

HILLENBRAND INDUSTRIES INC

Form DEF 14A

January 12, 2006

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WASHINGTON, D.C. 20549**

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement.
- o CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2)).
- x Definitive Proxy Statement.
- o Definitive Additional Materials.
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Hillenbrand Industries, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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**HILLENBRAND INDUSTRIES, INC.
NOTICE OF ANNUAL MEETING
To Be Held February 10, 2006**

The annual meeting of shareholders of Hillenbrand Industries, Inc., an Indiana corporation, 1069 State Route 46 East, Batesville, Indiana 47006, will be held at the offices of Batesville Casket Company, Inc., One Batesville Boulevard, Batesville, Indiana 47006, on Friday, February 10, 2006, at 10:00 a.m., Eastern Standard Time, for the following purposes:

- (1) To elect four members to the Board of Directors;
- (2) To ratify the appointment of PricewaterhouseCoopers LLP as independent auditors of Hillenbrand Industries, Inc.; and
- (3) To transact such other business as may properly come before the meeting and any adjournment of the meeting.

The Board of Directors has fixed the close of business on December 16, 2005, as the record date for determining which shareholders are entitled to notice of and to vote at the meeting.

By Order of the Board of Directors

Patrick D. de Maynadier
Secretary

January 12, 2006

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***HILLENBRAND INDUSTRIES, INC.
PROXY STATEMENT***

This proxy statement relates to the solicitation by the Board of Directors of Hillenbrand Industries, Inc. (the Company), 1069 State Route 46 East, Batesville, Indiana 47006, telephone (812) 934-7000, of proxies for use at the annual meeting of the Company's shareholders to be held at the offices of Batesville Casket Company, Inc., One Batesville Boulevard, Batesville, Indiana 47006, on Friday, February 10, 2006, at 10:00 a.m., Eastern Standard Time, and at any adjournments of the meeting. This proxy statement and the enclosed form of proxy were mailed initially to shareholders on or about January 12, 2006. All shares represented by these proxies will be voted at this meeting in accordance with instructions given by shareholders. Where no instructions are given, the shares will be voted (1) in favor of the election of the Board of Directors' nominees for four directors; (2) in favor of the ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors of the Company; and (3) in the discretion of the proxy holders upon such other business as may properly come before the meeting.

The purpose of the annual meeting is to vote upon the matters set forth above. The Board of Directors is not aware of any other business that may come before the meeting.

VOTING

The close of business on December 16, 2005, has been fixed as the record date for determining which shareholders are entitled to notice of and to vote at the annual meeting. On December 16, 2005, there were 61,293,524 shares of the Company's common stock issued and outstanding. Each share of common stock is entitled to one vote with respect to every matter submitted to a vote at the meeting. Votes cast by proxy, whether by proxy card, telephone or the Internet, or in person at the annual meeting will be tabulated by the election inspectors appointed for the meeting. If you submit your proxy by telephone or via the Internet, you should not return your proxy card. Instructions for submitting proxies by telephone or the Internet are set forth on the enclosed proxy card. If you choose to submit your proxy by mail, please sign, date and return the proxy card in the envelope provided. A proxy may be revoked at any time before it is voted at the meeting by submitting written notice of revocation to the Secretary of the Company or by submitting another timely proxy by telephone, Internet or mail. If you hold shares through a broker or other custodian, please check the voting instructions used by that broker or custodian.

Votes Necessary to Adopt Proposals. Directors are elected by a plurality of the votes cast by shareholders entitled to vote at a meeting at which a quorum is present. Ratification of the appointment of the auditors and any other matter that comes before the meeting will be approved if the votes cast favoring the action exceed the votes cast opposing the action.

A majority of the shares issued and outstanding constitutes a quorum. Under Indiana law, once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting. Abstentions, broker non-votes and instructions on a proxy to withhold authority to vote for one or more of the director nominees will result in fewer votes being cast with respect to a particular issue or nominee. A broker non-vote occurs when a broker holding shares for a beneficial owner does not vote on a particular matter because the broker does not have discretionary voting power for that matter and has not received instructions from the beneficial owner. In the absence of such instructions, brokers have discretionary voting

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power for matters such as the election of directors and the ratification of auditors but not for certain other matters.

ELECTION OF DIRECTORS

The Articles of Incorporation and the Code of By-laws of the Company provide that members of the Board of Directors shall be classified with respect to the terms that they shall serve by dividing them into three classes that are as nearly equal in number of members as possible. Directors in each class are elected for a three-year term unless they resign or retire earlier. The Board assigns new directors elected by the Board to a class until the first annual meeting after their election.

In accordance with the Company's Code of By-laws, the Board of Directors set the number of directors constituting the entire Board of Directors at eleven, with four directors in each of Classes I and II and three directors in Class III. On May 11, 2005, Frederick W. Rockwood, formerly President and Chief Executive Officer of the Company and a Class III member of the Board of Directors, retired from the Company. The Board of Directors has not filled the vacancy in Class III created by Mr. Rockwood's retirement. As of the date of this proxy statement, therefore, Classes I and II each have four members and Class III has two members. Rolf A. Classon, a Class I member of the Board of Directors, is currently serving as Interim President and Chief Executive Officer of the Company. The Board of Directors has been conducting a search and expects that, when a new permanent President and Chief Executive Officer is selected, the vacancy in Class III will be filled by the new President and Chief Executive Officer.

At the upcoming annual meeting, the shareholders will elect four members of the Board of Directors in Class I to serve three-year terms expiring at the 2009 annual meeting. The incumbent directors in Class II and Class III were each previously elected to serve terms expiring at the 2007 and 2008 annual meetings, respectively.

On October 11, 2005, Ray J. Hillenbrand, Chairman of the Board, announced that he plans to retire as Chairman of the Board in 2006, but will remain as a member of the Board of Directors. The Board of Directors has designated Rolf A. Classon, Interim President and Chief Executive Officer of the Company and former Vice Chairman of the Board, as Chairman-elect. The transition will be effective as of the later to occur of the upcoming annual shareholders meeting or the date the President and Chief Executive Officer of the Corporation elected by the Board of Directors of the Corporation to succeed Rolf A. Classon commences his or her employment in such capacity. We wish to thank Ray J. Hillenbrand for his outstanding contributions to the Company as the Chairman of the Board and are grateful that he will remain an active member of the Board. In particular, we thank Ray for his leadership in improving the operation, processes and composition of our Board, efforts which he began significantly in advance of recent corporate governance developments.

Unless authority is withheld, all shares represented by proxies submitted pursuant to this solicitation will be voted in favor of electing as directors the nominees listed below for the terms indicated. If any of these nominees should be unable to serve, shares represented by proxies may be voted for a substitute nominee selected by the Board of Directors, or the Board of Directors may reduce the number of directors.

The Board of Directors recommends that shareholders vote FOR the election to the Board of Directors of each of the nominees named below.

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Nominees to be elected to serve three-year terms expiring at the 2009 annual meeting:

Name	Age	Principal Occupation	Served As A Director Since	Shares ⁽¹⁾	Percent of Total Shares Outstanding
				Beneficially Owned As Of December 16, 2005	
Rolf A. Classon	60	Interim President and Chief Executive Officer of the Company	2002	12,281 ⁽²⁾	⁽³⁾
Charles E. Golden	59	Executive Vice President and Chief Financial Officer of Eli Lilly and Company	2002	12,988 ⁽²⁾	⁽³⁾
W August Hillenbrand	65	Retired Chief Executive Officer of the Company	1972	3,270,570 ⁽²⁾⁽⁴⁾⁽⁵⁾	5.3%
Eduardo R. Menascé	60	Retired President, Enterprise Solutions Group, Verizon Communications	2004	1,830 ⁽²⁾	⁽³⁾

CONTINUING DIRECTORS:**CLASS II**

Serving terms expiring at the 2007 annual meeting:

Name	Age	Principal Occupation	Served As A Director Since	Shares ⁽¹⁾	Percent of Total Shares Outstanding
				Beneficially Owned As Of December 16, 2005	
Ray J. Hillenbrand	71	Chairman of the Board of the Company	1970	508,143 ⁽²⁾⁽⁴⁾⁽⁶⁾	⁽³⁾
Mark D. Ketchum	56	Interim Chief Executive Officer and President of Newell Rubbermaid, Inc.	2004	1,830 ⁽²⁾	⁽³⁾
Anne Griswold Peirce	54	Associate Dean for Academic Affairs and Associate Professor of Clinical Nursing at Columbia University School of Nursing	2003	3,409 ⁽²⁾⁽⁷⁾	⁽³⁾

Peter H. Soderberg	59	President and Chief Executive Officer of Welch Allyn, Inc.	2002	11,781 ⁽²⁾	⁽³⁾
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CLASS III

Serving terms expiring at the 2008 annual meeting:

Name	Age	Principal Occupation	Served As A Director Since	Shares ⁽¹⁾ Beneficially Owned As Of December 16, 2005	Percent of Total Shares Outstanding
John A. Hillenbrand II	74	Personal Investments	1981 ⁽⁸⁾	1,015,026 ^{(2)(4) (9)}	1.7%
Joanne C. Smith	45	President of the National Division of the Rehabilitation Institute of Chicago	2003	3,281 ⁽²⁾	⁽³⁾

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Name	Age	Principal Occupation	Shares⁽¹⁾ Beneficially Owned As Of December 16, 2005	Percent of Total Shares Outstanding (3)
Gregory N. Miller	42	Senior Vice President and Chief Financial Officer ⁽¹⁰⁾	26,066	(3)
Patrick D. de Maynadier	45	Vice President, General Counsel and Secretary ⁽¹¹⁾	64,011	(3)
Kenneth A. Camp	60	Senior Vice President of Hillenbrand Industries, Inc. and President and Chief Executive Officer, Batesville Casket Company, Inc. ⁽¹²⁾	147,804	(3)
All directors and executive officers of the Company as a group, consisting of 17 persons.			5,183,465 ⁽²⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁹⁾	8.5%

STOCK OWNERSHIP OF OTHER BENEFICIAL OWNERS OF MORE THAN 5% OF THE COMPANY S COMMON STOCK:

Name	Address	Shares Beneficially Owned	Percent of Total Shares Outstanding
Franklin Mutual Advisers, LLC	101 John F. Kennedy Parkway, Short Hills, NJ 07078	3,962,200 ⁽¹³⁾	6.5%
JPMorgan Chase & Co.	270 Park Avenue, New York, NY 10017	3,597,831 ⁽¹⁴⁾	5.9%

(1) The Company s only class of equity securities outstanding is common stock without par value. These share figures include the following shares that may be purchased pursuant to stock options that are exercisable within 60 days of December 16, 2005: Rolf A.

Classon, 8,000 shares; Charles E. Golden, 8,000 shares; W August Hillenbrand, 222,000 shares; Ray J. Hillenbrand, 30,000 shares; Peter H. Soderberg, 8,000 shares; John A. Hillenbrand II, 24,000 shares; Gregory N. Miller 25,000; Patrick D. de Maynadier, 61,000 shares; Kenneth A. Camp, 138,500 shares; and all directors and executive officers as a group, 625,749 shares. Except as otherwise indicated in these footnotes, the persons named have sole voting and investment power with respect to all shares shown as beneficially owned by them.

