UNITIL CORP
Form S-3/A
April 24, 2009
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As filed with the Securities and Exchange Commission on April 24, 2009.

Registration No. 333-158537

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20548

AMENDMENT NO. 1 TO

FORM S-3

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

UNITIL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

New Hampshire	**02-0381573**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

6 Liberty Lane West,

Hampton, New Hampshire 03842-1720

(603) 772-0775

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Mark H. Collin

Senior Vice President, Chief Financial Officer and Treasurer

UNITIL CORPORATION

6 Liberty Lane West

Hampton, New Hampshire 03842-1720

(603) 772-0775

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Sheri E. Bloomberg, Esq.

DEWEY & LEBOEUF LLP

1301 Avenue of the Americas

New York, New York 10019

(212) 259-8000

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

(continued on next page)

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If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¨

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

(Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

			Proposed Maximum	Amount of
		Proposed Maximum	Aggregate Offering	Registration
Title Of Securities To Be Registered	Amount to be Registered(1)	Offering Price Per Unit(2)	Price(1)(2)	Fee(1)(2)
Common Stock, no par value	1,270,000 shares	$20.045	$25,457,150.00	$1,420.51

(1) Does not include 1,730,000 shares of unsold common stock, no par value, of Unitil Corporation covered by Registration Statement No. 333-152823 that are being carried over to this registration statement. Also does not include the registration fee of $1,822.78 that was previously paid with respect to such securities.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, based on the average of the high and low prices of the common stock as reported by the New York Stock Exchange on April 8, 2009, which date is within five (5) business days of the initial filing of this registration statement. The Registrant paid a registration fee of $1,420.51 at the time of the initial filing of this registration statement. The registration fee was based on the Registrant s bona fide estimate of the maximum aggregate offering price of $25,457,150.00.

Pursuant to the provisions of Rule 429 under the Securities Act of 1933, the prospectus contained in this registration statement also relates to 1,730,000 shares of unsold common stock, no par value, covered by the registration statement on Form S-3 (Registration No. 333-152823) of Unitil Corporation that are being carried forward in connection with this registration statement. In the event that any of such previously registered common stock is offered prior to the effective date of this registration statement, the amount of such common stock will not be included in any prospectus hereunder. The amount of common stock being registered pursuant to this registration statement, together with the remaining common stock registered under Registration Statement No. 333-152823, represents the maximum amount of common stock that the registrant expects to offer for sale.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We cannot sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated April 24, 2009

PROSPECTUS

Registration No. 333-158537 and

333-152823

3,000,000 Shares

Common Stock

By this prospectus, Unitil Corporation may offer from time to time, in one or more offerings, up to 3,000,000 shares of its common stock.

We will provide the specific terms of any offering in supplements to this prospectus. We can only use this prospectus to offer and sell our common stock by also including a prospectus supplement relating to that offer and sale.

We may sell the common stock directly to you, through agents that we select or through underwriters and dealers that we select. If we use agents, underwriters or dealers to sell the securities, we will name them and describe their compensation in a prospectus supplement.

Our common stock is listed on the New York Stock Exchange under the symbol UTL.

Investing in our common stock involves risks. Please see the section entitled Risk Factors beginning on page 6 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2009.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the SEC) using a shelf registration process. Under this shelf registration process, we may sell the common stock described in this prospectus from time to time in one or more offerings. This prospectus provides you with a general description of the common stock that we may offer. We may also add, update or change information contained in this prospectus through one or more supplements to this prospectus. Any statement that we make in this prospectus will be modified or superseded by any inconsistent statement made by us in a prospectus supplement. The rules of the SEC allow us to incorporate by reference information into this prospectus. This information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. You should read both this prospectus and any prospectus supplement together with additional information described in the section entitled *Where You Can Find More Information*.

No person has been authorized to give any information or to make any representations other than those contained or incorporated by reference in this prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by us or any underwriter, agent, or dealer. Neither the delivery of this prospectus nor any sale made hereunder shall under any circumstances create any implication that there has been no change in our affairs since the date hereof or that the information contained or incorporated by reference herein is correct as of any time subsequent to the date of such information. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any shares of common stock by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information in this prospectus is accurate as of its date. Therefore, before you invest in our common stock, you should carefully read this prospectus and any prospectus supplement relating to the common stock offered to you together with the additional information described in the section entitled *Where You Can Find More Information*.

In this prospectus, the company, Unitil, we, us, and our refer to Unitil Corporation and its subsidiaries, unless the context otherwise requires

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our filings are available to the public over the internet at the SEC s web site at *http://www.sec.gov*. You may also read and copy any document we file with the SEC at its public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can obtain further information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Our common stock is listed on the New York Stock Exchange under the symbol UTL.

This prospectus is part of a registration statement that we filed with the SEC on Form S-3. This prospectus does not contain all of the information set forth in the registration statement and its exhibits, portions of which have been omitted as permitted by the rules and regulations of the SEC. You may refer to the registration statement and the exhibits for more information about the securities and us. You may inspect the registration statement and exhibits without charge at the SEC s public reference room or at the SEC s website.

The SEC allows us to incorporate by reference into this prospectus the information we file with it, which means that we can disclose important information to you by referring to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede information in this prospectus. We incorporate by reference the documents listed below into this prospectus, and any future filings made by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, until this offering is complete. The documents we incorporate by reference are:

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2008;

- our Current Reports on Form 8-K filed with the SEC on January 5, 2009, February 6, 2009, March 19, 2009, March 26, 2009, and March 27, 2009; and

- the description of our common stock, no par value, contained in the registration statement on Form 8-A/A filed with the SEC on August 13, 2008.

You may request a copy of any of these documents at no cost (other than an exhibit to the filing unless we have specifically incorporated that exhibit by reference into the filing) by writing or telephoning us at the following address:

Shareholder Relations

Unitil Corporation

6 Liberty Lane West

Hampton, NH 03842-1720

Telephone (800) 999-6501

http://www.unitil.com

Additionally, we incorporate by reference the following documents into this prospectus, as filed in our Registration Statement on Form S-3 (Registration No. 333-152823):

- the Unaudited Condensed Financial Statements of Northern Utilities, Inc. as of and for the Nine Months Ended September 30, 2008 and 2007;

- the Financial Statements of Northern Utilities, Inc. as of December 31, 2007 and 2006 and for the Years Ended December 31, 2007, 2006 and 2005 together with Independent Registered Public Accounting Firm s Report;

- the Unaudited Condensed Financial Statements of Granite State Gas Transmission, Inc. as of and for the Nine Months Ended September 30, 2008 and 2007; and

- the Financial Statements (Restated) of Granite State Gas Transmission, Inc. as of December 31, 2007 and 2006 and for the Years Ended December 31, 2007, 2006 and 2005 together with Independent Registered Public Accounting Firm s Report.

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This prospectus and the documents we incorporate by reference into this prospectus contain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included or incorporated by reference into this prospectus, including, without limitation, statements regarding the financial position, business strategy and other plans and objectives for our future operations, are forward-looking statements.

These statements include declarations regarding our or our management s beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, continue or the negative of such terms or other comparable terminology. These forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the risks and uncertainties include those referred to in the section entitled *Risk Factors* and the following:

- our ability to complete the integration of the business, operations and personnel of Northern Utilities, Inc. (Northern Utilities) and Granite State Gas Transmission, Inc. (Granite State) and to achieve the estimated potential synergy savings attributable to the Acquisitions (as defined below);
- our ability to retain existing customers and gain new customers;
- variations in weather;
- major storms;
- changes in the regulatory environment;
- customers preferences on energy sources;
- interest rate fluctuation and credit market concerns;
- general economic conditions, including recent distress in the financial markets that has had an adverse impact on the availability of credit and liquidity resources generally and could jeopardize certain of our counterparty obligations, including those of our insurers and financial institutions;
- fluctuations in supply, demand, transmission capacity and prices for energy commodities;
- increased competition; and
- customers performance under multi-year energy brokering contracts.

Many of these risks are beyond our control. Any forward-looking statements speak only as of the date of this prospectus, and we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors, nor can we assess the impact of any such factor on our business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements.

OUR COMPANY

We are a public utility holding company headquartered in Hampton, New Hampshire. We are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (the FERC) under the Energy Policy Act of 2005.

Our principal business is the local distribution of electricity and natural gas throughout our service territory in the states of New Hampshire, Massachusetts and Maine. We are the parent company of three wholly owned distribution utilities: (i) Unitil Energy Systems, Inc. (Unitil Energy), which provides electric service in the southeastern seacoast and state capital regions of New Hampshire, including the city of Concord, New Hampshire; (ii) Fitchburg Gas and Electric Light Company (Fitchburg), which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts; and (iii) Northern Utilities, which provides natural gas service in southeastern New Hampshire, including the city of Portsmouth, and portions of southern and central Maine, including the city of Portland. In addition, we are the parent company of Granite State, an interstate natural gas transmission pipeline company that principally provides interstate natural gas pipeline access and transportation services to Northern Utilities in its New Hampshire and Maine service territory.

Our distribution utilities serve approximately 100,300 electric customers and 69,300 natural gas customers in their service territory. Our distribution utilities are local pipes and wires operating companies and, combined with Granite State, had an investment in Net Utility Plant of $422.8 million at December 31, 2008. We do not own or operate electric generating facilities or major transmission facilities and substantially all of our utility assets are dedicated to the local delivery of electricity and natural gas to our customers. Our total revenue was $288.2 million in 2008, which includes revenue to recover the cost of purchased electricity and natural gas in rates on a fully reconciling basis. As a result of this reconciling rate structure, our earnings are not affected by changes in the cost of purchased electricity and natural gas. Earnings applicable to common shareholders for 2008 were $9.6 million. Substantially all of our revenue and earnings are derived from regulated utility operations. Our consolidated operating results for 2008 reflect one month of financial activity for Northern Utilities and Granite State, which we acquired on December 1, 2008.

Our business strategy is to be a leader in the reliable and cost effective management of a growing level of local electric and natural gas distribution assets. Our growth initiatives include evaluation of organic growth opportunities as well as strategic acquisitions. As part of our growth strategy, on December 1, 2008, we purchased (i) all of the outstanding capital stock of Northern Utilities from Bay State Gas Company (Bay State) and (ii) all of the outstanding capital stock of Granite State from NiSource Inc. (NiSource) pursuant to the Stock Purchase Agreement dated as of February 15, 2008 by and among NiSource, Bay State and us. Bay State is a wholly owned subsidiary of NiSource. We refer to these transactions as the Acquisitions. The aggregate purchase price for the Acquisitions was $160 million in cash, plus an additional working capital adjustment of $49.2 million, including approximately $30.0 million of natural gas storage inventory. To finance the Acquisitions and recapitalize Northern Utilities and Granite State, we issued additional equity and debt.

A fifth wholly owned subsidiary, Unitil Power Corp. (Unitil Power), formerly functioned as the full requirements wholesale power supply provider for Unitil Energy. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of Unitil Energy on May 1, 2003 and divested of substantially all of its long-term power supply contracts through the sale of the entitlements to the electricity associated with those contracts.

We also have three other wholly owned subsidiaries: Unitil Service Corp. (Unitil Service); Unitil Realty Corp. (Unitil Realty); and Unitil Resources, Inc. (Unitil Resources). Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and energy supply management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages our corporate office in Hampton, New Hampshire. Unitil Resources is our wholly owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are indirect subsidiaries that are wholly owned by Unitil Resources. Usource provides energy brokering and advisory services to large commercial and industrial customers in the northeastern United States.

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RISK FACTORS

Investing in our common stock involve risks. You should carefully consider the risks described in our filings with the SEC referred to in the section entitled *Where You Can Find More Information* and in the section entitled *Cautionary Statement about Forward-Looking Statements*, as well as those included in any prospectus supplement hereto. For example, our Annual Report on Form 10-K for the year ended December 31, 2008 contains a discussion of significant risks in the section entitled *Risk Factors*, which could be relevant to your investment in our common stock. Subsequent filings with the SEC may contain amended and updated discussions of significant risks.

USE OF PROCEEDS

Unless we specify otherwise in the applicable prospectus supplement accompanying this prospectus, we intend to use the net proceeds that we receive from the sale of the common stock covered by this prospectus for general corporate purposes, including repayment of debt, acquisitions, capital expenditures and working capital.

The actual application of proceeds that we receive from the sale of any particular offering of common stock using this prospectus will be described in the applicable prospectus supplement relating to such offering.

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DESCRIPTION OF COMMON STOCK

The following description of our common stock summarizes general terms that apply to our common stock. Because this is only a description, it does not contain all of the information that may be important to you. This summary is subject to and qualified in its entirety by reference to our Articles of Incorporation, Articles of Amendment to the Articles of Incorporation and By-Laws. See the section entitled *Where You Can Find More Information*.

Authorized and Outstanding Shares

Our authorized capital stock consists of 16,000,000 shares of common stock, no par value. As of April 20, 2009, 8,106,155 shares of common stock were outstanding and our subsidiaries, Unitil Energy and Fitchburg, have preferred stock outstanding. Unitil Corporation is not authorized to issue any shares of preferred stock. All of the common stock outstanding is fully paid and nonassessable.

After giving effect to the equity offerings described in this prospectus, approximately 4,443,644 shares of common stock will be available for issuance under our Articles of Incorporation, excluding 450,201 shares reserved for issuance pursuant to our Dividend Reinvestment Plan, our Tax Deferred Savings and Investment Plan, our Restricted Stock Plan, and our 1998 Stock Option Plan. Except in connection with these offerings, our Board of Directors has no immediate plans, intentions, or commitments to issue additional shares of common stock for any purpose, including, without limitation, rendering more difficult or discouraging a merger, tender offer, proxy contest or other change in control of us (collectively referred to as change in control transactions). However, the availability of authorized shares of common stock could render more difficult, discourage, or delay a change in control transaction, which may adversely affect the ability of our shareholders to obtain a premium for their shares of common stock. Our Board of Directors is not aware of any pending or proposed change in control transactions.

We will not seek shareholder authorization for issuances of additional authorized shares of common stock unless deemed advisable by our Board of Directors or required by law, rule, or regulation. In some instances, the SEC or stock exchanges or over-the-counter markets on which our securities may then be listed may need to approve such issuances.

Dividend Rights

Holders of our common stock are entitled to those dividends as may be declared from time to time by our Board of Directors. We may pay dividends on our common stock from any funds, property or shares legally available for this purpose.

Voting Rights and Cumulative Voting

Each holder of our common stock is entitled to one vote per share on all matters submitted to a vote of the holders of our common stock. Holders of common stock do not have cumulative voting rights.

Preemptive Rights

The holders of our common stock have no preemptive rights to purchase additional shares of common stock or any other of our securities.

Liquidation Rights

In the event that we are liquidated, after payment of our debts and liabilities, the holders of our common stock are entitled to share equally in the balance of our remaining assets, if any.

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Transfer Agent and Registrar

Computershare Trust Company, N.A. serves as the transfer agent and registrar of our common stock.

Staggered Board of Directors

Our By-Laws provide for a Board of Directors of between nine and fifteen directors divided into three classes, each class being as nearly equal in number as possible, and each with their respective terms of office arranged so that the term of office of one class expires in each year, at which time a corresponding number of directors is elected for a term of three years. We currently have eleven directors.

Our staggered Board of Directors may delay, deter or prevent a tender offer or takeover attempt that a holder of shares of our common stock might consider is in his, her or its best interest, including those attempts that might result in a premium over the market price of the shares of our common stock.

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PLAN OF DISTRIBUTION

We may sell our common stock to one or more purchasers, through agents, to or through underwriters or dealers, or through a combination of any such methods of sale. The distribution of our common stock may be effected from time to time in one or more transactions at fixed prices, which may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The prospectus supplement will set forth the terms of the offering, including the names of any underwriters, dealers or agents, the purchase price of our common stock and the proceeds to us from such sale, any underwriting discounts and commissions or agency fees and other items constituting underwriters or agents compensation and any discounts or concessions allowed or paid to dealers or any securities exchange on which such securities may be listed. Any discounts or concessions allowed or paid to dealers may be changed from time to time.

Any discounts, concessions or commissions received by underwriters or agents and any profits on the resale of our common stock by them may be deemed to be underwriting discounts and commissions under the Securities Act of 1933. Unless otherwise set forth in the applicable prospectus supplement, the obligations of underwriters to purchase our offered common stock will be subject to certain conditions precedent, and such underwriters will be obligated to purchase all such common stock, if any are purchased. Unless otherwise indicated in the applicable prospectus supplement, any agent will be acting on a best efforts basis for the period of its appointment.

We may authorize underwriters, dealers or other persons acting as agents for us to solicit offers by certain institutions to purchase our common stock from us, pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the conditions that the purchase of the offered common stock shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts.

In connection with the offering of our common stock, we may grant to the underwriters an option to purchase additional securities to cover over-allotments at the public offering price, with an additional underwriting commission, as may be set forth in the accompanying prospectus supplement. If we grant any over-allotment option, the terms of such over-allotment option will be set forth in the prospectus supplement for such common stock.

