668	$112,247	$229,675
Net earnings per share			
Basic	$ .74	$ .69	$ 1.41
Diluted	$ .74	$ .69	$ 1.40
Dividends per share	$ .46	$ .44	$ .92
Average number of shares			
Basic	163,328	162,238	163,179
Diluted	164,504	162,277	164,311

See Notes to Condensed Consolidated Financial Statements.

UST Inc.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)
(Unaudited)

	Six months ended June 30,	
	2001	2000
OPERATING ACTIVITIES		
Net cash provided by operating activities	$258,484	$161,71
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(13,458)	(28,34
Dispositions of property, plant and equipment	1,362	13,63

Net cash used in investing activities	(12,096)	(14,71
FINANCING ACTIVITIES		
Proceeds from debt	--	300,000
Repayment of debt	(1,650)	(241,96
Proceeds from the issuance of stock	11,412	4,10
Restricted deposits	(87,397)	-
Dividends paid	(150,260)	(143,65
Stock repurchased	--	(97,47
Net cash used in financing activities	(227,895)	(178,98
Increase (decrease) in cash and cash equivalents	18,493	(31,98
Cash and cash equivalents at beginning of year	96,034	74,98
Cash and cash equivalents at end of period	$114,527	$43,00
Supplemental disclosure of cash flow information Cash paid during the period for:		
Income taxes	$137,061	$131,44
Interest	34,970	11,32

See Notes to Condensed Consolidated Financial Statements.

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UST Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2001
(Unaudited)

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in Registrant's annual report on Form 10-K for the year ended December 31, 2000.

Certain amounts reported on the 2000 Condensed Consolidated Statements of Financial Position and Cash Flows have been reclassified to conform to the 2001 presentation.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Registrant holds certain financial instruments defined as derivatives in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, Accounting For Derivatives and Hedging Activities. Registrant has hedged the interest rate risk on its $40 million aggregate principal amount of floating-rate senior notes by holding a ten-year interest rate swap, designated as a cash flow hedge. This hedge is perfectly effective as the terms and conditions of the floating rate debt coincide perfectly with the swap. The fair value of the swap at June 30, 2001 was a net liability of $0.5 million based on a dealer quote, considering current market rates, and was included in "other liabilities" on the Condensed Consolidated Statement of Financial Position. "Accumulated other comprehensive loss" at June 30, 2001 included the accumulated loss on the cash flow hedge (net of taxes) of $0.4 million. This reflects $1.1 million (net of taxes) of other comprehensive income recognized for the quarter ended June 30, 2001 in connection with the net payments/receipts and change in fair value of the swap since March 31, 2001. Registrant anticipates that approximately $0.9 million of the deferred loss on the swap, included in "accumulated other comprehensive loss," will be reclassified into net earnings during the next twelve months as a result of the floating rate interest payable on the hedged senior notes. The amount reclassified from "accumulated other comprehensive loss" to net earnings during the quarter ended June 30, 2001 in connection with this interest rate swap was $0.5 million (net of taxes).

Registrant has entered into French Franc and EURO forward contracts, designated as cash flow hedges, in order to hedge the risk of variability in cash flows associated with foreign currency payments required in connection with firm commitments to purchase oak barrels for its wine operations. These hedges are considered perfectly effective as the terms and conditions of the forward contracts coincide perfectly with the underlying purchase commitments. The fair value of the forward contracts at June 30, 2001 was a net liability of $0.1 million, based on foreign exchange rates provided by the respective banking institutions with which these forward contracts were entered into. This balance is included in "other liabilities" on the Condensed Consolidated Statement of Financial Position at June 30, 2001. The accumulated loss on this cash flow hedge (net of taxes)

included in "accumulated other comprehensive loss" at June 30, 2001 was not material and Registrant anticipates that all of the deferred loss on the forward contracts, included in "accumulated other comprehensive loss," will be reclassified into net earnings during the next twelve months as all of the related wine barrel purchases will be made by the end of October 2001.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations that are completed after June 30, 2001. In addition, SFAS No. 141 changes the criteria to recognize acquired intangible assets separately from goodwill. SFAS No. 142 eliminates amortization of existing and acquired goodwill and indefinite lived intangible assets and requires goodwill and indefinite lived intangible assets to be reviewed for impairment at least annually, or more frequently if impairment indicators exist. Intangible assets with finite lives will continue to be amortized over their useful lives. Provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. Registrant's existing goodwill and intangibles will continue to be amortized until adoption. Registrant will adopt these Statements effective January 1, 2002, as required. During 2002, Registrant will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and the effect of these tests are not expected to have a material impact on Registrant's results of operations, financial position or cash flows.

