

UST INC
Form DEFA14A
October 24, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

SCHEDULE 14A
(Rule 14A-101)

PROXY STATEMENT PURSUANT TO SECTION 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant
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))
- Definitive Proxy Statement
- Definitive Additional Materials

Soliciting Materials Pursuant to Section 240.14a-12

UST Inc.
(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):

- 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 the transaction applies:
 - 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:
 - 5) Total fee paid:

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:

The following press release was issued by UST Inc. on Friday, October 24, 2008.

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UST REPORTS THIRD QUARTER 2008 RESULTS;
REAFFIRMS EARNINGS GUIDANCE FOR THE YEAR

- Net sales increased 1% vs. year ago to \$484.6 million
- Diluted EPS was stable vs. year ago at \$.84
- Adjusted diluted EPS increased 4.6% vs. year ago to \$.91 (see table)
- Successfully responded to increased moist smokeless tobacco competitive activity; premium can sales return to growth, sequential share stabilized
- Moist smokeless tobacco category grew 8.2%
- Ste. Michelle Wine Estates posts strong growth in net sales (+21%) and operating profit (+28%)
- Reaffirming 2008 adjusted diluted E.P.S. target of \$3.65, with a range of \$3.60 to \$3.70
- Altria Group, Inc.'s acquisition of UST on track to close during the first full week of Jan. 2009 and no later than Jan. 7

STAMFORD, Conn., Oct. 24, 2008 – UST Inc. (NYSE: UST) today announced for the third quarter ended Sept. 30, 2008, reported diluted earnings per share was stable versus the prior year period at \$.84 and adjusted diluted earnings per share increased 4.6 percent to \$.91. Adjustments affecting the comparison in the quarter include acquisition related costs, restructuring charges associated with the company's Project Momentum cost savings initiative, antitrust litigation settlement charges and the net impact related to the sale of the company's headquarters in the prior year period. The table below provides a reconciliation of such non-GAAP financial measures to the most directly comparable GAAP measures.

| Consolidated diluted E.P.S. | Third Quarter | | |
|---|---------------|--------|----------|
| | 2008 | 2007 | % Change |
| GAAP diluted E.P.S. | \$.84 | \$.84 | - |
| Other items (net of taxes): | | | |
| Antitrust litigation | - | .01 | - |
| Restructuring charges | .03 | .01 | - |
| Acquisition related costs | .04 | - | - |
| Impact of sale of corporate headquarters, net | - | .01 | - |
| Adj. non-GAAP diluted E.P.S. | \$.91 | \$.87 | 4.6 |

Adjusted diluted earnings for the third quarter increased 4.6 percent versus the prior year period. Promotional spending on moist smokeless tobacco was increased in the third quarter in response to a rise in competitive and new product activity. This higher promotional spending was more than offset by continued strong sales and operating profit for the company's wine operations, lower costs and spending due to Project Momentum initiatives and reduced income tax expense resulting from a reversal of tax reserves. Increased interest expense related to borrowing incurred as part of the company's share repurchase program was more than offset, on an earnings per share basis, by a reduction in shares outstanding versus the prior year period, even though the company suspended its share repurchase program in the second quarter due to Altria Group, Inc.'s pending acquisition of UST.

"The third quarter was another good example of our expanded toolbox at work. The company was able to invest against its premium moist smokeless tobacco brands to meet increased competition, while at the same time deliver on its earnings per share commitment. Importantly, the increased promotional spending worked, returning the company's premium brands, Copenhagen and Skoal, to growth by mid-quarter and stabilizing sequential share of the segment," said Murray S. Kessler, chairman and chief executive officer. "With premium volume growing again, the competitive environment normalizing and gasoline prices coming down, the company remains confident in delivering its original adjusted earnings per share target of \$3.65 for 2008 with a range of \$3.60 to \$3.70."