We may indemnify agents, underwriters and dealers against certain liabilities, including liabilities under the Securities Act of 1933. Our agents, underwriters and dealers, or their affiliates, may be customers of, engage in transactions with or perform services for us, in the ordinary course of business.

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LEGAL MATTERS

The validity of the shares of common stock to be sold in the offering will be passed upon for us by Gary Epler, our Chief Regulatory Counsel. As of April 21, 2009, Mr. Epler beneficially owned approximately 3,072 shares of our common stock.

EXPERTS

The financial statements of Unitil Corporation as of December 31, 2008 and 2007, and for each of the three years in the period ended December 31, 2008, included in our Annual Report on Form 10-K for the year ended December 31, 2008 incorporated by reference in this prospectus have been so incorporated in reliance on the report of Vitale, Caturano & Company, P.C., independent registered public accountants, given on the authority of said firm as experts in auditing and accounting.

The financial statements of Northern Utilities as of December 31, 2007 and 2006, and for each of the three years in the period ended December 31, 2007, incorporated by reference in this prospectus contained in Registration Statement No. 333-152823, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report accompanying such financial statements (which report expresses an unqualified opinion on the financial statements and includes an explanatory paragraph referring to the adoption of FASB Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans.). Such financial statements have been incorporated by reference in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The financial statements of Granite State as of December 31, 2007 and 2006, and for each of the three years in the period ended December 31, 2007, incorporated by reference in this prospectus contained in Registration Statement No. 333-152823, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report accompanying such financial statements (which report expresses an unqualified opinion on the financial statements and includes explanatory paragraphs referring to the adoption of FASB Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, and the restatement of the financial statements discussed in Note 11). Such financial statements have been incorporated by reference in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

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PART II. INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. ***Other Expenses of Issuance and Distribution***

The following table sets forth the expenses in connection with the sale and distribution of the common stock offered by this registration statement, other than underwriting discounts and commissions (all of which are to be paid by the Registrant). All amounts shown are estimates except for the SEC registration fee and the New York Stock Exchange listing fee.

SEC Registration Fee	$ 1,420.51
Legal Fees and Expenses	300,000.00
Accounting Fees and Expenses	90,000.00
Transfer Agent and Registrar Fees and Expenses	5,000.00
Printing, Engraving and Mailing Expenses	100,000.00
New York Stock Exchange Listing Fee	6,096.00
Financial Industry Regulatory Authority Filing Fee	3,046.00
Miscellaneous	10,000.00
Total	$ 515,562.51

ITEM 15. ***Indemnification of Directors and Officers.***

The Registrant is organized under the laws of the State of New Hampshire. The New Hampshire Business Corporation Act (NHBCA) provides that a corporation may indemnify an individual made a party to a proceeding because he is or was a director against liability incurred in the proceeding if: (1) he conducted himself in good faith; and (2) he reasonably believed (i) in the case of conduct in his official capacity with the corporation, that his conduct was in its best interests; and (ii) in all other cases, that his conduct was at least not opposed to its best interests; and (3) in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful. A corporation may pay for or reimburse the reasonable expenses incurred by a director who is a party to a proceeding in advance of the final disposition of the proceeding if (1) the director furnishes the corporation a written affirmation of his good faith belief that he has met the standard of conduct described in the preceding sentence, (2) the director furnishes the corporation an undertaking, executed personally or on his behalf, to repay the advance if it is ultimately determined that he did not meet the standard of conduct and (3) a determination is made that the facts then known to those making the determination would not preclude indemnification. Unless a corporation s Articles of Incorporation provide otherwise, the corporation may indemnify and advance expenses to an officer, employee or agent of the corporation who is not a director to the same extent as to a director. A corporation may not indemnify a director (x) in connection with a proceeding by or in the right of the corporation in which the director was adjudged liable to the corporation; or (y) in connection with any other proceeding charging improper personal benefit to him, whether or not involving action in his official capacity, in which he was adjudged liable on the basis that personal benefit was improperly received by him. Unless limited by its Articles of Incorporation, a corporation shall indemnify a director or officer who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which he was a party because he is or was a director or officer of the corporation against reasonable expenses incurred by him in connection with the proceeding. A corporation may purchase and maintain insurance on behalf of an individual who is or was a director, officer, employee, or agent of the corporation, or who, while a director, officer, employee or agent of the corporation, is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, against liability asserted against or incurred by him in that capacity or arising from his status as a director, officer, employee, or agent, whether or not the corporation would have power to indemnify him against the same liability under the NHBCA.

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Article X of the Registrant s By-Laws provides that the Registrant shall indemnify any person who was or is a party or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the person s having served as, or by reason of the person s alleged acts or omissions while serving as a director, officer, employee or agent of the Registrant, or while serving at the request of the Registrant as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys fees, judgments, fines and amounts paid in settlement or otherwise actually and reasonably incurred by such person in connection with the action, suit or proceeding, if the person acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the Registrant, and, with respect to any criminal action or proceeding, had no reasonable cause to believe their conduct was unlawful, said indemnification to be to the full extent permitted by law under the circumstances, including, without limitation, by all applicable provisions of the NHBCA. Any indemnification under Article X shall be made by the Registrant with respect to directors or other persons after a determination that the person to be indemnified has met the standards of conduct set forth in the NHBCA, such determination to be made by the Board of Directors, by majority vote of a quorum, or by other persons authorized to make such a determination under the NHBCA.

The right of indemnification arising under Article X was adopted for the purpose of inducing persons to serve and to continue to serve the Registrant without concern that their service may expose them to personal financial harm. It is to be broadly construed, applied and implemented in light of that purpose. It is not to be exclusive of any other right to which any such person is entitled under any agreement, vote of the stockholders or the Board of Directors, statute, or as a matter of law, or otherwise, nor is it to be construed to limit or confine in any respect the power of the Board of Directors to grant indemnity pursuant to any applicable statutes or laws of the State of New Hampshire. The provisions of Article X are separable, and, if any provision or portion thereof is for any reason held inapplicable, illegal or ineffective, such holding will not affect any other right of indemnification existing under Article X or otherwise. As used in Article X, the term person includes heirs, executors, administrators or other legal representatives. As used in Article X, the terms director and officer include persons elected or appointed as officers by the Board of Directors, persons elected as directors by the stockholders or by the Board of Directors, and persons who serve by vote or at the request of the Registrant as directors, officers or trustees of another organization in which the Registrant has any direct or indirect interest as a shareholder, creditor or otherwise.

Article X of the Registrant s By-Laws also allows the Registrant to purchase and maintain insurance on behalf of any person who was or is a director, officer or employee of the Registrant or any of its subsidiaries, or who was or is serving at the request of the Registrant as a fiduciary of any employee benefit plan of the Registrant or any subsidiary, against any liability asserted against, and incurred by, such person in any such capacity, or arising out of such person s status as such, whether or not the Registrant would have the power to indemnify such person against such liability under the provisions of the NHBCA. The obligation to indemnify and reimburse such person under the Registrant s By-Laws, if applicable, will be reduced by the amount of any such insurance proceeds paid to such person, or the representatives or successors of such person.

ITEM 16. ***Exhibits.***

Exhibit No.	Description of Exhibit	Reference
1.1	Underwriting Agreement	To be filed by amendment or on a subsequent Form 8-K.
4.1	Articles of Incorporation of Unitil Corporation	Incorporated by reference to Exhibit 3.1 to the Registrant s Registration Statement on Form S-14, No. 2-93769.
4.2	Articles of Amendment to the Articles of Incorporation of Unitil Corporation	Incorporated by reference to Exhibit 3.2 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 1991.
4.3	Articles of Amendment to the Articles of Incorporation of Unitil Corporation	Incorporated by reference to Exhibit 3.3 to the Registrant s Registration Statement on Form S-3/A, No. 333-152823.
4.4	By-Laws of Unitil Corporation	Incorporated by reference to Exhibit 4.4 to the Registrant s Registration Statement on Form S-8, No. 333-73327.
5.1	Opinion of Gary Epler	Previously filed.
23.1	Consent of Gary Epler	Previously filed.
23.2	Consent of Vitale, Caturano & Company, P.C.	Filed herewith.
23.3	Consent of Deloitte & Touche LLP	Filed herewith.
23.4	Consent of Deloitte & Touche LLP	Filed herewith.
24.1	Powers of Attorney executed by Robert G. Schoenberger, Mark H. Collin, Laurence M. Brock, William D. Adams, Dr. Robert V. Antonucci, David P. Brownell, Michael J. Dalton, Albert H. Elfner, III, Michael B. Green, Eben S. Moulton, M. Brian O Shaughnessy, and Dr. Sarah P. Voll	Previously filed.
24.2	Power of Attorney executed by Edward F. Godfrey	Filed herewith.

ITEM 17. ***Undertakings.***

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement, or the most recent post-effective amendment thereof, which individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered, if the total dollar value of securities offered would not exceed that which was registered, and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided however, that Paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) of this section do not apply if the registration statement is on Form S-3 or Form F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(A) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant s annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934, that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities, other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding, is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of their counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by them is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Amendment No. 1 to Registration Statement on Form S-3 to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Hampton, State of New Hampshire, on this 24th day of April, 2009.

UNITIL CORPORATION

(Registrant)

By:	/s/ Mark. H. Collin
Name:	**Mark H. Collin**
Title:	**Senior Vice President, Chief Financial Officer, and Treasurer**

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to Registration Statement on Form S-3 has been signed by the following persons in the capacities and on the dates indicated:

Signature	**Title**	**Date**
* **Robert G. Schoenberger**	Director, Chairman of the Board, Chief Executive Officer and President	April 24, 2009
/s/ Mark H. Collin **Mark H. Collin**	Senior Vice President, Chief Financial Officer and Treasurer	April 24, 2009
* **Laurence M. Brock**	Controller and Chief Accounting Officer	April 24, 2009
* **William D. Adams**	Director	April 24, 2009
* **Dr. Robert V. Antonucci**	Director	April 24, 2009

Signature	Title	Date
* **David P. Brownell**	Director	April 24, 2009
* **Michael J. Dalton**	Director	April 24, 2009
* **Albert H. Elfner, III**	Director	April 24, 2009
* **Edward F. Godfrey**	Director	April 24, 2009
* **Michael B. Green**	Director	April 24, 2009
* **Eben S. Moulton**	Director	April 24, 2009
* **M. Brian O Shaughnessy**	Director	April 24, 2009
* **Dr. Sarah P. Voll**	Director	April 24, 2009

*By: /s/ Mark H. Collin
Attorney-in-fact

Tab#151;

Amortization of unrecognized transition asset (4)
Amortization of prior service cost (credit) 45 38 (2,084) (2,461)
Recognized actuarial loss 1,317 1,943 77 176
Curtailment and special termination benefits 548 1,974 339

Net periodic benefit cost $13,855 $15,587 $2,611 $2,455

During the second quarter of 2008, in connection with restructuring activities, the Company recorded special termination benefit charges of approximately $0.9 million related to its defined benefit pension plans and other postretirement benefit plans. These charges relate to enhanced retirement benefits to be provided to qualified individuals impacted by the restructuring activities and are reported on the restructuring charges line in the Condensed Consolidated Statement of Operations (See Note 13, Restructuring). During the first quarter of 2007, the Company recorded a charge for special termination benefits related to its defined benefit pension plans in connection with an executive officer s separation from service.

UST Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company expects to contribute approximately $7.3 million to its non-qualified defined benefit pension plans in 2008, of which approximately $3.6 million was contributed during the first half of 2008.

In the fourth quarter of 2007, the Company amended its retiree health and welfare plans to limit the annual increase in costs subsidized by the Company to the annual percentage increase in the consumer price index. This amendment, which was effective beginning January 1, 2008, had a favorable impact on the calculation of the Company s 2008 net periodic benefit cost.

6 INCOME TAXES

The Company s income tax provision takes into consideration pre-tax income, statutory tax rates and the Company s tax profile in the various jurisdictions in which it operates. The tax bases of the Company s assets and liabilities reflect its best estimate of the future tax benefit and costs it expects to realize when such amounts are included in its tax returns. Quantitative and probability analysis, which incorporates management s judgment, is required in determining the Company s effective tax rate and in evaluating its tax positions. The Company recognizes tax benefits in accordance with the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48).

As of June 30, 2008 and December 31, 2007, the total liability for unrecognized tax benefits was $38.6 million and $39.2 million, respectively, representing the gross tax liability for all jurisdictions. Approximately $0.8 million and $0.9 million of this liability, net of federal tax benefit, is included on the income taxes receivable line of the Condensed Consolidated Statement of Financial Position as of June 30, 2008 and December 31, 2007, respectively. The remaining $37.8 million and $38.3 million of this liability, net of federal tax benefit, as of June 30, 2008 and December 31, 2007, respectively, is reported on the income taxes payable line in the non-current liabilities section of the Condensed Consolidated Statement of Financial Position.

The Company recognizes accruals of interest and penalties related to unrecognized tax benefits in income tax expense. The Company recognized approximately $0.7 million and $0.8 million in interest and penalties during the three month periods ended June 30, 2008 and 2007, respectively. For the six months ended June 30, 2008 and 2007, the Company recognized approximately $1.5 million and $1.7 million, respectively, in interest and penalties. As of June 30, 2008 and December 31, 2007, the Company had a liability of approximately $12.2 million and $10.7 million, respectively, for the payment of interest and penalties. As of June 30, 2008, approximately $0.2 million of this liability is included on the income taxes payable line in the current liabilities section of the Condensed Consolidated Statement of Financial Position while, as of December 31, 2007, approximately $0.2 million of this liability is included on the income taxes receivable line of the Condensed Consolidated Statement of Financial Position. The remaining balance for both periods is included on the income taxes payable line in the non-current liabilities section of the Condensed Consolidated Statement of Financial Position.

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

The Company continually and regularly evaluates, assesses and adjusts its accruals for income taxes in light of changing facts and circumstances, which could cause the effective tax rate to fluctuate from period to period. Of the total $38.6 million of unrecognized tax benefits as of June 30, 2008, approximately $20.3 million would impact the annual effective tax rate if such amounts were recognized. The remaining $18.3 million of unrecognized tax benefits relate to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. Based on information obtained to date, the Company believes it is reasonably possible that the total amount of unrecognized tax benefits could decrease by $11.5 million within the next 12 months due to negotiated resolution payments, lapses in statutes of limitations and the resolution of various examinations in multiple jurisdictions.

The Internal Revenue Service (IRS) and other tax authorities in various states and foreign jurisdictions audit the Company s income tax returns on a continuous basis. Depending on the tax jurisdiction, a number of years may elapse before a particular matter for which the Company has an unrecognized tax benefit is audited and ultimately resolved. With few exceptions, the Company is no longer subject to federal, state and local or foreign income tax examinations by tax authorities for years before 2004. While it is often difficult to predict the timing of tax audits and their final outcome, the Company believes that its estimates reflect the most likely outcome of known tax contingencies. However, the final resolution of any such tax audit could result in either a reduction in the Company s accruals or an increase in its income tax provision, both of which could have a significant impact on its results of operations in any given period.

The Company s effective tax rate, before minority interest and equity earnings, decreased to 35.8 percent for the first six months of 2008, from 36.1 percent for the first six months of 2007, as a result of $1 million of income tax accrual reversals in the current year primarily due to the expiration of certain statutes of limitations. The Company s effective tax rate, before minority interest and equity earnings, of 36.1% for the second quarter of 2008 was the same as the effective tax rate for the second quarter of 2007.

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

7 SEGMENT INFORMATION

The Company 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 are the Company s international operations. Interim segment information is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Net Sales to Unaffiliated Customers				
Smokeless Tobacco	$ 393,658	$ 399,018	$ 767,251	$ 766,451
Wine [3]	99,134	79,519	185,300	148,295
All Other	13,379	12,717	26,334	23,526
Net sales	$ 506,171	$ 491,254	$ 978,885	$ 938,272
Operating Profit [1]				
Smokeless Tobacco [2]	$ 226,198	$ 223,758	$ 429,800	$ 294,748
Wine [3]	14,842	11,460	26,706	22,720
All Other	4,107	4,945	8,804	8,941
Operating profit	245,147	240,163	465,310	326,409
Gain on Sale of Corporate Headquarters Building				105,143
Corporate expenses [1]	(7,406)	(12,340)	(14,727)	(25,785)
Interest, net	(18,854)	(8,555)	(36,531)	(18,130)
Earnings before income taxes, minority interest and equity earnings	$ 218,887	$ 219,268	$ 414,052	$ 387,637

[1] Operating profit for each reportable segment and corporate expenses for all periods presented reflect the impact of restructuring charges, as applicable. See Note 13, Restructuring, for additional information.

[2]

Smokeless Tobacco segment operating profit includes antitrust litigation charges of $1.5 million for each of the three and six months ended June 30, 2008 and $122.1 million for the six months ended June 30, 2007. See Note 14, Contingencies and Note 17, Other Matters, for additional information.