- (2) These share figures include vested deferred fees and/or compensation in the form of deferred restricted stock and restricted stock units (otherwise known as deferred stock

awards) held on the books and records of the Company in the following amounts: Rolf A. Classon, 3,281 shares; Charles E. Golden, 4,988 shares; W August Hillenbrand, 4,020 shares; Eduardo R. Menasce, 1,830 shares; Ray J. Hillenbrand, 7,185 shares; Mark D. Ketchum, 1,830 shares; Anne Griswold Peirce, 3,378 shares; Peter H. Soderberg, 3,281 shares; John A. Hillenbrand II, 3,281 shares; Joanne C. Smith, 3,281 shares; and all directors and executive officers as a group, 36,355 shares.

- (3) Ownership of less than one percent (1%) of the total shares outstanding.
- (4) John A. Hillenbrand II and Ray J. Hillenbrand are brothers, and they are cousins of W August Hillenbrand.
- (5) Includes 235,755 shares owned

beneficially by W August Hillenbrand's wife, Nancy K. Hillenbrand; 1,835,817 shares owned of record, or which may be acquired within sixty days, by trusts, of which W August Hillenbrand is trustee or co-trustee; 46,374 shares held of record by a charitable trust, of which Mr. Hillenbrand is a co-trustee; 111,440 shares held by a limited liability company, and 302,575 shares held by a limited partnership, of which Mr. Hillenbrand is a limited partner. Mr. Hillenbrand disclaims beneficial ownership of these shares. Mr. Hillenbrand's address is the address of the Company's principal executive offices.

- (6) Includes 128,975 shares held of record by a charitable foundation, of which Mr. Ray J. Hillenbrand is a trustee; and

222,854 shares
held of record by
family
partnerships for
the benefit of
other members of
his immediate
family.
Mr. Hillenbrand
disclaims
beneficial
ownership of
these shares.

- (7) Includes 31
shares held of
record by Anne
Griswold Peirce's
spouse.

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- (8) John A. Hillenbrand II previously served as a director of the Company from 1972 to 1979.

- (9) Includes 17,240 shares held of record by John A. Hillenbrand II's wife, Joan L. Hillenbrand; and an aggregate of 526,250 shares held of record by trusts for the benefit of his children and grandchildren, by a family partnership and by a family corporation. Mr. Hillenbrand disclaims beneficial ownership of these shares.

- (10) Mr. Miller was elected Senior Vice President and Chief Financial Officer of the Company effective July 14, 2005.

- (11) Mr. de Maynadier was elected Vice President, General Counsel and Secretary of the Company effective

January 28,
2002.

- (12) Mr. Camp was elected President and Chief Executive Officer of Batesville Casket Company, Inc., a subsidiary of the Company, on May 1, 2001. He was also elected as a Senior Vice President of the Company on August 4, 2005. Prior to his election to these positions, Mr. Camp has held various other positions within Hillenbrand Industries, Inc. and its subsidiary Batesville Casket Company, Inc.
- (13) As of December 16, 2005, based on information provided to the Company by Franklin Mutual Advisers, LLC.
- (14) This information is based solely on a Schedule 13G filed by JPMorgan Chase & Co. with the

Securities and
Exchange
Commission on
February 11,
2005.

Ray J. Hillenbrand was first named as Chairman of the Board of the Company on January 17, 2001. He has been engaged in the management of personal and family investments for much of his career. Mr. Hillenbrand was employed by and active in the management of the Company prior to his resignation as an officer in 1977.

Mr. Hillenbrand is President of Dakota Charitable Foundation and serves as a member of the Board of Trustees of The Catholic University of America, Washington, D.C. He is past Chairman of the Board of Rushmore Health Systems, which includes Rapid City Regional Hospital.

Rolf A. Classon was named as Interim President and Chief Executive Officer of the Company effective May 11, 2005. He served as Vice Chairman of the Board from December 4, 2003 until his election as Interim President and Chief Executive Officer. He was Chairman of the Executive Committee of Bayer HealthCare, a sub group of Bayer AG, from October 2002 to July 2004, and was President of Bayer Health Care L.L.C., a subsidiary of Bayer AG, from October 2002 to July 2004. Previously, he had been President of Bayer's Diagnostic Division and head of Bayer's Worldwide Business Group - Diagnostics since 1995. Bayer is an international research-based company active in life sciences, polymers and chemicals. A native of Sweden, Mr. Classon joined Bayer's Miles Diagnostics business in 1991 as Executive Vice President, worldwide marketing, sales and service. During his career, Mr. Classon has held management positions with Pharmacia AB, Sweden; Swedish Match Group; and Asbjorn Habberstad AB. Prior to joining Bayer, he was President and Chief Operating officer of Pharmacia Biosystems AB. Mr. Classon currently serves on the Supervisory Board of Bayer HealthCare AG, and on the Boards of Directors of Enzon Pharmaceuticals, Inc., a company focused on oncology and antiviral pharmaceuticals, ISTA Pharmaceuticals, a company involved in ophthalmological pharmaceuticals, Millipore Corporation, a bioscience company that provides technologies, tools and services for the discovery, development and production of therapeutic drugs and for other purposes, and Auxilium Pharmaceuticals, a specialty pharmaceutical company in the fields of urology and men's health.

Charles E. Golden is Executive Vice President and Chief Financial Officer for, and a member of the Board of Directors of, Eli Lilly and Company, Indianapolis, Indiana, a global provider of pharmaceutical products and health care information. He joined Eli Lilly in his current position and as a member of its Board of Directors in 1996. Prior to joining Eli Lilly, Mr. Golden served as a corporate Vice President of General Motors and Chairman of General Motors' vehicle operations in the United Kingdom from 1993 to 1996. He joined General Motors as part of its treasurer's office in 1970 and subsequently held positions in domestic and international operations, ultimately becoming Treasurer of GM. He is a member of the National Advisory

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Board of J.P. Morgan Chase & Co., and The Council of Financial Executives of the Conference Board. He also serves on the Boards of Directors of Clarian Health Partners and Crossroads of America Council (Boy Scouts of America) (as past President), on the Board of Trustees of Park Tudor School, and on the Finance Committee of the Indianapolis Museum of Art.

John A. Hillenbrand II has managed personal and family investments since 1979. He has been the Chairman Emeritus of Able Body Manufacturing and Assembly, LLC, a manufacturer of truck bodies, since June 2002, prior to which he served as its Chairman. Since January 2005 he has been Chairman Emeritus of Nambé Mills, Inc., a producer of handcrafted alloy items for cooking, serving and decorating, prior to which he served as Chairman. Mr. Hillenbrand is also the Vice Chairman of Pri-Pak, Inc., a provider of packaging for energy drinks and spirits. Mr. Hillenbrand was employed by and active in the management of the Company prior to his resignation as an officer in 1979. Mr. Hillenbrand has served on the Boards of Directors of Merchants National Bank, National City Bank of Indiana, National City Trust of Florida, Cinergy Corporation, PSI Resources, PSI Energy, Benicorp and Physicians Practice Management, Inc. Mr. Hillenbrand has also served as Chairman of the Indiana State Chamber of Commerce, as an officer and member of the Boards of Directors of the Health Industries Association and the Indiana Manufacturers Association, and as Co-Chairman of the Indiana Government Efficiency Commission.

W August Hillenbrand served as Chief Executive Officer of the Company from 1989 until 2000. Mr. Hillenbrand also served as President of the Company from 1981 until 1999. Prior to his retirement in December 2000, the Company had employed Mr. Hillenbrand throughout his business career. Mr. Hillenbrand is the Chief Executive Officer of Hillenbrand Capital Partners, an unaffiliated family investment partnership. He is also a director of DPL Inc. of Dayton, Ohio and Pella Corporation of Pella, Iowa.

Mark D. Ketchum was named Interim Chief Executive Officer and President of Newell Rubbermaid, Inc., of which he is a director, in October 2005. In November 2004, he retired as the President of the Global Baby and Family Care business unit of The Procter & Gamble Company of Cincinnati, Ohio, a manufacturer and marketer of consumer products, after serving in that capacity since 1999. Mr. Ketchum held a broad range of assignments with Procter & Gamble since joining the company in 1971. He held leadership roles for thirteen years in manufacturing and operations, six years in brand management and advertising, and fourteen years in executive level general management positions. He holds a Bachelor of Science in Industrial Engineering and Operations Research from Cornell University. Mr. Ketchum has been a Cornell University Alumni Ambassador and, from 1991 to 1999, was on the Board of Directors, Tissue Division of the American Forest & Paper Association.

Eduardo R. Menascé is retired President of the Enterprise Solutions Group for Verizon Communications, Inc., New York City, New York. Prior to the merger of Bell Atlantic and GTE Corporation, which created Verizon Communications, he was the President and Chief Executive Officer of CTI MOVIL S.A. (Argentina), a business unit of GTE Corporation, from 1996 to 2000. Mr. Menascé has also held senior positions at CANTV in Venezuela and Wagner Lockheed and Alcatel in Brazil and from 1981 to 1992 served as Chairman of the Board and Chief Executive Officer of GTE Lighting in France. He earned a Bachelor's degree in Industrial Engineering from Universidad Pontificia Catolica de Rio de Janeiro and a Master's degree in Business Administration from Columbia University. Mr. Menascé currently serves on the Boards of Directors of Pitney Bowes Inc., a global provider of integrated mail and document management solutions, and KeyCorp, one of the nation's leading bank-based financial service companies. He also serves on the Board of Advisors of Adventis, a leading management and strategy consultancy to the converging global information industries.

Anne Griswold Peirce, R.N., Ph.D. has been the Associate Dean for Academic Affairs and Associate Professor of Clinical Nursing at the Columbia University School of Nursing since September 2002. From 1996 through June 2002, Dr. Peirce was a Dean and Professor of Nursing and the Director of Nursing Research at the University of Mississippi Medical Center. During her career, Dr. Peirce has held management and academic

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positions with various medical institutions, colleges and universities, including the Columbia University School of Nursing. Dr. Peirce has also authored numerous journal articles and textbook chapters related to the field of nursing. She also serves on the editorial board of the Journal of Nursing Measurement and the Online Journal of Health Ethics.

Joanne C. Smith, M.D. was elected Vice Chairperson of the Board of Directors effective May 11, 2005. She has been the President of the National Division of the Rehabilitation Institute of Chicago since November 2005. Prior to that, Dr. Smith had been the Senior Vice President, Corporate Strategy and Business Development for the Rehabilitation Institute of Chicago since April 2002. Since 1992 she has been an attending physician at the same institution. From 1997 through April 2002, Dr. Smith was the Senior Vice President and Chief Operating Officer of the Corporate Partnership Division of the Rehabilitation Institute of Chicago and from 1992 to 1997 she held various management positions there. She also serves on the Boards of Directors of AptarGroup, Inc., a leading supplier of personal care, cosmetics, pharmaceutical, food and beverage dispensing systems, and the AON Memorial Education Fund, a fund dedicated to supporting the educational needs of the children who suffered the loss of a parent in the World Trade Center attack.