For the nine-month period ended Sept. 30, 2008, diluted earnings per share increased 10.5 percent to \$2.62 and adjusted diluted earnings per share increased 7.1 percent to \$2.70 versus the prior year period (see table below).

| Consolidated diluted E.P.S. | Nine months ended Sept. 30, | | |
|---|-----------------------------|--------|----------|
| | 2008 | 2007 | % Change |
| GAAP diluted E.P.S. | \$2.62 | \$2.37 | 10.5 |
| Other items (net of taxes): | | | |
| Antitrust litigation | .01 | .50 | - |
| Restructuring charges | .03 | .04 | -25.0 |
| Acquisition related costs | .04 | - | - |
| Impact of sale of corporate headquarters, net | - | (.39) | - |
| Adj. non-GAAP diluted E.P.S. | \$2.70 | \$2.52 | 7.1 |

Smokeless Tobacco Segment

Smokeless Tobacco segment third quarter 2008 net sales decreased 5.2 percent to \$364.1 million and operating profit decreased 8.6 percent to \$194.8 million, versus the prior year period. On an adjusted basis, operating profit decreased 7.1 percent to \$201.2 million (see attached table). The reduction in net sales and operating profit primarily resulted from increased promotional spending in response to increased competitive promotional and new product activity.

In the quarter, total underlying moist smokeless tobacco net can volume increased 0.9 percent to 164.9 million and underlying premium net can volume increased 0.1 percent to 137.3 million. On a reported basis, total net can volume decreased 0.2 percent and premium decreased 0.9 percent. The difference between underlying and reported shipments in the quarter related to the timing of shipments to wholesale last year, which negatively affected the quarter's comparison to the prior year period by approximately 2 million cans.

Importantly, during the second half of the quarter, when U.S. Smokeless Tobacco Company's (USSTC) increased promotional plans were in full effect, shipments accelerated with total net can volume up 1.8 percent, and premium net can volume up 1.2 percent versus the prior year period.

USSTC's Retail Account Data Share & Volume Tracking System (RAD-SVT) for the most recent 12-week period ended Sept. 6, 2008, also indicates solid growth for USSTC's total shipments which were up 2.9 percent versus year ago and USSTC's premium shipments which were up 1.6 percent. USSTC's price value shipments increased 8.9 percent. Category growth for the same period was robust, up 8.2 percent versus year ago. USSTC's total share of 57.4 percent was the same as the second quarter, another sign the company's increased promotional support was effective. Versus year ago, USSTC's share was down 3 percentage points. (See supplemental schedule for information about RAD-SVT data).

Smokeless Tobacco segment nine-month 2008 net sales decreased 1.7 percent to \$1,131.4 million versus the prior year period. Total moist smokeless tobacco net can sales increased 1.3 percent to 496.8 million, with premium net can sales up 0.3 percent to 414.9 million and price value net can sales up 6.9 percent to 81.9 million.

Operating profit for the segment, including antitrust litigation settlement charges and its share of restructuring charges in 2008 and 2007, increased 23 percent to \$624.6 million. Excluding these items, adjusted operating profit decreased 1 percent to \$633.8 million.

Wine Segment

In the third quarter 2008, net sales for the Wine segment increased 21.2 percent to \$99.8 million, as total premium case sales increased 17.7 percent to 1.4 million. Strong growth was realized across the product portfolio and was driven by strong acclaim for several recently released wines, a new advertising campaign for Columbia Crest and improved distribution as a result of an expanded sales force. Strong sales growth, combined with increased productivity, led to a 28 percent increase in operating profit to \$16.3 million.

Based on AC Nielsen for the 13 weeks ending Sept. 20, 2008, shipments for Ste. Michelle Wine Estates (SMWE) grew 13.2 percent in a category that increased 2.4 percent. Once again this quarter, SMWE was the fastest growing top 10 winery in the U.S.

For the nine-month 2008 period, Wine segment net sales increased 23.6 percent to \$285.1 million on a 17.8 percent increase in premium case sales versus the corresponding 2007 period. Operating profit advanced 21.3 percent to \$43 million.