[3] Amounts reported in the Wine segment for the three and six months ended June 30, 2008 reflect the acquisition of Stag s Leap Wine Cellars, which was acquired in September 2007.

The Company s identifiable assets by reportable segment as of June 30, 2008 did not change significantly from amounts appearing in the December 31, 2007 Consolidated Segment Information (See the 2007 Form 10-K), with the exception of corporate assets which reflect a decrease in cash and cash equivalents.

8 ASSETS HELD FOR SALE

In March 2008 and January 2007, the Company sold winery properties located in the State of Washington for net proceeds of $1.8 million and $3.1 million, respectively, resulting in pre-tax gains of $1.4 million and $2 million, respectively, which were recorded as a reduction to selling, advertising and administrative (SA&A) expenses in the Condensed Consolidated Statement of Operations. The net proceeds from the March 2008 property sale included cash of approximately $0.4 million and a note receivable of approximately $1.4 million, which has a three-year term.

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

In March 2007, the Company finalized the sale of its corporate headquarters for cash proceeds of $130 million, as well as a below-market, short-term lease with an imputed fair market value of approximately $6.7 million. This sale resulted in a pre-tax gain of approximately $105 million, which is reported on the gain on sale of corporate headquarters building line in the Condensed Consolidated Statement of Operations.

At June 30, 2008 and December 31, 2007, the Company did not have any assets classified as held for sale.

9 NET EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net earnings by the weighted-average number of shares of common stock outstanding during the period, increased to include the number of shares of common stock that would have been outstanding had all potentially dilutive shares of common stock been issued. The dilutive effect of outstanding options, restricted stock and restricted stock units is reflected in diluted earnings per share by applying the treasury stock method under SFAS No. 128. Under the treasury stock method, an increase in the fair value of the Company s common stock can result in a greater dilutive effect from outstanding options, restricted stock and restricted stock units. Furthermore, the exercise of options and the vesting of restricted stock and restricted stock units can result in a greater dilutive effect on earnings per share than that recognized under the treasury stock method.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Numerator:				
Net earnings	$ 139,660	$ 139,971	$ 264,994	$ 247,484
Denominator:				
Denominator for basic earnings per share weighted-average shares	147,298	159,557	148,188	159,762
Dilutive effect of share-based awards	1,279	1,547	1,293	1,578
Denominator for diluted earnings per share	148,577	161,104	149,481	161,340
Basic earnings per share	$ 0.95	$ 0.88	$ 1.79	$ 1.55
Diluted earnings per share	$ 0.94	$ 0.87	$ 1.77	$ 1.53

Options to purchase ten thousand shares of common stock outstanding as of June 30, 2008 and 2007 were not included in the computation of diluted earnings per share because their exercise prices were greater than the average market price of the Company s common stock and, therefore, were antidilutive.

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

10 COMPREHENSIVE INCOME

The components of comprehensive income for the Company are net earnings, foreign currency translation adjustments, the change in the fair value of derivatives designated as effective cash flow hedges and changes in deferred components of net periodic pension and other postretirement benefit costs. For the second quarter of 2008 and 2007, total comprehensive income, net of taxes, amounted to $143.4 million and $143.5 million, respectively. For the first six months of 2008 and 2007, total comprehensive income, net of taxes, amounted to $265.1 million and $250.9 million, respectively.

11 PURCHASE COMMITMENTS

As of June 30, 2008, the Company had entered into unconditional purchase obligations in the form of contractual commitments. Unconditional purchase obligations are commitments that are either noncancelable or cancelable only under certain predefined conditions.

Through June 30, 2008, the Company completed $10.6 million in leaf tobacco purchases in fulfillment of certain contracts outstanding at December 31, 2007. As of June 30, 2008, the Company has contractual obligations of approximately $67.7 million for the purchase of leaf tobacco to be used in the production of moist smokeless tobacco products, the majority of which are expected to be fulfilled by the end of 2008.

Purchase commitments under contracts to purchase grapes for the periods beyond one year are subject to variability resulting from potential changes in applicable grape market price indices. The following table presents a summary of the net change in the Company s future payment obligations since January 1, 2008, and the balance of such commitments at June 30, 2008, for the purchases and processing of grapes for use in the production of wine, based upon estimated yields and market conditions:

	2008	2009	2010	2011	2012	Thereafter	Total
Grape commitments							
January 1, 2008	$ 73,623	$ 73,067	$ 72,713	$ 62,490	$ 36,742	$ 93,356	$ 411,991
Net increase	2,617	3,559	3,674	5,192	4,430	9,680	29,152
Grape commitments							
June 30, 2008	$ 76,240	$ 76,626	$ 76,387	$ 67,682	$ 41,172	$ 103,036	$ 441,143

12 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company has hedged against the variability of forecasted interest payments attributable to changes in interest rates through the date of an anticipated debt issuance in 2009 via a forward starting interest rate swap. The forward starting interest rate swap has a notional amount of $100 million and the terms call for the Company to receive interest quarterly at a variable rate equal to the London InterBank Offered Rate (LIBOR) and to pay interest semi-annually at a fixed rate of 5.715 percent. The fair value of the forward starting interest rate swap at June 30, 2008 was a net liability of $6.2 million, based upon analysis derived from relevant observable market inputs, and was included in other liabilities on the Condensed Consolidated Statement of Financial Position. Accumulated other comprehensive loss at June 30, 2008 included the accumulated loss on the cash flow hedge (net of taxes) of $4 million, which reflects $2.5 million of other comprehensive income and $40 thousand of other comprehensive loss recognized for the three and six months ended June 30, 2008, respectively, in connection with the change in fair value of the swap.

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

The Company has hedged the interest rate risk on its $40 million aggregate principal amount of floating rate senior notes with a ten-year interest rate swap having a notional amount of $40 million and quarterly settlement dates over the term of the contract. The Company pays a fixed rate of 7.25 percent and receives a floating rate of three-month LIBOR plus 90 basis points on the notional amount. The fair value of the swap at June 30, 2008 was a net liability of $1.3 million, based upon analysis derived from relevant observable market inputs, and was included in other liabilities on the Condensed Consolidated Statement of Financial Position. Accumulated other comprehensive loss at June 30, 2008 included the accumulated loss on the cash flow hedge (net of taxes) of $0.8 million, which reflects the $0.9 million and $0.1 million of other comprehensive income recognized for the three and six months ended June 30, 2008, respectively, in connection with the change in fair value of the swap.

During 2008, the Company entered into foreign currency forward and option contracts. Such contracts have been designated as effective cash flow hedges, in order to hedge the risk of variability in cash flows associated with foreign currency payments required in connection with anticipated oak barrel purchases for its wine operations and equipment purchases for its smokeless tobacco operations. The aggregate fair value of the foreign currency forward and options contracts is presented in the table below. The amounts reflected in net earnings and accumulated other comprehensive loss during the three and six months ended June 30, 2008 with respect to these contracts were not material.

On January 1, 2008, the Company adopted the provisions of SFAS No. 157, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy, which gives the highest priority to quoted prices in active markets, is comprised of the following three levels:

Level 1 Unadjusted quoted market prices in active markets for identical assets and liabilities.

Level 2 Observable inputs, other than Level 1 inputs. Level 2 inputs would typically include quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 Prices or valuations that require inputs that are both significant to the measurement and unobservable.

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

In accordance with the provisions of SFAS No. 157, the following table presents the fair value measurements for the Company s derivative financial instruments at June 30, 2008, grouped by the level within the fair value hierarchy under which the measurement falls:

			Fair value measurements at reporting date using:					
		June 30, 2008		**Quoted prices in active markets for identical assets (level 1)**		**Significant other observable inputs (level 2)**		**Significant unobservable inputs (level 3)**
Liabilities								
Derivatives swaps	$	7,459	$		$	7,459	$	
Total	$	7,459	$		$	7,459	$	
Assets								
Derivatives foreign currency hedges	$	469	$		$	469	$	
Total	$	469	$		$	469	$	

13 RESTRUCTURING

During the third quarter of 2006, the Company announced and commenced implementation of a cost-reduction initiative called Project Momentum. This initiative was designed to create additional resources for growth via operational productivity and efficiency enhancements. The Company believes that such an effort is prudent as it will provide additional flexibility in the increasingly competitive smokeless tobacco category.

In connection with Project Momentum, restructuring charges of $1.2 million and $1.6 million were recognized for the three and six months ended June 30, 2008, respectively, and $3.9 million and $7.4 million were recognized for the three and six months ended June 30, 2007, respectively. These amounts are reported on the restructuring charges line in the Condensed Consolidated Statement of Operations. The charges were incurred in connection with the formal plans undertaken by management and are accounted for in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. The recognition of certain restructuring charges involves the use of judgments and estimates regarding the nature,

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

timing and amount of costs to be incurred under Project Momentum. While the Company believes that its estimates are appropriate and reasonable based upon the information available, actual results could differ from such estimates. The following table provides a summary of restructuring charges incurred for the three and six months ended June 30, 2008, as well as cumulative charges incurred to date and the total amount of charges expected to be incurred, in connection with Project Momentum, for each major type of cost associated with the initiative:

	Restructuring Charges Incurred for the Three Months Ended June 30, 2008	Restructuring Charges Incurred for the Six Months Ended June 30, 2008	Cumulative Charges Incurred as of June 30, 2008	Total Charges Expected to be Incurred [1]	
One-time termination benefits	$ 1,166	$ 1,550	$ 20,359	$ 21,600	$23,200
Contract termination costs			492	400	500
Other restructuring costs	40	68	13,568	13,500	13,800
Total	$ 1,206	$ 1,618	$ 34,419	$ 35,500	$37,500

[1] The total cost of one-time termination benefits expected to be incurred under Project Momentum reflects the initiative s overall anticipated elimination of approximately 10 percent of the Company s salaried, full-time positions across various functions and operations, primarily at the Company s corporate headquarters, as

well as a reduction in the number of hourly positions within the manufacturing operations. The majority of the total restructuring costs expected to be incurred were recognized in 2006 and 2007. The remaining anticipated costs are expected to be recognized in 2008. Total restructuring charges expected to be incurred currently represent the Company s best estimates of the ranges of such charges, although there may be additional charges recognized as additional actions are identified and finalized.

One-time termination benefits relate to severance-related costs and outplacement services for employees terminated in connection with Project Momentum, as well as enhanced retirement benefits for qualified individuals. Contract termination costs primarily relate to the termination of operating leases in conjunction with the consolidation and relocation of facilities. Other restructuring costs are mainly comprised of other costs directly related to the implementation of Project Momentum, primarily professional fees, as well as asset impairment charges and costs incurred in connection with the relocation of the Company s headquarters.

The following table provides a summary of restructuring charges incurred for the three and six months ended June 30, 2008, as well as cumulative charges incurred to date and the total amount of charges expected to be incurred, in connection with Project Momentum, by reportable segment:

	Restructuring Charges	**Restructuring Charges**

	Incurred for the Three Months Ended June 30, 2008	Incurred for the Six Months Ended June 30, 2008	Cumulative Charges Incurred as of June 30, 2008	Total Charges Expected to be Incurred	
Smokeless Tobacco	$ 1,173	$ 1,322	$ 29,094	$ 29,800	$31,500
Wine			322	600	700
All Other Operations		216	1,205	1,200	1,300
Total reportable segments	1,173	1,538	30,621	$ 31,600	$33,500
Corporate (unallocated)	33	80	3,798	3,900	4,000
Total	$ 1,206	$ 1,618	$ 34,419	$ 35,500	$37,500

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

Accrued restructuring charges are included in the accounts payable and accrued expenses line on the Condensed Consolidated Statement of Financial Position. A reconciliation of the changes in the liability balance since December 31, 2007 is presented below.

	One-Time Termination Benefits	Contract Termination Costs	Other Costs	Total
Balance as of December 31, 2007	$ 1,643	$ 78	$	$ 1,721
Add: restructuring charges incurred	1,550		68	1,618
Less: payments	(1,639)	(34)	(64)	(1,737)
Less: reclassified liabilities [1]	(887)		(4)	(891)
Balance as of June 30, 2008	$ 667	$ 44	$	$ 711

[1] Represents liabilities associated with restructuring charges that have been recorded within other line items on the Condensed Consolidated Statement of Financial Position at June 30, 2008. The $0.9 million in the One-Time Termination Benefits column relates to enhanced retirement benefits, which is reflected in the accrued liabilities for pensions and other postretirement benefits (see Note 5 Employee

Benefit Plans), while the $4 thousand in the Other Costs column relates to asset impairment charges which were reclassified as reductions to the respective asset categories.

14 CONTINGENCIES

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

Smokeless Tobacco Litigation

The Company is 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 three individuals alleging use of the Company s smokeless tobacco products and alleging the types of injuries claimed to be associated with the use of smokeless tobacco products. These individuals also allege the use of other tobacco products.

The Company is named in an action in Florida by an individual plaintiff against various smokeless tobacco manufacturers including the Company for personal injuries, including cancer, oral lesions, leukoplakia, gum loss and other injuries allegedly resulting from the use of the Company s smokeless tobacco products. The plaintiff also claims nicotine addiction and seeks unspecified compensatory damages and certain equitable and other relief, including, but not limited to, medical monitoring.

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

The Company has been named in an action in Connecticut brought by a plaintiff individually, as executrix and fiduciary of her deceased husband s estate and on behalf of their minor children for injuries, including squamous cell carcinoma of the tongue, allegedly sustained by decedent as a result of his use of the Company s smokeless tobacco products. The Complaint also alleges addiction to smokeless tobacco. The Complaint seeks compensatory and punitive damages in excess of $15 thousand and other relief.

The Company 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 the Company s willingness to consider alternative solutions for resolving certain litigation issues, all such cases are, and will continue to be, vigorously defended. The Company believes that the ultimate outcome of such pending litigation will not have a material adverse effect on its consolidated financial results or its consolidated financial position, although if plaintiffs were to prevail, the effect of any judgment or settlement could have a material adverse impact on its consolidated financial results in the particular reporting period in which resolved and, depending on the size of any such judgment or settlement, a material adverse effect on its consolidated financial position. Notwithstanding the Company s assessment of the potential financial impact of these cases, the Company is not able to estimate with any certainty the amount of loss, if any, which would be associated with an adverse resolution.

Antitrust Litigation

Following a previous antitrust action brought against the Company by a competitor, Conwood Company L.P, the Company was named as a defendant in certain actions brought by indirect purchasers (consumers and retailers) in a number of jurisdictions. As indirect purchasers of the Company s smokeless tobacco products during various periods of time ranging from January 1990 to the date of certification or potential certification of the proposed class, plaintiffs in those actions allege, individually and on behalf of putative class members in a particular state or individually and on behalf of class members in the applicable states, that the Company has violated the antitrust laws, unfair and deceptive trade practices statutes and/or common law of those states. In connection with these actions, plaintiffs sought to recover compensatory and statutory damages in an amount not to exceed $75 thousand per purported class member or per class member, and certain other relief. The indirect purchaser actions, as filed, were similar in all material respects.

To date, indirect purchaser actions in almost all of the jurisdictions have been resolved, including those subject to court approval. Pursuant to the settlements in all jurisdictions except California, adult consumers received coupons redeemable on future purchases of the Company s moist smokeless tobacco products, and the Company agreed to pay all related administrative costs and plaintiffs attorneys fees.

In September 2007, the Company entered into a Settlement Agreement to resolve the California class action (for additional details regarding the resolution of the California class action, see the Company s Quarterly Report on Form 10-Q for the period ended September 30, 2007; also refer to Note 17, Other Matters, for further information). In March 2008, the court entered an order granting final approval of the California settlement, entering judgment and dismissing the settling defendants with prejudice. The court also granted plaintiffs motion for attorneys fees and costs. A Notice of Appeal from the judgment and order granting final approval of the settlement, and order granting plaintiffs attorneys fees was filed by an individual class member in April 2008.

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

In January 2008, the Company entered into a Settlement Agreement to resolve the New Hampshire action. In July 2008, the court entered a final judgment granting final approval of the settlement, including attorneys fees and costs, and dismissing the action with prejudice, however, a Notice of Appeal was filed by an individual class member in August 2008. Also in January 2008, the Company entered into a Settlement Agreement to resolve the Massachusetts class action. In April 2008, the court denied preliminary approval of the Massachusetts settlement but invited the parties to submit an amended settlement agreement to the court for preliminary approval. In connection with the settlements of the New Hampshire action and Massachusetts class action, during the fourth quarter of 2007 the Company recognized a liability reflecting the costs attributable to coupons expected to be distributed to consumers, which will be redeemable on future purchases of the Company s moist smokeless tobacco products, as well as plaintiffs attorneys fees and other administrative costs of the settlements. Although the court denied preliminary approval of the Massachusetts settlement, since the court has invited the parties to submit an amended settlement agreement, the Company believes the liability recognized for the Massachusetts class action currently represents its best estimate of the costs to ultimately resolve this action. Notwithstanding the Company s decision to enter into the settlement, the Company believes the facts and circumstances in the Massachusetts class action would continue to support its defenses.