Registrant will adopt Emerging Issues Task Force (EITF) Issue No. 00-25, "Vendor Income Statement Characterization of Consideration From a Vendor to a Retailer" and Issue No. 00-14, "Accounting for Certain Sales Incentives" in the first quarter of 2002, as required. The income statement reclassifications required by these Issues will have no effect on Registrant's operating income or net earnings.

COMPREHENSIVE INCOME

The components of comprehensive income for Registrant are net earnings, foreign currency translation adjustments, additional minimum pension liability adjustments and the change in the fair value of derivatives designated as effective cash flow hedges. For the second quarter of 2001 and 2000, total comprehensive income, net of taxes, amounted to $121,587,000 and $112,567,000, respectively. For the first six months of 2001 and 2000 total comprehensive income, net of taxes, was $227,292,000 and $214,552,000, respectively.

CAPITAL STOCK

In May 2001, Registrant authorized that 6 million shares of its common stock be reserved for issuance under the 2001 Stock Option Plan. Six million shares of Registrant's treasury stock were canceled for this purpose.

UST Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

EARNINGS PER SHARE
(In thousands, except per share amounts)

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

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	20
Numerator:				
Net earnings	$121,668	$112,247	$229,675	$214
Denominator:				
Denominator for basic earnings per share - weighted-average shares	163,328	162,238	163,179	163
Dilutive effect of employee stock options	1,176	39	1,132	
Denominator for diluted earnings per share	164,504	162,277	164,311	163

Basic earnings per share	$ .74	$ .69	$ 1.41	$
Diluted earnings per share	$ .74	$ .69	$ 1.40	$

SEGMENT INFORMATION

Registrant's reportable segments are Smokeless Tobacco and Wine. Those business units that do not meet quantitative reportable thresholds are included in all other operations. Included in all other operations for both periods is Registrant's international and cigar operations. Interim segment information is as follows:

	Three Months ended June 30,		Six Months ended June	
Net Sales to Unaffiliated Customers:	2001	2000	2001	2000
Tobacco	$371,701	$347,779	$706,946	$672,0
Wine	42,766	36,810	83,789	73,9
All other	7,727	7,452	14,424	14,4
Net sales	$422,194	$392,041	$805,159	$760,3
Operating Profit (Loss):				
Tobacco	$207,330	$196,742	$392,639	$376,3
Wine	3,542	1,159	7,584	3,6
All other	(675)	(1,767)	(1,832)	(3,7
Operating profit	210,197	196,134	398,391	376,2
Corporate expenses	(3,651)	(3,988)	(7,369)	(10,6
Interest, net	(8,627)	(9,714)	(17,514)	(17,2
Earnings before income taxes	$197,919	$182,432	$373,508	$348,3

Registrant's identifiable assets did not change significantly from amounts appearing in the December 31, 2000 Consolidated Segment Information (See Form 10-K for the year then ended).

CONTINGENCIES

Registrant has been named in certain health care cost reimbursement/third party recoupment/class action litigation against the major domestic cigarette companies and others seeking damages and other relief. The complaints in these cases on their face predominantly relate to the usage of cigarettes; within that context, certain complaints contain a few allegations relating specifically to smokeless tobacco products. These actions are in varying stages of pretrial activities.

Registrant believes these pending litigation matters will not result in any material liability for a number of reasons, including the fact that Registrant has had only limited involvement with cigarettes and Registrant's current percentage of total tobacco industry sales is relatively small. Prior to 1986, Registrant manufactured some cigarette products which had a de minimis market share. From May 1, 1982 to August 1, 1994, Registrant distributed a small volume of imported cigarettes and is indemnified against claims relating to those products.

Registrant is also named in an action in Illinois brought by an individual plaintiff and purporting to state a class action "on behalf of himself and all other persons similarly situated" alleging that Registrant "manipulates the nicotine levels and absorption rates" in its smokeless tobacco products and seeking to recover monetary damages "in an amount not less than the purchase price" of Registrant's smokeless tobacco products and certain other relief. The purported class excludes all persons who claim any personal injury as a result of using Registrant's smokeless tobacco products.

Registrant is also named in certain actions in West Virginia brought on behalf of individual plaintiffs against cigarette manufacturers, smokeless tobacco manufacturers, and other organizations seeking damages and other relief in connection with injuries allegedly sustained as a result of tobacco usage, including smokeless tobacco products. Included among the plaintiffs are six individuals alleging use of Registrant's smokeless tobacco products and alleging the types of injuries claimed to be associated with the use of smokeless tobacco products; five of the six individuals also allege the use of other tobacco products.