Altria Group, Inc.'s Pending Acquisition of UST

In early Sept. 2008, the company announced it had reached a definitive agreement for Altria to acquire all outstanding shares of UST for \$69.50 per share in cash. Altria has fully committed financing to complete the transaction. The Federal Trade Commission has granted early termination of the initial waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, indicating no further federal regulatory review is required to complete the transaction. And, the company has scheduled a special shareholder meeting for Dec. 4, 2008 to consider the proposed transaction and will be mailing a definitive proxy next week to shareholders of record as of the close of business on Oct. 23, 2008. Assuming shareholder approval and the satisfaction of other customary closing conditions, the company expects the transaction to close during the first full week of Jan. 2009 and no later than Jan. 7.

Outlook

For the year, the company remains on track to deliver its previously released adjusted non-GAAP diluted earnings per share target of \$3.65, with a range of \$3.60 to \$3.70.

| Consolidated diluted E.P.S. | Full Year | | |
|---|------------------|----------------|----------|
| | 2008 Estimate | 2007 Actual | % Change |
| GAAP diluted E.P.S. | \$3.55 | \$3.27 | 8.6 |
| Other items (net of taxes): | | | |
| Antitrust litigation | .01 | .54 | - |
| Restructuring charges | .03 | .04 | - |
| Acquisition related costs | .06 | - | - |
| Impact of sale of corporate headquarters, net | - | (.39) | - |
| Adj. non-GAAP diluted E.P.S. | \$3.65 | \$3.46 | 5.5 |

A conference call is scheduled for 9 a.m. Eastern Time today to discuss these results. To listen to the call, please visit www.ustinc.com. A 14-day playback is available by calling (888) 286-8010 or (617) 801-6888, code #50517327 or by visiting the website.

UST Inc. is a holding company for its principal subsidiaries: U.S. Smokeless Tobacco Company and Ste. Michelle Wine Estates. U.S. Smokeless Tobacco Company is the leading producer and marketer of moist smokeless tobacco products including Copenhagen, Skoal, Red Seal and Husky. Ste. Michelle Wine Estates produces and markets premium wines sold nationally under 20 different labels including Chateau Ste. Michelle, Columbia Crest, Stag's Leap Wine Cellars and Erath, as well as exclusively distributes and markets Antinori products in the United States.

Forward-Looking and Cautionary Statements

All statements included in this press release that are not historical in nature are forward-looking statements made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements regarding the company's future performance and financial results are subject to a variety of risks and uncertainties that could cause actual results and outcomes to differ materially from those described in any forward-looking statement made by the company. These risks and uncertainties include uncertainties associated with ongoing and future litigation relating to product liability, antitrust and other matters and legal and other regulatory initiatives; the company's ability to execute strategic actions, including acquisitions and the integration of acquired businesses; federal and state legislation, including actual and potential excise tax increases, and marketing restrictions relating to matters such as adult sampling, minimum age of purchase, self service displays and flavors; competition from other companies, including any new entrants in the marketplace; wholesaler ordering patterns; consumer preferences, including those relating to premium and price value brands and receptiveness to new product introductions and marketing and other promotional programs; the cost of tobacco leaf and other raw materials; conditions in capital markets, including the market price per share of the company's common stock and its impact on the number of shares repurchased; and other factors described in this press release and in the company's Annual Report on Form 10-K for the year ended December 31, 2007. Forward-looking statements made by the company are based on its knowledge of its businesses and the environment in which it operates as of the date on which the statements were made. Due to these risks and uncertainties, as well as matters beyond the control of the company which can affect forward-looking statements, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. The company undertakes no duty to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Other Information

In connection with the proposed acquisition, UST intends to file relevant materials with the U.S. Securities and Exchange Commission (SEC), including a proxy statement on Schedule 14A.

INVESTORS AND SHAREHOLDERS ARE URGED TO READ UST'S PROXY STATEMENT AND ALL RELEVANT DOCUMENTS FILED WITH THE SEC (WHEN THEY BECOME AVAILABLE) BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION.