Notwithstanding the fact that the Company has chosen to resolve various indirect purchaser actions via settlements, the Company believes, and has been so advised by counsel handling these cases, that it has meritorious defenses, and, in the event that any such settlements do not receive final court approval, these actions will continue to be vigorously defended.

In addition, an unresolved action remains in the State of Pennsylvania which is pending in a federal court in Pennsylvania. In this action, the Company had filed an appeal of the trial court s denial of the Company s motion to dismiss the complaint. In August 2008 the Third Circuit Court of Appeals ruled in the Company s favor, issuing an opinion vacating the trial court s denial and remanding the case to the trial court to determine whether plaintiffs should be granted permission to amend their complaint. For the plaintiffs in the foregoing action to prevail, they will now have to be granted permission to amend the complaint and then amend such complaint in a manner that satisfies the standards set forth in the August 2008 Third Circuit opinion. The plaintiffs will also have to obtain class certification and favorable determinations on issues relating to liability, causation and damages. The Company believes, and has been so advised by counsel handling this case, that it has meritorious defenses in this regard, and it is, and will continue to be, vigorously defended.

The Company believes that the ultimate outcome of these actions will not have a material adverse effect on its consolidated financial results or its consolidated financial position, although if plaintiffs were to prevail, beyond the amounts accrued, the effect of any judgment or settlement could have a material adverse impact on its consolidated financial results in the particular reporting period in which resolved and, depending on the size of any such judgment or settlement, a material adverse effect on its consolidated financial position. Notwithstanding the Company s assessment of the financial impact of these actions, management is not able to estimate the amount of loss, if any, beyond the amounts accrued, which could be associated with an adverse resolution.

The liability associated with the Company s estimated costs to resolve all indirect purchaser actions decreased to $24.8 million at June 30, 2008, from $75.4 million at December 31, 2007, primarily as a result of a payment made in connection with the California settlement, actual coupon redemption and payments of administrative costs related to previous settlements, partially offset by a charge recognized in the second quarter of 2008 reflecting a change in the estimated costs associated with the resolution of certain indirect purchaser antitrust actions.

One additional matter remains outstanding in connection with indirect purchaser actions.

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

The Company has been served with a purported class action complaint filed in federal court in West Virginia, attempting to challenge certain aspects of a prior settlement approved by the Tennessee state court and seeking additional amounts purportedly consistent with subsequent settlements of similar actions, estimated by plaintiffs to be between $8.9 million and $214.2 million, as well as punitive damages and attorneys   fees. In May 2008, the court granted defendants   motion to dismiss, thereby dismissing this action with prejudice. In June 2008, plaintiffs filed a Notice of Appeal. The Company believes, and has been so advised by counsel handling this case, that it has meritorious defenses in this regard, and will continue to vigorously defend against this matter throughout the appellate process. As such, the Company has not recognized a liability for the additional amounts sought in this complaint.

The Company believes that the ultimate outcome of this matter will not have a material adverse effect on its consolidated financial results or its consolidated financial position, although if plaintiffs were to prevail, the effect of an adverse resolution could have a material adverse impact on its consolidated financial results in the particular reporting period in which resolved and, depending on the size of any such resolution, a material adverse effect on its consolidated financial position. Notwithstanding the Company   s assessment of the financial impact of this action, management is not able to estimate the amount of loss, if any, which could be associated with an adverse resolution.

15 BORROWING ARRANGEMENTS

Senior Notes

On February 29, 2008, the Company completed the issuance and sale of $300 million aggregate principal amount of 5.75 percent senior notes in a public offering at a price to the underwriters of 98.982 percent of the principal amount. These senior notes mature on March 1, 2018, with interest payable semiannually. Costs of $2.6 million associated with the issuance of the senior notes were capitalized and are being amortized over the term of the senior notes. Approximately $0.1 million of these costs were recognized during each of the three and six months ended June 30, 2008. Upon the completion of the issuance of the senior notes, the Company repaid $100 million of borrowings outstanding under the Company   s $200 million six-month credit agreement (the   Credit Agreement) and $200 million of borrowings outstanding under the Company   s five-year revolving credit facility. In accordance with its terms, the Credit Agreement was terminated upon the issuance of the senior notes and the repayment of outstanding borrowings.

The Company   s $240 million aggregate principal amount senior notes, of which $200 million is 7.25 percent fixed rate debt and $40 million is floating rate debt, mature on June 1, 2009. As such, these notes were reclassified to   current portion of long-term debt   on the June 30, 2008 Condensed Consolidated Statement of Financial Position.

Revolving Credit Facility

The Company has a $300 million, five-year revolving credit facility (the   Credit Facility) which will expire on June 29, 2012. Borrowings under the Credit Facility are primarily used for general corporate purposes, including the support of commercial paper borrowings. At June 30, 2008, the Company had borrowings of $140 million outstanding under the Credit Facility.

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

16 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table presents the changes in the carrying amount of goodwill for the six months ended June 30, 2008:

	Total
Goodwill as of December 31, 2007	$ 28,304
Translation adjustments	(93)
Goodwill as of June 30, 2008	$ 28,211

Approximately $25.2 million of the goodwill balance at June 30, 2008 and December 31, 2007 related to the Company s Wine segment, with the remainder related to the Company s international operations.

Nonamortizable Intangible Assets Other than Goodwill

At both June 30, 2008 and December 31, 2007, the Company had $41.9 million of identifiable intangible assets that were not being amortized, as such assets were deemed to have indefinite useful lives. These nonamortizable intangible assets relate to Wine segment acquired trademarks. There were no impairment charges recorded relating to these assets during the six months ended June 30, 2008 or 2007.

Amortizable Intangible Assets

The value of the Company s amortizable intangible assets at June 30, 2008 and December 31, 2007 were approximately $13.8 million and $14.3 million (net of accumulated amortization of $1.9 million and $1.4 million), respectively. These assets consist primarily of acquired customer relationships, customer lists and intellectual property, which are being amortized on a straight-line basis over a weighted-average period of approximately 18 years.

For the second quarter of 2008 and 2007, amortization expense related to intangible assets was approximately $0.3 million and $0.1 million, respectively. For the first six months of 2008 and 2007, amortization expense related to intangible assets was approximately $0.6 million and $0.1 million, respectively.

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

17 OTHER MATTERS

Minority Put Arrangement

In September 2007 the Company completed the acquisition of Stag s Leap Wine Cellars through one of the Company s consolidated subsidiaries, Michelle-Antinori, LLC (Michelle-Antinori), in which the Company holds an 85 percent ownership interest, with a 15 percent non-controlling interest held by Antinori California (Antinori). In connection with the acquisition of Stag s Leap Wine Cellars and the related formation of Michelle-Antinori, the Company provided a put right to Antinori (minority put arrangement). The minority put arrangement provides Antinori with the right to require the Company to purchase its 15 percent ownership interest in Michelle-Antinori at a price based on a fixed multiple of Stag s Leap Wine Cellars earnings before income taxes, depreciation, amortization and other non-cash items. The minority put arrangement becomes exercisable beginning on the third anniversary of the Stag s Leap Wine Cellars acquisition (September 11, 2010). The Company accounts for the minority put arrangement as mandatorily redeemable securities under Accounting Series Release No. 268, *Redeemable Preferred Stocks*, and Emerging Issues Task Force Abstract Topic No. D-98, *Classification and Measurement of Redeemable Securities*, as redemption is outside of the control of the Company. Under this accounting model, to the extent the value of the minority put arrangement is greater than the minority interest reflected on the balance sheet (traditional minority interest), the Company recognizes the difference as an increase to the value of minority interest, with an offset to retained earnings and a similar reduction to the numerator in the earnings per share available to common shareholders calculation. The Company also reflects any decreases to the amount in a similar manner, with the floor in all cases being the traditionally calculated minority interest balance as of that date. The Company values the put arrangement by estimating its redemption value as if the redemption date were the end of the current reporting period, using the most recent 12-month trailing earnings before income taxes, depreciation, amortization and other non-cash items. As of June 30, 2008, the value of the minority put arrangement did not exceed the traditional minority interest balance. Therefore, no adjustment was recognized in the Condensed Consolidated Statement of Financial Position or in the calculation of earnings per share.

Antitrust Litigation

In the first quarter of 2007 the Company recorded a $122.1 million pre-tax charge, representing the estimated costs to be incurred in connection with the resolution of the Wisconsin and California indirect purchaser class actions. Approximately $28.5 million of this charge related to settlement of the Wisconsin action resulting from court-ordered mediation in April 2007. The charge reflected costs attributable to coupons that will be distributed to consumers, which will be redeemable on future purchases of the Company s moist smokeless tobacco products. Also reflected in the Wisconsin charge are plaintiffs attorneys fees and other administrative costs of the settlement. The terms of the Wisconsin settlement were approved by the court in December 2007. The remaining $93.6 million of the first quarter 2007 charge related to settlement of the California action in May 2007, as a result of court-ordered mediation. This charge brought the total recognized liability for the California action to $96 million, which reflected the cost of cash payments to be made to the benefit of class members, as well as plaintiffs attorneys fees and other administrative costs of the settlement. Refer to Note 14, Contingencies, for additional information.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Company 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 Quarterly Report on Form 10-Q, as well as the consolidated financial statements and notes thereto included in the 2007 Form 10-K. Herein, the Company 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 of Financial Condition and Results of Operations (MD&A). In addition, the Company has presented certain risk factors relevant to the Company s business included in Item 1A in Part I of the 2007 Form 10-K.

INTRODUCTION

MD&A is provided as a supplement to the accompanying consolidated financial statements and notes thereto, to assist individuals in their review of such statements. MD&A has been organized as follows:

OVERVIEW This section provides context for the remainder of MD&A, including a general description of the Company s overall business, its business segments and a high-level summary of Company-specific and industry-wide factors impacting its operations.

RESULTS OF OPERATIONS This section provides an analysis of the Company s results of operations for the three and six months ended June 30, 2008 and 2007. This section is organized using a layered approach, beginning with a discussion of consolidated results at a summary level, followed by more detailed discussions of business segment results and unallocated corporate items, including interest and income taxes.

OUTLOOK This section provides information regarding the Company s current expectations, mainly with regard to the remainder of the current fiscal year, and is organized to provide information by business segment and on a consolidated basis.

LIQUIDITY AND CAPITAL RESOURCES This section provides an analysis of the Company s financial condition, including cash flows for the six months ended June 30, 2008 and 2007 and any material updates to the Company s aggregate contractual obligations as of June 30, 2008.

OFF-BALANCE SHEET ARRANGEMENTS This section provides information regarding any off-balance sheet arrangements that are, or could be, material to the Company s results of operations or financial condition.

NEW ACCOUNTING STANDARDS This section provides information regarding any newly issued accounting standards which have not yet been adopted by the Company.

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OVERVIEW

BUSINESS

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, the Company is the leading manufacturer and marketer of moist smokeless tobacco products, including the iconic premium brands *Copenhagen* and *Skoal*, and the value brands *Red Seal* and *Husky*. Through International Wine & Spirits Ltd., the Company produces and markets premium wines sold nationally, via its Ste. Michelle Wine Estates subsidiary, under 20 different labels including *Chateau Ste. Michelle*, *Columbia Crest, Conn Creek*, *Red Diamond*, *Erath* and *Stag s Leap Wine Cellars*. The Company also produces and markets sparkling wine under the *Domaine Ste. Michelle* label. In addition, the Company is the exclusive United States importer and distributor of the portfolio of wines produced by the Italian winemaker Marchesi Antinori, Srl (Antinori).

The Company conducts its business principally in the United States. The Company s operations are divided primarily into two reportable segments: Smokeless Tobacco and Wine. The Company s international smokeless tobacco operations, which are less significant, are reported as All Other Operations.

SMOKELESS TOBACCO SEGMENT

The Company s vision in the Smokeless Tobacco segment is for its smoke-free products to be recognized by adults as the preferred way to experience tobacco satisfaction. The Company s primary objective in the Smokeless Tobacco segment is to continue to grow the moist smokeless tobacco category by building awareness and social acceptability of smokeless tobacco products among adults, primarily smokers, with a secondary objective of competing effectively in every segment of the moist smokeless tobacco category.

Category Growth

Category growth is the Company s top focus, as moist smokeless tobacco is a low incidence category and offers a viable option to adult smokers who are increasingly facing restrictions and are seeking a discreet and convenient alternative. For perspective, the number of adults who smoke is significantly larger than the number of adults who use smokeless tobacco products. As a result, every one percent of adult smokers who converts to moist smokeless tobacco products represent a 7 percent to 8 percent increase in the moist smokeless tobacco category s adult consumer base. The Company views conversion as essential because consumer research indicates that the majority of new adult consumers who enter the category do so in the premium segment, of which the Company has approximately a 91 percent share.

In addition to advertising initiatives focused on category growth, the Company has utilized its direct mail and one-on-one marketing programs to promote the discreetness and convenience of smokeless tobacco relative to cigarettes. These programs, which the Company believes have been successful over the past several years, reaching over 6 million adult smokers, continue in 2008. The success of the category growth initiatives is also impacted by product innovation, as evidenced by the contribution that new products have made to the Smokeless Tobacco segment s results over the past several years. The success of the category growth initiatives is further evidenced by the fact that over the past several years, a majority of the new adult consumers who have recently entered the moist smokeless tobacco category first smoked cigarettes and that category growth has accelerated since the initiatives inception. Based on these results, the Company originally estimated category growth of 5 to 6 percent in 2008; however, given the rate of growth experienced for the first six months of 2008, the Company now expects category growth between 6 and 7 percent.

Competing Effectively

The Company is committed to competing effectively in every segment of the moist smokeless tobacco category by accelerating profitable volume growth, with the goal of growing as fast as the category. The Company is making progress towards this goal through its premium brand loyalty and brand-building initiatives, and also through price-focused efforts related to price-value products. During the first six months of 2008, net can volume for the Company s moist smokeless tobacco products grew by 2.1 percent in a category that grew approximately 7.6 percent.

Premium Brand Loyalty While category growth remains the Company s top priority, it has also significantly enhanced its efforts on adult consumer loyalty for its premium moist smokeless tobacco products. The premium brand loyalty plan is designed to minimize migration from premium to price-value products by delivering value to adult consumers through product quality and brand-building efforts, along with promotional spending and other initiatives. As a result of this effort, premium net can volume had grown on a year-over-year basis for seven of the last eight quarters; however, it declined slightly, by 0.3 percent, during the second quarter of 2008. The Company attributes this second quarter decline in premium net can volume to challenges in the overall economy, rapidly rising gasoline prices and increased competitive activity. Despite the second quarter challenges, premium net can volume increased 0.9 percent in the first half of 2008, as compared to the first half of 2007. To build upon its year-to-date success and ensure premium net can volume growth for the year in the face of a difficult economy and increased competitive activity, the Company plans to further increase its brand-building efforts and price-based loyalty initiatives during the second half of 2008.

Price-Value Initiatives The Company s commitment to accelerate profitable volume growth reflects a balanced portfolio approach, which also includes a full complement of marketing support for its price-value products. For example, the Company has implemented plans to expand the distribution and enhance the presence of its *Husky* brand at retail, and to be competitively priced with other deep discount brands. Likewise, additional promotional and brand building support was provided on its mid-priced *Red Seal* brand. The Company s successful execution of a balanced portfolio approach continued in the first half of 2008, as 8.6 percent growth in price-value net can volume occurred at the same time as 0.9 percent growth in premium net can volume. Of note, the Company repriced and repositioned its small regional brand, *Rooster,* to compete as a price-value brand during the second quarter of 2008.

WINE SEGMENT

The Company s vision in the Wine segment is for Ste. Michelle Wine Estates to be recognized as the premier fine wine company in the world. This is a vision based on continuous improvement in quality and greater recognition through third-party acclaim and superior products. In connection with that vision, the Company aims to elevate awareness of the quality of Washington state wines and increase its prestige to that of the top regions of the world through superior products, innovation and customer focus. In order to achieve these goals, attention is directed towards traditional style wines in the super premium to luxury-priced categories. The Company has made progress towards its vision, as demonstrated by its recent accomplishments, with premium case volume growth of 17.9 percent in the first six months of 2008, as compared to the corresponding period of 2007. According to ACNielsen, Ste. Michelle Wine Estates continued to be the fastest growing of the ten largest wineries in the United States during the first half of 2008. The Company continued to be the category leader for Riesling, based on ACNielsen data, with approximately 34 percent of the domestic Riesling market in the first half of 2008, reflecting a 0.9 percentage point increase over the Company s reported 2007 share in the comparable prior year period. During the first six months of 2008, the Company s *Chateau Ste. Michelle* brand was the fastest growing top ten premium brand, according to ACNielsen. In addition, as reported by ACNielsen, volume growth for Washington state wines, where the Company maintained its strong leadership position, outpaced most other major regions thus far during 2008, with a growth rate of approximately 11 percent.

