HILLENBRAND INDUSTRIES INC
Form 10-Q/A
January 24, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(Amendment No. 1 to Form 10-Q)
Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2005 Commission File No. 1- 6651
HILLENBRAND INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Indiana	**35-1160484**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 State Route 46 East Batesville, Indiana	**47006-8835**
(Address of principal executive offices)	(Zip Code)

(812) 934-7000
(Registrant s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes þ No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, without par value 61,581,914 shares as of April 29, 2005.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q (Form 10-Q/A) to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, initially filed with the Securities and Exchange Commission (SEC) on May 9, 2005 (Original Filing), reflects a restatement (Restatement) of the Condensed Consolidated Financial Statements of Hillenbrand Industries, Inc. as discussed in Note 13 to the Condensed Consolidated Financial Statements.

This Form 10-Q/A only amends and restates Items 1, 2 and 4 of Part I of the Original Filing and we have revised language in these Items from the Original Filing to reflect the Restatement. No other information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. Other events occurring after the filing of the Original Filing or other disclosures necessary to reflect subsequent events have been addressed in our reports filed with the SEC subsequent to the filing of the Original Filing, including the Annual Report on Form 10-K for the fiscal year ended September 30, 2005, which was previously filed on December 23, 2005. In addition, the exhibit list in Item 6 of Part II has not been updated except that currently dated certifications from our Interim President and Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, are filed with this Form 10-Q/A as Exhibits 31.1, 31.2, 32.1 and 32.2.

With this filing, we have amended the Original Filing. As such, the fiscal 2005 and 2004 financial information contained in our original quarterly reports on Form 10-Q for the periods ended March 31, 2005 and June 30, 2005, as previously filed, should no longer be relied upon.

HILLENBRAND INDUSTRIES, INC.
INDEX TO AMENDMENT NO. 1 ON FORM 10-Q/A

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (Unaudited)
Hillenbrand Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Income (Loss)
(Dollars in millions except per share data)

	Quarterly Period Ended		Year-To-Date Period Ended	
		(As Restated, See Note 13)		(As Restated, See Note 13)
	3/31/05	3/31/04	3/31/05	3/31/04
Net Revenues				
Health Care sales	$ 197.0	$ 176.2	$ 392.9	$ 341.5
Health Care rentals	121.8	118.9	241.5	211.9
Funeral Services sales	181.9	176.5	341.1	340.3
Total revenues	500.7	471.6	975.5	893.7
Cost of Revenues				
Health Care cost of goods sold	107.5	91.3	215.0	177.4
Health Care rental expenses	73.6	64.4	145.9	107.9
Funeral Services cost of goods sold	83.5	76.4	158.2	150.0
Total cost of revenues	264.6	232.1	519.1	435.3
Gross Profit	236.1	239.5	456.4	458.4
Other operating expenses	150.8	138.0	304.7	283.9
Special charges (credits)	(0.1)		(0.1)	
Operating Profit	85.4	101.5	151.8	174.5
Other income (expense), net:				
Interest expense	(4.2)	(3.9)	(8.4)	(7.0)
Investment income	5.4	1.3	12.2	2.4
Other	(1.5)	(2.5)	(1.4)	(4.0)
Income from Continuing Operations Before Income Taxes	85.1	96.4	154.2	165.9
Income tax expense (Note 11)	31.5	43.6	57.1	68.4
Income from Continuing Operations	53.6	52.8	97.1	97.5
Discontinued Operations (Note 4):				