Peter H. Soderberg is President and Chief Executive Officer of Welch Allyn, Inc., Skaneateles Falls, N.Y. Welch Allyn, Inc. is a privately held global technology company with units that manufacture innovative medical diagnostic equipment, patient monitoring systems and miniature precision lamps. Appointed to his current position in 2000, Mr. Soderberg was previously Group Vice President and Chief Operating Officer. His prior experience includes 23 years at Johnson & Johnson where he served in a variety of operations, marketing and management positions in four of its over-the-counter and professional product companies. Most recently, he was President of Johnson & Johnson Health Management, a Johnson & Johnson portfolio company. His career also includes roles as President and Chief Executive Officer of an industrial technology company and the founder and President of a venture capital business. He is on the Boards of Directors of Greatbatch, Inc. (NYSE:GB), the Advanced Medical Technology Association (AdvaMed), the Syracuse Symphony Orchestra (as its Vice Chairman), the Metropolitan Development Authority of Central New York (as its Vice Chairman) and CNYMedtech (as its Chairman).

Section 16(a) Beneficial Ownership Reporting Compliance

Under Section 16(a) of the Securities Exchange Act of 1934, the Company's directors, its executive officers and any person holding more than ten percent of the Company's common stock are required to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock of the Company. The Company is required to report in this proxy statement any failure to file or late filing occurring during the fiscal year ended September 30, 2005. Based solely on a review of filings furnished to the Company and other information from reporting persons, the Company believes that all of these filing requirements were satisfied by its directors, executive officers and ten percent beneficial owners except that Ray J. Hillenbrand filed one late report relating to his ceasing to be the trustee of a trust for the benefit of his sister and Rolf A. Classon filed one late report relating to a stock award granted to him pursuant to his employment agreement as Interim President and Chief Executive Officer. In April 2005, a probate court dissolved an Advisory Committee for a trust for a sister of Ray J. Hillenbrand and John A. Hillenbrand II. Ray J. Hillenbrand and John A. Hillenbrand II were members of the Advisory Committee for the trust which held common stock of the Company. The Advisory Committee was originally established by order of the probate court in February 1988. During the existence of the Advisory Committee, no common stock of the Company was sold by, or on behalf of, the trust. No reports relating to shares held by that trust have been filed by Ray J. Hillenbrand or John A. Hillenbrand II. Each of the Hillenbrands disclaims beneficial ownership of shares held by that trust.

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**ABOUT THE BOARD OF DIRECTORS
(INCLUDING DIRECTOR COMPENSATION)**

The Board of Directors, which is elected by the shareholders, is the ultimate decision-making body of the Company except with respect to those matters reserved to the shareholders. It selects the senior management team, which is charged with the conduct of the Company's business. Having selected the senior management team, the Board acts as an advisor and counselor to senior management and oversees and monitors its performance.

Board's Role in Strategic Planning

The Board of Directors has the legal responsibility for overseeing the affairs of the Company and, thus, an obligation to keep informed about the Company's business and strategies. This involvement enables the Board to provide guidance to management in formulating and developing plans and to exercise independent decision-making authority on matters of importance to the Company. Acting as a full Board and through the Board's four standing committees, the Board is fully involved in the Company's strategic planning process.

Each year, typically in the spring, summer and fall, senior management sets aside specific periods to develop, discuss and refine the Company's long-range operating plan and overall corporate strategy. Specific operating priorities are developed to effectuate the Company's long-range plan. Some of the priorities are short-term in focus; others are based on longer-term planning horizons. Senior management reviews the insights and conclusions reached at its meetings with the Board over the course of several Board meetings and seeks approval of the overall corporate strategy and long-range operating plan at Board meetings that usually occur in the summer and fall, including a two day offsite retreat in July dedicated to strategic planning. These meetings are focused on corporate strategy and involve both management presentations and input from the Board regarding the assumptions, priorities and objectives that will form the basis for management's strategies and operating plans.

At subsequent Board meetings, the Board continues to substantively review the Company's progress against its strategic plans and to exercise oversight and decision-making authority regarding strategic areas of importance and associated funding authorizations.

In addition, Board meetings held throughout the year target specific strategies and critical areas for extended, focused Board input and discussion.

The role that the Board plays is inextricably linked to the development and review of the Company's strategic plan. Through these processes, the Board, consistent with good corporate governance, encourages the long-term success of the Company by exercising sound and independent business judgment on the strategic issues that are important to the Company's business.

Functioning of the Board

The Board and Board committees agenda setting process involves all directors. The Chairman of the Board, Chief Executive Officer and Secretary initially develop a proposed agenda for Board meetings with the understanding that certain items pertinent to the advisory and monitoring functions of the Board be brought to it periodically by the Chief Executive Officer for review and/or decision. For example, the Board reviews the annual corporate budget. Proposed agenda items that fall within the scope of responsibilities of a Board committee are initially developed by the chair of that committee with the Secretary. After initial agendas are developed, the Chairman of the Board, the Vice Chairperson, Chief Executive Officer, Board committee chairs and Secretary discuss coordination of the agendas and make further modifications, as appropriate, and the

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Secretary then sends the proposed agendas to all directors, who have the opportunity sufficiently in advance of regular Board and committee meetings to review and provide feedback on proposed Board and committee agendas. Board and committee materials related to agenda items are provided to Board members sufficiently, typically up to two weeks, in advance of regular meetings to allow the directors to prepare for discussion of the items at the meetings.

At the invitation of the Board and its committees, members of senior management attend Board and committee meetings or portions thereof for the purpose of participating in discussions. Generally, discussions of matters to be considered by the Board and its committees are facilitated by the manager responsible for that function or area of the Company's operations. In addition, Board members have free access to all other members of management and employees of the Company and, as necessary and appropriate in their discretion, the Board and its committees may, and do, consult with independent legal, financial and accounting advisors to assist in their duties to the Company and its shareholders.

The chairs of the committees of the Board each preside over the portion of the Board meetings at which the principal items to be considered are within the scope of the authority of their respective committees. The chair of each committee determines the frequency, length and agenda of meetings of that committee. Sufficient time to consider the agenda items is provided. Materials related to agenda items are provided to the committee members sufficiently, typically up to two weeks, in advance of regular meetings to allow the members to prepare for discussion of the items at the meeting.

Executive sessions or meetings of outside directors without management present are held regularly after Board and committee meetings. The Chairman of the Board generally presides at executive sessions of non-management directors, except that the chairs of the committees of the Board preside at executive sessions of non-management directors held following meetings of their committees or at which the principal items to be considered are within the scope or authority of their committees.

Communications with Directors

In order to provide the Company's security holders and other interested parties with a direct and open line of communication to the Board of Directors, the Board of Directors has adopted and implemented the following procedures for communications to directors.

Security holders of the Company and other interested persons may communicate with the Chairman of the Board, the chairs of the Company's Nominating/Corporate Governance Committee, Audit Committee or Compensation and Management Development Committee or the non-management directors of the Company as a group by sending an email to investors@hillenbrand.com. The email should specify which of the foregoing is the intended recipient.

All communications received in accordance with these procedures will be reviewed initially by the Company's Investor Relations Department and General Counsel. The Investor Relations Department will relay all such communications to the appropriate director or directors unless the Investor Relations Department and General Counsel determine that the communication:

does not relate to the business or affairs of the Company or the functioning or constitution of the Board of Directors or any of its committees;

relates to routine or insignificant matters that do not warrant the attention of the Board of Directors;

is an advertisement or other commercial solicitation or communication;

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is frivolous or offensive; or

is otherwise not appropriate for delivery to directors.

The director or directors who receive any such communication will have discretion to determine whether the subject matter of the communication should be brought to the attention of the full Board of Directors or one or more of its committees and whether any response to the person sending the communication is appropriate. Any such response will be made through the Company's Investor Relations Department and only in accordance with the Company's policies and procedures and applicable law and regulations relating to the disclosure of information.

The Company's Investor Relations Department will retain copies of all communications received pursuant to these procedures for a period of at least one year.

The Nominating/Corporate Governance Committee of the Board of Directors will review the effectiveness of these procedures from time to time and, if appropriate, recommend changes.

The Company has not established a formal policy regarding director attendance at its annual meetings of shareholders, but the Company's directors generally do attend the annual meetings. The Chairman of the Board presides at the annual meeting of shareholders, and the Board of Directors holds one of its regular meetings in conjunction with the annual meeting of shareholders. Accordingly, unless one or more members of the Board are unable to attend, all members of the Board are present for the annual meeting. All members of the Board at the time of the Company's 2005 annual meeting of shareholders attended that meeting.

Other Corporate Governance Matters

Both the Board of Directors and management of the Company firmly embrace good and accountable corporate governance and believe that an attentive, performing Board is a tangible competitive advantage. With that commitment, the Company began its efforts to improve the operation and processes of its Board of Directors significantly in advance of recent corporate governance developments. Director compensation has always been comprised of cash and stock based compensation. A non-Chief Executive Officer director has held the position of Chairman of the Board since April 1989. In early 2001, efforts to modify the composition of the Board began, with an emphasis on independence and the mix of characteristics, experiences and diverse perspectives and skills most appropriate for the Company. The Board has established position specifications, including performance criteria, for itself, the Chairman of the Board, the Vice Chairperson of the Board and the Chief Executive Officer, and, since May 2002, as part of the planned transition of the membership of our Board, the Company has welcomed to the Board seven new independent directors who are proven leaders, five of whom have significant experience in the health care industry. There have been more non-Hillenbrand family directors than family members on the Board since May 2002, and the Board has had a majority of independent directors since December 4, 2003.

Since September 2002, the Board of Directors of the Company has taken additional measures to ensure continued high standards for corporate governance. Specifically, the Board has taken the following actions, among others:

The Board approved Corporate Governance Standards for the Board of Directors in September 2002 and has revised these Standards on several occasions as warranted by changes in New York Stock Exchange governance standards and other developments. Among other matters, these Standards:

confirm that the Board of Directors has established standing committees, each with a charter approved by the Board, to address certain key areas. These committees are

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the Audit Committee, Finance Committee, Compensation and Management Development Committee and Nominating/Corporate Governance Committee;

provide that at least a majority of the directors of the Company shall be independent;

provide for an annual determination by the Board of Directors regarding the independence of each director;

provide that the Audit Committee, Nominating/Corporate Governance Committee and Compensation and Management Development Committee will consist entirely of independent directors;

provide for an annual assessment by the Nominating/Corporate Governance Committee of the Board's effectiveness as a whole as well as the effectiveness of the individual directors and the Board's various committees, including a review of the mix of skills, core competencies and qualifications of members of the Board;

provide that the non-management directors shall conduct executive sessions without participation by any employees of the Company at each regularly scheduled meeting of the Board;

limit the number of public company boards on which a director may sit to four without Board approval;

provide that no more than half of the members of the Board may be over seventy years of age; and

provide all proposed related party transactions between the Company or any of its subsidiaries and any director or executive officer of the Company must be reviewed and approved by the Nominating/Corporate Governance Committee in advance.

The full text of the Corporate Governance Standards as approved and revised by the Board of Directors is attached to this proxy statement as Appendix A.

The Board determined the independence of each of the Company's directors based on the standards set forth in the Corporate Governance Standards described above and elected only independent directors as members of the Audit Committee, Nominating/Corporate Governance Committee and Compensation and Management Development Committee. See "Determinations with Respect to Independence of Directors" below.

On November 29, 2005, the Nominating/Corporate Governance Committee of the Board completed a formal evaluation of the effectiveness of the incumbent directors who are being nominated for election at the Company's 2006 annual meeting of shareholders. That Committee substantially completed a formal evaluation of the effectiveness of the Board as a whole as well as the effectiveness of the individual directors and the Board's various committees, including a review of the mix of skills, core competencies and qualifications of members of the Board. On that date, the Nominating/Corporate Governance Committee also reviewed a summary of its findings with the Board, in light of Board and Board committee goals established for 2006. The Nominating/Corporate Governance Committee plans to complete its formal evaluation of all individual directors, the Board and its committees over the course of several meetings.