Strategic alliances and acquisitions in the Wine segment outside of Washington state have also been important in enabling the Company to achieve its long-term vision. The alliance with Antinori, to become its exclusive United States importer and distributor, and the purchase of the *Erath* label and winery, both of which occurred in 2006, have broadened the Company s position with respect to two key wine regions, Tuscany and Oregon. The addition of *Antinori* wines positions the Company as a leader in United States distribution of Tuscan wines, while the addition of Erath establishes the Company as one of the largest producers of Oregon Pinot Noir. The Company also completed the acquisition of Stag s Leap Wine Cellars and its signature Napa Valley, CA vineyards in September 2007, with a 15 percent minority interest held by Antinori California. This acquisition provides additional prestige to the Wine segment s acclaimed portfolio, further strengthens the Company s relationship with Antinori, and is expected to contribute favorably to the segment s continued operating profit growth.

Another key element of the Wine segment s strategy is expanded domestic distribution of its wines, especially in certain account categories such as restaurants, wholesale clubs, supermarkets, wine shops and mass merchandisers. To that end, the Company remains focused on the continued expansion of its sales force and category management staff.

RESULTS OF OPERATIONS

(In thousands, except per share amounts or where otherwise noted)

CONSOLIDATED RESULTS

Second Quarter of 2008 compared with the Second Quarter of 2007

	Three Months Ended June 30,		**Increase/(Decrease)**	
	2008	**2007**	**Amount**	**%**
Net sales	**$ 506,171**	$ 491,254	$ 14,917	3.0
Net earnings	**139,660**	139,971	(311)	(0.2)
Basic earnings per share	**0.95**	0.88	0.07	8.0
Diluted earnings per share	**0.94**	0.87	0.07	8.0
Restructuring charges	**1,206**	3,908	(2,702)	(69.1)
Antitrust litigation	**1,525**		1,525	

Net Earnings

Consolidated net earnings was essentially flat in the second quarter of 2008, as compared to the second quarter of 2007, as increased operating income was offset by higher net interest expense. The Company reported operating income of $237.7 million in the second quarter of 2008, representing 47 percent of consolidated net sales, compared to operating income of $227.8 million, or 46.4 percent of consolidated net sales, in the second quarter of 2007. The increase in operating income was primarily due to the following:

- Increased net sales and gross margin in the wine segment;
- Lower selling, advertising and administrative (SA&A) expenses in the Smokeless Tobacco segment, which can be attributed to Project Momentum;
- Lower unallocated corporate expenses, primarily due to the absence of costs related to changes in executive management and the amortization of imputed rent related to a below-market short-term lease the Company executed in connection with the sale of its former corporate headquarters building. The impact of such charges adversely impacted the operating margin percentage by 1 percentage point in the second quarter of 2007; and
- Lower restructuring charges incurred in connection with the Project Momentum initiative (see *Restructuring Charges* section below). The impact of restructuring charges adversely impacted the operating margin percentage by approximately 0.2 percentage points and 0.8 percentage points in the second quarter of 2008 and 2007, respectively.

These factors were partially offset by:

- Lower net sales and gross margin in the Smokeless Tobacco segment;
- Higher SA&A expenses in the Wine segment, including the impact of the addition of Stag s Leap Wine Cellars, which was acquired in September 2007; and
- The impact of $1.5 million in antitrust litigation charges recognized in the second quarter of 2008, related to the previous settlement of an indirect purchaser antitrust action, due to a change in the estimated costs associated with the resolution of such action, which adversely impacted the operating margin percentage by approximately 0.3 percentage points.

Basic and diluted earnings per share were $0.95 and $0.94, respectively, for the second quarter of 2008, representing increases of 8 percent from each of the corresponding comparative measures in 2007. Average basic shares outstanding in the second quarter of 2008 were 7.7 percent lower than in the comparable prior year period, primarily as a result of the 12.6 million shares repurchased during the 12-month period ended June 30, 2008, the majority of which were repurchased in the latter half of 2007, partially offset by the exercise of stock options. Average diluted shares outstanding in the second quarter of 2008 were lower than those in the second quarter of 2007 mainly due to the impact of share repurchases and a lower level of dilutive options outstanding.

Net Sales

	Three Months Ended June 30,		Increase/(Decrease)	
	2008	**2007**	**Amount**	**%**
Net Sales by Segment:				
Smokeless Tobacco	**$ 393,658**	$ 399,018	$ (5,360)	(1.3)
Wine	**99,134**	79,519	19,615	24.7
All Other Operations	**13,379**	12,717	662	5.2
Consolidated Net Sales	**$ 506,171**	$ 491,254	$ 14,917	3.0

The increase in consolidated net sales for the second quarter of 2008, as compared to the second quarter of 2007, was primarily due to the following:

Improved case volume for existing premium wine brands, as well as the incremental impact from the addition of the *Stag s Leap Wine Cellars* portfolio of wines, which was acquired in September 2007;

Improved overall net can volume for moist smokeless tobacco products; and

Improved international results.

These factors were partially offset by:

Lower net revenue realization per can in the Smokeless Tobacco segment.

Segment Net Sales as a Percentage of Consolidated Net Sales

* Smokeless Tobacco

Gross Margin

	Three Months Ended June 30,		Increase/(Decrease)	
	2008	**2007**	**Amount**	**%**
Gross Margin by Segment:				
Smokeless Tobacco	**$ 322,790**	$ 329,487	$ (6,697)	(2.0)
Wine	**35,161**	26,850	8,311	31.0
All Other Operations	**7,921**	8,068	(147)	(1.8)
Consolidated Gross Margin	**$ 365,872**	$ 364,405	$ 1,467	0.4

The consolidated gross margin increase in the second quarter of 2008, as compared to the second quarter of 2007, was primarily due to higher net sales in the Wine segment, partially offset by higher cost of products sold in all segments and lower net sales in the Smokeless Tobacco segment.

	Three Months Ended June 30,		Increase/
	2008	**2007**	**(Decrease)**
Gross Margin as a % of Net Sales by Segment:			
Smokeless Tobacco	**82.0%**	82.6%	(0.6)
Wine	**35.5%**	33.8%	1.7
All Other Operations	**59.2%**	63.4%	(4.2)
Consolidated	**72.3%**	74.2%	(1.9)

The decline in the consolidated gross margin, as a percentage of net sales, was mainly due to a change in segment mix, as case volume for wine, which sells at comparatively lower margins, grew faster than the net can volume for moist smokeless tobacco products. Also contributing to this decline was the lower net revenue realization per can in the Smokeless Tobacco segment. Gross margin percentages for each segment are discussed further below.

Restructuring Charges

The Company recognized $1.2 million and $3.9 million in restructuring charges in the second quarter of 2008 and 2007, respectively, related to actions undertaken in connection with Project Momentum. Under this initiative, the Company has targeted at least $150 million in annual savings to be realized within the three years following its initial implementation in September 2006. Refer to the *Restructuring Charges* section within the *First Six Months of 2008 compared with the First Six Months of 2007* discussion below for additional information.

First Six Months of 2008 compared with the First Six Months of 2007

	Six Months Ended June 30,		Increase/(Decrease)	
	2008	**2007**	**Amount**	**%**
Net sales	**$ 978,885**	$ 938,272	$ 40,613	4.3
Net earnings	**264,994**	247,484	17,510	7.1
Basic earnings per share	**1.79**	1.55	0.24	15.5
Diluted earnings per share	**1.77**	1.53	0.24	15.7
Gain on sale of corp. HQ bldg.		105,143	(105,143)	
Restructuring charges	**1,618**	7,428	(5,810)	(78.2)
Antitrust litigation	**1,525**	122,100	(120,575)	(98.8)

Net Earnings

Consolidated net earnings increased in the first six months of 2008, as compared to the first six months of 2007, as a result of increased operating income and the impact of a lower effective tax rate, partially offset by higher net interest expense. The Company reported operating income of $450.6 million in the first six months of 2008, representing 46 percent of consolidated net sales, compared to operating income of $405.8 million, or 43.2 percent of consolidated net sales, in the first six months of 2007. The increase in operating income was primarily due to the following:

Lower antitrust litigation charges, as the 2008 period included $1.5 million and the prior year period included $122.1 million. The charges in 2007 represented the estimated costs associated with the resolution of indirect purchaser antitrust class actions in the States of Wisconsin and California. Antitrust litigation charges adversely impacted the operating margin percentage by 0.2 percentage points and 13 percentage points in the first six months of 2008 and 2007, respectively;

Increased net sales and gross margin in the wine segment;

Lower SA&A expenses in the Smokeless Tobacco segment, which can be attributed to Project Momentum;

Lower unallocated corporate expenses, primarily due to lower costs related to changes in executive management and the absence of amortization of imputed rent related to a below-market short-term lease the Company executed in connection with the sale of its former corporate headquarters building. The impact of such charges adversely impacted the operating margin percentage by 0.1 and 0.9 percentage points in the first six months of 2008 and 2007, respectively; and

Lower restructuring charges incurred in connection with the Project Momentum initiative (see *Restructuring Charges* section below). The impact of restructuring charges adversely impacted the operating margin percentage by approximately 0.2 percentage points and 0.8 percentage points in the first six months of 2008 and 2007, respectively.

These factors were partially offset by:

The absence of a $105 million pre-tax gain recognized in the prior year in connection with the sale of the Company s former corporate headquarters building, which favorably impacted the prior year operating margin by 11.2 percentage points;

Higher SA&A expenses in the Wine segment, including the impact of the addition of Stag s Leap Wine Cellars, which was acquired in September 2007; and

Lower gross margin in the Smokeless Tobacco segment.

Basic and diluted earnings per share were $1.79 and $1.77, respectively, for the first six months of 2008, representing increases of 15.5 percent and 15.7 percent, respectively, from each of the corresponding comparative measures in 2007. Average basic shares outstanding in the first six months of 2008 were 7.2 percent lower than in the comparable prior year period, primarily as a result of the 12.6 million shares repurchased during the 12-month period ended June 30, 2008, partially offset by the exercise of stock options. Average diluted shares outstanding in the first six months of 2008 were lower than those in the first six months of 2007 mainly due to the impact of share repurchases and a lower level of dilutive options outstanding.

Net Sales

	Six Months Ended June 30,		Increase/(Decrease)	
	2008	**2007**	**Amount**	**%**
Net Sales by Segment:				
Smokeless Tobacco	**$ 767,251**	$ 766,451	$ 800	0.1
Wine	**185,300**	148,295	37,005	25.0
All Other Operations	**26,334**	23,526	2,808	11.9
Consolidated Net Sales	**$ 978,885**	$ 938,272	$ 40,613	4.3

The increase in consolidated net sales for the first six months of 2008, as compared to the first six months of 2007, was primarily due to the following:

Improved case volume for premium wine, including the incremental impact from the addition of the *Stag s Leap Wine Cellars* portfolio of wines, which was acquired in September 2007;

Improved international results; and

Improved net can volume for moist smokeless tobacco products, with increases for both premium and price-value products.

These factors were partially offset by:

Lower net revenue realization per unit in the Smokeless Tobacco segment.

Segment Net Sales as a Percentage of Consolidated Net Sales

* Smokeless Tobacco

Gross Margin

	Six Months Ended June 30,		Increase/(Decrease)	
	2008	**2007**	**Amount**	**%**
Gross Margin by Segment:				
Smokeless Tobacco	**$ 625,936**	$ 629,939	$ (4,003)	(0.6)
Wine	**65,199**	50,949	14,250	28.0
All Other Operations	**16,095**	14,882	1,213	8.2
Consolidated Gross Margin	**$ 707,230**	$ 695,770	$ 11,460	1.6

The consolidated gross margin increase in the first half of 2008, as compared to the first half of 2007, was primarily due to higher net sales in the Wine segment, partially offset by higher cost of products sold in all segments.

	Six Months Ended June 30,		
	2008	**2007**	**Increase/(Decrease)**
Gross Margin as a % of Net Sales by Segment:			
Smokeless Tobacco	**81.6%**	82.2%	(0.6)
Wine	**35.2%**	34.4%	0.8
All Other Operations	**61.1%**	63.3%	(2.2)
Consolidated	**72.2%**	74.2%	(2.0)

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The decline in the consolidated gross margin, as a percentage of net sales, was mainly due to a change in segment mix, as case volume for wine, which sells at comparatively lower margins, grew faster than the net can volume for moist smokeless tobacco products. In addition, lower net revenue realization per can and higher costs per case in the Wine segment, contributed to the overall decline in gross margin, as a percentage of net sales. Gross margin percentages for each segment are discussed further below.

Restructuring Charges

The Company recognized $1.6 million and $7.4 million in restructuring charges in the first six months of 2008 and 2007, respectively, related to actions undertaken in connection with Project Momentum. The following table provides a summary of restructuring charges incurred during the second quarter and first six months of 2008, the cumulative charges incurred to date and the total amount of charges expected to be incurred in connection with this initiative for each major cost, by category:

	Restructuring Charges Incurred for the Three Months Ended June 30, 2008	**Restructuring Charges Incurred for the Six Months Ended June 30, 2008**	**Cumulative Charges Incurred as of June 30, 2008**	**Total Charges Expected to be Incurred** [1]	
One-time termination benefits	$ 1,166	$ 1,550	$ 20,359	$ 21,600	$23,200
Contract termination costs			492	400	500
Other restructuring costs	40	68	13,568	13,500	13,800
Total	$ 1,206	$ 1,618	$ 34,419	$ 35,500	$37,500

[1] The total cost of one-time termination benefits expected to be incurred under Project Momentum reflects the initiative s overall anticipated elimination of approximately 10 percent of the Company s salaried, full-time positions across various functions and operations,

primarily at the Company s corporate headquarters, as well as a reduction in the number of hourly positions within the manufacturing operations. The majority of the total one-time termination benefit costs expected to be incurred were recognized in 2006 and 2007, with the remainder expected to be recognized in 2008. The majority of total contract termination costs expected to be incurred were recognized in 2006, with the remainder recognized in 2007. Substantially all of the total other restructuring charges currently expected to be incurred were recognized through the end of 2007, with approximately half of such amounts recognized in each of 2006 and 2007. The remainder of the total other restructuring charges to be incurred are expected to be recognized in 2008. While the Company believes that its estimates of total restructuring charges expected to be incurred related to the aforementioned $150 million in savings are appropriate and reasonable based upon the information available, actual results could differ from such estimates. Total restructuring charges expected to be incurred currently represent the Company s best estimates of the ranges of such charges; although there may be additional charges recognized as additional actions are identified and finalized. As any additional actions are approved and finalized and costs or charges are determined, the Company will file a Current Report on Form 8-K under Item 2.05 or report such costs or charges in its periodic reports, as appropriate.

One-time termination benefits relate to severance-related costs and outplacement services for employees terminated in connection with Project Momentum, as well as enhanced retirement benefits for qualified individuals. Contract termination costs primarily relate to charges for the termination of operating leases incurred in conjunction with the consolidation and relocation of facilities. Other restructuring costs are mainly comprised of other costs directly related to the implementation of Project Momentum, primarily professional fees, as well as asset impairment charges and applicable costs incurred in connection with the relocation of the Company s headquarters. Primarily all of the restructuring charges expected to be incurred will result in cash expenditures, although approximately $5 million of such charges relate to pension enhancements offered to applicable employees, all of which will be paid directly from the respective pension plan s assets. As of June 30, 2008, the liability balance associated with restructuring charges amounted to $0.7 million. Refer to Item 1, Financial Statements Notes to Condensed Consolidated Financial Statements Note 13, Restructuring, for further information regarding accrued restructuring charges.

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SMOKELESS TOBACCO SEGMENT
Second Quarter of 2008 compared with the Second Quarter of 2007

	Three Months Ended June 30,		Increase/(Decrease)	
	2008	**2007**	**Amount**	**%**
Net sales	**$ 393,658**	$ 399,018	$ (5,360)	(1.3)
Restructuring charges	**1,173**	3,253	(2,080)	(63.9)
Antitrust litigation	**1,525**		1,525	
Operating profit	**226,198**	223,758	2,440	1.1

Net Sales

While there was a 1.3 percent increase in overall net can volume for moist smokeless tobacco products, Smokeless Tobacco segment net sales decreased in the second quarter of 2008, as compared to the second quarter of 2007, as a result of lower net revenue realization per can, which was attributable to the following:

An unfavorable shift in overall product mix, with net can volume for price-value products increasing 9.7 percent and premium products declining 0.3 percent;

An unfavorable shift in premium product mix, with net can volume for value pack and promotional products, the nature of which are described below in further detail, comprising a larger percentage of premium net can volume; and

Increased sales incentives, primarily retail buydowns, which included those related to the Company s price-value brands.