Investors and shareholders will be able to obtain the documents free of charge through the website maintained by the SEC at www.sec.gov. A free copy of the proxy statement and other relevant documents, when they become available, also may be obtained from UST Inc., 6 High Ridge Park, Building A, Stamford, Connecticut 06905-1323, Attn: Investor Relations. Investors and security holders may access copies of the documents filed with the SEC by UST on its website at www.ustinc.com.

Altria and UST and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from UST's shareholders in connection with the transaction. Information about Altria's directors and executive officers is set forth in Altria's proxy statement on Schedule 14A filed with the SEC on April 24, 2008 and Altria's Annual Report on Form 10-K filed on February 28, 2008. Information about UST's directors and executive officers is set forth in UST's proxy statement on Schedule 14A filed with the SEC on March 24, 2008 and UST's Annual Report on Form 10-K filed on February 22, 2008. Additional information regarding the interests of participants in the solicitation of proxies in connection with the transaction will be included in the proxy statement that UST intends to file with the SEC.

(CONSOLIDATED UNAUDITED RESULTS ARE ATTACHED)

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UST
CONSOLIDATED SALES AND EARNINGS
(In thousands, except per share amounts)
(Unaudited)

| | 2008 | Third Quarter 2007 | % Change |
|---|------------|-----------------------|----------|
| Net sales | \$ 484,631 | \$ 479,612 | + 1.0 |
| Costs and expenses | | | |
| Cost of products sold | 143,664 | 126,469 | + 13.6 |
| Selling, advertising and administrative | 123,347 | 129,832 | - 5.0 |
| Restructuring charges | 6,406 | 1,677 | - |
| Antitrust litigation | 450 | 3,158 | - |
| Acquisition related costs | 7,082 | - | - |
| Total costs and expenses | 280,949 | 261,136 | + 7.6 |
| Operating income | 203,682 | 218,476 | - 6.8 |
| Interest, net | 18,493 | 9,308 | - |
| Earnings before income taxes, minority interest and equity earnings | 185,189 | 209,168 | - 11.5 |
| Income tax expense | 59,286 | 75,484 | - 21.5 |
| Earnings before minority interest and equity earnings | 125,903 | 133,684 | - 5.8 |
| Minority interest expense and equity earnings, net | 581 | 84 | - |
| Net earnings | \$ 125,322 | \$ 133,600 | - 6.2 |
| Net earnings per share: | | | |
| Basic | \$.85 | \$.85 | - |
| Diluted | \$.84 | \$.84 | - |
| Dividends per share | \$.63 | \$.60 | + 5.0 |
| Average number of shares: | | | |
| Basic | 147,212 | 157,666 | |
| Diluted | 148,653 | 158,951 | |

UST
CONSOLIDATED SALES AND EARNINGS
(In thousands, except per share amounts)
(Unaudited)

| | Nine months ended September 30, | | |
|---|---------------------------------|--------------|----------|
| | 2008 | 2007 | % Change |
| Net sales | \$ 1,463,516 | \$ 1,417,884 | + 3.2 |
| Costs and expenses | | | |
| Cost of products sold | 415,319 | 368,971 | + 12.6 |
| Selling, advertising and administrative | 376,851 | 395,450 | - 4.7 |
| Restructuring charges | 8,024 | 9,105 | - 11.9 |
| Antitrust litigation | 1,975 | 125,258 | - |
| Acquisition related costs | 7,082 | - | - |
| Total costs and expenses | 809,251 | 898,784 | - 10.0 |
| Gain on sale of corporate headquarters | - | 105,143 | - |
| Operating income | 654,265 | 624,243 | + 4.8 |
| Interest, net | 55,024 | 27,438 | - |
| Earnings before income taxes, minority interest and equity earnings | 599,241 | 596,805 | + 0.4 |
| Income tax expense | 207,620 | 215,296 | - 3.6 |
| Earnings before minority interest and equity earnings | 391,621 | 381,509 | + 2.7 |
| Minority interest expense and equity earnings, net | 1,305 | 425 | - |
| Net earnings | \$ 390,316 | \$ 381,084 | + 2.4 |
| Net earnings per share: | | | |
| Basic | \$ 2.64 | \$ 2.40 | + 10.0 |
| Diluted | \$ 2.62 | \$ 2.37 | + 10.5 |
| Dividends per share | \$ 1.89 | \$ 1.80 | + 5.0 |
| Average number of shares: | | | |
| Basic | 147,861 | 159,056 | |
| Diluted | 149,202 | 160,536 | |

