

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 December 31, 2004**  
**Commission File No. 1-6651**  
**HILLENBRAND INDUSTRIES, INC.**  
(Exact name of registrant as specified in its charter)

**Indiana**  
(State or other jurisdiction of  
incorporation or organization)

**35-1160484**  
(I.R.S. Employer  
Identification No.)

**700 State Route 46 East**  
**Batesville, Indiana**  
(Address of principal executive offices)

**47006-8835**  
(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  No

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

Yes  No

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

Yes  No

**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 61,859,104 shares as of January 31, 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 December 31, 2004, initially filed with the Securities and Exchange Commission ( SEC ) on February 14, 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 December 31, 2004, March 31, 2005 and June 30, 2005, as previously filed, should no longer be relied upon.

**HILLENBRAND INDUSTRIES, INC.**  
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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS (Unaudited)****Hillenbrand Industries, Inc. and Subsidiaries****Condensed Consolidated Statements of Income**

(Dollars in millions except per share data)

	Quarterly Period Ended	
	12/31/04	(As Restated, See Note 13) 12/31/03
<b>Net Revenues</b>		
Health Care sales	\$ 196	\$ 165
Health Care rentals	120	93
Funeral Services sales	159	164
Total revenues	475	422
<b>Cost of Revenues</b>		
Health Care cost of goods sold	108	86
Health Care rental expenses	72	43
Funeral Services cost of goods sold	75	74
Total cost of revenues	255	203
<b>Gross Profit</b>	220	219
Other operating expenses	154	146
<b>Operating Profit</b>	66	73
Other income (expense), net:		
Interest expense	(4)	(3)
Investment income	7	1
Other		(1)
<b>Income from Continuing Operations Before Income Taxes</b>	69	70
Income tax expense (Note 11)	25	25
<b>Income from Continuing Operations</b>	44	45
<b>Discontinued Operations (Note 4):</b>		
		22

Income from discontinued operations before income taxes (including gain on divestiture of discontinued operations of \$0 and \$3)			
Income tax expense			5
Income from discontinued operations			17
<b>Net Income</b>	\$	44	\$ 62
Income per common share from continuing operations Basic (Note 5)	\$	0.70	\$ 0.72
Income per common share from discontinued operations Basic (Note 5)			0.28
<b>Net Income per Common Share Basic</b>	\$	0.70	\$ 1.00
Income per common share from continuing operations Diluted (Note 5)	\$	0.69	\$ 0.72
Income per common share from discontinued operations Diluted (Note 5)			0.28
<b>Net Income per Common Share Diluted</b>	\$	0.70	\$ 0.99
<b>Dividends per Common Share</b>	\$	0.28	\$ 0.27
<b>Average Common Shares Outstanding Basic (thousands)</b>		62,263	62,131
<b>Average Common Shares Outstanding Diluted (thousands)</b>		62,689	62,432

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

**Table of Contents****Hillenbrand Industries, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets**

(Dollars in millions)

	(As Restated 12/31/04	See Note 13) 9/30/04
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 126	\$ 128
Current investments (Note 1)	82	52
Trade receivables, net	420	417
Inventories	116	122
Deferred income taxes	23	12
Other	14	16
Total current assets	781	747
<b>Equipment Leased to Others, net</b>	<b>160</b>	<b>151</b>
<b>Property, net</b>	<b>216</b>	<b>221</b>
<b>Investments</b>	<b>80</b>	<b>79</b>
<b>Other Assets</b>		
Intangible assets:		
Goodwill (Note 3)	427	429
Software and other	188	190
Notes receivable, net of discount	108	105
Deferred charges and other assets	43	49
Total other assets	766	773
<b>Assets of Discontinued Operations (Note 4)</b>	<b>100</b>	<b>98</b>
<b>Total Assets</b>	<b>\$ 2,103</b>	<b>\$ 2,069</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 84	\$ 93
Short-term borrowings	11	11
Accrued compensation	83	87
Accrued warranty	19	19
Other	100	98
Total current liabilities	297	308
<b>Long-Term Debt</b>	<b>356</b>	<b>360</b>
<b>Other Long-Term Liabilities</b>	<b>124</b>	<b>124</b>
<b>Deferred Income Taxes</b>	<b>21</b>	<b>5</b>

<b>Liabilities of Discontinued Operations (Note 4)</b>	93	92
<b>Total Liabilities</b>	891	889
<b>Commitments and Contingencies (Note 9)</b>		
<b>SHAREHOLDERS EQUITY</b>		
Common stock	4	4
Additional paid-in capital	63	62
Retained earnings	1,685	1,659
Accumulated other comprehensive income (Note 6)	10	6
Treasury stock	(550)	(551)
<b>Total Shareholders Equity</b>	1,212	1,180
<b>Total Liabilities and Shareholders Equity</b>	\$ 2,103	\$ 2,069

See Notes to Condensed Consolidated Financial Statements

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**Table of Contents****Hillenbrand Industries, Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows**

(Dollars in millions)

	Year-to-Date Period Ended	
	12/31/04	(As Restated, See Note 13) 12/31/03
<b>Operating Activities</b>		
Net income	\$ 44	\$ 62
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	29	20
Accretion and capitalized interest on financing provided on divestiture	(3)	
Net capital (gains) losses Insurance		(10)
Provision for deferred income taxes	9	32
Gain on divestiture of discontinued operations (net-of-tax)		(5)
Loss on disposal of fixed assets	1	1
Change in working capital excluding cash, current investments, current debt, acquisitions and dispositions	(27)	(144)
Change in insurance items:		
Increase in benefit reserves		19
Other insurance items, net		21
Other, net	25	(18)
Net cash provided by (used in) operating activities	78	(22)
<b>Investing Activities</b>		
Capital expenditures and purchase of intangibles	(30)	(20)
Proceeds on sale of business		14
Acquisitions of businesses, net of cash acquired	(8)	(68)
Investment purchases and capital calls	(55)	(26)
Proceeds on investment sales/maturities	27	59
Insurance investments:		
Purchases		(287)
Proceeds on maturities		96
Proceeds on sales		183
Net cash used in investing activities	(66)	(49)
<b>Financing Activities</b>		
Payment of cash dividends	(18)	(17)
Proceeds on exercise of options	3	3
Insurance deposits received		76
Insurance benefits paid		(71)

Net cash used in financing activities	(15)	(9)
Effect of exchange rate changes on cash	1	1
<b>Total Cash Flows</b>	(2)	(79)
<b>Cash and Cash Equivalents:</b>		
At beginning of period	128	155
At end of period	\$ 126	\$ 76

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 completed the divestitures of the piped-medical gas and infant care businesses of Hill-Rom and of Forethought in the first, third and fourth quarters, respectively, of fiscal 2004, as further described in Note 4 below. These operations are presented as discontinued operations within our Condensed Consolidated Statements of Income for all periods presented. 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 and net cash provided by (used in) 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 and consistent with previous periods.

**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 of Forethought to results from discontinued operations in the prior year first quarter.

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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 December 31, 2003, 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 December 31, 2004 and September 30, 2004, we held \$82 million and \$52 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 interest 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 value 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 historical exercise and termination experience to determine the option value. For these reasons, we believe the

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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 quarter of fiscal 2005 was \$10.42 under the Binomial model using the following assumptions: (i) risk-free interest rates of 2.64-4.09 percent; (ii) expected dividend yields of 1.70-2.02 percent; (iii) expected volatility factors of 0.2023-0.2592; (iv) exercise factor of 39 percent; and (v) post-vesting termination rate of 30 percent.

	Quarterly Period Ended	
	12/31/04	12/31/03 (As Restated, See Note 13)
Net income, as reported	\$ 44	\$ 62
Add:		
Total stock-based employee compensation, net of related tax effects, included in net income, as reported	1	1
Deduct:		
Total stock-based employee compensation, net of related tax effects, assuming fair value based method of accounting	(2)	(2)
Pro forma net income	\$ 43	\$ 61
Earnings per share:		
Basic as reported	\$0.70	\$ 1.00
Basic pro forma	\$0.69	\$ 0.98
Diluted as reported	\$0.70	\$ 0.99
Diluted pro forma	\$0.68	\$ 0.97

**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. SFAS No. 123(R) is effective for all interim periods beginning after June 15, 2005, and thus will become effective for us in the fourth quarter of fiscal 2005. 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 beginning after June 15, 2005, and thus will become effective for us in fiscal 2006. We are currently evaluating the impact to our consolidated financial statements and results of operations.



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In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Assets . SFAS No. 153 requires that exchanges of nonmonetary assets be measured based on the fair value of the assets exchanged. Further, it expands the exception for nonmonetary exchanges of similar productive assets to nonmonetary assets that do not have commercial substance. The provisions of the Statement are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of the provisions of SFAS No. 153 is not expected to have a material impact on our consolidated financial statements or results of operations.

At the November 2004 meeting, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) regarding Issue No. 03-13, Applying the Conditions in Paragraph 42 of SFAS No. 144, Accounting for the Impairment of Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations. The Issue provides a model to assist in evaluating (a) which cash flows should be considered in the determination of whether cash of the discontinued operation have been, or will be, eliminated from ongoing operations and (b) the types of continuing involvement that constitute significant continuing involvement. The Issue should be applied to a component of an enterprise that is either disposed of or classified as held for sale in fiscal periods beginning after December 15, 2004. In analyzing the model included in this Issue, we determined that, although we receive continuing cash flows from a transition agreement with the previously disposed Forethought business, these cash flows are not significant, they are indirect cash flows and we do not have significant continuing involvement in the operations of their business. Therefore, the classification of Forethought as a discontinued operation under SFAS No. 144 is appropriate.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the Act ). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 to 2010. In return, the Act also provides for a two-year phase-out of the existing extra-territorial income exclusion (ETI) for foreign sales that was viewed to be inconsistent with international trade protocols by the European Union. We expect the net effect of the phase out of the ETI and the phase in of this new deduction to result in a minimal impact in the effective tax rate for 2005 based on current earnings levels. In the long-term, we expect the new deduction will result in a decrease in the annual effective tax rate by at least one percent based on current earnings levels.