Percentage of Smokeless Tobacco Segment Net Sales by Product Category

* Moist smokeless tobacco products

** Includes dry snuff products and tobacco seeds

Net sales results for both premium and price-value products include net can sales for standard products, which consist of straight stock and value pack products, as well as pre-pack promotional products. Straight stock refers to single cans sold at wholesale list prices. Value packs, which were introduced to more effectively compete for and retain value-conscious adult consumers, are two-can packages sold year-round reflecting lower per-can wholesale list prices than wholesale list prices for straight stock single-can products. Pre-pack promotions refer to those products that are bundled and packaged in connection with a specific promotional pricing initiative for a limited period of time.

*MSTP Net Can Volume**

	Three Months Ended June 30,		Increase/(Decrease)	
	2008	**2007**	**Amount**	**%**
Net Can Volume (in thousands):				
Premium	**143,216**	143,635	(419)	(0.3)
Price Value	**28,777**	26,222	2,555	9.7
Total	**171,993**	169,857	2,136	1.3

* In April 2008, the Company repositioned its regional moist smokeless tobacco brand, *Rooster*, as a price-value product. In order to ensure comparability and to conform to the current positioning, amounts related to *Rooster* for all periods presented have been reclassified from premium to price-value.

Percentage of Total Moist Smokeless Tobacco Products Net Can Volume by Category Segment

Overall net can volume for moist smokeless tobacco products increased 1.3 percent in the second quarter of 2008, as compared to the similar 2007 period, reflecting the tenth consecutive quarter of overall year-over-year net can volume growth. The increase in overall net can volume in the second quarter of 2008 was driven by net can volume growth of 9.7 percent for price-value products, which more than offset a slight decline of 0.3 percent in net can volume for premium products.

The Company believes its overall net can volume growth was favorably affected by the following factors:

Continued spending on category growth initiatives;

Continued execution of the Company s premium brand loyalty plan, which, to a varying extent, has narrowed the price gaps between premium and price-value products on a state-by-state basis; and

Increased efforts on expanding distribution and focused promotional spending on price-value brands.

The impact of these factors was partially offset by:

A more challenging external environment, including a weak economy, record-high gasoline prices and increased competitive activity.

Net can volume for premium products includes the *Copenhagen* and *Skoal* brands. In combination, net can volume for these brands was down 0.3 percent in the second quarter of 2008, versus the corresponding 2007 period, and was also below the Company s previous growth expectation of 1 to 2 percent. The Company believes the slight volume declines for both brands, as well as their shortfall to expectations, can be attributed to a number of items, including the more difficult economy and increased competitive activity, such as higher promotional support and new product launches for value or deep discount products. The majority of the adverse impact to the Company s premium net can volume results occurred late in the second quarter, tracing to one geographic region of the country that is characterized by lower per capita income and a higher price-value development. Excluding this geographic region, net can volume for premium products increased 1.2 percent in the second quarter of 2008, as compared to the similar 2007 period.

The Company remains committed to the development of new products and packaging that cover both core product launches and other possible innovations. In connection with that objective, during the first quarter of 2008, the Company launched *Skoal Edge Wintergreen Long Cut*, which contributed to second quarter 2008 premium net can volume results. *Skoal Edge Wintergreen Long Cut* is a newer, bolder wintergreen premium product, which the Company believes is unique in terms of flavor and texture, providing a softer, more comfortable mouth feel.

Despite the challenges in the second quarter of 2008, the Company s premium pouch products have demonstrated continued growth. Such products are a key component to the Company s objective to grow the moist smokeless tobacco category by building awareness and improving the social acceptability of smokeless tobacco products among adult consumers, primarily smokers. Specifically, they are designed to differentiate the Company s premium brands from competitive products, and to provide more approachable forms and flavors for adult smokers, who continue to switch to smokeless tobacco products. Net can volume for these pouch products, which include *Copenhagen Pouches* and *Skoal Pouches*, posted double-digit growth in the second quarter of 2008, as compared to second quarter of 2007. Net can volume for pouch products represented 8.2 percent of the Company s premium net can volume for the second quarter of 2008.

In addition, with regards to innovation, while the Company will be discontinuing the limited marketing of its *Skoal Dry* spit-free pouch product in its two lead markets, it plans to launch *Skoal Snus* in a limited lead market. In keeping with the objective to improve smokeless tobacco s social acceptability, this product is also aimed at converting adult smokers, and is designed to be spit-free. Over the course of the past two years, *Skoal Dry*, along with several similar competitive snus products, have been introduced in select domestic markets. All of these dry, spit-free products have substantially different attributes than traditional moist smokeless tobacco products. The limited volume associated with these launches has been largely incremental to the category and has had no measurable impact on the Company s existing products within these markets.

Net can volume for price-value products includes the *Red Seal* and *Husky* brands, along with the regional *Rooster* brand. Net can volume for the Company s mid-priced *Red Seal* brand grew mid-single digits in the second quarter of 2008, as compared to the second quarter of 2007, which the Company believes reflects the brand s inherent value proposition with 25 percent more tobacco per can than other leading brands, as well as the benefit of focused promotional spending. Net can volume for the Company s deep discount *Husky* brand grew double-digits in the second quarter of 2008, as compared to the corresponding prior year period, reflecting increased brand-building efforts, expanded distribution and strengthened retail presence. *Rooster*, which was repositioned as a regional price-value product beginning in April 2008, posted strong growth in the second quarter of 2008, as compared to the second quarter of 2007.

Cost of Products Sold

Costs of products sold for the second quarter of 2008 increased as compared to the corresponding period of 2007, mainly due to the overall increased net unit volume for moist smokeless tobacco products and higher unit costs, including costs associated with certain trade promotional packaging.

Gross Margin

	Three Months Ended June 30,		Increase/(Decrease)	
	2008	**2007**	**Amount**	**%**
Gross margin	**$ 322,790**	$ 329,487	$ (6,697)	(2.0)
Gross margin as % of net sales	**82.0%**	82.6%		

Gross margin decreased in the second quarter of 2008, compared to the second quarter of 2007, primarily as a result of as a result of lower net revenue realized per can, primarily due to increased sales incentives, as well as the aforementioned increase in cost of products sold. The gross margin, as a percentage of net sales, declined by 0.6 percentage points in the second quarter of 2008, as compared to the corresponding period of 2007, as a result of these factors and a shift in product mix, which included a higher percentage of price-value, value pack and promotional products.

SA&A Expenses

SA&A expenses decreased 8.4 percent in the second quarter of 2008 to $93.9 million, compared to $102.5 million in the second quarter of 2007, reflecting the following:

Lower tobacco settlement-related costs;

Decreased legal expenses;

Lower tax expense related to samples;

Decreased trade promotional costs;

A tax refund related to the Company s seed operations;

Lower costs associated with retail shelving systems; and

Decreased handling fees due to a reduction in returned goods.

These decreases were partially offset by:

Higher direct marketing costs, primarily for *Copenhagen* and *Skoal* products; and

Higher field sales expenses, including the impact of higher fuel costs.

The Company s SA&A expenses include legal expenses, which incorporate, among other things, costs of administering and litigating product liability claims. For the quarters ended June 30, 2008 and 2007, outside legal fees and other internal and external costs incurred in connection with administering and litigating product liability claims were $4.5 million and $3.7 million, respectively. These costs reflect a number of factors, including the number of claims, and the legal and regulatory environments affecting the Company s products. The Company expects these factors to be the primary influence on its future costs of administering and litigating product liability claims. The Company does not expect these costs to increase significantly in the future; however, it is possible that adverse changes in the aforementioned factors could have a material adverse effect on such costs, as well as on results of operations and cash flows in the periods such costs are incurred.

Antitrust Litigation

In the second quarter of 2008, the Company recorded a $1.5 million charge related to the previous settlement of an indirect purchaser antitrust action, due to a change in the estimated costs associated with the resolution of such action. See Item 1, Notes to Condensed Consolidated Financial Statements Note 14, Contingencies, for additional details regarding the Company s antitrust litigation.

Restructuring Charges

Smokeless Tobacco segment results for the three months ended June 30, 2008 and 2007 reflect $1.2 million and $3.3 million, respectively, of the restructuring charges discussed in the *Consolidated Results* section above.

First Six Months of 2008 compared with the First Six Months of 2007

	Six Months Ended June 30,		Increase/(Decrease)	
	2008	**2007**	**Amount**	**%**
Net sales	**$ 767,251**	$ 766,451	$ 800	0.1
Restructuring charges	**1,322**	6,486	(5,164)	(79.6)
Antitrust litigation	**1,525**	122,100	(120,575)	(98.8)
Operating profit	**429,800**	294,748	135,052	45.8

Net Sales

Smokeless Tobacco segment net sales were relatively flat in the first six months of 2008, as compared to the first six months of 2007, reflecting an increase in both premium and price-value net can volume for moist smokeless tobacco products. Net can volume results are discussed further below.

The impact of increased volume was substantially offset by lower net revenue realized per can, which was attributable to the following:

An unfavorable shift in overall product mix, with price-value products contributing to a larger percentage of total net can volume;

An unfavorable shift in premium product mix, with net can volume for value pack and promotional premium products, comprising a larger percentage of premium net can volume; and

Increased sales incentives, primarily retail buydowns, which included those related to the Company s price-value brands.

Percentage of Smokeless Tobacco Segment Net Sales by Product Category

* Moist smokeless tobacco products

** Includes dry snuff products and tobacco seeds

*MSTP Net Can Volume**

	Six Months Ended June 30,		Increase/(Decrease)	
	2008	**2007**	**Amount**	**%**
Net Can Volume (in thousands):				
Premium	**277,552**	275,020	2,532	0.9
Price Value	**54,330**	50,030	4,300	8.6
Total	**331,882**	325,050	6,832	2.1

* In order to ensure comparability and to conform to *Rooster* s current positioning, amounts related to this brand have been reclassified from premium to price-value for all periods presented.

Percentage of Total Moist Smokeless Tobacco Products Net Can Volume by Category Segment

Overall net can volume for moist smokeless tobacco products increased 2.1 percent in the first half of 2008, as compared to the first half of 2007. Net can volume for premium products accounted for approximately 37 percent of the overall volume increase. The premium net can volume growth of 0.9 percent in the first half of 2008, as compared to the first half of 2007, was experienced at the same time as an 8.6 percent increase in net can volume for price-value products.

The Company believes the overall net can volume growth is attributable to the following:

The Company s continued category growth efforts aimed at converting adult smokers to moist smokeless tobacco products; and

An increased focus on brand building, including promotional spending and other price-focused initiatives related to the Company s premium brand loyalty plan and price-value efforts.

The impact of these initiatives was partially offset by:

A more challenging external environment, particularly in the second quarter of 2008, including a weak economy, record-high gasoline prices and increased competitive activity.

The premium net can volume growth of 0.9 percent for the first six months of 2008 was attributable to both *Copenhagen* and *Skoal* products, reflecting the Company s continued focus on premium brand loyalty efforts, even in the face of the economic and competitive challenges.

Premium pouch products posted high single-digit net can volume growth in the first half of 2008, as compared to first half of 2007, a lower growth rate than historical trends as the prior year period included initial pipeline volume associated with the launch of *Skoal Citrus Pouches*. Net can volume for pouch products represented 8 percent of the Company s premium net can volume for the first six months of 2008.

Net can volume for *Red Seal* grew mid-single digits in the first six months of 2008, as compared to the first six months of 2007, reflecting the benefit of focused promotional spending. Net can volume for the Company s *Husky* brand grew double-digits in the first six months of 2008, as compared to the corresponding prior year period, reflecting increased brand-building efforts, expanded distribution and strengthened retail presence. For the first half of 2008, the Company continued to achieve price-value volume growth concurrent with premium volume growth, which is reflective of the Company s strategy to compete effectively within every segment of the moist smokeless tobacco category.

The following provides information from the Company s Retail Account Data Share & Volume Tracking System (RAD-SVT) for the 26-week period ending June 14, 2008, as provided by Management Science Associates, Inc., which measures shipments from wholesale to retail.

	Can-Volume % Change from Prior Year Period	% Share	Percentage Point Increase/(Decrease) from Prior Year Period
Total Category Data:			
Total Moist Smokeless Category	7.6%	N/A	N/A
Total Premium Segment	0.6%	52.7%*	(3.6)
Total Value Segments	16.5%	47.2%*	3.6
Company Data:			
Total Moist Smokeless Category	1.7%	57.9%	(3.4)
Total Premium Segment	0.3%	90.7%	(0.3)
Total Value Segments	8.6%	21.4%	(1.6)

* Amounts reported do not add to 100 percent, as this table does not reflect the

herbal segment of the total moist smokeless category.

As reflected in such data, for the 26 weeks ended June 14, 2008, the total moist smokeless tobacco category grew 7.6 percent, which was consistent with trends seen in recent quarters and slightly higher than the Company s current estimate of category growth in the range of 6 to 7 percent for full-year 2008. Volume for the Company s moist smokeless tobacco products increased 1.7 percent and its share of the total category was 57.9 percent during the period. Volume for the Company s premium brands grew 0.3 percent for the 26 weeks ended June 14, 2008, while the overall premium segment grew 0.6 percent versus the comparable prior year period. Similar to the Company s net can volume shipment results, discussed earlier, RAD-SVT indicates that the premium volume challenges are largely confined to a limited geographic region. Excluding that region, the remainder of the country, which constitutes the vast majority of the Company s volume, was up 1.2 percent for the period. The Company s 90.7 percent share of the overall premium segment for the 26 weeks ended June 14, 2008 was level with the percent share reported for the 26 weeks ended February 23, 2008. Volume for the Company s value products grew 8.6 percent, a decline from the 10.4 percent level reported for the 26 weeks ended February 23, 2008. This compares to an increase in the growth rate for the overall value segment, which accelerated from 14.3 percent for the 26 weeks ending February 23, 2008 to16.5 percent in the most recent 26-week period, driven by the previously discussed competitive promotional and new product launch activity.

RAD-SVT information is provided as an indication of current domestic moist smokeless tobacco 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. In addition, differences in the time periods measured, as well as differences as a result of new product introductions and promotions, affect comparisons of the Company s actual results to those from RAD-SVT. The Company believes the difference in trend between RAD-SVT and its own net shipments is due to such factors. Furthermore, Management Science Associates, Inc. periodically reviews and adjusts RAD-SVT information, in order to improve the overall accuracy of the information for comparative and analytical purposes, by incorporating refinements to the extrapolation methodology used to project data from a statistically representative sample. Adjustments are typically made for static store counts and new reporting customers.

Cost of Products Sold

Costs of products sold for the first six months of 2008 increased as compared to the corresponding period of 2007, mainly due to the overall increased net unit volume for moist smokeless tobacco products and higher unit costs, including costs associated with certain trade promotional packaging.

Gross Margin

	Six Months Ended June 30,		**Increase/(Decrease)**	
	2008	**2007**	**Amount**	**%**
Gross margin	**$ 625,936**	$ 629,939	$ (4,003)	(0.6)
Gross margin as % of net sales	**81.6%**	82.2%		

Gross margin decreased in the first half of 2008, compared to the first half of 2007, as a result of lower net revenue realized per can, primarily due to increased sales incentives, as well as the aforementioned increase in cost of products sold. The gross margin, as a percentage of net sales, declined by 0.6 percentage points in the first six months of 2008, as compared to the corresponding period of 2007, as a result of these factors and a shift in product mix, which included a higher percentage of price-value, value pack and promotional products.

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SA&A Expenses

SA&A expenses decreased 6.4 percent in the first six months of 2008 to $193.3 million, compared to $206.6 million in the first six months of 2007, reflecting the following:

- Lower tobacco settlement-related costs;
- A reduction in legal expenses;
- Decreased salaries and related costs;
- Lower print advertising costs, primarily due to lower spending on *Copenhagen, Skoal* and *Skoal Dry*;
- Lower tax expense related to samples;
- Decreased handling fees due to a reduction in returned goods; and
- A tax refund related to the Company s seed operations.

These decreases were partially offset by:

- Higher field sales expenses, including the impact of higher fuel costs;
- Increased point-of-sale, direct marketing and trade promotions costs; and
- Higher consumer promotion costs, primarily due to the *Cope Chop Shop Sweepstakes*.

For the six months ended June 30, 2008 and 2007, outside legal fees and other internal and external costs incurred in connection with administering and litigating product liability claims were $8.8 million and $7 million, respectively.

Antitrust Litigation

In the first six months of 2008, the Company recorded a $1.5 million charge reflecting a change in the estimated costs associated with the resolution of certain indirect purchaser antitrust actions. The first six months of 2007 reflect the impact of a $122.1 million pre-tax charge, representing the estimated costs to be incurred in connection with the resolution of the Company s two most significant remaining indirect purchaser class actions. The Company believes the settlement of these actions was prudent, as it removed a major distraction from the organization and reduced uncertainties regarding legal actions. The charge was comprised of the following:

- A $93.6 million pre-tax charge related to a May 2007 settlement, subject to court approval, reached in the State of California action as a result of court-ordered mediation. This charge brought the total recognized liability for the California action to $96 million, and reflected the cost of cash payments to be made to the benefit of class members, as well as plaintiffs attorneys fees and other administrative costs of the settlement. The terms of the California settlement were approved by the court in March 2008, however, an individual class member subsequently filed an appeal in April 2008.
- A $28.5 million charge related to a settlement, subject to court approval, reached in the State of Wisconsin action during a court-ordered mediation session that was held in April 2007. This charge reflects costs attributable to coupons, which will be distributed to consumers, and will be redeemable, over the next several years, on future purchases of the Company s moist smokeless tobacco products. Also reflected in this charge are plaintiffs attorneys fees and other administrative costs of the settlement. The terms of the Wisconsin settlement were approved by the court in December 2007.

