

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

UST INC

CIK: **811669** | IRS No.: **061193986** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-17506** | Film No.: **94527794**
SIC: **2100** Tobacco products

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GREENWICH CT 06830

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GREENWICH CT 06830
2036611100

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 March 31, 1994

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, Conn.

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 March 31, 1994. 203,518,936

UST Inc.

(Registrant)

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

<TABLE>
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	March 31, 1994 ----- (Unaudited) <C>	December 31, 1993 ----- (Note) <C>
<S>		
ASSETS		
Current assets		
Cash and cash equivalents	\$ 42,787	\$ 25,327
Accounts receivable	59,548	64,376
Inventories:		
Leaf tobacco	126,168	90,742
Products in process and finished goods	104,111	108,117
Other materials and supplies	17,453	16,776
	-----	-----
	247,732	215,635
Prepaid expenses and other current assets	31,313	29,658
	-----	-----
Total current assets	381,380	334,996
Property, plant and equipment, net	308,011	309,611
Other assets	60,683	61,588
	-----	-----
	\$750,074	\$706,195
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 64,367	\$ 62,445
Income taxes	93,719	44,197
	-----	-----
Total current liabilities	158,086	106,642
Long-term debt	40,000	40,000
Deferred income taxes	6,389	7,955
Postretirement benefits other than pensions	58,186	56,782
Other liabilities	33,436	31,844
	-----	-----
Total liabilities	296,097	243,223

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 213,675,936 shares in 1994,	106,838	106,612
and 213,223,636 shares in 1993.		
Additional paid-in capital	344,489	337,842
Retained earnings	286,709	255,222
	-----	-----
	738,036	699,676
Less cost of shares in treasury - 10,157,000		
shares in 1994 and 8,467,000 shares in 1993	284,059	236,704
	-----	-----
Total stockholders' equity	453,977	462,972
	-----	-----
	\$750,074	\$706,195
	=====	=====

</TABLE>

Note: The statement of financial position at December 31, 1993 has been derived from the audited financial statements at that date.

See Notes to Condensed Consolidated Financial Statements.

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

<TABLE>

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	Three months ended March 31,	

	1994	1993
	----	----
<S>	<C>	<C>
Net sales	\$280,379	\$265,019
Costs and expenses		
Cost of products sold	54,401	63,153
Selling, advertising and administrative	79,347	71,923
	-----	-----
Total costs and expenses	133,748	135,076
	-----	-----
Operating income	146,631	129,943
Other income		
Interest income, net	13	155
Gain on disposal of product line	-	35,029
	-----	-----
Earnings before income taxes and cumulative effect of accounting changes	146,644	165,127
Income taxes	57,886	61,572
	-----	-----
Earnings before cumulative effect of accounting changes	88,758	103,555
Cumulative effect of accounting changes:		
Postretirement benefits other than pensions (net of income tax benefit of \$18,115)	-	(32,690)
Income taxes	-	12,844
	-----	-----
Net earnings	\$ 88,758	\$ 83,709

	=====	=====
Earnings per share:		
Primary earnings before cumulative effect of accounting changes	\$.42	\$.47
Cumulative effect of accounting changes	-	(.09)
Net earnings per share:		
Primary	\$.42	\$.38
Fully diluted	\$.42	\$.38
Cash dividends per common share	\$.28	\$.24
Average number of common and common equivalent shares outstanding:		
Primary	210,360	218,067
Fully diluted	210,360	218,067

See Notes to Condensed Consolidated Financial Statements.

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

<TABLE>
<CAPTION>

	Three months ended March 31,	
	----- 1994 -----	1993 -----
	<C>	<C>
<S> OPERATING ACTIVITIES - - - - -		
Net cash provided by operating activities	\$120,601	\$105,562
INVESTING ACTIVITIES - - - - -		
Purchases of property, plant and equipment, net	(5,561)	(21,173)
Net proceeds received from sales of businesses	-	37,137
	-----	-----
Net cash (used in) provided by investing activities	(5,561)	15,964
FINANCING ACTIVITIES - - - - -		
Proceeds from the issuance of common stock	6,873	5,294
Dividends paid	(57,098)	(50,152)
Common stock repurchased	(47,355)	(69,377)
	-----	-----
Net cash used in financing activities	(97,580)	(114,235)
Increase in cash and cash equivalents	17,460	7,291
Cash and cash equivalents at beginning of year	25,327	36,370
	-----	-----
Cash and cash equivalents at end of period	\$ 42,787	\$ 43,661
	=====	=====

Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Income taxes	\$8,197	\$342
Interest	635	218

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

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UST Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1994
(Unaudited)

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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 month period ended March 31, 1994 are not necessarily indicative of the results that may be expected for the year ended December 31, 1994. 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, 1993.