Under the guidance in FASB Staff Position No. FAS 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes , to the Tax Deduction on Qualified Production Activities Provided by The American Jobs Creation Act of 2004, the deduction will be treated as a special deduction as described in FASB Statement 109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our tax return.

The Act also created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. It is not anticipated that we will benefit from this provision of the Act.



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## 2. Supplementary Balance Sheet Information

The following information pertains to assets and consolidated shareholders' equity:

	12/31/04	9/30/04
	(As Restated, See Note 13)	
Allowance for possible losses and discounts on trade receivables	\$ 32	\$ 31
Inventories:		
Finished products	\$ 82	\$ 88
Work in process	10	10
Raw materials	24	24
Total inventory	\$ 116	\$ 122
Accumulated depreciation of equipment leased to others and property	\$ 658	\$ 632
Accumulated amortization of intangible assets	\$ 161	\$ 156
Capital Stock:		
Preferred stock, without par value:		
Authorized 1,000,000 shares; shares issued	None	None
Common stock, without par value:		
Authorized 199,000,000 shares; shares issued	80,323,912	80,323,912
Shares outstanding	62,028,330	61,960,392
Treasury shares outstanding	18,295,582	18,363,520

## 3. Acquisitions

During fiscal 2004, Hill-Rom completed the acquisitions of Advanced Respiratory, Inc. ( ARI ), Mediq, Incorporated ( Mediq ) and NaviCare Systems, Inc. ( NaviCare ). The results of these businesses have been included in the Condensed Consolidated Financial Statements since each acquisition's date of close.

On October 17, 2003, Hill-Rom acquired ARI, a manufacturer and distributor of non-invasive airway clearance products and systems, for approximately \$103 million, plus an additional \$2 million of acquisition costs incurred in relation to the transaction. This purchase price included a first quarter 2005 payment of \$8 million resulting from net revenues achieved in fiscal 2004. An additional deferred payment of \$5.7 million is outstanding and payable no later than the end of calendar 2005 and is accrued in the Condensed Consolidated Balance Sheets as of December 31, 2004 and September 30, 2004. An additional contingent payment, which could also be payable by the end of calendar 2005, is dependent upon ARI achieving certain net revenue targets over the next year. Any such contingent payment will increase goodwill associated with the acquisition.

On January 30, 2004, Hill-Rom acquired Mediq, a company in the medical equipment outsourcing and asset management business, for approximately \$329 million, plus an additional \$6 million of acquisition costs incurred in relation to the transaction. This purchase price included \$23 million deposited in an escrow account, of which \$20 million remained at December 31, 2004, related to potential adjustments resulting primarily from the funded status of Mediq's defined benefit pension plan as of the end of the first quarter of 2006, along with the occurrence of any issues associated with seller representations, warranties and other matters. The escrow amount has been

included in the allocation of purchase price outlined below. Final resolution of the remaining amount in escrow is expected in fiscal 2006. If any adjustment differs in amount from the current escrow balance, the reported purchase price would be decreased by the amount of any valid claims against the escrow amounts, and the reported amount of goodwill associated with the Mediq acquisition would be adjusted accordingly.

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On January 30, 2004, we completed the acquisition of the remaining 84 percent of the equity of NaviCare that we did not already own for approximately \$14 million, including deferred payments of approximately \$2 million, all of which has been paid as of January 2005.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at their dates of acquisition. During the first quarter of fiscal 2005, we reduced goodwill by approximately \$2 million to reflect the true-up of deferred taxes for opening balance sheet adjustments on ARI and NaviCare and a reduction to the previously accrued contingent payment made to ARI in the first quarter of 2005. The purchase prices remain subject to adjustment for the contingent payments outlined above; thus, the allocation of the purchase prices is subject to refinement.

	ARI	Mediq	NaviCare
Current assets	\$ 25	\$ 44	\$ 2
Property, plant and equipment	6	99	
Intangible assets	9	69	4
Goodwill	72	197	10
Other long-term assets	2	1	1
<b>Total assets acquired</b>	<b>114</b>	<b>410</b>	<b>17</b>
Current liabilities	(5)	(37)	(2)
Long-term liabilities	(4)	(38)	(1)
<b>Total liabilities assumed</b>	<b>(9)</b>	<b>(75)</b>	<b>(3)</b>
<b>Net assets acquired</b>	<b>\$105</b>	<b>\$335</b>	<b>\$14</b>

#### 4. Discontinued Operations

On July 1, 2004, we closed the sale of Forethought Financial Services, Inc. to FFS Holdings, Inc., an acquisition vehicle formed by the Devlin Group, LLC., which acquired all the common stock of Forethought and its subsidiaries for a combination of cash, seller financing, certain retained assets of Forethought and stock warrants. Total nominal consideration for the transaction was approximately \$295 million, which included the value of the partnership assets transferred to us. This consideration excluded a dividend received by us in December 2003 from Forethought in the amount of approximately \$29 million made in anticipation of the transaction. Hillenbrand received cash proceeds in the transaction of approximately \$105 million. An additional cash payment of approximately \$6 million is due upon the regulatory approval of the sale of Forethought Federal Savings Bank, which is expected to occur in the last half of fiscal 2005.

In October 2003, Hill-Rom sold its piped-medical gas business to Beacon Medical Products LLC, for \$13 million, after final purchase price adjustments.

In August 2004, Hill-Rom completed the sale of its Air-Shields infant care business to a subsidiary of Dräger Medical AG & Co. KGaA for approximately \$31 million.

These businesses have been treated as discontinued operations for all periods presented within the Condensed Consolidated Statements of Income in accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets .



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Operating results for the discontinued operations were as follows for the quarters ended December 31, 2004 and 2003:

	Quarterly Period Ended	
	12/31/04	12/31/03 (As Restated, See Note 13)
Investment income	\$ 1	\$ 43
Earned revenue		54
Net capital gains		9
Other revenues		20
Net revenues from discontinued operations	\$ 1	\$ 126
Benefits paid		22
Credited interest		44
Other costs of revenue		29
Other operating expenses	1	12
Gain on divestiture of discontinued operations		(3)
Pre-tax income from discontinued operations		22
Income tax expense		5
Income from discontinued operations	\$	\$ 17

The assets and liabilities of Forethought Federal Savings Bank are included in the assets and liabilities of discontinued operations, which are presented as separate line items within the Condensed Consolidated Balance Sheets as of December 31, 2004 and September 30, 2004. Components of assets and liabilities of discontinued operations were as follows:

	12/31/04	9/30/04
Investments	\$ 99	\$ 97
Other assets	1	1
Assets of discontinued operations	\$ 100	98
Liabilities	93	92
Net assets of discontinued operations	\$ 7	\$ 6

#### 5. Earnings per Common Share

Basic earnings per share were calculated based upon the weighted-average number of outstanding common shares for the period, plus the effect of deferred vested shares. Diluted earnings per share were calculated consistent with the basic earnings per share calculation including the effect of dilutive unissued common shares related to stock-based employee compensation programs. For all periods presented, anti-dilutive stock options were excluded in the calculation of diluted earnings per share. Excluded shares were 902,444 for the three months ended December 31, 2004 and 404,433 for the three months ended December 31, 2003. Cumulative treasury stock

acquired, less cumulative shares reissued, has been excluded in determining the average number of shares outstanding.

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Earnings per share are calculated as follows:

	Quarterly Period Ended	
	12/31/04	12/31/03 (As Restated, See Note 13)
Net income (in thousands)	\$ 43,650	\$ 62,069
Average shares outstanding		
Basic (thousands)	62,263	62,131
Average shares outstanding		
Diluted (thousands)	62,689	62,432
Income per common share from continuing operations   Basic	\$ 0.70	\$ 0.72
Income per common share from discontinued operations   Basic		0.28
Net income per common share   Basic	\$ 0.70	\$ 1.00
Income per common share from continuing operations   Diluted	\$ 0.69	\$ 0.72
Income per common share from discontinued operations   Diluted		0.28
Net income per common share   Diluted	\$ 0.70	\$ 0.99

Note: Certain per share amounts may not accurately add due to rounding.

#### 6. Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income, requires unrealized gains or losses on available-for-sale securities, foreign currency translation adjustments and minimum pension liability adjustments to be included in accumulated other comprehensive income.

The components of comprehensive income are as follows:

	Quarterly Period Ended	
	12/31/04	12/31/03 (As Restated, See Note 13)
Net income	\$ 44	\$ 62
Net change in unrealized loss on available-for-sale securities, net-of-tax		(17)
Foreign currency translation adjustment	4	5
Comprehensive income	\$ 48	\$ 50

The composition of accumulated other comprehensive income at December 31, 2004 and September 30, 2004 was the cumulative adjustment for unrealized gains on available-for-sale securities of \$10 million for each period, foreign currency translation adjustments of \$2 and (\$2) million, respectively, and a minimum pension liability adjustment of (\$2) million for each period.



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## 7. Retirement Plans

Hillenbrand and its subsidiaries have several defined benefit retirement plans covering the majority of employees, including certain employees in foreign countries. We contribute funds to trusts as necessary to provide for current service and for any unfunded projected future benefit obligation over a reasonable period. The benefits for these plans are based primarily on years of service and the employee's level of compensation during specific periods of employment. We also sponsor nonqualified, unfunded defined benefit pension plans for certain members of management.