UST
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Dollars in thousands)

| | September 30, 2008 (Unaudited) | December 31, 2007 |
|---|--------------------------------------|----------------------|
| Asset | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 29,501 | \$ 73,697 |
| Accounts receivable | 64,406 | 60,318 |
| Inventories: | | |
| Leaf tobacco | 163,159 | 202,137 |
| Products in process | 205,879 | 258,814 |
| Finished goods | 196,438 | 163,247 |
| Other materials and supplies | 23,014 | 22,365 |
| Total inventories | 588,490 | 646,563 |
| Deferred income taxes | 22,743 | 26,737 |
| Income taxes receivable | 7,848 | 8,663 |
| Assets held for sale | 25,047 | - |
| Prepaid expenses and other current assets | 30,673 | 30,296 |
| Total current assets | 768,708 | 846,274 |
| Property, plant and equipment, net | 486,280 | 505,101 |
| Deferred income taxes | 45,397 | 35,972 |
| Goodwill | 28,093 | 28,304 |
| Intangible assets, net | 55,385 | 56,221 |
| Other assets | 18,325 | 15,206 |
| Total assets | \$ 1,402,188 | \$ 1,487,078 |
| Liabilities and stockholders' deficit: | | |
| Current liabilities: | | |
| Short term borrowings | \$ 40,000 | \$ - |
| Current portion of long term debt | 240,000 | - |
| Accounts payable and accrued expenses | 228,574 | 321,256 |
| Litigation liability | 23,380 | 75,360 |
| Total current liabilities | 531,954 | 396,616 |
| Long-term debt | 900,000 | 1,090,000 |
| Postretirement benefits other than pensions | 86,235 | 81,668 |
| Pensions | 165,781 | 150,318 |
| Income taxes payable | 28,519 | 38,510 |
| Other liabilities | 15,268 | 20,162 |
| Total liabilities | 1,727,757 | 1,777,274 |
| Contingencies | | |
| Minority interest and put arrangement | 30,504 | 30,006 |
| Stockholders' deficit: | | |
| Capital stock(1) | 106,187 | 105,635 |
| Additional paid-in capital | 1,153,190 | 1,096,923 |
| Retained earnings | 883,418 | 773,829 |

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| | | |
|--|--------------|--------------|
| Accumulated other comprehensive loss | (48,633) | (45,083) |
| | 2,094,162 | 1,931,304 |
| Less treasury stock – 64,016,506 shares in 2008 and 60,332,966 shares in 2007 | 2,450,235 | 2,251,506 |
| Total stockholders' deficit | (356,073) | (320,202) |
| Total liabilities and stockholders' deficit | \$ 1,402,188 | \$ 1,487,078 |

(1) Common Stock par value \$.50 per share: Authorized – 600 million shares; issued – 212,373,904 shares in 2008 and 211,269,622 shares in 2007. Preferred Stock par value \$.10 per share: Authorized – 10 million shares; Issued – None.