See Item 1, Notes to Condensed Consolidated Financial Statements Note 14, Contingencies and Note 17, Other Matters, for additional details regarding the Company s antitrust litigation.

Restructuring Charges

Smokeless Tobacco segment results for the six months ended June 30, 2008 and 2007 reflect $1.3 million and $6.5 million, respectively, of the restructuring charges discussed in the *Consolidated Results* section above.

WINE SEGMENT

Second Quarter of 2008 compared with the Second Quarter of 2007

	Three Months Ended June 30,		**Increase/(Decrease)**	
	2008	**2007**	**Amount**	**%**
Net sales	**$ 99,134**	$ 79,519	19,615	24.7
Operating profit	**14,842**	11,460	3,382	29.5

Net Sales

The increase in Wine segment net sales for the second quarter of 2008, as compared to the corresponding 2007 period, was primarily due to a 20 percent increase in premium case volume. These favorable net sales results reflect the following factors:

Strong performance by existing brands, primarily *Columbia Crest*, *Chateau Ste. Michelle, Erath, Red Diamond* and *14 Hands*;

Incremental revenue contributed by the *Stag s Leap Wine Cellars* labels, which were added to the Company s portfolio in September 2007, with net sales of these labels accounting for approximately $5 million, or 25 percent, of the increase in net sales;

Higher sales of the imported *Antinori* products, for which the Company is the exclusive U.S. distributor; and

The continued benefit of favorable third-party acclaim and product ratings received in late 2007 and so far in 2008. During the second quarter of 2008 alone, the Company s wines received over 35 ratings of 90-plus from national publications, such as *Wine Spectator* and *Wine Enthusiast.*

Case Volume

Percentage of Total Case Volume by Brand

* Includes *Stag s Leap Wine Cellars*, which was acquired in September 2007.

Chateau Ste. Michelle and *Columbia Crest*, the Company s two leading brands, accounted for 67.2 percent of total premium case volume in the second quarter of 2008, as compared to 71 percent for the corresponding 2007 period. Case volume for the second quarter of 2008 reflected the following:

A double-digit increase in *Columbia Crest* case volume in the second quarter of 2008, as compared to the second quarter of 2007, primarily due to higher case volume for *Grand Estates Chardonnay*, which received a 90 rating from two publications during the quarter,. New product introductions, including the *Horse Heaven Hills* (*H3*) ultra-premium line and the *Two Vines Vineyard 10* products, also contributed to the increase. In addition, case volume for *Two Vines* red varietals was higher in the second quarter of 2008, as compared to the same period of 2007. These increases were partially offset by lower case volume for other *Grand Estates* products;

A high single-digit increase in case volume for *Chateau Ste. Michelle*, primarily due to higher case volume for white varietals;

Case volume related to the *Stag s Leap Wine Cellars* labels, which were added to the Company s portfolio in September 2007. Case volume for *Stag s Leap Wine Cellars* labels accounted for 2.2 percentage points of the overall 20 percent case volume increase;

Strong growth for the Company s *Red Diamond, Erath, 14 Hands* and *Domaine Ste. Michelle* labels; and

Increased case volume for the *Antinori* brands.

Cost of Products Sold

Segment cost of products sold in the second quarter of 2008 increased 21.5 percent from the same prior year period, which was primarily attributable to the increased case volume, as well as higher costs per case, which includes the impact of higher freight costs driven by increased fuel prices.

Gross Margin

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Increase/(Decrease) Amount	Increase/(Decrease) %
Gross margin	**$ 35,161**	$ 26,850	$ 8,311	31.0
Gross margin as % of net sales	**35.5%**	33.8%		

The increase in gross margin in the second quarter of 2008, versus the second quarter of 2007, was primarily due to the increase in net sales. Gross margin, as a percentage of net sales, increased in the second quarter of 2008, as compared to the corresponding prior year period, mainly due to case sales associated with the higher margin *Stag s Leap Wine Cellars* and *Erath* labels, as well as a favorable shift in mix to higher priced varietals for the *Columbia Crest* and *Chateau Ste. Michelle* labels.

SA&A Expenses

SA&A expenses of $20.3 million in the second quarter of 2008 were 32 percent higher than the $15.4 million of such expenses recognized in the second quarter of 2007, reflecting the following:

Higher salaries and related costs, due to the continued expansion of the sales force, in alignment with the Company s broadening distribution of its wines;

Higher costs related to the addition of Stag s Leap Wine Cellars, acquired in September 2007, which accounted for approximately 27 percent (or 8.6 percentage points) of the total increase in SA&A expenses;

Increased advertising and promotional costs related to *Columbia Crest*; and

Higher legal expenses.

First Six Months of 2008 compared with the First Six Months of 2007

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007	Increase/(Decrease) Amount	Increase/(Decrease) %
Net sales	**$ 185,300**	$ 148,295	37,005	25.0
Operating profit	**26,706**	22,720	3,986	17.5

Net Sales

The increase in Wine segment net sales for the first six months of 2008, as compared to the corresponding 2007 period, was primarily due to an increase in premium case volume of 17.9 percent. These favorable net sales results reflect the following factors:

Incremental revenue contributed by the *Stag s Leap Wine Cellars* labels, which were added to the Company s portfolio in September 2007, with net sales of these labels accounting for approximately 34 percent of the increase in net sales;

Strong performance by existing brands, primarily *Columbia Crest*, *Chateau Ste. Michelle, Erath, Red Diamond* and *14 Hands*;

Increased sales of *Antinori* products; and

The continued benefit of favorable third-party acclaim and product ratings.

Case Volume

Percentage of Total Case Volume by Brand

* Includes *Stag s Leap Wine Cellars*, which was acquired in September 2007.

Chateau Ste. Michelle and *Columbia Crest* accounted for 67 percent of total premium case volume in the first six months of 2008, as compared to 70.8 percent for the corresponding 2007 period.

Case volume for the first six months of 2008 reflected the following:

A double-digit increase in *Columbia Crest* case volume, primarily due to the *Horse Heaven Hills* (*H3*) ultra-premium line and *Two Vines Vineyard 10* products, as well as higher case volume for *Grand Estates Chardonnay* in the first half of 2008, as compared to the first half of 2007. These increases were partially offset by lower case volume for other *Grand Estates* products;

Double-digit case volume growth for *Chateau Ste. Michelle*, primarily due to higher case volume for white varietals;

Incremental case volume related to the September 2007 addition of *Stag s Leap Wine Cellars* labels, which accounted for 2.6 percentage points of the overall 17.9 percent case volume increase;

Strong growth for the Company s *Red Diamond, Erath,* and *14 Hands* labels; and

Higher case volume for the *Antinori* brands.

Cost of Products Sold

Segment cost of products sold increased 23.4 percent in the first six months of 2008, as compared to the first six months of 2007, primarily due to the increased case volume and higher costs per case, which includes the impact of higher freight costs driven by increased fuel prices.

Gross Margin

	Six Months Ended June 30,		Increase/(Decrease)	
	2008	2007	**Amount**	**%**
Gross margin	**$ 65,199**	$ 50,949	$ 14,250	28.0
Gross margin as % of net sales	**35.2%**	34.4%		

The increase in gross margin in the first half of 2008, versus the first half of 2007, was primarily due to the increase in net sales. Gross margin, as a percentage of net sales, increased in the first six months of 2008, as compared to the corresponding prior year period, mainly due to case sales associated with the higher margin *Stag s Leap Wine Cellars* and *Erath* labels.

SA&A Expenses

SA&A expenses increased 36.4 percent to $38.5 million in the first six months of 2008, from $28.2 million in the first six months of 2007, reflecting the following:

Higher costs related to the addition of Stag s Leap Wine Cellars, acquired in September 2007, which accounted for approximately 28 percent (or 10.2 percentage points) of the total increase in SA&A expenses;

Higher salaries and related costs, due to the continued expansion of the sales force, in alignment with the Company s broadening distribution of its wines;

A lower pre-tax gain associated with the sale of non-strategic winery property located in Washington, as the current year reflects a $1.4 million pre-tax gain related to the sale of property, as compared to a $2 million pre-tax gain reflected in the prior year;

Increased point-of-sale advertising costs; and

Higher advertising and promotional costs related to *Columbia Crest.*

ALL OTHER OPERATIONS

Second Quarter of 2008 compared with the Second Quarter of 2007

	Three Months Ended June 30,		Increase/(Decrease)	
	2008	**2007**	**Amount**	**%**
Net sales	**$ 13,379**	$ 12,717	$ 662	5.2
Operating profit	**4,107**	4,945	(838)	(16.9)

Net sales for All Other Operations increased 5.2 percent in the second quarter of 2008, as compared to the second quarter of 2007, reflecting the following:

The favorable impact of foreign exchange rates related to the Company s international operations in Canada;

Higher net unit volume in the Company s other international markets;

These favorable items were partially offset by:

The impact of an increase in the provision for returned goods for the Company s Canadian operations, ahead of an excise tax related price increase that will become effective in the third quarter of 2008. The increase in the provision represents the estimated cost of consideration to be provided to wholesale customers during a transitional period for goods purchased prior to the effective date of the excise tax related price increase.

Foreign exchange rates had an unfavorable impact on costs of products sold in the second quarter of 2008, as compared to the comparable prior year period. Gross margin, as a percentage of net sales, was 59.2 percent in the second quarter of 2008, as compared to 63.4 percent in the second quarter of 2007. The decrease in the gross margin, as a percentage of net sales, was primarily due to the increase in the provision for returned goods. Operating profit for All Other Operations represented 30.7 percent of net sales in the second quarter of 2008, as compared to 38.9 percent in the corresponding period of 2007. The decrease in the operating margin percentage was primarily due to the aforementioned charge related to returned goods, as well as an increase in direct selling and advertising costs, primarily within the Company s Canadian operations.

First Six Months of 2008 compared with the First Six Months of 2007

	Six Months Ended June 30,		Increase/(Decrease)	
	2008	**2007**	**Amount**	**%**
Net sales	**$ 26,334**	$ 23,526	$ 2,808	11.9
Restructuring charges	**216**		216	
Operating profit	**8,804**	8,941	(137)	(1.5)

The increase in net sales for All Other Operations in the first six months of 2008, as compared to the corresponding period of 2007, was mainly due to the favorable impact of foreign exchange rates related to the Company s international operations in Canada, as well as higher net unit volume in the Company s other international markets. As noted in the discussion of quarterly results above, net sales were negatively impacted by an increase in the provision for returned goods. Foreign exchange rates had an unfavorable impact on costs of products sold in the first half of 2008, as compared to the first half of 2007. Gross margin, as a percentage of net sales decreased to 61.1 percent in the first six months of 2008, as compared to 63.3 percent in the first six months of 2007. As previously discussed, the decline was primarily due to the increase in the provision for returned goods. Operating profit for All Other Operations represented 33.4 percent of net sales in the first half of 2008, as compared to 38 percent in the first half of 2007. The decrease in the operating margin percentage was primarily due to the aforementioned increase in the provision for returned goods and an increase in direct selling and advertising costs, primarily within the Company s Canadian operations, as well as restructuring charges incurred in connection with Project Momentum in the first quarter of 2008.

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UNALLOCATED CORPORATE

Second Quarter of 2008 compared with the Second Quarter of 2007

Administrative Expenses

Unallocated corporate administrative expenses decreased 36.9 percent to $7.4 million in the second quarter of 2008, as compared to $11.7 million in the second quarter of 2007, reflecting the following:

The absence of $2.9 million of amortization of imputed rent recognized in the second quarter of 2007 related to a below-market short-term lease the Company executed in connection with the sale of its former corporate headquarters building; and

A decrease of $1.9 million due to the absence of a share-based compensation charge recognized in the second quarter of 2007 associated with a change in executive management.

These favorable items were partially offset by:

Higher consulting fees.

Restructuring Charges

Unallocated restructuring charges incurred in connection with Project Momentum amounted to $0.7 million in the second quarter of 2007. The unallocated restructuring charges primarily consisted of one-time termination benefit charges, as well as professional fees directly related to the implementation of Project Momentum.

Interest Expense

Net interest expense increased to $18.9 million in the second quarter of 2008, from $8.6 million in the second quarter of 2007, due to lower income from cash equivalent investments in the current year, as well as higher levels of debt outstanding in the current year as a result of borrowings under the Company s revolving credit facility and the issuance of senior notes in February 2008.

Income Tax Expense

The Company recorded income tax expense of $79 million in the second quarter of 2008 compared to $79.1 million in the second quarter of 2007. The Company s effective tax rate, before minority interest and equity earnings, was 36.1 percent for both the second quarter of 2008 and 2007.

First Six Months of 2008 compared with the First Six Months of 2007

Administrative Expenses

Unallocated corporate administrative expenses decreased 41 percent to $14.6 million in the first six months of 2008, as compared to $24.8 million in the first six months of 2007, reflecting the following:

Lower costs related to changes in executive management, which accounted for the majority of the overall decrease in SA&A expenses in the first six months of 2008;

The absence of $3.9 million of amortization of imputed rent recognized in the first half of 2007 related to a below-market short-term lease the Company executed in connection with the sale of its former corporate headquarters building; and

Lower legal expenses.

These favorable items were partially offset by:

Higher consulting fees.

Restructuring Charges

Unallocated restructuring charges incurred in connection with Project Momentum amounted to $0.1 million in the first six months of 2008, as compared to approximately $1 million in the first six months of 2007. The unallocated restructuring charges primarily consisted of one-time termination benefit charges, as well as professional fees directly related to the implementation of Project Momentum.

Interest Expense

Net interest expense increased to $36.5 million in the first half of 2008, from $18.1 million in the corresponding period of 2007, due to lower income from cash equivalent investments in the current year, as well as higher levels of debt outstanding in the current year as a result of borrowings under the Company s revolving credit facility and the issuance of senior notes in February 2008.

Income Tax Expense

The Company recorded income tax expense of $148.3 million in the first six months of 2008 compared to $139.8 million in the first six months of 2007. Income tax expense in the first six months of 2007 reflects the impact of antitrust litigation charges, as well as the gain recognized in connection with the sale of the Company s corporate headquarters building. The Company s effective tax rate, before minority interest and equity earnings, decreased to 35.8 percent in first half of 2008, compared to 36.1 percent in the corresponding prior year period, as a result of $1 million of income tax accrual reversals in the current year primarily due to the expiration of certain statutes of limitations.

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OUTLOOK

SMOKELESS TOBACCO SEGMENT

Category Growth

The Company remains committed to its category growth initiatives, which continue to be successful as demonstrated by a continued strong growth rate in the first half of 2008 of 7.6 percent, as reported in the most recent 26-week RAD-SVT period. In light of the success of the Company s historical category growth initiatives, recent results, as well as its commitment to sustain these activities on a going forward basis, the Company now expects the category to grow between 6 and 7 percent in 2008, driven by an expanding adult consumer base. As in the past, the Company will continue to utilize its direct mail and one-on-one marketing programs to promote the discreetness and convenience of smokeless tobacco relative to cigarettes to adult smokers, as well as product innovation, all of which the Company believes have contributed to category growth in the last few years.

Competing Effectively

The Company has increased its focus on brand building in 2008, and had planned to continue to selectively increase spending behind its loyalty initiatives, with a goal of accelerating profitable moist smokeless tobacco net can volume growth for both premium and price-value products. With the net can volume trend for premium products adversely impacted in the second quarter of 2008 by the challenging economic conditions and increased competitive activity, the Company intends to further increase its promotional efforts in the latter half of the year, focusing on areas of the country that are most affected by the economic downturn. The Company expects these efforts to return premium volume to growth as the year progresses, with full-year 2008 growth of about 1 percent, excluding the impact of the extra billing day in 2007. This growth rate compares to the Company s previous estimate of approximately 2 percent. With respect to the Company s price-value products, continued solid growth is expected, as it sustains growth in line with the total category for *Red Seal* and continues to build distribution and increase the retail presence of *Husky*. Overall, the Company expects total net can volume growth in the range of 1 to 2 percent, on an equivalent billing day basis.