REPURCHASE OF COMMON STOCK

During 1994, Registrant continued its program to repurchase a portion of its outstanding common stock, up to a maximum of forty million shares. As of December 31, 1993, 6.4 million shares remained to be repurchased under the current program. Through March 31, 1994 an additional 1.7 million shares costing \$47.4 million were repurchased.

CONTINGENCIES

Registrant is named in certain litigation against the major cigarette companies and others seeking damages relating to the usage of cigarettes. Registrant has had only limited involvement with cigarettes. Prior to 1985, Registrant manufactured some cigarette products which had a de minimis market share, and is indemnified for the small volume of imported cigarettes which it currently distributes. Registrant believes that these actions are without merit, intends to defend them vigorously and does not believe they will result in any material liability to Registrant.

In addition, on May 12, 1994, Registrant was advised by its Delaware agent for service of process that Registrant and others had been named in an amended complaint. This action, originally filed against the major cigarette companies, is purportedly brought on behalf of a class composed of all persons in the United States who have used defendants' tobacco products and claim that the defendants allegedly manipulated the levels of nicotine in their tobacco products for the purposes of addicting consumers. The complaint seeks unspecified damages, attorneys fees and other equitable relief. Registrant has not had an adequate opportunity to evaluate this action prior to the filing of this quarterly report on Form 10-Q.

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

Results of Operations
First quarter 1994 compared
with the first quarter of 1993

Net sales for the first quarter were \$280.4 million, a 6 percent increase over the corresponding period in the prior year. The Tobacco segment posted sales gains for the first quarter while sales for the Wine segment were stable and Other segment sales were lower. Higher selling prices and unit volume gains for moist smokeless tobacco were the primary reasons for the increase in consolidated net sales. Domestic unit volume for moist smokeless tobacco increased 5.9 percent for the first quarter as compared with the similar 1993 period. Registrant believes that the domestic moist unit volume comparison was favorably affected by a change in Registrant's shipping procedures in January 1993 which had an adverse effect on unit volume in the first quarter of 1993. Unit volume for premium wine increased slightly in the first quarter, while overall case volume for the Wine segment remained stable. Other segment sales were significantly lower due to the absence of Zig-Zag cigarette papers and related products resulting from the sale of its distribution rights on March 31, 1993.

Cost of products sold decreased for the first quarter due to volume declines for other tobacco products and the absence of cigarette papers and related products. Unit costs for wine also decreased slightly for the first quarter. These lower costs were partially offset by volume gains and higher unit costs for domestic moist smokeless tobacco. The overall gross margin percentage increased in the first quarter mainly due to higher selling prices and increased unit volume for domestic moist smokeless tobacco and volume declines for lower margin products.

Selling, advertising and administrative expenses increased for the Tobacco and Other segments and remained stable for the Wine segment. Selling and advertising expenses for the Tobacco segment were directed at the promotion and support of our moist smokeless tobacco products and higher salaries and related costs for the sales force and support personnel. Administrative and other expenses increased for the first quarter due to higher salary and related costs and increased spending in other areas.

Net interest income decreased due to interest expense on long-term debt which offset income from cash equivalent investments.

Net earnings and primary earnings per share increased 6 percent and 11 percent, respectively, over the corresponding period in the prior year.

The comparison of earnings per share for the first quarter of 1994 to the similar period in 1993, was adversely affected by 4 cents per share due to several events which occurred during 1993. On March 31, 1993, Registrant completed the sale of its distribution rights for Zig-Zag cigarette papers and related products. This resulted in an after-tax gain of \$22 million, amounting to 10 cents per share. This gain was offset by the adoption of Statement of Financial Accounting Standards (SFAS) No. 106 and SFAS No. 109, which reduced first quarter 1993 primary earnings per share by 9 cents.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
OPERATIONS AND FINANCIAL CONDITION (Continued)

In addition, operating results for the first quarter of 1994 do not include Zig-Zag and related products as compared to the similar period in 1993. Also, the first quarter of 1994 includes the effects of the 1993 "Omnibus Budget Reconciliation Act", which increased the effective corporate federal income tax

rate, whereas in 1993, this effect was not recorded until the third quarter. Together, these events adversely affected the comparison of primary earnings per share by 3 cents for the first quarter of 1994 as compared to the similar 1993 period.

The Clinton Administration's Health Security Act proposed an increase in the federal excise tax on moist snuff from 36 cents per pound to \$12.86 per pound. Congress continues the debate over this health care proposal, as well as other alternatives, which do not include excise tax increases. Registrant is not able to predict the amount, if any, by which the federal excise tax rate may increase, or assess the future effect that any such increase may have on the sale of its tobacco products.