The components of net pension expense for defined benefit retirement plans in the United States for the quarterly periods ended December 31, 2004 and 2003 were as follows:

	Quarterly Period Ended	
	12/31/04	12/31/03
Service cost	\$ 3	\$ 3
Interest cost	5	4
Expected return on plan assets	(5)	(4)
Net periodic benefit cost	\$ 3	\$ 3

As of December 31, 2004 we have made contributions of approximately \$1 million to our defined benefit pension plans during fiscal 2005. We presently anticipate contributing an additional \$7 million during fiscal year 2005 to fund our pension plans, for a total contribution of \$8 million.

We sponsor both qualified and nonqualified defined contribution retirement plans for all eligible employees, as defined in the plan documents. The qualified plans fall under Section 401(k) of the Internal Revenue Code.

Contributions to the qualified plans are based on both employee and Company contributions. Our contributions to the plans were \$4 million and \$3 million for the three-month periods ended December 31, 2004 and 2003, respectively.

We expect to contribute an additional \$10 million to the plans during the remainder of fiscal year 2005 for a total of \$14 million. The nonqualified plans are unfunded and carried a liability of less than \$1 million at December 31, 2004 and September 30, 2004.

## 8. Guarantees

Limited warranties are routinely granted on our products with respect to defects in material and workmanship. The terms of these warranties are generally one year, however, certain components and products have substantially longer warranty periods. A reserve is recognized with respect to these obligations at the time of product sale, with subsequent warranty claims recorded directly against the reserve. The amount of the warranty reserve is determined based on historical trend experience for the covered products. For more significant warranty-related matters which might require a broad-based correction, separate reserves are established when such events are identified and the cost of correction can be reasonably estimated. A reconciliation of changes in the warranty reserve for the periods covered in this report is as follows:

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	Quarterly Period Ended	
	12/31/04	12/31/03
Balance at beginning of period	\$ 19	\$ 21
Provision for warranties during the period	4	3
Warranty reserves acquired		2
Warranty claims during the period	(4)	(5)
Balance at end of period	\$ 19	\$ 21

In the normal course of business we enter into various other guarantees and indemnities in our relationships with suppliers, service providers, customers, business partners and others. Examples of these arrangements would include guarantees of product performance, indemnifications to service providers and indemnifications of our actions to business partners. These guarantees and indemnifications would not materially impact our financial condition or results of operations, although indemnifications associated with our actions generally have no dollar limitations. In conjunction with all other acquisition and divestiture activities, we have entered into select guarantees and indemnifications of performance with respect to the fulfillment of commitments under applicable purchase and sale agreements. The arrangements generally indemnify the buyer or seller for damages associated with breach of contract, inaccuracies in representations and warranties surviving the closing date and satisfaction of liabilities and commitments retained under the applicable contract. For those representations and warranties which survive closing, they generally survive for periods up to five years or the expiration of the applicable statutes of limitations. Potential losses under the indemnifications are generally limited to a portion of the original transaction price, or to other lesser specific dollar amounts for select provisions. With respect to sale transactions, we also routinely enter into non-competition agreements for varying periods of time. Guarantees and indemnifications with respect to acquisition and divestiture activities would not materially impact our financial condition or results of operations.

#### 9. Commitments and Contingencies

On June 30, 2003, Spartanburg Regional Healthcare System (the Plaintiff) filed an antitrust suit against Hillenbrand and its Hill-Rom subsidiary, in the United States District Court for the District of South Carolina, as described in the Annual Report on Form 10-K for the period ended September 30, 2004. The trial is anticipated to occur on or after September 26, 2005. The hearing on class certification is anticipated to occur by mid to late March or April 2005.

On December 30, 2004, Plaintiff filed its Motion for Leave to File a Second Amended Complaint, which has not yet been ruled on by the Court, seeking to extend the period for which it seeks damages, from 1990 through the present, and add a new allegation of monopoly maintenance of an alleged standard hospital bed market. Plaintiff is also seeking to broaden the proposed class definition to include all purchasers of Hill-Rom's standard and/or specialty hospital beds and/or architectural and in-room products from 1990 to the present where there have been contracts between Hill-Rom and such purchasers, either on behalf of themselves or through purchasing organizations, where those contracts conditioned discounts on Hill-Rom's hospital beds and other architectural and in-room products on commitments to rent or purchase a very high percentage of specialty beds from Hill-Rom. We are vigorously opposing Plaintiff's motion on various grounds, including the significant passage of time since the deadline for amending pleadings.

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10. Special Charges

2004 Actions

During the fourth fiscal quarter of 2004, we announced a restructuring intended to better align Hill-Rom's financial and personnel resources to fully support its growth initiatives, decrease overall costs, and improve performance in Europe. The plan included the expected elimination of approximately 130 salaried positions in the U.S. and approximately 100 positions in Europe and resulted in a fourth quarter charge of approximately \$7 million, associated with severance and benefit-related costs. As of December 31, 2004, approximately 140 positions have been eliminated with a small number of the original list of terminees being transferred to other positions. As of this same date, there was approximately \$5 million remaining in the reserve, after cash payments of \$2 million during the quarter ended December 31, 2004. All obligations associated with this action, which is expected to be completed in fiscal 2005, will be settled in cash.

2003 Actions

During the third fiscal quarter of 2003, we announced a new business structure at Hill-Rom to accelerate the execution of its strategy and strengthen its businesses. As a result of this action, Hill-Rom announced it expected to eliminate approximately 300 salaried positions globally. Hill-Rom also announced it expected to hire approximately 100 new personnel with the skills and experience necessary to execute its business strategy. A fiscal 2003 third quarter charge of \$9 million was recognized with respect to this action, essentially all related to severance and benefit-related costs. During fiscal 2004, approximately \$1 million of the originally recorded reserve was reversed. As of December 31, 2004 this action was complete. In excess of 280 salaried positions were eliminated under the action, with over 60 of the original list of terminees being transferred to other positions in line with Hill-Rom's strategy. In addition, approximately 90 new positions were hired under the new business structure.

11. Income Taxes

The effective income tax rate for the first quarter of 2005 was 37.0 percent compared to 35.7 percent for the first quarter of 2004. The higher rate in 2005 is due primarily to an increase in the valuation allowance for continued losses in France. Although these loss carryforwards have no expiration date, current operating results and economic conditions have made it difficult to predict full recoverability of these tax assets. Therefore a full valuation allowance has been established. We will continue to pursue opportunities to reduce our effective tax rate in future periods.

12. Segment Reporting

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, requires reporting of segment information that is consistent with the way in which management operates and views the business.

With the continued evolution of the prior year realignment of the Hill-Rom business structure, changes were adopted in fiscal 2004 and 2005 in terms of the way in which management views the business, including reporting to our executive management team. With these changes, in fiscal 2004 the prior Hill-Rom reporting segment was split into Americas/Asia Pacific and EMEA (Europe, Middle East and Africa) reporting segments, with performance measured on a divisional income basis before special items. Divisional income under this approach was defined as the division's gross profit less their direct operating costs. This measure excluded a number of functional costs which were managed on an overall Hill-Rom basis, including finance, information technology, human resources, legal and regulatory and strategy. In fiscal 2005, a change was made to the definition of divisional income. Beginning in the first quarter of 2005, divisional income now includes functional

costs previously excluded from the measure. Functional costs directly related to a specific division are now borne directly by such division based on the Hill-Rom annual

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plan. For functional costs not directly tied to a specific division, the costs have been allocated to the respective divisions on the basis of various allocation methodologies, also based on the Hill-Rom annual plan. Management now evaluates divisional performance on this new basis. Segment data for 2004 has been restated to conform with this new presentation.

Intersegment sales between the Americas/Asia Pacific and EMEA are generally accounted for at current market value or cost plus markup. Eliminations, net of allocations, while not considered a segment, will be presented separately to aid in the reconciliation of segment information to consolidated Hill-Rom financial information.

The reporting segment of Batesville Casket is measured on the basis of income from continuing operations before income taxes. Intersegment sales do not occur between Hill-Rom and Batesville Casket. Forethought results, which were previously considered a reporting segment, are now being presented in the results from discontinued operations as further discussed in Note 4 to the Condensed Consolidated Financial Statements. Corporate, while not a segment, is presented separately to aid in the reconciliation of segment information to that reported in the Condensed Consolidated Statements of Income.

Financial information regarding our reportable segments is presented below:

	Americas/ Asia Pacific	EMEA	Eliminations, Net of Allocations	Total Hill-Rom	Batesville Casket	Corporate and Other Expense	Consolidated
Quarterly Period Ended December 31, 2004							
Net revenues	\$268	\$48	\$	\$316	\$159	\$	\$ 475
Intersegment revenues	\$ 5	\$ 2	\$ (7)	\$			
Divisional income	\$ 41	\$ (3)	\$ (3)	\$ 35			
Income (loss) from continuing operations before income taxes				\$ 36	\$ 40	\$ (7)	\$ 69
Income tax expense							\$ (25)
Income from continuing operations							\$ 44
Loss from discontinued operations (a)							\$
Net income							\$ 44
Quarterly Period Ended December 31, 2003 (As Restated See Note 13)							
Net revenues	\$207	\$51	\$	\$258	\$164	\$	\$ 422
Intersegment revenues	\$ 12	\$	\$ (12)	\$			
Divisional income	\$ 50	\$ (3)	\$ (5)	\$ 42			
Income (loss) from continuing operations before income taxes				\$ 41	\$ 46	\$ (17)	\$ 70
Income tax expense							\$ (25)

Income from continuing operations	\$ 45
Income from discontinued operations (a)	\$ 17
Net income	\$ 62

(a) Reflects results of Forethought, including Forethought Federal Savings Bank, and the Hill-Rom piped-medical gas and infant care businesses classified as discontinued operations.