State Excise Taxes

The federal government imposes excise taxes on smokeless tobacco products on the basis of weight, while many states impose excise taxes on such products expressed as a percentage of the wholesale price (ad valorem). The Company believes that ad valorem excise taxes on smokeless tobacco products artificially drive consumer behavior and create market distortions by providing a tax preference for lower priced products. Weight-based excise taxes or specific taxes on smokeless tobacco products would, in the Company s opinion, allow products to compete fairly in the marketplace on the basis of price and product attributes, not the relative tax burden. The Company continues to promote tax equity in all of the states that currently impose ad valorem excise taxes on smokeless tobacco products rather than on the basis of weight. Thus far in 2008, two states, Utah and New York, representing approximately 2.5 percent of the Company s moist smokeless tobacco product net can volume, passed legislation to convert to an excise tax based on weight, bringing the total number of tax equity states to 15, representing approximately 24 percent of the Company s total net can volume. The Company believes its support of weight-based state excise taxes on smokeless tobacco products is in the best interest of the Company, its wholesaler customers, retailers, adult consumers of the Company s moist smokeless tobacco products and the state governments.

Proposed U.S. Food & Drug Administration Regulation

During the first quarter of 2008, the U.S. House Committee on Energy and Commerce (Committee) passed legislation (H.R. 1108) calling for regulation of tobacco products by the U.S. Food & Drug Administration (FDA). As communicated in the past, the Company believes that any proposals for additional regulation of tobacco products at the federal, state or local level should recognize the distinct differences between smokeless tobacco products and cigarettes. The Company believes the current version of the FDA regulation legislation as passed by the Committee, although not perfect, more appropriately recognizes the distinct differences between smokeless tobacco and cigarettes. The Company believes this version of the bill would level the playing field among smokeless tobacco manufacturers as it includes provisions relating to the sales and marketing of smokeless tobacco products that are at least as restrictive as those included in the Smokeless Tobacco Master Settlement Agreement, an agreement to which the Company is the only smokeless tobacco manufacturer signatory. The Company also believes the bill will potentially enable a comparative risk claim to be made between smokeless tobacco and cigarettes, if the science supports the claim to the satisfaction of the FDA. The Company believes that the science will ultimately support such a claim. As such, the Company will actively support passage of this version of the legislation going forward.

WINE SEGMENT

The Wine segment forecasts strong growth for both net sales and operating profit in 2008. Favorable acclaim received for products late in 2007 and early 2008 are expected to continue to benefit net sales over the remainder of the year. In addition, revenues and operating profit are expected to continue to be favorably impacted by the addition of the *Stag s Leap Wine Cellars* labels, which the Company began selling late in the third quarter of 2007.

CONSOLIDATED

The Company is currently targeting 2008 GAAP diluted earnings per share of $3.63, with a range of $3.58 to $3.68, which includes the unfavorable impact of approximately $.02 per diluted share related to antitrust litigation settlement and restructuring charges recognized to date. This guidance does not include the impact of any additional restructuring charges associated with Project Momentum, as management is not currently able to make a determination of the estimated amount, or range of amounts, of such charges to be incurred for the remainder of the year. In the event further actions under Project Momentum are finalized and committed to by the Company, and additional material restructuring charges are anticipated, the Company will provide an update to its full-year 2008 estimate of diluted earnings per share, reflecting the impact of such charges. Absent any additional restructuring charges, the Company remains confident in its full-year estimate even in light of a weak economy, high gasoline prices, and increased competitive activity, given its performance over the first half of the year. In addition, as previously noted, the Company intends to utilize some of the flexibility it had built into its plans to allow for adjustments in promotional spending, where necessary, to respond to these economic and competitive challenges and support premium unit volume, as well as to offset the impact of the Canadian excise tax increase and approximately 2 to 3 cents per share of energy-related input cost increases. The Company s long-term goal is to provide an average annual total shareholder return of 10 percent, including diluted earnings per share growth and a strong dividend. The current 2008 estimate is consistent with that goal.

LIQUIDITY AND CAPITAL RESOURCES

(In thousands, except per share amounts or where otherwise noted)

	Six Months Ended June 30,		Increase/(Decrease)	
	2008	**2007**	**Amount**	**%**
Net cash provided by (used in) :				
Operating activities	**$ 203,525**	$ 242,232	$ (38,707)	(16.0)
Investing activities	**(25,836)**	87,546	(113,382)	
Financing activities	**(203,854)**	(279,584)	75,730	27.1

Operating Activities

The primary source of cash from operating activities in the first six months of 2008 and 2007, respectively, was net earnings generated mainly by the Smokeless Tobacco segment, adjusted for the effects of non-cash items. In the first six months of 2008, the most significant uses of cash were for the payment of accounts payable and accrued expenses incurred in the normal course of business, including payments for purchases of leaf tobacco for use in moist smokeless tobacco products and grapes for use in the production of wine. The decrease in cash provided by operating activities during the first six months of 2008, as compared to the corresponding 2007 period, was primarily related to the timing of payments related to accounts payable and accrued expenses and antitrust litigation settlements, partially offset by the timing of payments related to federal income taxes.

Investing Activities

The increase in cash used in investing activities for the first six months of 2008, as compared to the first six months of 2007, was primarily due to a decrease in proceeds from dispositions of property. The first six months of 2008 reflected cash proceeds of $1.5 million from the sale of property, plant and equipment, as compared to $130.5 million in net proceeds in the corresponding 2007 period primarily from the sale of the Company s former corporate headquarters building and the sale of winery property located in the State of Washington. In addition, expenditures related to property, plant and equipment increased to $27.3 million for the first six months of 2008, as compared to $22.6 million in the comparable prior year period, mainly related to purchases of manufacturing equipment for the Smokeless Tobacco segment and spending related to facilities expansion and equipment for the Wine segment. The impact of these items was partially offset by activity related to short-term investments, as the prior year period included $20 million of short-term investment purchases. The Company currently expects net spending under the 2008 capital program to approximate $81 million.

Financing Activities

The lower level of net cash used in financing activities during the first six months of 2008, as compared to the first six months of 2007, was primarily due to the issuance of senior notes in February 2008, with an aggregate principal amount of $300 million. Proceeds from the senior notes issuance, net of underwriting discounts and issuance costs, amounted to $296.3 million. Upon the completion of the issuance of the senior notes, the Company repaid $100 million of borrowings that it had drawn earlier in the first quarter of 2008 under its Credit Agreement, as well as $200 million of borrowings outstanding under the Company s Credit Facility. The Company subsequently borrowed an additional $90 million under the Credit Facility during the first six month of 2008, thus resulting in $110 million of net repayment activity under the facility during the first six months of 2008. Dividends of $186.9 million paid during the first six months of 2008 were lower than the $192.3 million paid during the first six months of 2007, as the impact of a lower level of shares outstanding resulting from repurchases of common stock under the Company s share repurchase program was partially offset by a 5 percent dividend increase. The Company utilized $198.7 million to repurchase common stock under its share repurchase programs in the first six months of 2008, as compared to $120.1 million in the corresponding period of 2007. Proceeds received from the issuance of stock related to stock option activity decreased to $10.1 million in the first six months of 2008, as compared to $26.1 million in the first six months of 2007. The lower stock option exercise activity also resulted in a decrease in the tax benefit realized by the Company related to share-based compensation, in excess of the tax deduction that would have been recorded had the fair value method of accounting been applied to all share-based compensation grants, with the excess tax benefit reflected in the first six months of 2008 amounting to $2 million, as compared to $6.6 million in the corresponding period of 2007. Cash flow from financing activities for the first six months of 2008 also reflects a $16.7 million decrease in book cash overdrafts.

As a result of the aforementioned sources and uses of cash, the Company s cash and cash equivalents balance decreased to $47.5 million at June 30, 2008 from $73.7 million at December 31, 2007.

The Company will continue to have significant cash requirements for the remainder of 2008, primarily for the payment of dividends, the repurchase of common stock, purchases of leaf tobacco and grape inventories, and capital spending. The Company estimates that amounts expended in 2008 for tobacco leaf purchases for moist smokeless tobacco products will approximate the amounts expended in 2007, while grape and bulk wine purchases and grape harvest costs for wine products are expected to be higher than amounts expended in 2007. Funds generated from net earnings, supplemented by borrowings under the Company s Credit Facility, will be the primary means of meeting cash requirements over this period.

Senior Notes

On February 29, 2008, the Company completed the issuance and sale of $300 million aggregate principal amount of 5.75 percent senior notes in a public offering at a price to the underwriters of 98.982 percent of the principal amount. These senior notes mature on March 1, 2018, with interest payable semiannually. Costs of $2.6 million associated with the issuance of the senior notes were capitalized and are being amortized over the term of the senior notes. As mentioned above, upon completion of the issuance of the senior notes the Company repaid $100 million of borrowings outstanding under the Credit Agreement and $200 million of borrowings outstanding under the Company s Credit Facility. In accordance with its terms, the Credit Agreement was terminated upon the issuance of the senior notes and the repayment of outstanding borrowings.

The Company s $240 million aggregate principal amount senior notes, of which $200 million is 7.25 percent fixed rate debt and $40 million is floating rate debt, mature on June 1, 2009. The Company currently intends to fund the repayment of this debt through the issuance of long-term senior notes.

Revolving Credit Facility

The Company s Credit Facility, which is a $300 million five-year revolving facility, will expire on June 29, 2012. Borrowings under the Credit Facility will primarily be used for general corporate purposes, including the support of commercial paper borrowings. At June 30, 2008, the Company had borrowings of $140 million outstanding under the Credit Facility.

AGGREGATE CONTRACTUAL OBLIGATIONS

There have been no material changes in the Company s aggregate contractual obligations since December 31, 2007, with the exception of the execution of leaf tobacco and grape purchase activity in connection with normal purchase contracts and payments associated with antitrust litigation settlements.

Through June 30, 2008, the Company completed $10.6 million in leaf tobacco purchases related to certain contracts outstanding at December 31, 2007. As of June 30, 2008, the Company has contractual obligations of approximately $67.7 million for the purchase of leaf tobacco to be used in the production of moist smokeless tobacco products and $441 million for the purchase and processing of grapes to be used in the production of wine products. The majority of the contractual obligations to purchase leaf tobacco are expected to be fulfilled by the end of 2008.

In addition, as of June 30, 2008, the Company believes that it is reasonably possible that within the next 12 months payments of up to $10.6 million may be made to various tax authorities related to FIN 48 unrecognized tax benefits and interest. The Company cannot make a reasonably reliable estimate of the amount of liabilities for unrecognized tax benefits that may result in cash settlements for periods beyond 12 months.

OFF-BALANCE SHEET ARRANGEMENTS

The minority put arrangement provided to Antinori in connection with the acquisition of Stag s Leap Wine Cellars and the related formation of Michelle-Antinori provides Antinori with the right to require the Company to purchase its 15 percent ownership interest in Michelle-Antinori at a price based on a fixed multiple of Stag s Leap Wine Cellars earnings before income taxes, depreciation, amortization and other non-cash items. The minority put arrangement becomes exercisable beginning on the third anniversary of the Stag s Leap Wine Cellars acquisition (September 11, 2010). The Company accounts for the minority put arrangement as mandatorily redeemable securities under Accounting Series Release No. 268, *Redeemable Preferred Stocks*, and Emerging Issues Task Force Abstract Topic No. D-98, *Classification and Measurement of Redeemable Securities*, as redemption is outside of the control of the Company. Under this accounting model, to the extent the value of the minority put arrangement is greater than the minority interest reflected on the balance sheet (traditional minority interest), the Company recognizes the difference as an increase to the value of the minority interest, with an offset to retained earnings and a similar reduction to the numerator in the earnings per share available to common shareholders calculation. The Company also reflects any decreases to the amount in a similar manner, with the floor in all cases being the traditionally calculated minority interest balance as of that date. The Company values the put arrangement by estimating its redemption value as if the redemption date were the end of the current reporting period, using the most recent 12-month trailing earnings before income taxes, depreciation, amortization and other non-cash items. As of June 30, 2008, the value of the minority put arrangement did not exceed the traditional minority interest balance. Therefore, no adjustment was recognized in the Consolidated Statement of Financial Position or in the calculation of earnings per share.

The Company does not have any other off-balance sheet arrangements that are material to its results of operations or financial condition.

NEW ACCOUNTING STANDARDS

The Company reviews new accounting standards to determine the expected financial impact, if any, that the adoption of each such standard will have. As of the filing of this Quarterly Report on Form 10-Q, there were no new accounting standards issued that were projected to have a material impact on the Company s consolidated financial position, results of operations or liquidity. Refer to Part I, Item 1, Financial Statements Notes to Condensed Consolidated Financial Statements Note 2, Recent Accounting Pronouncements, for further information regarding new accounting standards.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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 the 2007 Form 10-K, regarding important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by the Company, including forward-looking statements contained in this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Item 7A of the 2007 Form 10-K, which is incorporated herein by reference. There has been no material change in the information provided therein, with the exception of the issuance of fixed rate senior notes (see Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Senior Notes, for additional information). However, in order to demonstrate the sensitivity of the Company s interest rate hedges to immediate changes in applicable market interest rates, updated sensitivity analyses are provided below.

The Company has hedged against the variability of forecasted interest payments attributable to changes in interest rates through the date of an anticipated debt issuance in 2009 with a forward starting interest rate swap. The forward starting interest rate swap has a notional amount of $100 million and the terms call for the Company to receive interest quarterly at a variable rate equal to LIBOR and to pay interest semi-annually at a fixed rate of 5.715 percent. The fair value of the forward starting interest rate swap at June 30, 2008 was a net liability of $6.2 million, based upon analysis derived from relevant observable market inputs. As an indication of the forward starting swap s sensitivity to changes in interest rates, based upon an immediate 100 basis point increase in the applicable interest rate at June 30, 2008, the fair value of the forward starting swap would increase by approximately $7.6 million to a net asset of $1.4 million. Conversely, a 100 basis point decrease in that rate would decrease the fair value of the forward starting swap by $8.6 million to a net liability of $14.8 million.

The Company has hedged the interest rate risk on its $40 million aggregate principal amount of floating rate senior notes with a ten-year interest rate swap having a notional amount of $40 million and quarterly settlement dates over the term of the contract. The Company pays a fixed rate of 7.25 percent and receives a floating rate of three-month LIBOR plus 90 basis points on the notional amount. The fair value of the swap at June 30, 2008 was a net liability of $1.3 million, based upon analysis derived from relevant observable market inputs. As an indication of the interest rate swap s sensitivity to changes in interest rates, based upon an immediate 100 basis point increase in the applicable interest rate at June 30, 2008, the fair value of the interest rate swap would increase by approximately $0.3 million to a net liability of $1 million. Conversely, a 100 basis point decrease in that rate would decrease the fair value of the interest rate swap by $0.3 million to a net liability of $1.6 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company, under the direction of its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), has reviewed and evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, the Company s CEO and CFO believe, as of the end of such period, that the Company s disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In *James Joseph LaChance, et al. v. United States Tobacco Company, et al.*, Superior Court of New Hampshire, Strafford County (No. 03-C-279), on July 11, 2008, the court entered a final judgment granting final approval of the settlement, including attorneys fees and costs, and dismissing the action with prejudice (see the Company s Annual Report on Form 10-K for the year ended December 31, 2007 for additional information). On August 1, 2008, an individual class member filed a Notice of Appeal to the New Hampshire Supreme Court from the final judgment granting final approval of the settlement.

In *Robert A. Martin, et al. v. Gordon Ball, et al.,* United States District Court for the Northern District of West Virginia (No. 5:06-cv-1985), on May 20, 2008 the court entered an order and judgment dismissing this action with prejudice. On June 12, 2008, Plaintiffs filed a Notice of Appeal to the United States Court of Appeals for the Fourth Circuit.

In *Gregory Hunt, et al. v. United States Tobacco Company, et al.,* United States District Court for the Eastern District of Pennsylvania (No. 06-CV-1099), on August 5, 2008, the Third Circuit Court of Appeals ruled in the Company s favor and issued an opinion vacating the trial court s order denying the Company s motion to dismiss the complaint. The Court remanded the case to the trial court for a determination whether to grant leave to amend the complaint and to amend the complaint in a manner that satisfies the standards set forth in the Third Circuit opinion.

ITEM 1A. RISK FACTORS

There have been no material changes in the Company s risk factors from those disclosed in Part I, Item 1A of the 2007 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents the monthly share repurchases during the quarter ended June 30, 2008:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of the Repurchase Programs [1]	Maximum Number of Shares that May Yet Be Purchased Under the Repurchase Programs [1]
April 1 30, 2008	782,800	$ 53.08	782,800	18,720,829
May 1 31, 2008	392,970	$ 52.82	392,970	18,327,859
June 1 30, 2008	81,640	$ 54.86	81,640	18,246,219
Total	1,257,410	$ 53.12	1,257,410	

[1] In December 2007, the Company s Board of Directors authorized a program to repurchase up to 20 million shares of its outstanding common stock.

Repurchases under the new program commenced in March 2008.

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ITEM 6. EXHIBITS

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.

Exhibit 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

	UST Inc. (Registrant)
Date: August 7, 2008	/s/ RAYMOND P. SILCOCK Raymond P. Silcock Senior Vice President and Chief Financial Officer (Principal Financial Officer)
Date: August 7, 2008	/s/ JAMES D. PATRACUOLLA James D. Patracuolla Vice President and Controller (Principal Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
Exhibit 32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.