In September 2002, the Board overhauled its committee structure and adopted revised charters for each of its committees as warranted by changes in NYSE listing standards, SEC rules and other developments.

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The Board adopted a revised Code of Ethical Business Conduct covering, among other matters, conflicts of interest, corporate opportunities, confidentiality, protection and proper use of the Company's assets, fair dealing, compliance with laws, including insider trading laws, accuracy and reliability of the Company's books and records and reporting of illegal or unethical behavior. This Code applies to all directors, officers and other employees of the Company, including the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. The Board periodically reviews and makes changes to the Code based on recommendations made by the Audit Committee of the Board. The Company's Code of Ethical Business Conduct constitutes a code of ethics within the meaning of Item 406 of the Securities and Exchange Commission's Regulation S-K.

All employees, including the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, are required to participate in ethics training and abide by the Code of Ethical Business Conduct to ensure that the Company's business is conducted in a consistently legal and ethical manner. All members of the Board of Directors and all officers of the Company and its subsidiaries have read and certified their compliance with the Code without exception.

Employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code of Ethical Business Conduct. The Sarbanes-Oxley Act of 2002 requires companies to have procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls or auditing matters and to allow for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters. The Company currently has such procedures in place and has effectively and independently addressed concerns raised by employees and others.

Hill-Rom refers to Advanced Medical Technology Association's (AdvaMed) Code of Ethics for Interactions with Health Care Professionals on a regular basis to seek guidance on policies and ethical issues. AdvaMed is the largest medical technology association in the world, representing more than 1,200 innovators and manufacturers of medical devices, diagnostic products and medical information systems. The Code is a voluntary code of ethics to facilitate members' ethical interactions with those individuals or entities that purchase, lease, recommend, use, arrange for the purchase or lease of, or prescribe members' medical technology products in the United States. The Company and Hill-Rom are members. The Code can be accessed at www.advamed.org/publicdocs/coe.html.

Directors may not be given personal loans or extensions of credit by the Company, and all directors are required to deal at arm's length with the Company and its subsidiaries, and to disclose any circumstance that might be perceived as a conflict of interest.

The Board approved a policy mandating that the Company's outside independent auditors not perform any prohibited non-audit services under the Sarbanes-Oxley Act of 2002 and the related SEC rules. In addition, the Audit Committee approved a policy requiring that all services from the outside independent auditors must be pre-approved by the Audit Committee or its delegate (i.e., the Audit Committee Chairman).

The Board adopted stock ownership guidelines for the Company's directors and executive officers. In general, these standards require non-employee directors to hold restricted stock units (otherwise known as deferred stock awards) granted to them until six months after they cease to be directors and that executive officers of the Company must achieve and maintain a

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minimum level of stock ownership. The stock ownership guidelines are included in the Corporate Governance Standards attached as Appendix A.

As part of directors' education, which includes, among other things, regular dedicated sessions regarding the Company's businesses and operations, Audit Committee sponsored financial literacy and legal and regulatory compliance training, and participation in Company and industry trade events, the Board requires each director to attend an outside governance or director related seminar at least once every three years.

Pursuant to the Foreign Corrupt Practices Act and the Sarbanes-Oxley Act of 2002, the Company monitors and enforces policies, and implements a system of internal controls, designed to detect and prevent money laundering, corruption and bribery. Supporting processes include ethics training and certification regarding, among other things, compliance with the Foreign Corrupt Practices Act, documentation, training and testing, new hire criminal background checks and internal audit procedures.

Consistent with the Company's commitment to corporate governance, the Board and management believe that the foregoing measures, and others that have been taken, place the Company in compliance with listing requirements of the New York Stock Exchange, the Sarbanes-Oxley Act of 2002 and related rules of the Securities and Exchange Commission. Copies of the Company's Corporate Governance Standards, Code of Ethical Business Conduct and Board committee charters are filed or incorporated by reference as exhibits to the Company's Annual Report on Form 10-K for the year ended September 30, 2005 and are available on the Company's website at www.hillenbrand.com or in print to any shareholder who requests copies through the Company's Investor Relations office. Also available on the Company's website are position specifications adopted by the Board for the positions of Chief Executive Officer, Chairman of the Board of Directors, Vice Chairperson of the Board of Directors, Vice Chairperson of each of the committees of the Board of Directors and other members of the Board of Directors.

Determinations with Respect to Independence of Directors

As noted above, the Corporate Governance Standards adopted by the Board of Directors require the Board of Directors to make an annual determination regarding the independence of each of the Company's directors and provide standards for making these determinations which are consistent with the listing standards of the New York Stock Exchange. The Board made these determinations for each member of the Board on November 30, 2005, based on an annual evaluation performed by and recommendations made by the Nominating/Corporate Governance Committee, consistent with past practices.

As set forth in the Company's Corporate Governance Standards, a director will be independent only if the Board of Directors determines, based on a consideration of all relevant facts and circumstances, that the director has no material relationship with the Company or any of its subsidiaries (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company or any of its subsidiaries). In assessing the materiality of a director's relationship with the Company and each director's independence, the Board must consider the issue of materiality not only from the standpoint of the director but also from that of the persons or organizations with which the director has an affiliation. Material relationships can include, among others, commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships. In assessing a director's independence, the Board must also consider the director's ownership, or affiliation with the owner, of less than a controlling amount of voting securities of the Company. The Board cannot conclude that a director is independent in the following circumstances:

The director is, or has been within the last three years, an employee of the Company or any of its subsidiaries, or an immediate family member of the director is, or has been within the last

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three years, an executive officer of the Company (but employment as an interim executive officer will not disqualify a director from being considered independent following that employment).

The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$100,000 per year in direct compensation from the Company or its subsidiaries, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).

(A) The director or an immediate family member of the director is a current partner of a firm that is the internal or external auditor of the Company or any of its subsidiaries; (B) the director is a current employee of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the audit of the Company or any of its subsidiaries within that time.

The director or an immediate family member of the director is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executives at the same time serves or served on that company's compensation committee.

The director is a current employee, or an immediate family member of the director is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeded the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

The director owns, or is affiliated with the owner of, a controlling amount of voting stock of the Company.

To assist in the Board's determinations, each director completed materials designed to identify any relationships that could affect the director's independence, and the General Counsel and Secretary of the Company conducted follow up interviews with certain directors. On the basis of these materials and the standards described above, the Board determined that each of Charles E. Golden, Ray J. Hillenbrand, Mark D. Ketchum, Eduardo R. Menascé, Anne Griswold Peirce, Joanne C. Smith, and Peter H. Soderberg is independent. With respect to each of Messrs. Ketchum, Menascé and Soderberg and Dr. Peirce, the Board determined that they were independent because no relationship was identified that would automatically bar them from being characterized as independent, no other relationship between any of them and the Company or any of its subsidiaries, whether or not material, was identified and none of them beneficially owns more than 1% of the Company's outstanding common stock.

With respect to Charles E. Golden, the Board considered the fact that Mr. Golden is a member of the Board of Directors of Clarian Health Partners, which purchased approximately \$4.8 million, \$3.7 million and \$6.6 million of products and services from the Company in the fiscal years 2003, 2004 and 2005, respectively. In determining that this relationship was not material, the Board considered that Mr. Golden is not an executive officer of Clarian Health Partners and that the amount of products and services purchased from the Company by Clarian Health Partners in the last three years has been substantially below 2% of the consolidated gross revenues of Clarian Health Partners in those years.

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With respect to Ray J. Hillenbrand, the Board considered the fact that the Board determined that Mr. Hillenbrand's brother, John A. Hillenbrand II, who is also a Board member, is not independent under the standards described above. The Board determined that Mr. Hillenbrand had exercised in the past and could be expected to exercise in the future business judgment independent from John A. Hillenbrand II. The Board also considered that its determination that John A. Hillenbrand II was not independent was based on a consideration by the Board of all the facts and circumstances and not because a finding of independence was automatically or technically barred under NYSE listing standards.

With respect to Joanne C. Smith, the Board considered the fact that the Rehabilitation Institute of Chicago, of which Dr. Smith served as Senior Vice President of Strategy and Business Development from April 2002 through November 2005 and now serves as President of its National Division, has purchased approximately \$280,000, \$140,000 and \$206,000 of products and services from the Company in fiscal years 2003, 2004 and 2005, respectively. In evaluating this relationship, the Board considered that the amount of purchases by the Rehabilitation Institute of Chicago in the last three years constituted less than one-quarter of one percent of the gross revenues of the Rehabilitation Institute of Chicago in those years and that Dr. Smith had no authority with respect to the purchasing decisions of the Rehabilitation Institute of Chicago in those years and has no direct authority for purchasing decisions in her new capacity. On the basis of these factors, the Board determined that this relationship was not material.

The Board concluded that, based on all of the relevant facts and circumstances, none of these relationships constituted a material relationship with the Company that represents a potential conflict of interest or otherwise interferes with the exercise by any of these directors of his or her independent judgment from management and the Company.

The Board determined that Rolf A. Classon is not independent because of his current service as Interim President and Chief Executive Officer of the Company. Mr. Classon does not serve on the Audit, Compensation and Management Development or Nominating/Corporate Governance Committees of the Board, having left the Compensation and Management Development and Nominating/Corporate Governance Committees upon his appointment as Interim President and Chief Executive Officer in May 2005. The Board expects that Mr. Classon will qualify as independent again once he ceases to be Interim President and Chief Executive Officer.

Also on the basis of the standards described above and the materials submitted by the directors, the Board determined that neither W August Hillenbrand nor John A. Hillenbrand II meets the standards for independence. Accordingly, neither of these non-independent directors serves on the Audit, Compensation and Management Development or Nominating/Corporate Governance Committees of the Board of Directors.

Meetings and Committees of the Board of Directors

It is the general policy of the Company that all significant decisions be considered by the Board as a whole. As a consequence, the committee structure of the Board is limited to those committees considered to be basic to, or required for, the operation of a publicly owned company. Currently these committees are the Compensation and Management Development Committee, Finance Committee, Audit Committee and Nominating/Corporate Governance Committee, each of which has a written charter adopted by the Board of Directors. The Nominating/Corporate Governance Committee recommends the members and chairs of these committees to the Board. The Audit Committee, Compensation and Management Development Committee and Nominating/Corporate Governance Committee are made up of only independent directors. The current charter for each of the Board's standing committees is available on the Company's website at www.hillenbrand.com and is available in print to any shareholder who requests it through the Company's Investor Relations office.

In furtherance of its policy of having significant decisions made by the Board as a whole, the Company has an orientation and continuing education process for Board members that includes extensive materials,

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meetings with key management, visits to Company facilities and Company and industry events. Moreover, as part of directors' education, which includes, among other things, regular dedicated sessions regarding the Company's businesses and operations, Audit Committee sponsored financial literacy and legal and regulatory compliance training, and participation in Company and industry trade events, the Board requires each director to attend an outside governance or director related seminar at least once every three years.