### 13. Restatement and Revised Classification of Condensed Consolidated Financial Statements

#### Restatement

During the fourth quarter of fiscal 2003, we entered into definitive agreements to sell Hill-Rom's piped-medical gas and infant care businesses and in the second quarter of fiscal 2004, we entered into a definitive agreement to sell Forethought Financial Services, Inc. and its subsidiaries ( Forethought ). The divestitures of these businesses were all finalized in fiscal 2004 and all were accounted for as discontinued operations in our Condensed Consolidated Financial Statements for all periods presented herein. While finalizing the fiscal 2004 U.S. federal and state income tax returns, and during preparation of the subsequent tax provision to income tax return reconciliations, management identified errors which understated the income tax benefits associated with these discontinued operations. Further, while assessing the implications of these errors, management

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determined that it had also made errors with respect to the allocation of goodwill to Hill-Rom's piped-medical gas and infant care businesses for purposes of determining both the impairment loss recognized in the fourth fiscal quarter of 2003 and the effect of the dispositions recognized upon the closure of the transactions in fiscal 2004. As a result of the identification of these errors, the Audit Committee of the Board of Directors concluded, after consultation with management and a review of the pertinent facts, that it was necessary to restate (the Restatement) the previously issued financial statements for the fiscal years ended September 30, 2003 and 2004 and for all interim periods in 2004 and the Condensed Consolidated Balance Sheets for the interim periods of 2005.

As part of this Restatement, income from discontinued operations and net income in fiscal 2003 increased \$51 million, or \$0.82 per fully diluted share, and income from discontinued operations and net income in fiscal 2004 increased \$33 million, or \$0.53 per fully diluted share. The effects of this Restatement on the income statement impacted only discontinued operations and had no impact on income from continuing operations or cash flows. Hillenbrand's balance sheets as of September 30, 2003 and all succeeding periods were also adjusted to reflect \$69 million of additional goodwill as a result of the Restatement.

Specifics related to the errors identified for fiscal 2003 and 2004 are further outlined below:

### Impairment Loss and Gain Recognition on Disposal of Piped-Medical Gas and Infant Care Businesses

Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets, requires that all goodwill acquired in a business combination be assigned to one or more reporting units. Upon adopting SFAS 142 in fiscal 2002, the net assets of Hill-Rom's piped-medical gas and infant care businesses were included in the Hill-Rom reporting unit. When a portion of a reporting unit that constitutes a business is sold, SFAS 142 requires that the amount of goodwill associated with that business be determined based on the relative fair values of the business to be sold versus the portion of the reporting unit to be retained. SFAS 142 further provides, however, that if a business to be disposed of was never integrated into the reporting unit after its acquisition, the current carrying amount of acquired goodwill should be included in the carrying amount of the business to be disposed of.

When we reached definitive agreements in the fourth quarter of fiscal 2003 to sell Hill-Rom's piped-medical gas and infant care businesses, we incorrectly conducted a SFAS 142 impairment assessment for these businesses as if they were non-integrated, separate, stand-alone entities for which it was concluded that the benefits of the acquired goodwill associated with these businesses had not been realized, and would not be realized in the future. This impairment assessment included all the original non-amortized goodwill associated with the acquisition of the businesses, other than a portion pertaining to a retained business, which led to the recognition of an impairment loss of \$50 million (\$51 million, net-of-tax) in the fourth quarter of fiscal 2003. No impairment loss should have been recorded based on the fair value of the entire reporting unit that included the disposed businesses.

Had we appropriately applied the provisions of SFAS 142 and allocated goodwill to the disposed businesses based on their relative fair values compared to the fair value of the reporting unit, the carrying amounts of the disposed businesses would have been lower and no impairment loss would have been recorded. Further, we would have recognized a gain on the divestiture of the piped-medical gas business in the first quarter of fiscal 2004 of \$5 million (net-of-tax).

### Accounting for Income Taxes

With respect to the accounting for income taxes related to discontinued operations, including the dispositions of Hill-Rom's piped-medical gas and infant care businesses and

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the pre-need insurance business of Forethought, we made certain errors with respect to the recognition of income tax benefits associated with these discontinued operations in each of the first three quarters of fiscal 2004. These errors related to the following:

Improper recognition of book and tax differences associated with discounts applied to the seller financing provided by the Company in the disposition of Forethought. The errors also impacted the ordinary and capital loss components of the taxable gain/loss calculation as well as the amount of the valuation allowance required for capital loss carryforwards. The combined effect of these items in the second quarter of fiscal 2004 was an understatement of net deferred tax assets and the tax benefit associated with the disposition of the business by approximately \$8 million.

Failure to identify necessary corrections to the recorded deferred tax balances of Forethought. Such adjustments should have been fully recorded with the disposition of Forethought, therefore resulting in an understatement in the second quarter of fiscal 2004 of net deferred tax assets and the recorded income tax benefit by approximately \$1 million.

Failure to fully consider the effects of certain K-1 partnership returns on investments held by Forethought in the determination of the income tax benefit associated with discontinued operations in the second quarter of fiscal 2004. This omission overstated income taxes payable by \$2 million and understated the recorded income tax benefit related to discontinued operations by approximately \$2 million.

Improper calculation of the respective tax gain/loss associated with our dispositions of the piped-medical gas, infant care and Forethought businesses primarily associated with the improper treatment of certain disposition-related costs.

The effect of these errors by quarter is as follows:

	Income Tax Benefit	Overstatement/(Understatement)	
		Deferred Tax Assets	Income Taxes Payable
First quarter	\$ (2)	\$	\$ 2
Second quarter	(2)	(2)	
Annual impact	\$ (4)	\$ (2)	\$ 2

The impact of all the above noted errors resulted in an overstatement of the recorded loss from discontinued operations of \$51 million in the fourth quarter of fiscal 2003 and an overstatement of the recorded loss from discontinued operations in the first, second and third quarters of fiscal 2004 of \$5 million, \$13 million and \$15 million, respectively. Further, in terms of a breakdown between divestiture transactions, \$13 million of the errors related to the disposal of Forethought, while \$5 million and \$15 million related to the disposal of the Hill-Rom piped-medical gas and infant care businesses, respectively.

The Condensed Consolidated Financial Statements included herein have been adjusted to give effect to these errors, thus resulting in a restatement of our previously issued quarterly financial statements.



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**Other Items**

We have also made certain other limited changes to the previously issued financial statements to correct typographical errors made in the prior year.

The impacts of the Restatement and Other Items on our Condensed Consolidated Balance Sheets as of December 31, 2004 and September 30, 2004, and our Condensed Consolidated Statements of Income and Cash Flows for the quarterly period ended December 31, 2003, are shown in the accompanying tables below. We have also updated the disclosures in Notes 1, 2, 4, 5, 6, 9 and 12 within these Condensed Consolidated Financial Statements to give effect to the Restatement and Other Items, as required. As the errors outlined above also impacted the second and third quarters of fiscal 2004, we will be filing amended Forms 10-Q/A for these quarters as well.

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The following table presents the effect of the Restatement on the Condensed Consolidated Statements of Income for the quarterly period ended December 31, 2003:

**Condensed Consolidated Statement of Income (Unaudited)**

(Dollars in millions except per share data)

	Quarterly Period Ended	
	(As Restated) 12/31/03	(As Originally Reported) 12/31/03
<b>Net Revenues</b>		
Health Care sales	\$ 165	\$ 165
Health Care rentals	93	93
Funeral Services sales	164	164
Total revenues	422	422
<b>Cost of Revenues</b>		
Health Care cost of goods sold	86	86
Health Care rental expenses	43	43
Funeral Services cost of goods sold	74	74
Total cost of revenues	203	203
<b>Gross Profit</b>	219	219
Other operating expenses	146	146
<b>Operating Profit</b>	73	73
Other income (expense), net:		
Interest expense	(3)	(3)
Investment income	1	1
Other	(1)	(1)
<b>Income from Continuing Operations Before Income Taxes</b>	70	70
Income tax expense	25	25
<b>Income from Continuing Operations</b>	45	45
<b>Discontinued Operations:</b>		
	22	19

Income from discontinued operations before income taxes (including gain on divestiture of discontinued operations of \$0 and \$3)			
Income tax expense		5	7
Income from discontinued operations		17	12
<b>Net Income</b>		\$ 62	\$ 57
Income per common share from continuing operations Basic		\$ 0.72	\$ 0.72
Income per common share from discontinued operations Basic		0.28	0.19
<b>Net Income per Common Share Basic</b>		\$ 1.00	\$ 0.91
Income per common share from continuing operations Diluted		\$ 0.72	\$ 0.72
Income per common share from discontinued operations Diluted		0.28	0.19
<b>Net Income per Common Share Diluted</b>		\$ 0.99	\$ 0.91
<b>Dividends per Common Share</b>		\$ 0.27	\$ 0.27
<b>Average Common Shares Outstanding Basic (thousands)</b>		62,131	62,131
<b>Average Common Shares Outstanding Diluted (thousands)</b>		62,432	62,432

Note: Certain per share amounts may not accurately add due to rounding.