Registrant has been named in an action in Florida by an individual plaintiff and his spouse seeking damages and other relief for personal injuries, including "cancer of the tongue," allegedly sustained by plaintiff as a result of his use of Registrant's smokeless tobacco products.

Registrant is named in an action in San Francisco, California along with five other smokeless tobacco manufacturers seeking unspecified damages and other relief brought by the City and County of San Francisco and the Environmental Law Foundation purportedly on behalf of "the residents of San Francisco County and the general public" alleging violation of The Safe Drinking Water and Toxic Enforcement Act of 1986, Health and Safety Code Sections 25249.6, et seq. ("Proposition 65") and the California Unfair Competition Act, Business and Professions Code Sections 17200, et seq. The action alleges, among other things, that the defendants sold smokeless tobacco products in California without providing a ". . . `clear and reasonable' warning that their use results in multiple exposures to substances known to the State of California to cause cancer, birth defects and reproductive harm."

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UST Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONTINGENCIES (Continued)

Registrant believes, and has been so advised by counsel handling these cases, that it has a number of meritorious defenses to all such pending litigation. Except as to Registrant's willingness to consider alternative solutions for resolving certain regulatory and litigation issues, all such cases are, and will continue to be, vigorously defended. Registrant believes that the ultimate outcome of all such pending litigation will not have a material adverse effect on the consolidated financial position of Registrant, but may have a material impact on Registrant's consolidated financial results for a particular reporting period in which resolved.

On September 11, 2000, Registrant filed its notice of appeal to the United

States Court of Appeals for the Sixth Circuit from the final and interlocutory orders entered by the District Court in connection with the Conwood litigation. On October 10, 2000, Registrant satisfied the $500 million bonding requirement imposed by the District Court. Registrant believes that the evidence presented at trial was insufficient to support the jury verdict and, as a result, believes that, while there can be no assurances, the judgment should ultimately be reversed on appeal. Registrant is not presently able to reasonably estimate the amount of damages, if any, which may be ultimately imposed and, accordingly, no charge relating to the judgment is reflected in Registrant's financial statements. While Registrant believes that the judgment should ultimately be reversed, if the adverse judgment is sustained after all appeals, satisfaction of the judgment is likely to have a material adverse effect on Registrant's consolidated financial results for a particular year, but is not expected to have a material adverse effect on Registrant's consolidated financial position.

Registrant has been named in three purported class actions filed in state court in Tennessee, New Mexico and West Virginia on behalf of putative class members who were indirect purchasers of Registrant's smokeless tobacco products in those states during the period April 1996 through March 28, 2000 (Tennessee and New Mexico) and through December 31, 2000 (West Virginia), alleging that Registrant has violated the antitrust laws, unfair or deceptive trade practices statutes and the common law of those states. The plaintiffs seek to recover compensatory and statutory damages in an amount not to exceed $74,000 after trebling per putative class member, and certain other relief.

Registrant has also been named in a purported class action (reported previously as an individual action and a purported class action and then consolidated on January 8, 2001), filed in federal court in Washington D.C. by wholesalers/distributors of Registrant's smokeless tobacco products. Plaintiffs allege that Registrant engaged in conduct that violates the federal antitrust laws, including Sections 1 and 2 of the Sherman Act and Section 3 of the Clayton Act, and that Registrant engaged in this conduct unilaterally and in concert with "its co-conspirators." Plaintiffs seek to recover unspecified statutory damages, before trebling, and certain equitable and other relief.

Each of the foregoing actions is derived directly from the Conwood litigation and therefore will need to overcome the same issues raised by Registrant in its post-trial motions and on appeal. Even if Conwood were ultimately to prevail on issues which Registrant will challenge on appeal, the plaintiffs in each of these actions will still need to establish additional elements before liability can be imposed upon Registrant. Registrant believes that it has meritorious defenses in this regard, and that the ultimate outcome of these purported class actions will not have a material adverse effect on its consolidated financial position, although if plaintiffs were to prevail, these actions could have a material impact on its consolidated financial results for a particular reporting period in which resolved.