During the fiscal year ended September 30, 2005, the Board of Directors of the Company held nine meetings. During this period, no member of the Board of Directors attended fewer than 75% of the aggregate of the number of meetings of the full Board of Directors and the number of meetings of the committees on which he or she served.

The **Finance Committee** assists the Board of Directors in matters related to the capital structure of the Company and is responsible for overseeing the investment of the Company's assets pending utilization in the Company's operations. The Finance Committee of the Board of Directors consists of John A. Hillenbrand II (Chairman), Mark D. Ketchum (Vice Chairman), W August Hillenbrand and Anne Griswold Peirce. During the fiscal year ended September 30, 2005, the Finance Committee held four meetings.

The **Audit Committee** has general oversight responsibilities with respect to the Company's financial reporting and financial controls. It annually reviews the Company's financial reporting process, its system of internal controls regarding accounting, legal and regulatory compliance and ethics that management or the Board has established and the internal and external audit processes of the Company. The Audit Committee consists of Charles E. Golden (Chairman), Eduardo R. Menascé (Vice Chairman) and Joanne C. Smith. During the fiscal year ended September 30, 2005, the Audit Committee held nine meetings. Each member of the Audit Committee is independent under Rule 10A-3 of the Securities and Exchange Commission and NYSE listing standards and meets the financial literacy guidelines established by the Board in the Audit Committee Charter. The full text of the Audit Committee Charter as approved and revised by the Board of Directors is attached to this proxy statement as Appendix B. The Board interprets financial literacy to mean the ability to read and understand audited and unaudited consolidated financial statements (including the related notes) and monthly operating statements of the sort released or prepared by the Company, as the case may be, in the normal course of its business. The Board of Directors has determined that each of Charles E. Golden and Eduardo R. Menascé is an audit committee financial expert as that term is defined in Item 401(h) of Regulation S-K of the Securities and Exchange Commission.

The **Compensation and Management Development Committee** assists the Board in ensuring that the officers and key management of the Company are effectively compensated in terms of salaries, supplemental compensation and other benefits that are internally equitable and externally competitive. The Committee is also responsible for reviewing and assessing the talent development and succession management actions concerning the officers and key employees of the Company. Effective May 11, 2005, the Compensation and Management Development Committee consists of Mark D. Ketchum (Chairman), Peter H. Soderberg (Vice Chairman) and Anne Griswold Peirce. Prior to May 11, 2005, the Compensation and Management Development Committee consisted of Rolf A. Classon (Chairman), Mark D. Ketchum (Vice Chairman), Anne Griswold Peirce and Peter H. Soderberg. During the fiscal year ended September 30, 2005, the Compensation and Management Development Committee held ten meetings. Each member of the Compensation and Management Development Committee is independent as defined by the New York Stock Exchange listing standards.

Effective May 11, 2005, the **Nominating/Corporate Governance Committee** consists of Peter H. Soderberg (Chairman), Joanne C. Smith (Vice Chairperson), Charles E. Golden and Eduardo R. Menascé. Prior to May 11, 2005, Rolf A. Classon also was a member of the Committee. The Nominating/Corporate Governance Committee held five meetings during the fiscal year ended September 30, 2005. Each member of the Nominating/Corporate Governance Committee is independent as defined by the New York Stock Exchange listing standards.

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The charter for the Nominating/Corporate Governance Committee of the Board of Directors provides that the primary function of this Committee is to assist the Board of Directors in ensuring that the Company is operated in accordance with prudent and practical corporate governance standards, ensuring that the Board achieves its objective of having a majority of its members be independent in accordance with New York Stock Exchange and other regulations and identifying candidates for the Board of Directors. The charter provides that this Committee must consist of at least three members of the Board of Directors, all of whom must be independent. The charter provides that, to fulfill its duties and responsibilities, the Committee must:

Review from time to time and, if appropriate, recommend to the Board changes to the corporate governance standards for the Board of Directors of the Company and its committees, including committee charters;

Review from time to time, and, if appropriate, make changes to the statement setting forth the responsibilities of directors and the qualifications for new nominees for election to the Board;

Review from time to time, and, if appropriate, make changes to the statement setting forth the responsibilities of and the qualifications for the Chairman of the Board and the Vice Chairperson of the Board;

Annually assess the Board's effectiveness as a whole as well as the effectiveness of the individual directors and the Board's various committees, including a review of the mix of skills, core competencies and qualifications of members of the Board;

Assess, at least annually, the compensation package for the members of the Board of Directors and, if appropriate, recommend changes to the Board of Directors;

Make recommendations with respect to the composition of Board committees;

If deemed necessary, select and retain an executive search firm to identify qualified candidates to serve as members of the Board, considering effectiveness, responsiveness and other relevant factors, and approve the fees and other compensation to be paid to the executive search firm;

Review the performance of the executive search firm and approve any proposed discharge of the executive search firm when circumstances warrant;

Select and recommend to the Board director nominees for election at each annual meeting of shareholders, as well as director nominees to fill vacancies arising between annual meetings of shareholders;

When deemed necessary or appropriate, make recommendations to the Board regarding the appointment or replacement of the Chairman of the Board and the Vice Chairperson of the Board;

Recommend to the Board annually, based on a consideration of all relevant facts and circumstances, whether each director is independent (as that term is defined in the Corporate Governance Standards for the Board of Directors).

Assess the adequacy of and make recommendations to the Board regarding directors' and officers' insurance coverage;

Review and make recommendations to the Board regarding any shareholder proposals;

Pre-approve any related party transactions between the Company or any of its subsidiaries and any director or executive officer;

Determine requirements for, and means of, director orientation and training; and

Review the charter for the Committee and assess the performance of the members of the Committee at least annually and recommend updates and changes to the Board as conditions warrant.

The Board of Directors has adopted position specifications applicable to members of the Board of Directors, and nominees for the Board of Directors recommended by the Nominating/Corporate Governance Committee must meet the qualifications set forth in these position specifications. The specifications provide that a candidate for director should not ever (i) have been the subject of a Securities and Exchange Commission enforcement action in which he or she consented to the entry of injunctive relief, a cease and desist order, or a suspension or other limitation on the ability to serve as a corporate officer or supervisor, (ii) had any license

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suspended or revoked due to misconduct of any type or (iii) violated any fiduciary duty to the Company or its Code of Ethical Business Conduct, and should exhibit the following characteristics:

Have a reputation for industry, integrity, honesty, candor, fairness and discretion;

Be an acknowledged expert in his or her chosen field of endeavor, which area of expertise should have some relevance to the Company's businesses or operations;

Be knowledgeable, or willing and able to become so quickly, in the critical aspects of the Company's businesses and operations; and

Be experienced and skillful in serving as a competent overseer of, and trusted advisor to, senior management of a substantial publicly held corporation.

In addition, as specified in the charter for the Nominating/Corporate Governance Committee, nominees for the Board of Directors recommended by the Nominating/Corporate Governance Committee should contribute to the mix of skills, core competencies and qualifications of the Board through expertise in one or more of the following areas: accounting and finance, product and technology development, strategic oversight, healthcare, death care or other low growth industry, manufacturing, service businesses, international operations, merger and acquisition related business development, leadership development, sales and marketing development, compensation design and processes, public company governance and international governance.

The Nominating/Corporate Governance Committee reviews incumbent directors against the position specifications applicable to members of the Board of Directors and independence standards set forth in the New York Stock Exchange Listing Standards. Additionally, since 2003, the Board as a whole, the Board committees and individual incumbent directors are formally evaluated annually by the Nominating/Corporate Governance Committee, whose findings are reviewed with the Board. The Nominating/Corporate Governance Committee retains a nationally recognized consulting firm to assist it with the evaluation process and retained a nationally recognized executive search firm to assist it with the identification and evaluation of the two directors added to the Board in September 2004, Mark D. Ketchum and Eduardo R. Menascé.

The Nominating/Corporate Governance Committee's policy with respect to the consideration of director candidates recommended by shareholders is that it will consider such candidates. Any such recommendations should be communicated to the Chairman of the Nominating/Corporate Governance Committee in the manner described above in Communications with Directors and should be accompanied by substantially the same types of information as are required under the Company's Code of By-laws for shareholder nominees.

The Company's Code of By-Laws provides that nominations of persons for election to the Board of Directors of the Company may be made at any meeting of shareholders by or at the direction of the Board of Directors or by any shareholder entitled to vote for the election of members of the Board of Directors at the meeting. For nominations to be made by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Company and any nominee must satisfy the qualifications established by the Board of Directors of the Company from time to time as contained in the proxy statement of the Company for the immediately preceding annual meeting or posted on the Website of the Company at www.hillenbrand.com. To be timely, a shareholder's nomination must be delivered to or mailed and received by the Secretary not later than (i) in the case of the annual meeting, 100 days prior to the anniversary of the date of the immediately preceding annual meeting which was specified in the initial formal notice of such meeting (but if the date of the forthcoming annual meeting is more than 30 days after such anniversary date, such written notice will also be timely if received by the Secretary by the later of 100 days prior to the forthcoming meeting date and the close of business 10 days following the date on which the Company first makes public disclosure of the meeting date) and (ii) in the case of a special meeting, the close of business on the tenth day following the date on which the Company first makes public disclosure of the meeting date. The notice given by a shareholder must set forth: (i) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the shareholder is a holder of record, setting forth the shares so held, and

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intends to appear in person or by proxy as a holder of record at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between such shareholder and each nominee proposed by the shareholder and any other person or persons (identifying such person or persons) pursuant to which the nomination or nominations are to be made by the shareholders; (iv) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission; (v) the consent in writing of each nominee to serve as a director of the Company if so elected, and (vi) a description of the qualifications of such nominee to serve as a director of the Company.

Compensation of Directors

Of the Company's current Board members, only Mr. Classon is a salaried employee of the Company. All other directors receive separate compensation for Board service. Mr. Classon received separate compensation for Board service for the period prior to his appointment as Interim President and Chief Executive Officer on May 11, 2005.

In 2004, the Board of Directors approved a revised compensation program for non employee directors, which was in effect for the 2005 fiscal year. The details of this program are as follows:

Directors receive an annual retainer of \$25,000 for their service as directors, together with a \$3,500 fee for each Board meeting attended. The Chairman of the Board of Director's annual retainer is \$150,000.

For any Board meeting lasting longer than one day, each director who attends receives \$1,000 for each additional day.

Directors who attend a Board meeting or standing committee meeting by telephone receive fifty percent (50%) of the usual meeting fee.

Each director who is a member of the Nominating/Corporate Governance, Finance, Audit or Compensation and Management Development Committee receives a fee of \$1,500 for each committee meeting attended.

The Chairs of the Audit, Compensation and Management Development, Nominating/Corporate Governance and Finance Committees receive an additional \$10,000, \$8,000, \$7,000 and \$5,000 annual retainer, respectively.

Directors who attend meetings of committees of which they are not members receive no fees for their attendance.

Notwithstanding the foregoing, for any meeting of an ad hoc committee or team of the Board that requires attendance in person or by telephone, the directors who attend each receive a meeting fee of \$1,500, except when such meetings occur before, during or after a meeting of the Board or a standing committee of the Board that also is attended by such directors.

Board and committee retainers are paid in quarterly installments and the meeting fees are paid following the meeting.

Each director is reimbursed for expenses incurred as a result of attendance at Board or committee meetings. The Company also makes its aircraft available to directors for attendance at Board meetings.