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The following table presents the effect of the Restatement on the Condensed Consolidated Balance Sheets as of December 31 and September 30, 2004:

**Condensed Consolidated Balance Sheets (Unaudited)**

(Dollars in millions)

	12/31/04		9/30/04	
	(As Restated)	(As Originally Reported)	(As Restated)	(As Originally Reported)
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 126	\$ 126	\$ 128	\$ 128
Current investments	82	82	52	52
Trade receivables, net	420	420	417	417
Inventories	116	116	122	122
Deferred income taxes	23	23	12	4
Other	14	14	16	16
Total current assets	781	781	747	739
<b>Equipment Leased to Others, net</b>	160	160	151	151
<b>Property, net</b>	216	216	221	221
<b>Investments</b>	80	80	79	79
<b>Other Assets</b>				
Intangible assets:				
Goodwill	427	358	429	360
Software and other	188	188	190	190
Notes receivable, net of discount	108	108	105	105
Deferred charges and other assets	43	43	49	49
Total other assets	766	697	773	704
<b>Assets of Discontinued Operations</b>	100	100	98	98
<b>Total Assets</b>	\$ 2,103	\$ 2,034	\$ 2,069	\$ 1,992
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Trade accounts payable	\$ 84	\$ 84	\$ 93	\$ 93
Short-term borrowings	11	11	11	11
Accrued compensation	83	83	87	87
Accrued warranty	19	19	19	19
Other	100	105	98	103
Total current liabilities	297	302	308	313

<b>Long-Term Debt</b>	356	356	360	360
<b>Other Long-Term Liabilities</b>	124	124	124	124
<b>Deferred Income Taxes</b>	21	31	5	7
<b>Liabilities of Discontinued Operations</b>	93	93	92	92
<b>Total Liabilities</b>	891	906	889	896
<b>Commitments and Contingencies</b>				
<b>SHAREHOLDERS EQUITY</b>				
Common stock	4	4	4	4
Additional paid-in capital	63	63	62	62
Retained earnings	1,685	1,601	1,659	1,575
Accumulated other comprehensive income	10	10	6	6
Treasury stock	(550)	(550)	(551)	(551)
<b>Total Shareholders Equity</b>	1,212	1,128	1,180	1,096
<b>Total Liabilities and Shareholders Equity</b>	\$ 2,103	\$ 2,034	\$ 2,069	\$ 1,992

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The following table presents the effect of the Restatement on the Condensed Consolidated Statements of Cash Flows for the year-to-date period ended December 31, 2003:

**Condensed Consolidated Statements of Cash Flows (Unaudited)**

(Dollars in millions)

	12/31/03	
	(As Restated)	(As Originally Reported)
<b>Operating Activities</b>		
Net income	\$ 62	\$ 57
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	20	20
Accretion and capitalized interest on financing provided on divestiture		
Net capital (gains) losses Insurance	(10)	(10)
Provision for deferred income taxes	32	32
Gain on divestiture of discontinued operations (net-of-tax)	(5)	
Loss on disposal of fixed assets	1	1
Change in working capital excluding cash, current investments, current debt, acquisitions and dispositions	(144)	(144)
Change in insurance items:		
Increase in benefit reserves	19	19
Other insurance items, net	21	21
Other, net	(18)	(18)
Net cash provided by (used in) operating activities	(22)	(22)
<b>Investing Activities</b>		
Capital expenditures and purchase of intangibles	(20)	(20)
Proceeds on sale of business	14	14
Acquisitions of businesses, net of cash acquired	(68)	(68)
Investment purchases and capital calls	(26)	(26)
Proceeds on investment sales/maturities	59	59
Insurance investments:		
Purchases	(287)	(287)
Proceeds on maturities	96	96
Proceeds on sales	183	183
Net cash used in investing activities	(49)	(49)
<b>Financing Activities</b>		
Payment of cash dividends	(17)	(17)
Proceeds on exercise of options	3	3
Insurance deposits received	76	76
Insurance benefits paid	(71)	(71)

Net cash used in financing activities	(9)	(9)
Effect of exchange rate changes on cash	1	1
<b>Total Cash Flows</b>	<b>(79)</b>	<b>(79)</b>
<b>Cash and Cash Equivalents:</b>		
At beginning of period	155	155
At end of period	\$ 76	\$ 76

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

The following discussion and analysis should be read in conjunction with the accompanying interim financial statements and our Annual Report on Form 10-K ( 2004 Form 10-K ), as amended on Form 10-K/A, for the fiscal year ended September 30, 2004. This Form 10-Q/A reflects a restatement (the Restatement ) to the Condensed Consolidated Financial Statements included in our Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2004, initially filed with the Securities and Exchange Commission ( SEC ) on February 14, 2005 (the Original Filing), as further discussed in Note 13 to the Condensed Consolidated Financial Statements.

In the preparation of this Form 10-Q/A, we have revised language within Management's Discussion and Analysis of Financial Condition and Results of Operations from the Original Filing only to reflect the Restatement. No other information has been amended or updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. Information contained herein continues to speak as of the date of the Original Filing, and the Company has not updated the disclosures contained herein to reflect events that occurred at a later date.

**Overview**

Hillenbrand Industries is organized into two operating companies serving the health care and funeral services industries.

Hill-Rom is a leader in the worldwide health care community. Hill-Rom provides a variety of products for the patient care environment, non-invasive therapeutic products for pulmonary, wound and circulatory conditions, and biomedical equipment rentals and other services to enhance the operational efficiency and asset utilization of health care facilities.

Batesville Casket Company is a leader in the North American death care industry through the sale of funeral services products, including burial caskets, cremation caskets, containers and urns, selection room display fixturing and other personalization and memorialization products.

In the 2004 Form 10-K, we outlined our overall strategic plan and commitment to create value for shareholders, customers, suppliers and employees. Primary components of that plan related to increased customer focus, new product introductions, growth through selective acquisitions and cost and waste reductions. While there have been no material changes to this plan and commitment, progress has been made during the first quarter of fiscal 2005 with respect to various of our strategic initiatives. Hill-Rom has made substantial progress towards its objectives of increasing the number of sales representatives by approximately 50 and has recently modified its call center routing protocols to improve customer responsiveness. Batesville has increased its customer focus by selectively increasing service and delivery levels to customers, increasing executive management's interaction with customers and growing its customer visitation program. Additionally, in January 2005, Batesville Casket successfully launched the first of two new Batesville Honoring Lives Tour Centers . This mobile showroom will tour the country in an effort to bring the Batesville experience to the customer, create excitement around our new products, increase customer interaction and intimacy and grow the independent funeral home portion of our business. The second mobile showroom is planned for deployment in March 2005.

During the first quarter of fiscal 2005, Hill-Rom experienced strong sales of its VersaCare bed platform, as well as in the architectural products, communications and service parts product lines. In the first quarter of 2005, VersaCare/Advanta orders increased 5 percent over the first quarter of fiscal 2004. In addition, sales of communications products more than doubled over the prior fiscal year first quarter.

The VersaCare bed platform design architecture has also been opened with license agreements established with several mattress manufacturers, including BG North America, a division of Encompass Group LLC, and Span-America Medical Systems, Inc., allowing surfaces manufactured by these companies to be used on the VersaCare platform. The opening of the architecture will allow customers a greater choice of surface options to best meet patient therapeutic needs. In



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addition, in January 2005 we introduced a new non-powered air surface for the VersaCare® bed platform. Within the Hill-Rom rental segment, lower rental volumes reflected in part the slower pneumonia and influenza season as compared to 2004. Additionally, we have seen a reduction in referral volumes on The Vest® (formerly ARI), which will slow growth rates in future periods versus the rapid growth seen in 2004 following The Vest®'s initial receipt of a Medicare reimbursement code for cystic fibrosis and bronchiectasis.

In the funeral services products industry, the demand for burial caskets in North America appears to be gradually but steadily declining as the result of lower age-adjusted mortality rates, lower overall deaths and a continued gradual increase in the rate of cremations. The lower number of deaths appears to be a function of historic birth trends. There was a relatively low number of births that occurred during the late 1920's and early 1930's, which correspond generally to a relatively low number of deaths at this point in time as individuals born in the late 1920's and early 1930's reach their mortality age. Accordingly, we would anticipate that the overall number of deaths will be relatively flat or at lower levels for at least the next several years, after which we anticipate a fairly dramatic increase in the number of deaths, as the baby-boomers near the end of their average life expectancy. The popularity of cremations continues to grow at a rate of approximately one percentage point each year, now estimated to be slightly more than one-third of total deaths in North America. During the first quarter of 2005, the otherwise gradual and steady decline of demand for burial caskets in North America was further exacerbated by a slower pneumonia and influenza season when compared to the same period in 2004, when an early flu season positively impacted the death care business.

Preliminary data from the Center for Disease Control (CDC) indicates that total deaths in the first quarter of fiscal 2005 are estimated to be 60,000 fewer than the prior year comparable period.

Current trending patterns and analysis seem to indicate that we may be experiencing a pneumonia and influenza season resembling fiscal 2003. If so, deaths may not increase until the latter part of the second fiscal quarter, if at all, and any increase will probably not be at the levels seen in prior years.

Despite the low number of deaths, the revenues of Batesville have been positively impacted by the Dimensions by Batesville® product line of oversized caskets that was successfully introduced and launched at the National Funeral Directors Association (NFDA) convention in October, along with increased sales from the veneer product line as customer acceptance continues to grow. Batesville anticipates these trends will continue during the remainder of the 2005 fiscal year and will introduce additional new products aimed at growing its business in both the burial and cremation markets.

We are also committed to growth through selective health care acquisitions. During fiscal 2004, we completed the acquisitions of ARI, Mediq and NaviCare. During 2005 we plan to complete the integration of the acquisitions made in 2004. The integrations of ARI and NaviCare are essentially complete. The integration of Mediq is ahead of plan, with the completed consolidation of 70 service centers, or 85 percent. The integration of Mediq's information technology platform is included in the final phase of the Enterprise Resource Planning implementation at Hill-Rom, which is expected to occur in calendar 2005.