UST
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

| | Nine Months Ended Sept. 30, | |
|--|-----------------------------|------------|
| | 2008 | 2007 |
| Operating Activities: | | |
| Net earnings | \$ 390,316 | \$ 381,084 |
| Adjustment to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 39,542 | 33,362 |
| Share-based compensation expense | 8,357 | 9,575 |
| Excess tax benefits from share-based compensation | (11,644) | (7,520) |
| Minority interest expense and equity earnings, net | 1,305 | 423 |
| Gain on sale of corporate headquarters | - | (105,143) |
| Gain on disposition of property, plant and equipment | (1,260) | (474) |
| Amortization of imputed rent on corporate headquarters building | - | 6,740 |
| Deferred income taxes | (3,518) | (12,024) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (4,088) | (9,856) |
| Inventories | 58,073 | 41,914 |
| Prepaid expenses and other assets | 1,619 | (1,476) |
| Accounts payable, accrued expenses, pensions and other liabilities | (67,669) | (16,462) |
| Income taxes | 4,395 | 3,802 |
| Litigation liability | (51,980) | 119,597 |
| Net cash provided by operating activities | 363,448 | 443,542 |
| Investing Activities: | | |
| Short-term investments, net | - | 10,000 |
| Purchases of property, plant and equipment | (46,990) | (51,504) |
| Proceeds from dispositions of property, plant and equipment | 2,733 | 130,701 |
| Acquisition of business | - | (155,202) |
| Loan to minority interest holder | - | (27,096) |
| Repayment of loan by minority interest holder | - | 27,096 |
| Investment in joint venture | (339) | (579) |
| Net cash used in investing activities | (44,596) | (66,584) |
| Financing Activities: | | |
| Repayment of debt | - | (7,095) |
| Revolving credit facility repayments, net | (210,000) | - |
| Proceeds from the issuance of debt | 296,307 | - |
| Change in book cash overdraft | (16,973) | - |
| Excess tax benefits from share-based compensation | 11,644 | 7,520 |
| Proceeds from the issuance of stock | 34,916 | 30,517 |
| Dividends paid | (280,213) | (286,622) |
| Stock repurchased | (198,729) | (250,014) |
| Net cash used in financing activities | (363,048) | (505,694) |
| Decrease in cash and cash equivalents | (44,196) | (128,736) |

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| | | | | |
|--|----|--------|----|---------|
| Cash and cash equivalents at beginning of year | | 73,697 | | 254,393 |
| Cash and cash equivalents at end of period | \$ | 29,501 | \$ | 125,657 |

Reconciliation of GAAP Financial Measures to Non-GAAP Financial Measures (Unaudited)

The adjusted non-GAAP financial measures used in this press release exclude the impact of the net gain on the sale of the company's corporate headquarters, restructuring charges associated with the Project Momentum cost savings initiative, antitrust litigation charges and acquisition related costs associated with the definitive agreement for Altria Group, Inc. to acquire all outstanding shares of UST for \$69.50 per share in cash. The "gain on the sale of corporate headquarters, net" reflects the net impact of the gain recorded on the sale and the amortization of the short-term imputed rent on the property, which was recognized through Sept. 2007 when the company relocated its headquarters. These non-GAAP financial measures are not prepared in accordance with generally accepted accounting principles and may be different from non-GAAP measures used by other companies. Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. The company believes that these non-GAAP financial measures are helpful in assessing ongoing and forecasted operating results. In addition, these non-GAAP financial measures facilitate the company's internal comparisons to historical operating results and comparisons to competitors' operating results. The company has included these non-GAAP financial measures in this press release because it believes such measures allow for greater transparency related to supplemental information used by management in its financial and operational analysis. Investors are encouraged to review the reconciliations of the non-GAAP financial measures used in this press release to their most directly comparable GAAP financial measures as provided on the following pages.

Reconciliation of GAAP Financial Measures to non-GAAP Financial Measures (Unaudited)

Third Quarter

| Consolidated Operating Income | Third Quarter | | |
|--|---------------|-----------|----------|
| | 2008 | 2007 | % Change |
| GAAP operating income | \$203,682 | \$218,476 | -6.8 |
| Other items: | | | |
| Antitrust litigation | 450 | 3,158 | - |
| Restructuring charges | 6,406 | 1,677 | - |
| Acquisition related costs | 7,082 | - | - |
| Impact of sale of corporate headquarters, net | - | 2,889 | - |
| Adj. non-GAAP operating income | \$217,620 | \$226,200 | -3.8 |
| Consolidated Net Earnings | Third Quarter | | |
| | 2008 | 2007 | % Change |
| GAAP net earnings | \$125,322 | \$133,600 | -6.2 |
| Other items (net of taxes): | | | |
| Antitrust litigation | 287 | 2,018 | - |
| Restructuring charges | 4,091 | 1,072 | - |
| Acquisition related costs* | 6,204 | - | - |
| | - | 1,835 | - |