Each director is awarded on the first trading day following the close of each annual meeting of the Company's shareholders 1,800 restricted stock units (otherwise known as deferred stock awards) under

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the Company's Stock Incentive Plan. Delivery of shares underlying such restricted stock units occurs on the later to occur of one year and one day from the date of the grant or the six month anniversary of the date that the applicable director ceases to be a member of the Board of Directors of the Company. In the case of the Chairman of the Board of Directors, his or her annual grant of restricted stock units is 3,500.

Non-employee directors are also eligible to participate in the Company's group term life insurance program in which the Company pays premiums. Death benefits, which are age related, range from \$97,500 to \$150,000.

Anne Griswold Peirce received approximately \$120 of above market interest on Board of Director fees deferred in the year ended September 30, 2005.

Certain Relationships and Related Transactions

In September 2005, the Board amended the Corporate Governance Standards for the Board to reflect the Board's policy that all new proposed related party transactions involving executive officers or directors must be reviewed and approved by the Nominating/Corporate Governance Committee in advance.

As previously disclosed, during 2000, W August Hillenbrand and the Company entered into an agreement relating to Mr. Hillenbrand's retirement as Chief Executive Officer of the Company on December 2, 2000. Under that agreement, Mr. Hillenbrand agreed to render consulting services to, and refrain from competing with, the Company through September 18, 2005. In addition to his consulting fee of approximately \$872,800, received during the fiscal year ended September 30, 2005, Mr. Hillenbrand also received \$231,329 of above market interest on deferred compensation and \$9,303,598 for payment of deferred stock. Mr. Hillenbrand is also entitled to receive a package of benefits from the Company, including payment of life and health insurance premiums, reimbursement of medical expenses not covered by insurance, an office, a secretary, an automobile, reimbursement of miscellaneous expenses, supplemental pension fund benefit payments and use of the Company's corporate aircraft for individual personal purposes on the same basis as the Company's Chief Executive Officer's personal use, *i.e.*, up to fifty hours per year. During the fiscal year ended September 30, 2005, these benefits aggregated approximately \$582,700. Additionally, during fiscal year 2005 the Company paid \$58,100 for legal and security measures to address certain security threats to Mr. Hillenbrand and the Company.

During the fiscal year ended September 30, 2004, the Board of Directors of the Company authorized a contribution of \$500,000, which was paid in 2005, to The John A. Hillenbrand Foundation, a public charitable foundation formed in 1950 to promote religious, educational and/or charitable activities in the City of Batesville and the County of Ripley, Indiana. The Foundation has contributed to a variety of projects involving the local churches, schools and hospital. W August Hillenbrand, a director of the Company, is an officer and director of the Foundation, and John A. Hillenbrand II is a director of the Foundation. Ray J. Hillenbrand resigned from all positions held with the Foundation on August 1, 2002.

The Rehabilitation Institute of Chicago, of which Joanne C. Smith, a director of the Company, was Senior Vice President of Strategy and Business Development through November 2005 and now serves as President of its National Division, is a customer of the Company. During the fiscal year ended September 30, 2005, the Company sold approximately \$206,000 of products and services to the Rehabilitation Institute of Chicago. The Rehabilitation Institute of Chicago is a voluntary member, among thousands of members, of one of the group purchasing organizations with which the Company has a contract. Accordingly, the Company expects to continue to sell products to this customer, although the amounts of future sales are not fixed and are not currently determinable. Sales to this customer are on terms consistent with those of sales to the Company's other customers. During fiscal year 2005 Dr. Smith had no authority with respect to the purchasing decision of the Rehabilitation Institute of Chicago.

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In 2003 the Company's Batesville Casket subsidiary entered into a contract with Nambé Mills, Inc. pursuant to which Batesville Casket purchases urn products from Nambé Mills. Purchases during the fiscal year ended September 30, 2005 were approximately \$321,000, and purchases during fiscal 2006 are projected to total approximately \$262,000. John A. Hillenbrand II, a director of the Company, served as the Chairman of the Board of Nambé Mills until January 2005, when he became its Chairman Emeritus. Mr. Hillenbrand's children own substantially all of the equity of Nambé Mills. The Company believes that these purchases will be on terms similar to those the Company could obtain from an unrelated third party for these products.

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Table of Contents**EXECUTIVE COMPENSATION**

The following tabulation and notes set forth the compensation paid or accrued by the Company during the fiscal years ended September 30, 2005, 2004 and 2003 to each person who served as Chief Executive Officer, each of the other four most highly compensated executive officers and two other individuals who would have been included in the foregoing category but for the fact that they were not serving as an executive officer at the end of the fiscal year.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long Term Compensation Awards		
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$) ⁽¹⁾	Restricted Securities		All Other Compensation (\$) ⁽⁴⁾
					Stock Awards (\$) ⁽²⁾	Underlying Options ⁽³⁾	
Rolf A. Classon ⁽⁶⁾ Interim President and Chief Executive Officer	2005	\$ 330,685	\$ 0	\$ 123,603	\$ 1,103,221	0	\$ 306,627
	2004	N/A	N/A	N/A	\$ 95,095	0	\$ 76,516
	2003	N/A	N/A	N/A	\$ 0	4,000	\$ 72,008
Frederick W. Rockwood ⁽⁷⁾ Former President and Chief Executive Officer	2005	\$ 642,689	\$ 0	(5)	\$ 827,753	90,000	\$ 173,002
	2004	\$ 1,039,767	\$ 0	\$ 142,048	\$ 919,144	100,000	\$ 494,809
	2003	\$ 996,354	\$ 1,882,188	\$ 170,603	\$ 540,350	100,000	\$ 11,650
Gregory N. Miller ⁽⁸⁾ Senior Vice President and Chief Financial Officer	2005	\$ 258,586	\$ 0	(5)	\$ 83,370	8,000	\$ 28,939
	2004	\$ 241,696	\$ 21,688	(5)	\$ 58,240	5,000	\$ 19,631
	2003	\$ 226,072	\$ 216,913	(5)	\$ 81,053	5,500	\$ 6,000
Scott K. Sorensen ⁽⁹⁾ Former Vice President and Chief Financial Officer	2005	\$ 388,475	\$ 0	(5)	\$ 197,865	18,000	\$ 56,221
	2004	\$ 457,591	\$ 0	(5)	\$ 282,056	24,000	\$ 50,029
	2003	\$ 427,882	\$ 769,811	(5)	\$ 270,175	25,000	\$ 6,660
Patrick D. de Maynadier Vice President, General Counsel and Secretary	2005	\$ 318,300	\$ 0	(5)	\$ 181,747	18,000	\$ 38,803
	2004	\$ 312,325	\$ 0	(5)	\$ 218,866	18,000	\$ 31,788
	2003	\$ 290,510	\$ 348,280	(5)	\$ 108,070	15,000	\$ 6,508
Kenneth A. Camp Senior Vice President of the Company and President and Chief Executive Officer, Batesville Casket Company, Inc.	2005	\$ 391,914	\$ 0	(5)	\$ 220,097	24,000	\$ 97,575
	2004	\$ 384,375	\$ 0	(5)	\$ 252,936	20,000	\$ 86,681
	2003	\$ 359,448	\$ 474,280	(5)	\$ 270,175	20,000	\$ 6,906
R. Ernest Waaser ⁽¹⁰⁾ Former President and Chief Executive Officer, Hill-Rom Company, Inc.	2005	\$ 346,174	\$ 0	(5)	\$ 197,865	24,000	\$ 56,003
	2004	\$ 407,398	\$ 0	(5)	\$ 282,056	24,000	\$ 50,575
	2003	\$ 379,355	\$ 522,067	\$ 55,604	\$ 270,175	25,000	\$ 6,975
Bruce J. Bonnevier ⁽¹¹⁾ Former Vice President, Human	2005	\$ 250,000	\$ 0	(5)	\$ 170,631	16,000	\$ 48,019
	2004	\$ 97,678	\$ 0	(5)	\$ 110,770	15,000	\$ 38,979

Resources	2003	N/A	N/A	N/A	N/A	N/A	N/A
<p>(1) Consists of the cost of aircraft usage, cash perquisites, home security expenses, automobile allowances, reimbursement for relocation expenses and professional services for tax preparation and financial planning services, and other personal benefits provided by the Company. Included in 2005 for Rolf A. Classon is \$123,603 for Mr. Classon's use of the Company's jet aircraft. The Company's arrangements with Mr. Classon relating to his service as Interim President and Chief Executive Officer permit use of the Company's aircraft by Mr. Classon and, on limited occasions approved in advance by the Chairman of the Board, his</p>							

family for travel
between the
Company s
Batesville,
Indiana
headquarters
and their
permanent
residence and
by Mr. Classon
for travel
relating

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to Mr. Classon's business activities not related to the Company, such as travel to meetings of other boards of directors on which Mr. Classon serves. The Company will make gross-up payments to Mr. Classon for any income taxes payable by him as a result of the use of the Company's aircraft for these purposes. The Company also has adopted a policy permitting the Chief Executive Officer, but not other executive officers, to use the Company's aircraft for personal purposes up to fifty hours per year. While the Company does not charge for the personal use of its aircraft, and for purposes of its policy on use of Company aircraft does not regard these as personal uses of Company aircraft by

Mr. Classon, it does report amounts related to such use as taxable income to the Internal Revenue Service. The value of the use of Company aircraft disclosed in the Summary Compensation Table is based upon the incremental cost of \$1,424 per flight hour to the Company and not the values reported to the IRS.

- (2) These amounts represent awards of shares of deferred stock and restricted stock units (otherwise known as deferred stock awards), pursuant to which an equal number of shares of common stock of the Company will be issued upon satisfaction of certain vesting conditions and deferral elections. As of September 30, 2005 the number of shares and value

of deferred
stock and shares
underlying
restricted stock
units held are as
follows:

Name	Restricted Stock Units and Deferred Stock	
	Shares (#)	Value (\$)
Rolf A. Classon	23,399	\$ 1,100,923
Frederick W. Rockwood	19,442	\$ 914,746
Gregory N. Miller	2,573	\$ 121,060
Scott K. Sorensen	2,613	\$ 122,942
Patrick D. de Maynadier	6,983	\$ 328,550
Kenneth A. Camp	8,208	\$ 386,186
R. Ernest Waaser	5,602	\$ 263,574
Bruce J. Bonnevier	5,200	\$ 244,660

Rolf A Classon was awarded 20,000 restricted stock units on June 20, 2005, which will vest 100% on the earlier of May 10, 2006 or the day immediately preceding the date the Board of Directors of the Company elects an individual to succeed Mr. Classon as Chief Executive Officer and President of the Company. Mr. Classon was also awarded 1,800 restricted stock units on February 11, 2005 with respect to which the underlying shares of common stock of the Company will be issuable 100% on the later of February 12, 2006 or within 75 days after the date Mr. Classon ceases to be a member of the Board of Directors of the Company. Mr. Classon was also awarded 1,400 restricted stock units on February 13, 2004 with respect to which the underlying shares of common stock of the Company will be issuable 100% on the later of February 14, 2005 or within the six month anniversary of the date Mr. Classon ceases to be a member of the Board of Directors of the Company.