We continue to experience significant increased cost pressure with respect to steel, red metals, solid wood, plastic and fuel that negatively impacted our financial results during the 2004 fiscal year, the 2005 fiscal first quarter and are anticipated to continue during the remainder of fiscal 2005. We have responded by increasing prices where appropriate, implementing cost control actions and initiating work force and other realignment activities, to better align our overall cost structure.

In this regard, we announced a restructuring in the fourth fiscal quarter of 2004, resulting in a charge of \$7 million intended to better align Hill-Rom's financial and personnel resources to fully support its growth initiatives, decrease overall costs, and improve performance in Europe. These actions should reduce operating costs by approximately \$16 million annually once the action is

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fully completed toward the end of our 2005 fiscal year. (See Note 10 to the Condensed Consolidated Financial Statements for more information.)

In January 2005, we completed the successful negotiation of the collective bargaining agreement with the United Steelworkers of America ( USWA ) at Hill-Rom which covered approximately 800 employees at its facilities located in Batesville, Indiana. We have three additional collective bargaining agreements in the United States that will expire during the next twelve months. The effects on our business of any work stoppage associated with a failure to reach a new agreement with the union depend on a variety of factors, including the length of, and number of employees participating in, the work stoppage. Although we have contingency plans designed to minimize the impact of any potential work stoppage and we do not believe that any such work stoppage would have a material adverse effect on our business, financial condition or results of operations, we cannot provide any assurance that a work stoppage would not have such an effect.

**Consolidated Results of Operations**

In this section, we provide a high-level overview of our consolidated results of operations. Immediately following this section is a more comprehensive discussion of revenues and gross profit by operating company.

**Consolidated Revenues**

<i>(Dollars in millions)</i>	2004	Three Months Ended December 31, 2003	% Change
Revenues:			
Health Care sales	\$ 196	\$ 165	18.8
Health Care rentals	120	93	29.0
Funeral Services sales	159	164	(3.0)
Total Revenues	\$475	\$422	12.6

Consolidated revenues for the first quarter of 2005 increased \$53 million, or 12.6 percent, compared to the first quarter of 2004. Health Care sales revenues increased \$31 million driven by increased volumes from the 2004 new product introductions, which were only partially offset by unfavorable pricing of \$5 million for the quarter. The increase in consolidated revenue also related to the January 2004 acquisition of Mediq, which increased Health Care rental revenues approximately \$29 million in the first quarter. Funeral Services sales decreased \$5 million from the prior year, as an estimated 9 percent drop in deaths resulting from an early fiscal 2004 flu season that was not repeated in fiscal 2005 reduced burial casket volume for the first quarter.

**Consolidated Gross Profit**

<i>(Dollars in millions)</i>	Three Months Ended December 31, 2004		Three Months Ended December 31, 2003	
		Percent of Revenues		Percent of Revenues
Gross Profit				
Health Care sales	\$ 88	44.9	\$ 79	47.9
Health Care rentals	48	40.0	50	53.8
Funeral Services sales	84	52.8	90	54.9
Total Gross Profit	\$220	46.3	\$219	51.9

Consolidated gross profit for the first quarter of 2005 increased \$1 million, or 0.5 percent, from the prior year quarter. Health Care sales gross profit increased \$9 million due to the higher reported revenues, but margins as a percent of revenues declined due in large part to lower pricing, primarily on older product lines, including Advanta<sup>®</sup>, higher material costs and unfavorable mix in terms of products sold during the quarter. The decrease in Health Care rental gross profit, despite the acquisition of Mediq that increased gross profit by approximately \$7

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million, was due to a volume decline in the core Americas/Asia Pacific business of nearly \$9 million. This rental decline is attributed to the lack of a current quarter repeat of the prior year's early flu season, lower pricing and continuing integration costs. Health Care rental gross profit as a percentage of revenues decreased to 40.0 percent in the first quarter due to the lower margin rates of the acquired Mediq® product lines, lower pricing and the impacts of integration activities. Funeral Services gross profit decreased \$6 million driven by lower volumes, higher material costs associated with rising prices of steel, other metals, plastic and solid wood, a continued gradual shift in product mix from metal to solid and veneer wood products that generally have slightly lower margins, increased fixed manufacturing costs associated with plant expansion and general salary and benefit inflation.

**Other**

<i>(Dollars in millions)</i>	Three Months Ended		
	2004	December 31, 2003	% Change
Other operating expenses	\$ 154	\$ 146	5.5
<i>Percent of Total Revenues</i>	<i>32.4%</i>	<i>34.6%</i>	
Interest expense	\$ (4)	\$ (3)	33.3
Investment income	7	1	600.0
Other		(1)	(100.0)
Other income/(expense), net	\$ 3	\$ (3)	(200.0)

Other operating expenses increased \$8 million for the three months ended December 31, 2004 from the comparable prior year period. The overall higher expense levels were partially due to the January 2004 acquisitions of Mediq and NaviCare, which added operating expenses of approximately \$6 million for the three-month period, increased legal and professional fees of \$2 million and salary and benefit inflation. These increases were partially offset by \$4 million of lower incentive compensation expense for the three-month period of 2005 versus the prior year's first quarter. Additional operating expense savings were realized from the restructuring at Hill-Rom in the fourth quarter of fiscal 2004, although we have not yet achieved the full amount of such savings on a quarterly basis as all positions have yet to be eliminated.

Interest expense increased \$1 million compared to the first quarter of 2004 due to additional borrowing facilities, partially offset by the lower average interest rates following the repurchase of higher coupon debt. Investment income for the quarter increased \$6 million in 2005 compared to the comparable period in 2004 due to interest accrued and discount accretion on the seller financing and equity instruments related to the divestiture of Forethought and the performance of the retained limited partnership investments.

The effective income tax rate for the first quarter of 2005 was 37.0 percent compared to 35.7 percent for the first quarter of 2004. The higher rate in 2005 is due primarily to an increase in the valuation allowance for continued losses in France. Although these loss carryforwards have no expiration date, current operating results and economic conditions have made it difficult to predict full recoverability of these tax assets. Therefore a full valuation allowance has been established.

Income from continuing operations decreased \$1 million to \$44 million in the first quarter of 2005, compared to \$45 million in the prior year quarter. This equates to diluted earnings per share of \$0.69 for the three-month period of 2005, compared to \$0.72 per share for the comparable period of 2004.

Income from discontinued operations decreased \$17 million in the three-month period. The three-months ended December 31, 2003 included \$7 million related to the divested Hill-Rom piped-medical gas and infant care businesses, including a gain of \$5 million (after tax) on the divestiture of the piped-medical gas business completed in the prior year quarter, and \$10 million of income from operations at Forethought. By 2005, the three businesses had been fully divested. As of



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December 31, 2004, the remaining assets and liabilities in discontinued operations included Forethought Federal Savings Bank, whose income was less than \$1 million.

**Operating Company Results of Operations****Health Care**

<i>(Dollars in millions)</i>	Three Months Ended December 31,		
	2004	2003	% Change
<b>Revenues:</b>			
Health Care sales	\$ 196	\$ 165	18.8
Health Care rentals	\$ 120	\$ 93	29.0
<b>Cost of revenues:</b>			
Health Care sales	\$ 108	\$ 86	25.6
Health Care rentals	\$ 72	\$ 43	67.4
<b>Gross profit:</b>			
Health Care sales	\$ 88	\$ 79	11.4
<i>Percent of revenues</i>	<i>44.9%</i>	<i>47.9%</i>	
Health Care rentals	\$ 48	\$ 50	(4.0)
<i>Percent of revenues</i>	<i>40.0%</i>	<i>53.8%</i>	

**Health Care Sales**

Health Care sales increased \$31 million, or 18.8 percent, in the first quarter of 2005 compared to the first quarter of 2004. The Americas/Asia Pacific segment experienced an increase of \$33 million due to higher volumes and new product introductions. Capital revenues from Mediq and NaviCare of \$4 million were also recognized in the quarter. Partially offsetting this increase was a \$2 million decline in revenues from EMEA due to lower volumes, despite a favorable foreign exchange impact of \$3 million. Also offsetting the increase in revenues was lower pricing of \$5 million, primarily on older product lines, including AdvantaÔ.

The improved volumes in our Americas/Asia Pacific business were due to sales of the VersaCareÔ bed platform, which was introduced in the second quarter of fiscal 2004 to replace our largest selling AdvantaÔ platform with a more feature-rich product. Additionally, improved Health Care sales were also achieved in architectural products, communications and service parts and contracts. This was partially offset by lower AdvantaÔ volumes related to its discontinuance and internal mix shift driven primarily by lower TotalCareÔ volumes, partially attributable to cannibalization by VersaCareÔ.

Gross profit for Health Care sales increased \$9 million, or 11.4 percent, in the quarter ended December 31, 2004, compared to the corresponding prior year quarter, which is attributable to higher revenues on increased volume. As a percentage of sales, gross profit was 44.9 percent in the first quarter of 2005, compared to 47.9 percent in the first quarter of 2004. Current year margin rates were negatively impacted by lower price realization, primarily on older product lines, of approximately \$5 million for the latest three-month period, \$2.5 million of new product transition costs, higher material costs resulting from steel surcharges and unfavorable product mix.