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Impact of sale of corporate headquarters,
net

| | | | |
|----------------------------|-----------|-----------|------|
| Adj. non-GAAP net earnings | \$135,904 | \$138,525 | -1.9 |
|----------------------------|-----------|-----------|------|

*Includes impact of acquisition-related costs that are not deductible for tax purposes.

| | | | |
|-----------------------------|-------|---------------|----------|
| Consolidated diluted E.P.S. | | Third Quarter | |
| | 2008 | 2007 | % Change |
| GAAP diluted E.P.S. | \$.84 | \$.84 | - |

Other items (net of taxes):

| | | | |
|---|-----|-----|---|
| Antitrust litigation | - | .01 | - |
| Restructuring charges | .03 | .01 | - |
| Acquisition related costs | .04 | - | - |
| Impact of sale of corporate headquarters, net | - | .01 | - |

| | | | |
|------------------------------|-------|-------|-----|
| Adj. non-GAAP diluted E.P.S. | \$.91 | \$.87 | 4.6 |
|------------------------------|-------|-------|-----|

Smokeless Tobacco Segment Operating Profit

| | | | |
|-----------------------|-----------|---------------|----------|
| | | Third Quarter | |
| | 2008 | 2007 | % Change |
| GAAP operating profit | \$194,806 | \$213,073 | -8.6 |

Other items:

| | | | |
|-----------------------|-------|-------|---|
| Antitrust litigation | 450 | 3,158 | - |
| Restructuring charges | 5,913 | 403 | - |

| | | | |
|--------------------------------|-----------|-----------|------|
| Adj. non-GAAP operating profit | \$201,169 | \$216,634 | -7.1 |
|--------------------------------|-----------|-----------|------|

Reconciliation of GAAP Financial Measures to non-GAAP Financial Measures (Unaudited)

Nine Months

| Consolidated Operating Income | Nine months ended Sept. 30, | | |
|--|-----------------------------|-----------|----------|
| | 2008 | 2007 | % Change |
| GAAP operating income | \$654,265 | \$624,243 | 4.8 |
| Other items: | | | |
| Antitrust litigation | 1,975 | 125,258 | - |
| Restructuring charges | 8,024 | 9,105 | -11.9 |
| Acquisition related costs | 7,082 | - | - |
| Impact of sale of corporate headquarters, net | - | (98,403) | - |
| Adj. non-GAAP operating income | \$671,346 | \$660,203 | 1.7 |

| Consolidated Net Earnings | Nine months ended Sept. 30, | | |
|--|-----------------------------|-----------|----------|
| | 2008 | 2007 | % Change |
| GAAP net earnings | \$390,316 | \$381,084 | 2.4 |
| Other items (net of taxes): | | | |
| Antitrust litigation | 1,261 | 79,770 | - |
| Restructuring charges | 5,126 | 5,818 | -11.9 |
| Acquisition related costs* | 6,204 | - | - |
| Impact of sale of corporate headquarters, net | - | (62,890) | - |
| Adj. non-GAAP net earnings | \$402,907 | \$403,782 | -0.2 |

*Includes impact of acquisition-related costs that are not deductible for tax purposes.

| Consolidated diluted E.P.S. | Nine months ended Sept. 30, | | |
|---|-----------------------------|--------|----------|
| | 2008 | 2007 | % Change |
| GAAP diluted E.P.S. | \$2.62 | \$2.37 | 10.5 |
| Other items (net of taxes): | | | |
| Antitrust litigation | .01 | .50 | - |
| Restructuring charges | .03 | .04 | -25.0 |
| Acquisition related costs | .04 | - | - |
| Impact of sale of corporate headquarters, net | - | (.39) | - |