Liquidity and Sources of Capital Changes in Financial Condition Since December 31, 1993

Net cash provided by operating activities represents net income adjusted for the non-cash items included in the determination of net income as well as changes in operating assets and liabilities. A primary use of cash in operations was for purchases of leaf tobacco of \$48.7 million, which were higher as compared to the corresponding period in the prior year. Registrant anticipates that additional purchases of leaf tobacco will not be significant for the remainder of 1994.

Net cash used in investing activities for the first quarter of 1994 was for the purchase of property, plant and equipment. Registrant expects the 1994 capital program to approximate \$38 million.

Net cash used in financing activities were amounts expended for dividends and the stock repurchase program. Amounts expended for the stock repurchase program were significantly lower than the corresponding period in the prior year. Registrant expects to repurchase the remaining 4.7 million shares under the current share repurchase program during the remainder of the year. During the second quarter, Registrant borrowed an additional \$10 million on the revolving credit and term loan facility, which was used to repurchase additional shares. Availability of funds and market prices will determine the number of shares actually repurchased.

Registrant will continue to have significant cash requirements for the remainder of 1994, primarily for dividends and the stock repurchase program. Registrant expects to meet these requirements with internally generated funds augmented by short-term borrowings when necessary.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

With respect to the action entitled Norma R. Broin, et al. v. Philip Morris Companies, Inc., et al which was previously reported in Registrant's 1993 Form 10-K, a panel of the District Court of Appeal, Third District, on March 15, 1994, reversed the order of dismissal with instructions to reinstate the class action allegations in the amended complaint. On April 18, 1994, the defendants filed a motion for rehearing en banc, for certification and rehearing of the panel's decision and that motion has not been decided.

Registrant was named in a consolidated amended complaint filed on or about April 29, 1994, against the major cigarette companies and others entitled John G. Allman, et al. v. Philip Morris., et al. (Case No.: 94-0504-IEG (CM), U.S. District Court, Southern District of California) seeking unspecified damages, which Plaintiffs have estimated in subsequent filings to be "in the hundreds of millions of dollars". The action is purportedly brought on behalf of a class composed of all persons in the United States who have smoked defendants' cigarette products and have been prescribed and paid for "nicotine patches" or will be so treated in the future. The complaint alleges violations of the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. S1961, et seq ("RICO")

and includes allegations of a conspiracy among defendants to withhold information about the claimed effects of cigarette smoking. Under RICO, damage awards are trebled and prevailing plaintiffs are entitled to attorneys' fees.

Registrant has had only limited involvement with cigarettes. Prior to 1985, Registrant manufactured some cigarette products which had a de minimis market share, and Registrant is indemnified for the small volume of imported cigarettes which it currently distributes.

Registrant believes that these actions are without merit, intends to defend them vigorously and does not believe they will result in any material liability to Registrant.

In addition, on May 12, 1994, Registrant was advised by its Delaware agent for service of process that Registrant and others had been named in an amended complaint entitled Diane Castano, et al. v. The American Tobacco Company, Inc., et al., (Case No. 94-1044 "B"(3), U.S. District Court, Eastern District of Louisiana). This action, originally filed against the major cigarette companies, is purportedly brought on behalf of a class composed of all persons in the United States who have used defendants' tobacco products and claim that the defendants allegedly manipulated the levels of nicotine in their tobacco products for the purposes of addicting consumers. The complaint seeks unspecified damages, attorneys fees and other equitable relief. Registrant has not had an adequate opportunity to evaluate this action prior to the filing of this quarterly report on Form 10-Q.

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PART II - OTHER INFORMATION (continued)

Item 4. Submission of Matters to a Vote of Security Holders

(a) The 1994 Annual Meeting of Stockholders was held on May 3, 1994.

(c) Matters voted upon at the meeting:

<TABLE>
<CAPTION>

	Affirmative Votes	Negative Votes	Abstentions	Broker Non-Votes
<S>	----- <C>	----- <C>	----- <C>	----- <C>
Ratification and Approval of Independent Auditors (Proposal No. 2)	186,120,859	376,923	494,536	N/A
Stockholder Proposal (Proposal No. 3)	6,650,257	154,482,104	7,711,103	18,148,854
Stockholder Proposal (Proposal No. 4)	8,310,480	154,154,751	6,378,234	18,148,853

</TABLE>

Item 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K

There were no reports on Form 8-K for the three months ended March 31, 1994.

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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, 1994

/s/ John J. Bucchignano

John J. Bucchignano
Executive Vice President and Chief
Financial Officer (Principal Financial Officer)

/s/ Robert T. D'Alessandro

Robert T. D'Alessandro
Controller (Principal Accounting Officer)

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