Income (loss) from discontinued operations before income taxes (including loss on impairment of discontinued operations of $0, $129.0, $0 and $126.6)	0.6	(116.4)	0.8	(94.1)
Income tax expense (benefit)	0.2	(28.9)	0.3	(24.0)
Income (loss) from discontinued operations	0.4	(87.5)	0.5	(70.1)
Net Income (Loss)	$ 54.0	$ (34.7)	$ 97.6	$ 27.4
Income per common share from continuing operations Basic (Note 5)	$ 0.87	$ 0.85	$ 1.57	$ 1.57
Income (loss) per common share from discontinued operations Basic (Note 5)	0.01	(1.40)	0.01	(1.13)
Net Income (Loss) per Common Share Basic	$ 0.87	$ (0.56)	$ 1.58	$ 0.44
Income per common share from continuing operations Diluted (Note 5)	$ 0.86	$ 0.85	$ 1.56	$ 1.56
Income (loss) per common share from discontinued operations Diluted (Note 5)	0.01	(1.39)	0.01	(1.12)
Net Income (Loss) per Common Share Diluted	$ 0.87	$ (0.55)	$ 1.56	$ 0.44
Dividends per Common Share	$ 0.28	$ 0.27	$ 0.56	$ 0.54
Average Common Shares Outstanding Basic (thousands)	61,940	62,336	62,010	62,221
Average Common Shares Outstanding Diluted (thousands)	62,389	62,776	62,442	62,588

Note: Certain per share amounts may not accurately add due to rounding.
See Notes to Condensed Consolidated Financial Statements

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Hillenbrand Industries, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Dollars in millions)

	(As Restated, See Note 13) 3/31/05	9/30/04
ASSETS		
Current Assets		
Cash and cash equivalents	$ 102.4	$ 127.7
Current investments (Note 1)	111.9	52.5
Trade receivables, net	427.5	416.7
Inventories	116.4	121.5
Deferred income taxes	26.4	12.2
Other	22.7	15.5
Total current assets	807.3	746.1
Equipment Leased to Others, net	160.3	150.7
Property, net	212.0	221.5
Investments	82.4	79.5
Other Assets		
Intangible assets:		
Goodwill (Note 3)	426.9	429.3
Software and other	184.4	190.1
Note receivable, net of discount	110.5	105.2
Deferred charges and other assets	34.8	49.0
Total other assets	756.6	773.6
Assets of Discontinued Operations (Note 4)	105.3	98.3
Total Assets	$ 2,123.9	$ 2,069.7
LIABILITIES		
Current Liabilities		
Trade accounts payable	$ 87.3	$ 93.6
Short-term borrowings	10.8	11.0
Accrued compensation	94.5	86.6
Accrued warranty	17.1	18.6
Other	95.2	99.1
Total current liabilities	304.9	308.9
Long-Term Debt	352.0	359.9
Other Long-Term Liabilities	116.6	124.7
Deferred Income Taxes	30.6	4.7

Liabilities of Discontinued Operations (Note 4)	98.2	91.6
Total Liabilities	902.3	889.8
Commitments and Contingencies (Note 9)		
SHAREHOLDERS EQUITY		
Common stock	4.4	4.4
Additional paid-in capital	61.1	62.1
Retained earnings	1,722.0	1,658.9
Accumulated other comprehensive income (Note 6)	7.1	6.0
Treasury stock	(573.0)	(551.5)
Total Shareholders Equity	1,221.6	1,179.9
Total Liabilities and Shareholders Equity	$ 2,123.9	$ 2,069.7

See Notes to Condensed Consolidated Financial Statements

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Hillenbrand Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Dollars in millions)

	Year-to-Date Period Ended	
	3/31/05	(As Restated, See Note 13) 3/31/04
Operating Activities		
Net income	$ 97.6	$ 27.4
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	57.8	45.3
Accretion and capitalized interest on financing provided on divestiture	(6.9)	
Net capital gains Insurance		(10.7)
Provision for deferred income taxes	16.9	6.0
Loss on impairment of discontinued operations (net-of-tax)		90.5
Loss on disposal of fixed assets	2.7	3.9
Change in working capital excluding cash, current investments, current debt, acquisitions and dispositions	(38.6)	(53.3)
Change in insurance items:		
Increase in benefit reserves		36.8
Other insurance items, net		27.6
Other, net	24.1	(40.5)
Net cash provided by operating activities	153.6	133.0
Investing Activities		
Capital expenditures and purchase of intangibles	(54.1)	(52.2)
Proceeds on sale of business		14.0
Acquisitions of businesses, net of cash acquired	(9.4)	(428.7)
Investment purchases and capital calls	(85.8)	(26.3)
Proceeds on investment sales/maturities	29.6	59.7
Insurance investments:		
Purchases		(471.0)
Proceeds on maturities		152.5
Proceeds on sales		286.8
Net cash used in investing activities	(119.7)	(465.2)
Financing Activities		
Change in short-term debt	(0.2)	4.9
Additions to long-term debt		285.0
Payment of cash dividends	(34.5)	(33.8)
Proceeds on exercise of options	8.8	16.7
Treasury stock acquired	(33.7)	
Insurance deposits received		153.8