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| | | | |
|--|-----------------------------|-----------|----------|
| Adj. non-GAAP diluted E.P.S. | \$2.70 | \$2.52 | 7.1 |
| Smokeless Tobacco Segment Operating Profit | Nine months ended Sept. 30, | | |
| | 2008 | 2007 | % Change |
| GAAP operating profit | \$624,606 | \$507,821 | 23.0 |
| Other items: | | | |
| Antitrust litigation | 1,975 | 125,258 | - |
| Restructuring charges | 7,235 | 6,889 | -5.0 |
| Adj. non-GAAP operating profit | \$633,816 | \$639,968 | -1.0 |

UST
SUPPLEMENTAL SCHEDULE
(Unaudited)

| | Third Quarter | | | Nine months ended Sept. 30, | | |
|----------------------------------|---------------|---------|--------|-----------------------------|-----------|--------|
| | 2008 | 2007 | % Chg. | 2008 | 2007 | % Chg. |
| Smokeless Tobacco | | | | | | |
| Net Sales (mil) | \$364.1 | \$384.1 | -5.2 | \$1,131.4 | \$1,150.5 | -1.7 |
| Adj. Non-GAAP Oper. Profit (mil) | \$201.2 | \$216.6 | -7.1 | \$633.8 | \$640.0 | -1.0 |
| MST Net Can Sales(1) | | | | | | |
| Premium (mil) | 137.3 | 138.6 | -0.9 | 414.9 | 413.6 | 0.3 |
| Price Value (mil) | 27.6 | 26.6 | 3.9 | 81.9 | 76.6 | 6.9 |
| Total (mil) | 164.9 | 165.2 | -0.2 | 496.8 | 490.2 | 1.3 |

(1) Adjusted for timing of shipments to wholesale last year, premium and total underlying net can sales in the third quarter increased 0.1 percent and 0.9 percent, respectively. The difference between underlying and reported shipments related to the timing of shipments to wholesale last year, which negatively affected the quarter's comparison to the prior year period by approximately 2 million cans. The impact on nine-month shipments was not material.

| MST Share Data | Volume % | Share | Point |
|---------------------------------|---------------|-------|---------------|
| | Chg. vs. YAGO | | Chg. vs. YAGO |
| RAD-SVT 12 wks ended 9/06/08(2) | +8.2% | | |
| Total Category | +1.9% | 52.0% | -3.2 pts |
| Total Premium Segment | +16.0% | 47.9% | +3.2 pts |
| USSTC Share of Total Category | +2.9% | 57.4% | -3.0 pts |
| USSTC Share of Premium Segment | +1.6% | 90.9% | -0.2 pts |
| USSTC Share of Value Segments | +8.9% | 21.3% | -1.4 pts |

(2) RAD-SVT – Retail Account Data Share & Volume Tracking System. RAD-SVT information is being 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 the company's financial performance. This information can vary significantly from the company's actual results due to the fact that the company reports net shipments to wholesale, while RAD-SVT measures shipments from wholesale to retail, the difference in time periods measured, as well as new product introductions and promotions.

| | Third Quarter | | | Nine months ended Sept. 30, | | |
|---------------------------|---------------|--------|--------|-----------------------------|---------|--------|
| | 2008 | 2007 | % Chg. | 2008 | 2007 | % Chg. |
| Wine | | | | | | |
| Net Sales (mil) | \$99.8 | \$82.3 | 21.2 | \$285.1 | \$230.6 | 23.6 |
| Operating Profit (mil) | \$16.3 | \$12.8 | 28.0 | \$43.0 | \$35.5 | 21.3 |
| Premium Case Sales (thou) | 1,441 | 1,224 | 17.7 | 4,173 | 3,541 | 17.8 |
| Other | | | | | | |
| Net Sales (mil) | \$20.7 | \$13.3 | 56.3 | \$47.1 | \$36.8 | 27.9 |
| Operating Profit (mil) | \$6.3 | \$4.2 | 49.7 | \$15.1 | \$13.1 | 14.8 |