UST Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF OPERATIONS AND FINANCIAL CONDITION
(Unaudited)

Results of Operations
Second quarter and six months of 2001 compared
with the corresponding periods of 2000

CONSOLIDATED RESULTS

Consolidated net sales for the second quarter of 2001 increased 7.7 percent to $422.2 million, while net sales for the first six months of 2001 increased 5.9 percent to $805.2 million. For the second quarter and first six months of 2001, operating income increased by 7.5 percent to $206.5 million and 7 percent to $391 million, respectively, as compared to the related 2000 periods. In the second quarter of 2001, net earnings increased 8.4 percent to $121.7 million, while basic and diluted earnings per share increased 7.2 percent to $0.74 per share. For the six months ended June 30, 2001, net earnings increased by 7.2 percent to $229.7 million versus $214.2 million during the same period in 2000. Year-to-date basic and diluted earnings per share for 2001 increased 7.6 percent to $1.41 per share and 6.9 percent to $1.40 per share, respectively. The consolidated gross profit percentage decreased slightly for both periods as increased sales of wine products, which sell at lower margins, were partially offset by higher margins achieved by the Smokeless Tobacco segment. Corporate expenses for the second quarter of 2001 decreased slightly from the corresponding 2000 period, and decreased more significantly for the six-month period primarily as a result of prior year hedging losses related to the issuance of debt. Net interest expense for the second quarter of 2001 decreased to $8.6 million, primarily as a result of higher interest income on accumulated cash, partially offset by higher average debt outstanding. For the first six months of 2001, net interest expense approximated the corresponding 2000 period. Income taxes increased in both 2001 periods, as a result of higher earnings before taxes compared to 2000. The effective tax rates for both periods remained level with the corresponding 2000 periods.

SMOKELESS TOBACCO SEGMENT

Smokeless Tobacco segment net sales increased 6.9 percent to $371.7 million for the second quarter of 2001, and increased 5.2 percent to $706.9 million for the six-month period, accounting for 87.8 percent of year-to-date consolidated net sales. The increase for both periods was primarily attributable to higher selling prices for moist smokeless tobacco products as compared to the corresponding 2000 periods, along with higher unit volume for non-premium products. Net unit volume for moist smokeless tobacco products increased 0.9 percent to 169.2 million cans and 0.5 percent to 321.9 million cans for the second quarter and six-month period, respectively. Net unit volume for premium products declined 0.7 percent and 1.3 percent for the second quarter and six-month period, respectively. However, full-priced premium products increased 1.2 percent for the second quarter, driven by strong Skoal Long Cut volume, which posted a 3.3 percent increase. For the six-month period, full-priced premium products net unit volume decreased 1.0 percent. Unit volume results reflect non-premium products contribution of an additional 2.6 million cans and 5.6 million cans to the second quarter and six-month period of 2001, respectively. During the second quarter and six-month period, three new products, Copenhagen Black, Rooster Wild Berry and Red Seal Long Cut Straight, contributed approximately 5 million and 6.2 million cans, respectively to

net can sales. Share data based on Registrant's Retail Activity Data Share & Volume Tracking System for the quarter-to-date period ended June 16, 2001, indicates that on a can volume basis, the total category increased approximately 2.6 percent versus the corresponding 2000 period, with premium segment can sales increasing slightly and non-premium can sales increasing approximately 15 percent. The non-premium segment grew 1.9 share points to 17.9 percent of the category. Registrant estimates its total category share for the second quarter declined slightly to 77.8 percent.

Cost of products sold increased 4.6 percent and 3.9 percent in the second quarter and first six months of 2001, respectively, primarily as a result of higher unit costs for moist smokeless tobacco products, along with increased unit volume. Smokeless Tobacco segment gross profit increased 7.3 percent for the second quarter and 5.4 percent for the six-month period, as compared to the similar 2000 periods. The gross profit percentage for both 2001 periods increased slightly versus the corresponding 2000 periods primarily as a result of increased selling prices for moist smokeless tobacco products partially offset by the aforementioned unfavorable factors in cost of products sold. Also favorably affecting the gross margin percentage for the second quarter was the reduction of premium promotional units of 2.6 million cans and non-premium promotional units of 1.0 million cans, in favor of full-priced can sales.

Selling and advertising expenses increased in both 2001 periods, primarily due to greater spending on print media as well as higher spending on promotional activities at retail, partially offset by lower spending on trade promotions. Selling and advertising expenses for the six-month period also reflect lower spending on direct marketing initiatives. Indirect selling expenses also rose in both periods, primarily as a result of increased salaries and related costs along with training attributable to the salesforce. Smokeless Tobacco segment administrative expenses increased in the second quarter primarily as a result of higher tobacco settlement-related charges, legal spending and administrative spending in other areas. For the first six months of 2001, higher ongoing bonding costs associated with Registrant's antitrust litigation and higher tobacco settlement-related charges contributed to the increased administrative expenses.