Frederick W. Rockwood was awarded 14,893 restricted stock units on December 15, 2004, which were forfeited as of May 11, 2005. Mr. Rockwood was also awarded 14,000 restricted stock units on December 3, 2003, which vested 100% on May 11, 2005. Mr. Rockwood was also awarded 1,782 restricted stock units on December 3, 2003, which vested 100% on December 4, 2004. Mr. Rockwood was also awarded 10,000 restricted stock units on August 25, 2003, which vested 50% on August 26, 2004 and vested 50% on May 11, 2005. Mr. Rockwood was also awarded 20,000 restricted stock units on October 5, 1999, which vested 100% on October 5, 2002.

Gregory N. Miller was awarded 1,500 restricted stock units on December 15, 2004, which will vest 20% on December 16, 2006; 25% on December 16, 2007; 25% on December 16, 2008; and 30% on December 16, 2009. Mr. Miller was also awarded 1,000 restricted stock units on December 3, 2003, which vested 20% on December 4, 2005; and will vest 25% on December 4, 2006; 25% on December 4, 2007; and 30% on December 4, 2008. Mr. Miller was also awarded 1,500 restricted stock units on August 25, 2003, which vested 50% on August 26, 2004 and August 26, 2005, respectively.

Scott K. Sorensen was awarded 3,560 restricted stock units on December 15, 2004, which were forfeited as of July 31, 2005. Mr. Sorensen was also awarded 4,500 restricted stock units on December 3, 2003, which were forfeited as of July 31, 2005. Mr. Sorensen was also awarded 343 restricted stock units on December 3, 2003, which vested 100% on December 4, 2004. Mr. Sorensen was also awarded 5,000 restricted stock units on August 25, 2003, which vested 50% on August 26, 2004 and 50% which were forfeited as of July 31, 2005. Mr. Sorensen was also awarded 10,000 restricted stock units on March 1, 2001, which vested 50% on January 1, 2002 and January 1, 2003, respectively.

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Patrick D. de Maynadier was awarded 3,000 restricted stock units on December 15, 2004, which will vest 20% on December 16, 2006; 25% on December 16, 2007; 25% on December 16, 2008; and 30% on December 16, 2009. Mr. de Maynadier was also awarded 270 restricted stock units on December 16, 2004, which vested 100% on December 16, 2005. Mr. de Maynadier was also awarded 3,500 restricted stock units on December 3, 2003, which vested 20% on December 4, 2005; and will vest 25% on December 4, 2006; 25% on December 4, 2007; and 30% on December 4, 2008. Mr. de Maynadier was also awarded 258 restricted stock units which vested 100% on December 4, 2004. Mr. de Maynadier was also awarded 2,000 restricted stock units on August 25, 2003, which vested 50% on August 26, 2004 and August 26, 2005, respectively.

Kenneth A. Camp was awarded 3,600 restricted stock units on December 15, 2004, which will vest 20% on December 16, 2006; 25% on December 16, 2007; 25% on December 16, 2008; and 30% on December 16, 2009. Mr. Camp was also awarded 360 restricted stock units on December 16, 2004, which vested 100% on December 16, 2005. Mr. Camp was also awarded 4,000 restricted stock units on December 3, 2003, which vested 20% on December 4, 2005; and will vest 25% on December 4, 2006; 25% on December 4, 2007; and 30% on December 4, 2008. Mr. Camp was also awarded 343 restricted stock units, which vested 100% on December 4, 2004. Mr. Camp was also awarded 5,000 restricted stock units on August 25, 2003, which vested 50% on August 26, 2004 and August 26, 2005, respectively. Mr. Camp was also awarded 1,500 restricted stock units on January 17, 2001, which vested 100% on January 17, 2004.

R. Ernest Waaser was awarded 3,560 restricted stock units on December 15, 2004, which were forfeited as of July 31, 2005. Mr. Waaser was also awarded 4,500 restricted stock units on December 3, 2003, which were forfeited as of July 31, 2005. Mr. Waaser was also awarded 343 restricted stock units on December 3, 2003 which vested 100% on December 4, 2004. Mr. Waaser was also awarded 5,000 restricted stock units on August 25, 2003, which vested 50% on August 26, 2004 and 50% which were forfeited as of July 31, 2005. Mr. Waaser was also awarded 1,500 restricted stock units on March 8, 2001, which vested 100% on January 1, 2003.

Bruce J. Bonnevier was awarded 2,800 restricted stock units on December 15, 2004, which will vest 20% on December 16, 2006; 25% on December 16, 2007; 25% on December 16, 2008; and 30% on December 16, 2009. Mr. Bonnevier was also awarded 270 restricted stock units on December 16, 2004, which vested 100% on December 16, 2005. Mr. Bonnevier was also awarded 2,000 restricted stock units on May 11, 2004, which will vest 20% on May 12, 2006; 25% on May 12, 2007; 25% on May 12, 2008; and 30% on May 12, 2009.

Dividends paid on the Company common stock will be deemed to have been paid with regard to the restricted stock units awarded and deemed to be reinvested in Company common stock at the market value on the date of such dividend, and will be paid in additional shares on the vesting date of the underlying award.

(3) Options were granted pursuant to the Company's Stock Incentive Plan for the fiscal years ended September 30, 2005, 2004 and 2003, respectively.

(4) All Other Compensation earned or allocated in the fiscal year ended September 30, 2005 is as follows:

Name	Supplemental		Signing Bonus	Executive	Board of	Total
	401(k) Contributions	401(k) Contributions		Life Insurance	Directors Fees	
Rolf A. Classon	\$ 4,085	\$ 0	\$250,000	\$ 792	\$51,750	\$306,627
Frederick W. Rockwood	\$ 6,300	\$ 11,675		\$155,027		\$173,002
Gregory N. Miller	\$ 17,162	\$ 11,777				\$ 28,939
Scott K. Sorensen	\$ 6,300	\$38,667		\$ 11,254		\$ 56,221
Patrick D. de Maynadier	\$ 6,300	\$24,004		\$ 8,499		\$ 38,803
Kenneth A. Camp	\$ 6,300	\$37,409		\$ 53,866		\$ 97,575
R. Ernest Waaser	\$ 6,300	\$33,841		\$ 15,862		\$ 56,003
Bruce J. Bonnevier	\$17,741	\$24,080		\$ 6,198		\$ 48,019

The value of life insurance is the annual premium paid for whole or term life insurance for calendar year 2005, except for the amount reported for Frederick W. Rockwood which also includes the conversion of the cash surrender value, including gross-up for taxes due, of the former Split Dollar Life Insurance policies to whole life

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insurance. The conversion was accomplished by a release of assignment of the split dollar collateral assignment by the Company.

- (5) Amounts do not exceed disclosure thresholds established under SEC rules.
- (6) Mr. Classon became Interim President and Chief Executive Officer of the Company on May 11, 2005. Prior to that time, he was a director of the Company but was not an employee of the Company.
- (7) Mr. Rockwood retired from the Company on May 11, 2005.
- (8) Mr. Miller was elected Senior Vice President and Chief Financial Officer of the Company effective July 14, 2005. Prior to that time, he was Vice President, Controller and Chief Accounting Officer of the Company.
- (9) Mr. Sorensen resigned from the Company effective July 14, 2005. In 2004, Mr. Sorensen was appointed to the Board of Directors and the Audit Committee of GMP Companies, Inc., a privately held company in which the Company had previously made a minority equity investment. Mr. Sorensen received from GMP the compensation paid to all of GMP's non-management directors, including fees for attendance at board and committee meetings and stock option grants. He resigned from GMP's Board in 2005.
- (10) Mr. Waaser resigned from the Company effective July 14, 2005.
- (11) Mr. Bonnevier was elected Vice President, Human Resources effective May 12, 2004. Prior to that date, he was not employed by the Company. Mr. Bonnevier resigned from the Company effective December 31, 2005.

**Option Grants in Last Fiscal Year
(for fiscal year ended September 30, 2005)**

The following table sets forth certain information concerning stock option grants to the named executive officers during the fiscal year ended September 30, 2005.

Individual Grants

Name	Number of Securities Underlying Options Granted (#) ⁽¹⁾	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Share)	Expiration Date	Grant Date
					Present Value (\$) ⁽²⁾
Rolf A. Classon	None				
Frederick W. Rockwood	90,000	15.89%	\$ 55.58	12/15/14	\$ 1,187,019
Gregory N. Miller	8,000	1.41%	\$ 55.58	12/15/14	\$ 105,513
Scott K. Sorensen	18,000	3.18%	\$ 55.58	12/15/14	\$ 237,404
Patrick D. de Maynadier	18,000	3.18%	\$ 55.58	12/15/14	\$ 237,404
Kenneth A. Camp	24,000	4.24%	\$ 55.58	12/15/14	\$ 316,538
R. Ernest Waaser	24,000	4.24%	\$ 55.58	12/15/14	\$ 316,538

Bruce J. Bonnevier	16,000	2.83%	\$ 55.58	12/15/14	\$ 211,026
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(1) All options were granted pursuant to the Company's Stock Incentive Plan. The options were granted at an exercise price equal to the fair market value of the Company's common stock on the date of grant. The options were granted for terms of ten years, and vest one-third on each of the first three anniversaries of the date of grant. On September 7, 2005 the Board of Directors accelerated and immediately vested the above options held by employees on September 7, 2005, subject to certain exercise and hold restrictions, during the period between September 7, 2005 and the original vesting dates.

(2) The weighted average fair value of options granted during the fiscal year ended September 30, 2005 was \$13.19 under the Binomial model using the following

assumptions:

(i) risk-free

interest rates of

2.64-4.09 percent;

(ii) expected

dividend yields of

1.70-2.08 percent;

(iii) expected

volatility factors

of 0.2023-0.2592;

and (iv) expected

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term of 6.8 years. The actual value realized by an officer from exercise of the options will depend on the market value of the Company's common stock on the dates the options are exercised.

**Aggregated Option Exercises in Last Fiscal Year
and Fiscal Year-End Option Values
(for fiscal year ended September 30, 2005)**

The following table sets forth certain information concerning option exercises during the fiscal year ended September 30, 2005 by the named executive officers and unexercised options held by such officers as of September 30, 2005:

Name	Shares Acquired On Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the- Money Options at Fiscal Year-End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Rolf A. Classon	0	\$ 0	8,000	0	\$ 0	\$ 0
Frederick W. Rockwood	7,500	\$ 187,216	395,834	0	\$ 579,984	\$ 0
Gregory N. Miller	0	\$ 0	23,167	1,833	\$ 0	\$ 0
Scott K. Sorensen	91,667	\$ 188,611	0	0	\$ 0	\$ 0
Patrick D. de Maynadier	10,000	\$ 95,100	56,000	5,000	\$ 0	\$ 0
Kenneth A. Camp	7,500	\$ 175,141	131,834	6,666	\$ 172,616	\$ 0
R. Ernest Waaser	31,667	\$ 50,736	0	0	\$ 0	\$ 0
Bruce J. Bonnevier	0	\$ 0	31,000	0	\$ 0	\$ 0

Life Insurance

During the fiscal year ended September 30, 2005, the Company, paid premiums white'>

Randall D. Sampson

23,800

8,190

31,990

- (1) Represents cash retainer and meeting fees as described above.
- (2) Values expressed represent the actual compensation costs recognized by the Company during fiscal 2006 for equity awards granted in 2007 as determined pursuant to SFAS 123R utilizing the assumptions discussed in Note 1, Summary of Accounting Policies, in the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.
- (3) Includes \$4,900 for additional time devoted to meetings with auditors and attorneys related to accounting issues arising during 2006 and 2007.