Insurance benefits paid		(154.3)
Net cash (used in) provided by financing activities	(59.6)	272.3
Effect of exchange rate changes on cash	0.4	0.8
Total Cash Flows	(25.3)	(59.1)
Cash and Cash Equivalents:		
At beginning of period	127.7	154.9
At end of period	$ 102.4	$ 95.8

See Notes to Condensed Consolidated Financial Statements

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Hillenbrand Industries, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Dollars in millions except per share data)

1. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited, condensed consolidated financial statements appearing in this quarterly report on Form 10-Q/A should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2004 as amended and filed with the U.S. Securities and Exchange Commission. Unless the context otherwise requires, the terms Hillenbrand , the Company , we , our and us refer to Hillenbrand Industries, Inc. and its consolidated subsidiaries, and the terms Hill-Rom Company , Batesville Casket Company , and derivations thereof, refer to one or more of the subsidiary companies of Hillenbrand that comprise those respective business units. Prior to July 1, 2004, Forethought Financial Services (Forethought) was our third operating company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of management, the financial statements herein include all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial position, results of operations, and cash flows for the interim periods presented. Quarterly results are not necessarily indicative of annual results.

We divested the piped-medical gas and infant care businesses of Hill-Rom and Forethought in the first, third and fourth quarters, respectively, of fiscal 2004 as further described in Note 4 below. These operations were presented as discontinued operations within our Condensed Consolidated Statements of Income for all periods up to the disposal date. Under this presentation, the revenues and variable costs associated with the businesses have been removed from the individual line items comprising the Condensed Consolidated Statements of Income and are presented in a separate section entitled, Discontinued Operations . In addition, fixed costs related to the businesses eliminated with the divestitures have also been included as a component of discontinued operations. The results of discontinued operations are not necessarily indicative of the results of the businesses if they had been operated on a stand-alone basis. On the Condensed Consolidated Balance Sheets, the assets and liabilities of the discontinued operations are also presented separately beginning in the period in which the businesses were discontinued. On the Condensed Consolidated Statements of Cash Flows, proceeds from the sale of discontinued operations are classified as an investing cash inflow and any losses are presented as a reconciling item in the reconciliation of net income to net cash provided from operations. Year-to-date operating, investing and financing activities of the discontinued operations are reflected within the respective captions of the Condensed Consolidated Statements of Cash Flows up to the disposal date, consistent with previous periods. As of and for the three- and six-month periods ended March 31, 2005, the condensed consolidated financial statements included as a discontinued operation the results of Forethought Federal Savings Bank, whose divestiture is expected to close by the end of fiscal 2005.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Material intercompany accounts and transactions have been eliminated in consolidation.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year s presentation, including the reclassification to discontinued operations of the four real estate partnerships that were sold by Forethought in June 2004. These partnerships were previously consolidated as variable interest entities.

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Revision in the Classification of Certain Securities

During the first quarter of fiscal 2005, we concluded that it was appropriate to classify our auction rate municipal bonds as current investments. Previously, such investments had been classified as cash and cash equivalents. Accordingly, we have revised the classification to report these securities as current investments in a separate line item on our Condensed Consolidated Balance Sheet as of September 30, 2004. We have also made corresponding adjustments to our Condensed Consolidated Statement of Cash Flows for the period ended March 31, 2004, to reflect the gross purchases and sales of these securities as investing activities rather than as a component of cash and cash equivalents. This change in classification does not affect previously reported cash flows from operations or from financing activities in our previously reported Consolidated Statements of Cash Flows, or our previously reported Consolidated Statements of Income for any period.