**Health Care Rentals**

Health Care rental revenue increased \$27 million for the three-month period ended December 31, 2004. The overall increase in rental revenue was attributable to the Mediq acquisition made in January of 2004. Mediq contributed \$29 million of rental revenues to the first quarter of 2005 and was not included in the prior year consolidated results. The rental business, excluding the impact of acquisitions, was down approximately \$3 million compared to the prior year period due



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to lower pricing, unfavorable mix and lower volumes. The unfavorable mix resulted from a shift in market preference toward lower priced units. The decline in volumes in North America was due in part to the lack of an early flu season experienced in the prior year. Additionally, we have also experienced product fulfillment issues, primarily in our Movable Medical Equipment (MME). Recent changes in call routing protocols and staffing changes are expected to correct these issues. For the three-month period, European revenues were essentially flat driven up by the favorable effect of exchange rates of approximately \$1 million. Additionally, we have seen a reduction in referral volumes on The Vest<sup>®</sup> (formerly ARI), which will slow growth rates in future periods versus the rapid growth seen in 2004 following The Vest<sup>®</sup>'s initial receipt of a Medicare reimbursement code for cystic fibrosis and bronchiectasis. Health Care rental gross profit decreased \$2 million in the first quarter of 2005 compared to the prior year period. As a percentage of sales, gross profit was 40.0 percent compared to 53.8 percent in the first quarter of 2004. The decrease in gross profit dollars was due to a decline in the core Americas/Asia Pacific business of nearly \$9 million, which was largely offset by the additional \$7 million of gross profit provided by the acquisition of Mediq. Gross profit dollars decreased in the first quarter of 2005, resulting from lower volumes, lower pricing on certain items and the fixed nature of field sales and service costs. As a percentage of revenues, gross margin rates decreased for the same reasons above, the lower margin rates of the acquired Mediq<sup>®</sup> product lines and the product fulfillment issues previously outlined. European margins declined approximately 7 percent as a percentage of revenue due to higher rental depreciation and field service and sales costs on lower volumes.

**Funeral Services**

<i>(Dollars in millions)</i>	Three Months Ended		% Change
	2004	December 31, 2003	
Funeral Services:			
Revenues	\$ 159	\$ 164	(3.0)
Cost of revenues	\$ 75	\$ 74	1.4
Gross profit	\$ 84	\$ 90	(6.7)
<i>Percent of revenues</i>	<i>52.8%</i>	<i>54.9%</i>	

Funeral Services products revenue in the first quarter of 2005 decreased \$5 million, or 3.0 percent from that reported in the prior year comparable period. The lower revenue was attributable to \$15 million in lower burial casket volume experienced in virtually all product lines, geographies and customer segments, along with a slightly unfavorable mix within product lines of approximately \$1 million. We believe the decline in burial volume is primarily attributable to a soft market due to lower death rates as indicated by preliminary CDC death estimates, the continued gradual estimated increase in cremations and the absence of an early flu season in 2005 compared to 2004 when the flu season spiked in December and January. These decreases were partially offset by favorable price realization (that is, net revenues after discounts) of approximately \$10 million, along with increased revenues of approximately \$1 million resulting from favorable volume in Options cremations products and other miscellaneous product accessories.

Funeral Services products gross profit decreased \$6 million, or 6.7 percent, in the first quarter of 2005 compared to the same period of the prior year. As a percentage of sales, gross profit was 52.8 percent in 2005 compared to 54.9 percent in 2004. The primary driver of the reduced three-month gross profit was the lower burial unit volume. Additionally, gross profit, both dollars and as a percent of sales, has been unfavorably impacted by higher raw material costs for steel, other metals, plastic and solid woods, an overall slightly unfavorable product mix shift, increased fixed manufacturing costs associated with expanding manufacturing capabilities at one of our plants and general salary and benefit inflation. The unfavorable product mix was primarily related to the continued gradual shift in product preference from higher margin metal to slightly lower margin solid and veneer wood products. Offsetting these unfavorable items were the higher volumes from cremation and miscellaneous products along with improved net



price realization.

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Gross profit percentages are exclusive of distribution costs of \$21 million, or approximately 13.2 percent of revenues, in the first quarter of 2005, which were down from \$22 million, or 13.4 percent of revenues, in the prior year period, primarily as a result of lower volumes and various cost reductions, somewhat offset by higher fuel costs. Such costs are included in other operating expenses for all periods.

**Liquidity and Capital Resources**

<i>(Dollars in millions)</i>	Three Months Ended December 31,	
	2004	2003
Cash Flows Provided By (Used In):		
Operating activities	\$ 78	\$(22)
Investing activities	(66)	(49)
Financing activities	(15)	(9)
Effect of exchange rate changes on cash	1	1
Increase (Decrease) in Cash and Cash Equivalents	\$ (2)	\$(79)

Net cash flows from operating activities and selected borrowings have represented our primary sources of funds for growth of the business, including capital expenditures and acquisitions. We have not used any off-balance sheet arrangements, other than routine operating leases. Our financing agreements contain no restrictive provisions or conditions relating to dividend payments, working capital or additional unsecured indebtedness (except to the extent that a dividend payment or incurrence of additional unsecured indebtedness would result in a default under our financing agreements), but there are limitations with respect to secured indebtedness. Our debt agreements also contain no credit rating triggers. Credit rating changes can, however, impact the cost of borrowings under our financing agreements.

**Operating Activities**

For the three-month period ended December 31, 2004, net cash provided by operating activities totaled \$78 million compared to net cash used in operating activities of \$22 million for the three months ended December 31, 2003. The increase in operating cash flow was heavily influenced by the timing of the second payment in December 2003 of \$75 million (\$47 million net-of-tax) made to Kinetic Concepts, Inc. (KCI) under the antitrust litigation settlement reached in 2002.

Depreciation and amortization increased to \$29 million in the first quarter of 2005 from \$20 million in the 2004 comparable period. The increase in the current year depreciation and amortization resulted primarily from the acquisitions of ARI, Mediq and NaviCare during 2004.

Changes in working capital decreased cash from operations for both periods, although to a lesser extent in 2005. In the first quarter of 2005, trade accounts payable declined from the prior year-end as a result of normal repayments of traditionally higher fiscal year-end payables. Other reductions in operating cash flow resulted from the increase in consolidated deferred income taxes and the increase in accounts receivables resulting from higher sales in December. Partially offsetting these declines in cash from operations was the improved management, and corresponding reduction, of inventory levels from year-end. In 2004, the decrease in working capital was even more significant. The KCI antitrust litigation payment referred to above was the primary driver of the decline, as well as the payout of incentive compensation. Accounts payable declined due to the same reason mentioned above and lower receipts of production inventory at the end of December. Accounts receivable performance deteriorated in the prior year quarter as overall days revenues outstanding increased nearly 5 days.

**Investing Activities**

Net cash used in investing activities for the three months ended December 31, 2004 totaled \$66 million compared to \$49 million for the three months ended December 31, 2003. Capital



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expenditures increased \$10 million between the comparable quarters related primarily to the replacement of therapy units in the rental fleet. Capital expenditures increased to \$28 million from \$16 million within Hill-Rom for the first quarter of 2005 and 2004, respectively. Batesville Casket's capital expenditures were flat at \$2 million over the same periods, while first quarter

2004 capital expenditures also included \$1 million at Forethought and \$1 million at Corporate. Fiscal year 2005 capital expenditures are expected to approximate \$140 million.

The first fiscal quarter 2005 investment activity included \$55 million of purchases and capital calls and \$27 million provided from sales and maturities. We invest a portion of our excess cash from operations into highly liquid auction rate municipal bonds. These liquid, current investments accounted for \$54 million classified as purchases and \$24 million of the sales for the first quarter 2005, as they were utilized as a treasury management strategy to earn better rates of return on available cash. In the first quarter of 2004, current investment purchases were \$26 million with sales of \$59 million. Auction rate bonds are long-term, variable-rate debt instruments whose interest rates are reset at predetermined short-term intervals (i.e. 7 - 35 day re-pricing), and, despite the long-term nature of their stated contractual maturities, we have the ability to quickly liquidate these securities.

On October 17, 2003, we announced that we had completed our acquisition of ARI, a manufacturer and distributor of non-invasive airway clearance products and systems. The purchase price was \$103 million, plus an additional \$2 million of acquisition costs incurred in relation to the transaction. Based on net revenues achieved in fiscal 2004, an additional purchase price of \$8 million was paid in the first quarter of 2005. Additional payments, including contingent payments, if any, will be payable no later than the end of calendar 2005.

The divestiture of the piped-medical gas business was completed in October 2003 with the receipt of gross proceeds of approximately \$13 million.

We received total cash of approximately \$5 million in the acquisition of ARI during the first quarter of 2004, which was reflected as a decrease in the acquisition price on the Condensed Consolidated Statements of Cash Flows.

### Financing Activities

Net cash used in financing activities totaled \$15 million for the three months ended December 31, 2004 compared to \$9 million for the three months ended December 31, 2003. The increase in cash used in financing activities in 2005 compared to 2004 related primarily to Forethought activities no longer providing cash in the 2005 cash flow.

Cash dividends paid were \$18 million in the first quarter of 2005 compared to \$17 million in the same quarter of 2004. Quarterly cash dividends per share were \$0.28 in 2005 and \$0.27 in 2004.

Our long-term debt-to-capital ratio was 22.7 percent at December 31, 2004 compared to 11.9 percent at December 31, 2003. This increase was primarily due to a \$250 million debt issuance, partially offset by the \$47 million repurchase of our debt, both occurring during the third quarter of fiscal 2004.

### Other Liquidity Matters

As of December 31, 2004, cash and cash equivalents had decreased \$2 million to \$126 million from \$128 million at September 30, 2004.

On July 28, 2004, we replaced our previously existing senior credit facilities with a \$400 million five-year senior revolving credit facility.

As of December 31, 2004, we: (i) had \$17 million of outstanding, undrawn letters of credit under the five-year facility, (ii) were in compliance with all conditions set forth under the facilities, and (iii) had complete access to the remaining \$383 million of borrowing capacity available under that facility.

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We have additional uncommitted credit lines totaling \$15 million that have no commitment fees, compensating balance requirements or fixed expiration dates. As of December 31, 2004, we had \$15 million of outstanding, undrawn letters of credit under these facilities.