Operating profit for the Smokeless Tobacco segment increased 5.4 percent to $207.3 million and 4.3 percent to $392.6 million for the second quarter and first six months of 2001, respectively.

WINE SEGMENT

Wine segment net sales increased 16.2 percent to $42.8 million and 13.4 percent to $83.8 million for the quarter and six months ended June 30, 2001, respectively, accounting for 10.4 percent of year-to-date consolidated net sales. Premium wine case volume increases of 18.1 percent and 15.3 percent for the quarter and six-month periods, respectively, were the primary sources of the increased net sales in both periods. The premium case volume growth for the quarter and year-to-date periods was attributable to the Columbia Crest, Chateau Ste. Michelle and Domaine Ste. Michelle brands, with the six-month period reflecting decreased volume for the Villa Mt. Eden brand. Registrant's two leading brands of premium wine, Chateau Ste. Michelle and Columbia Crest accounted for 83.8 percent of Registrant's total year-to-date premium wine sales dollars in 2001.

Cost of products sold increased significantly for both 2001 periods, primarily as a result of higher premium case volume and higher average unit costs. Gross profit for the Wine segment increased 11.7 percent to $16.1 million and 6.2 percent to $31.4 million for the second quarter and six-month periods, respectively, as the increased premium case unit volume was partially offset by the increased costs. The Wine segment gross profit percentage decreased for both

2001 periods compared to the similar 2000 periods as a result of these factors.

Selling and advertising expenses were lower for both 2001 periods primarily as a result of lower spending for point of sale and media advertising. Indirect selling, administrative and other expenses were slightly lower for the second quarter of 2001, while the decrease for the year-to-date period was more significant, primarily due to a $0.8 million charge in 2000 related to a cancelled acquisition and lower spending in other areas.

For the second quarter and first six months of 2001, operating profit for the Wine segment increased significantly to $3.5 million and $7.6 million, respectively, as compared to $1.2 million and $3.6 million in the corresponding 2000 periods.

ALL OTHER OPERATIONS

Net sales for all other operations for the second quarter of 2001 increased 3.7 percent to $7.7 million. For the six-month period, all other operations net sales of $14.4 million approximated the level of the corresponding 2000 period. Overall, all other operations recorded operating losses of $0.7 million and $1.8 million for the second quarter and first six months of 2001, respectively, compared to operating losses of $1.8 million and $3.8 million for the similar 2000 periods.

LIQUIDITY AND CAPITAL RESOURCES
CHANGES IN FINANCIAL CONDITION SINCE DECEMBER 31, 2000

Net cash provided by operating activities increased to $258.5 million as compared to $161.7 million for the corresponding 2000 period, primarily as a result of higher income taxes payable, lower accounts receivable and increased net earnings. The primary sources of cash from operations were net earnings generated by the Smokeless Tobacco segment and increased income taxes payable, while the principal uses of cash in operations were for the reduction of accounts payable and accrued expenses and for purchases of leaf tobacco for use in Registrant's moist smokeless tobacco products. Registrant estimates that 2001 overall raw material inventory purchases and other costs, for leaf tobacco and grapes, will approximate amounts expended in 2000.

Net cash used in investing activities was $12.1 million in 2001 versus $14.7 million in 2000. Expenditures in both years relate to purchases of property, plant and equipment, with 2000 also reflecting the disposition of an office building. Registrant expects that spending on the 2001 capital program will approximate $52 million.

Net cash used in financing activities increased to $227.9 million from $179 million in 2000. This increase was primarily a result of additional cash deposits required under the $1 billion credit facility as well as lower net proceeds from borrowings, partially offset by the absence of stock repurchases in 2001. Registrant's stock repurchase program has been suspended since the end of the first quarter of 2000, as a result of its antitrust litigation.

Registrant will continue to have significant cash requirements for the remainder of 2001, primarily for payment of dividends, additional cash deposits under the credit facility and capital spending. These requirements are expected to be met by internally generated funds supported by borrowings under existing credit facilities, when necessary.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In April 2001, Registrant entered into several French Franc and Euro foreign currency forward contracts to hedge approximately 50 percent of its 2001 wine barrel purchase commitments. Each of these forward contracts will expire before October 31, 2001, corresponding with the last date at which the underlying barrels can be purchased. The fair value of such contracts at June 30, 2001 was a net liability of $0.1 million.

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 2000 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) Exhibits

(b) Reports on Form 8-K

There were no reports on Form 8-K for the three months ended June 30, 2001.

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 August 10, 2001

/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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