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THE COMPANY'S AUDITORS

Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, the Deloitte Entities) have been the auditors for the Company since 1982 and have been selected by the Board of Directors, upon recommendation of the Audit Committee, to serve as such for the current fiscal year. A representative of the Deloitte Entities is expected to be present at the Annual Meeting of Shareholders and will have an opportunity to make a statement and will be available to respond to appropriate questions.

Principal Accountant Fees and Services

The following is a summary of the fees billed to the Company by the Deloitte Entities for professional services rendered for the fiscal years ended December 31, 2007 and December 31, 2006. The Audit Committee considered and discussed with the Deloitte Entities the provision of non-audit services to the Company and the compatibility of providing such services with maintaining its independence as the Company's auditor.

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Fee Category	2007	2006
Audit Fees	\$349,000	\$467,714
Audit-Related Fees	25,000	19,982
Tax Fees	70,000	121,196
All Other Fees	13,700	
Total Fees	\$457,700	\$609,196

Audit Fees. This category consists of fees billed for professional services rendered for the audit of the Company's annual financial statements and review of financial statements included in our quarterly reports.

Audit-Related Fees. This category consists of fees billed for assurance and related services, such as the Company's employee benefit plan audits, that are reasonably related to the performance of the audit or review of the Company's financial statements and are not otherwise reported under Audit Fees.

Tax Fees. This category consists of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal and state tax compliance and acquisitions.

Audit Committee Pre-approval Policies and Procedures

In addition to approving the engagement of the independent auditor to audit the Company's consolidated financial statements, it is the policy of the Committee to approve all use of the Company's independent auditor for non-audit services prior to any such engagement. To minimize relationships that could appear to impair the objectivity of the independent auditor, it is the policy of the Committee to restrict the non-audit services that may be provided to the Company by the Company's independent auditor primarily to tax services and merger and acquisition due diligence and integration services and any other services that can clearly be designated as non-audit services, as defined by regulation.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors is responsible for independent, objective oversight of the Company's financial accounting and reporting, by overseeing the system of internal controls established by management and monitoring the participation of management and the independent auditors in the financial reporting process. The Audit Committee is comprised of independent directors, and acts under a written charter. Each of the members of the current Audit Committee is independent as defined under applicable SEC rules and AMEX listing standards.

The Audit Committee held five meetings in fiscal year 2007. The meetings were designed to facilitate and encourage private communication between the Audit Committee and the Company's independent accountants, the Deloitte Entities.

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During the meetings, the Audit Committee reviewed and discussed the Company's financial statements with management and the Deloitte Entities. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent accountants. The discussions with the Deloitte Entities also included the matters required by Statement on Auditing Standards (SAS) No. 61 (Communication with Audit Committees), as amended by SAS 89 and 90 (Audit Committee Communications).

The Deloitte Entities provided to the Audit Committee the written disclosures and the letter regarding its independence as required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and this information was discussed with The Deloitte Entities.

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Based on the discussions with management and the Deloitte Entities, the Audit Committee's review of the representations of management and the report of the Deloitte Entities, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission.

Submitted by the Audit Committee of the Company's Board of Directors

Edwin C. Freeman, Chair Paul J. Anderson Luella Gross Goldberg

THE PRECEDING REPORT SHALL NOT BE DEEMED INCORPORATED BY REFERENCE BY ANY GENERAL STATEMENT INCORPORATING BY REFERENCE THIS PROXY STATEMENT INTO ANY FILING UNDER THE SECURITIES ACT OF 1933 (THE 1933 ACT) OR THE SECURITIES EXCHANGE ACT OF 1934 (THE 1934 ACT), EXCEPT TO THE EXTENT THE COMPANY SPECIFICALLY INCORPORATES THIS INFORMATION BY REFERENCE, AND SHALL NOT OTHERWISE BE DEEMED FILED UNDER THE 1933 ACT OR THE 1934 ACT.

OTHER INFORMATION

Contacting the Board of Directors

Any shareholder who desires to contact our Board of Directors may do so by writing to the Board of Directors, generally, or to an individual Director at: Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343. Communications received electronically or in writing are distributed to the full Board of Directors, a committee or an individual Director, as appropriate, depending on the facts and circumstances outlined in the communication received. For example, a complaint regarding accounting, internal accounting controls or auditing matters will be forwarded to the Chair of the Audit Committee for review. Complaints and other communications may be submitted on a confidential or anonymous basis.

Shareholder Proposals for 2009 Annual Meeting

The proxy rules of the Securities and Exchange Commission permit shareholders of a company, after timely notice to the Company, to present proposals for shareholder action in the Company's proxy statement where such proposals are consistent with applicable law, pertain to matters appropriate for shareholder action and are not properly omitted by Company action in accordance with the Commission's proxy rules. The next annual meeting of the shareholders of Communications Systems, Inc. is expected to be held on or about May 21, 2009 and proxy materials in connection with that meeting are expected to be mailed on or about April 10, 2009. Shareholder proposals prepared in accordance with the Commission's proxy rules to be included in the Company's Proxy Statement must be received at the Company's corporate office, 10900 Red Circle Drive, Minnetonka, Minnesota 55343, Attention: President, by December 30, 2008, in order to be considered for inclusion in the Board of Directors' Proxy Statement and proxy card for the 2009 Annual Meeting of Shareholders. Any such proposals must be in writing and signed by the shareholder.

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The Bylaws of the Company establish an advance notice procedure with regard to (i) certain business to be brought before an annual meeting of shareholders of the Company and (ii) the nomination by shareholders of candidates for election as directors.

Properly Brought Business. The Bylaws provide that at the annual meeting only such business may be conducted as is of a nature that is appropriate for consideration at an annual meeting and has been either specified in the notice of the meeting, otherwise properly brought before the meeting by or at the direction of the Board of Directors, or otherwise properly brought before the meeting by a shareholder who has given timely written notice to the Secretary of the Company of such shareholder's intention to bring such business before the meeting. To be timely, the notice must be given by such shareholder to the Secretary of the Company not less than 45 days nor more than 75 days prior to a meeting date corresponding to the previous year's annual meeting. Notice relating to the conduct of such business at an annual meeting must contain certain information as described in Section 2.9 of the Company's Bylaws, which are available for inspection by shareholders at the Company's principal executive offices pursuant to Section 302A.461, subd. 4 of the Minnesota Statutes. Nothing in the Bylaws precludes discussion by any shareholder of any business properly brought before the annual meeting in accordance with the Company's Bylaws.

Shareholder Nominations. The Bylaws provide that a notice of proposed shareholder nominations for the election of directors must be timely given in writing to the Secretary of the Company prior to the meeting at which directors are to be elected. To be timely, the notice must be given by such shareholder to the Secretary of the Company not less than 45 days nor more than 75 days prior to a meeting date corresponding to the previous year's annual meeting. The notice to the Company from a shareholder who intends to nominate a person at the meeting for election as a director must contain certain information as described in Section 3.7 of the Company's Bylaws, which are available for inspection by shareholders as described above. If the presiding officer of a meeting of shareholders determines that a person was not nominated in accordance with the foregoing procedure, such person will not be eligible for election as a director.

Other Matters; Annual Report

Management knows of no other matters that will be presented at the meeting. If any other matters arise at the meeting, it is intended that the shares represented by the proxies in the accompanying form will be voted in accordance with the judgment of the persons named in the proxy.

The Company is transmitting with this Proxy Statement its Annual Report for the year ended December 31, 2007. Shareholders may receive, without charge, a copy of the Company's Annual Report on Form 10-K for fiscal 2007, as filed with the Securities and Exchange Commission, by writing to Secretary, Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343.

By Order of the Board of Directors,

David T. McGraw

Secretary

COMMUNICATIONS SYSTEMS, INC.
ANNUAL MEETING OF SHAREHOLDERS

May 21, 2008
10:00 a.m. Central Daylight Time

Communications Systems, Inc.
10900 Red Circle Drive
Minnetonka, Minnesota

COMMUNICATIONS SYSTEMS, INC.

proxy

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 21, 2008

The undersigned hereby appoints Curtis A. Sampson, Jeffrey K. Berg and Gerald D. Pint, or any of them, as proxies, with full power of substitution to vote all the shares of common stock which the undersigned would be entitled to vote if personally present at the Annual Meeting of Shareholders of Communications Systems, Inc., to be held May 21, 2008, at 10:00 a.m. Central Daylight Time at the offices of Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota, or at any adjournment thereof, upon any and all matters which may properly be brought before the meeting or adjournment thereof, hereby revoking all former proxies.

See reverse for voting instructions.

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∨ *Please detach here* ∨

- | | | | |
|----------------------------------|--|---|--|
| 1. ELECTION OF DIRECTORS: | 01 Edwin C. Freeman
02 Luella Gross Goldberg
03 Randall D. Sampson | <input type="radio"/> Vote FOR all nominees
(except as marked) | <input type="radio"/> Vote WITHHELD
from all nominees |
|----------------------------------|--|---|--|

(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)

- 2. THE PROXIES ARE AUTHORIZED TO VOTE IN THEIR DISCRETION UPON ANY OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING.**

UNLESS OTHERWISE SPECIFIED, THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE DIRECTORS NAMED UNDER ELECTION OF DIRECTORS ABOVE.

Address Change? Mark Box
Indicate Changes Below:

Dated: _____, 2008

Signature(s) in Box

Please date and sign exactly as your name(s) appears below indicating, where proper, official position or representative capacity in which you are signing. When signing as executor, administrator, trustee or guardian, give full title as such; when shares have been issued in names of two or more persons, all should sign.

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COMMUNICATIONS SYSTEMS, INC.

ANNUAL MEETING OF SHAREHOLDERS

May 21, 2008

10:00 a.m. Central Daylight Time

Communications Systems, Inc.

10900 Red Circle Drive

Minnetonka, Minnesota

COMMUNICATIONS SYSTEMS, INC.

proxy

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See reverse for voting instructions.

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PROXY FOR ESOP SHAREHOLDERS

As a beneficial owner of Communications Systems, Inc. common stock, you are entitled to give direction to the trustees of the CSI Employee Stock Ownership Plan & Trust regarding how to vote the number of shares you beneficially own with respect to the items listed below to be brought before the Board at the Annual Shareholders Meeting to be held Wednesday, May 21, 2008.

V Please detach here V

- | | | | |
|------------------------------|--------------------------|--|--|
| 1. ELECTION OF
DIRECTORS: | 01 Edwin C. Freeman | <input type="checkbox"/> Vote FOR all nominees | <input type="checkbox"/> Vote WITHHELD |
| | 02 Luella Gross Goldberg | (except as marked) | from all nominees |
| | 03 Randall D. Sampson | | |

(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)

2. THE PROXIES ARE AUTHORIZED TO VOTE IN THEIR DISCRETION UPON ANY OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING.

UNLESS OTHERWISE SPECIFIED, THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE DIRECTORS NAMED UNDER ELECTION OF DIRECTORS ABOVE.

Address Change? Mark Box
Indicate Changes Below:

Dated: _____, 2008

Signature(s) in Box

Please date and sign exactly as your name(s) appears below indicating, where proper, official position or representative capacity in which you are signing. When signing as executor, administrator, trustee or guardian, give full title as such; when shares have been issued in names of two or more persons, all should sign.