As of September 30, 2003, $33.4 million of these current investments were classified as cash and cash equivalents on our Consolidated Balance Sheet.

For the fiscal years ended September 30, 2004 and 2003 and for the ten months ended September 30, 2002, net cash provided by (used in) investing activities related to these current investments of ($19.1) million, $169.5 million and $1.8 million, respectively, were included in cash and cash equivalents in our Consolidated Statements of Cash Flows.

Current Investments

At March 31, 2005 and September 30, 2004, we held $111.9 million and $52.5 million, respectively, of current investments, which consist of auction rate municipal bonds classified as available-for-sale securities. Our investments in these securities are recorded at cost, which approximates fair market value due to their variable interest rates, which typically reset every 7 to 35 days, and, despite the long-term nature of their stated contractual maturities, we have the ability to quickly liquidate these securities. As a result, we had no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from our current investments. All income generated from these current investments was recorded as Investment income.

Investments

We use the equity method of accounting for certain private equity limited partnership investments, with earnings or losses reported within Investment income in the Condensed Consolidated Statements of Income. Other minority investments are accounted for on either a cost or equity basis, dependent upon our level of influence over the investee.

Stock-Based Compensation

We apply the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , in accounting for stock-based compensation. As a result, no compensation expense is recognized for stock options granted with exercise prices equivalent to the fair market value of stock on date of grant. Compensation expense is recognized on other forms of stock-based compensation, including stock and performance-based awards and units.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation , to all stock-based employee compensation for the periods covered in this report. The fair values of stock option grants are estimated on the date of grant. Prior to fiscal year 2005 we used the Black-Scholes option-pricing model, but all stock options granted in fiscal year 2005 are valued with the

Binomial option-pricing model for pro forma expense purposes only. Our Binomial model incorporates the possibility of early exercise of options into the valuation, as well as our

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historical exercise and termination experience to determine the option value. For these reasons, we believe the Binomial model provides a fair value that is more representative of actual historical experience than the value calculated under the Black-Scholes model.

The weighted average fair value of options granted in the first six months of fiscal 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 term of 6.8 years.

	Quarterly Period Ended		Year-to-Date Period Ended	
	3/31/05	3/31/04 (As Restated, See Note 13)	3/31/05	3/31/04 (As Restated, See Note 13)
Net income, as reported	$54.0	$(34.7)	$97.6	$27.4
Add:				
Total stock-based employee compensation, net of related tax effects, included in net income, as reported	0.8	0.7	1.4	1.3
Deduct:				
Total stock-based employee compensation, net of related tax effects, assuming fair value based method of accounting	(2.0)	(2.1)	(3.6)	(4.0)
Pro forma net income	$52.8	$(36.1)	$95.4	$24.7
Earnings per share:				
Basic as reported	$0.87	$(0.56)	$1.58	$0.44
Basic pro forma	$0.85	$(0.58)	$1.54	$0.40
Diluted as reported	$0.87	$(0.55)	$1.56	$0.44
Diluted pro forma	$0.85	$(0.57)	$1.53	$0.39

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment. This Statement requires companies to measure and recognize compensation expense for all stock options and share-based compensation transactions using a fair-value-based method. SFAS No. 123(R) thereby eliminates the use of the intrinsic value method of accounting in APB No. 25, Accounting for Stock Issued to Employees , which was permitted under SFAS No. 123, as long as the footnotes to the financial statements disclosed pro forma net income as if the fair-value-based method had been used. In April 2005, the effective date of SFAS No. 123(R) was delayed to the annual periods beginning after June 15, 2005, and thus will become effective for us in the first quarter of fiscal 2006. We are currently evaluating the adoption methods available and the impact of this pronouncement to our consolidated financial statements and results of operations.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs , to amend Accounting Research Bulletin (ARB) No. 43, Chapter 4, Inventory Pricing . SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material by requiring these items to be recognized as current-period charges. Additionally, the Statement requires that allocation of fixed production overheads to the costs of conversion be based on normal capacity of the production facilities. The adoption of SFAS No. 151 is required for fiscal years beginn