On July 14, 2003, we filed a universal shelf registration statement with the U.S. Securities and Exchange Commission on Form S-3 for the potential future sale of up to \$1 billion in debt and/or equity securities. On June 7, 2004, we issued \$250 million of senior notes from this universal shelf registration statement, leaving \$750 million of available capacity under the universal registration statement.

We currently have Board of Directors approval to repurchase up to 24,289,067 shares of our common stock in the open market and through private transactions. During the first quarter of 2005, we did not repurchase any shares in the open market. As of December 31, 2004, we had 2,840,000 of authorized shares remaining for repurchase. In January 2005, we repurchased shares and may consider additional repurchases if justified by the stock price or other considerations. Repurchased shares are to be used for general business purposes.

We believe that cash on hand and generated from operations and amounts available under our five-year credit facility, along with amounts available from the capital markets, will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing obligations. However, in connection with the Spartanburg antitrust litigation, if a class is certified and the plaintiffs prevail at trial, potential damages awarded the plaintiffs could have a material adverse effect on our financial condition and liquidity.

**Critical Accounting Policies**

Our accounting policies require management to make significant estimates and assumptions using information available at the time the estimates are made. Such estimates and assumptions significantly affect various reported amounts of assets, liabilities, revenues and expenses. If future experience differs materially from these estimates and assumptions, results of operations and financial condition could be affected. A detailed description of our accounting policies is included in the Notes to our Consolidated Financial Statements and the Critical Accounting Policies Section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2004, as amended.

There have been no material changes in accounting policies from those outlined in our Annual Report on Form 10-K for the fiscal year ended September 30, 2004, as amended.

**Accounting Standards**

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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 Accounting Principles Board (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. SFAS No. 123(R) is effective for all interim periods beginning after June 15, 2005, and thus will become effective for us in the fourth quarter of fiscal 2005. 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 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

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years beginning after June 15, 2005, and thus will become effective for us in fiscal 2006. We are currently evaluating the impact to our consolidated financial statements and results of operations.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, an amendment of APB Opinion No. 29, *Accounting for Nonmonetary Assets*. SFAS No. 153 requires that exchanges of nonmonetary assets be measured based on the fair value of the assets exchanged. Further, it expands the exception for nonmonetary exchanges of similar productive assets to nonmonetary assets that do not have commercial substance. The provisions of the Statement are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of the provisions of SFAS No. 153 is not expected to have a material impact on our consolidated financial statements or results of operations.

At the November 2004 meeting, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) regarding Issue No. 03-13, *Applying the Conditions in Paragraph 42 of SFAS No. 144, Accounting for the Impairment of Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations*. The Issue provides a model to assist in evaluating (a) which cash flows should be considered in the determination of whether cash of the discontinued operation have been, or will be, eliminated from ongoing operations and (b) the types of continuing involvement that constitute significant continuing involvement. The Issue should be applied to a component of an enterprise that is either disposed of or classified as held for sale in fiscal periods beginning after December 15, 2004. In analyzing the model included in this Issue, we determined that, although we receive continuing cash flows from a transition agreement with the previously disposed Forethought business, these cash flows are not significant, they are indirect cash flows and we do not have significant continuing involvement in the operations of their business. Therefore, the classification of Forethought as a discontinued operation under SFAS No. 144 is appropriate.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the *Act*). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 to 2010. In return, the Act also provides for a two-year phase-out of the existing extra-territorial income exclusion (ETI) for foreign sales that was viewed to be inconsistent with international trade protocols by the European Union. We expect the net effect of the phase out of the ETI and the phase in of this new deduction to result in a minimal impact in the effective tax rate for 2005 based on current earnings levels. In the long-term, we expect the new deduction will result in a decrease in the annual effective tax rate by at least one percent based on current earnings levels.

Under the guidance in FASB Staff Position No. FAS 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes*, to the Tax Deduction on Qualified Production Activities Provided by The American Jobs Creation Act of 2004, the deduction will be treated as a special deduction as described in FASB Statement 109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our tax return.

The Act also created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. It is not anticipated that we will benefit from this provision of the Act.

**Forward-Looking Statements and Factors That May Affect Future Results**

Certain statements in this Quarterly Report on Form 10-Q/A contain forward-looking statements within the meanings of the Private Securities Litigation Reform Act of 1995 regarding our future plans, objectives, beliefs, expectations, representations and projections. We have tried, whenever possible, to identify these forward-looking statements by using words such as intend, anticipate, believe, plan, encourage, expect, may, goal, become, pursue, will, projection, forecast, continue, accelerate, promise, increase, or the negative of those terms or other variations of them or by comparable terminology. The absence of such terms, however, does not mean that the statement is not forward-looking.

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We caution readers that any such forward-looking statements are based on assumptions that we believe are reasonable, but are subject to a wide range of risks. It is important to note that forward-looking statements are not guarantees of future performance, and our actual results could differ materially from those set forth in any forward-looking statements. There are a number of factors many of which are beyond our control that could cause actual conditions, events or results to differ significantly from those described in the forward-looking statements. For example:

Failure to comply with the Food and Drug Administration (FDA) regulations and similar foreign regulations applicable to our medical device products could expose us to enforcement actions or other adverse consequences.

Continued declines and fluctuations in mortality rates and increased cremations may adversely affect, as they have in recent years, the volume of Batesville Casket's sales of burial caskets.

Future financial performance will depend in part on the successful introduction of new products into the marketplace on a cost-effective basis. The financial success of new products could be adversely impacted by competitors' products, customer acceptance, difficulties in product development and manufacturing, certain regulatory approvals and other factors. The introduction of new products may cause customers to defer purchases of existing products, which could have an adverse effect on sales.

Our health care and funeral services businesses are significantly dependent on several major contracts with large national providers and group purchasing organizations.

Increased prices for or unavailability of raw materials or finished goods used in our products could adversely affect profitability or revenues.

We may not be successful in achieving expected operating efficiencies and operating cost reductions associated with announced restructuring, realignment and cost reduction activities.

Implementation of our Enterprise Resource Planning system could cause us to make unplanned expenditures or could cause disruptions in our business. A significant implementation is scheduled for calendar 2005 at Hill-Rom.

Product liability or other liability claims could expose us to adverse judgments or could affect the sales of our products.

We are involved on an ongoing basis in claims and lawsuits relating to our operations, including environmental, antitrust, patent infringement, business practices, commercial transactions, and other matters.

Our funeral services business is facing increasing competition from a number of non-traditional sources, including internet casket retailers, large retail discount stores, and caskets manufactured abroad and imported into North America.

We may not be able to execute our growth strategy if we are unable to successfully acquire and integrate other companies in the health care industry.

Our success depends on our ability to retain our executive officers and other key personnel.

A substantial portion of our workforce is unionized, and we could face labor disruptions that would interfere with our operations.

Volatility of our investment portfolio could negatively impact earnings.





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For a more in depth discussion of these and other factors that could cause actual results to differ from those contained in forward-looking statements, see the discussions under the heading "Risk Factors" in our 2004 Annual Report on Form 10-K, as amended, filed with the U.S. Securities and Exchange Commission. We assume no obligation to update or revise any forward-looking statements. Readers should also refer to the various disclosures made by us in our periodic reports on Form 8-K filed with the U.S. Securities and Exchange Commission.

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**Item 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Interim President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer ( the Certifying Officers ), has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), as amended (the Exchange Act ) as of the end of the period covered by this report. In connection with the restatement described in Note 13 to our Condensed Consolidated Financial Statements, management determined that there were material weaknesses in our internal control over financial reporting in the areas of accounting for goodwill and income taxes (as further described below) as of December 31, 2004 and has revised this assessment from that originally included in our Quarterly Report on Form 10-Q filed on February 14, 2005. Subsequent to that filing, we have restated our annual financial statements in a filing on Form 10-K/A. Based upon the revised evaluation, the Certifying Officers have now concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report for the information required to be disclosed in the reports we file or submit under the Exchange Act to be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

**Material Weaknesses in Internal Control Over Financial Reporting**

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of December 31, 2004, we did not maintain effective controls over (i) the accuracy of our accounting for goodwill or (ii) the accuracy of our accounting for income taxes, including the determination of income taxes payable, deferred income tax assets and liabilities and the related income tax provision. Specifically, we did not have effective controls to properly allocate goodwill to the carrying value of businesses to be disposed of or effective review controls over the differences between the income tax basis and the financial reporting basis associated with the tax losses incurred on the disposition of discontinued operations. Each of these control deficiencies resulted in the restatement of our 2004 and 2003 annual consolidated financial statements. Additionally, each of these control deficiencies could result in a misstatement of the aforementioned accounts and disclosures that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management determined that each of these control deficiencies constituted a material weakness.

**Remediation of Material Weakness**

As noted above, management determined that there were material weaknesses in our internal control over financial reporting in the areas of goodwill and income taxes as of December 31, 2004. Throughout fiscal 2005, we made numerous enhancements to our controls over financial reporting. With respect to our accounting for goodwill, the following steps were taken and/or events have occurred to alleviate the material weakness in this area:

Changes in personnel have increased the skill and experience level of senior financial management related to the understanding and application of generally accepted accounting principles.

Continued accurate reporting unit identification and annual goodwill impairment assessments under Statement of Financial Accounting Standards No. 142 ( SFAS 142 ), Goodwill and Other Intangible Assets, demonstrates our understanding and compliance with appropriate authoritative literature.

Goodwill related to recent acquisitions has been properly accounted for and allocated to the respective reporting units based on the requirements of SFAS 142.

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Another realignment in reporting structure in fiscal 2006 and the successful integration of recently acquired businesses clearly defines the reporting unit as the lowest level at which goodwill can be assessed in future periods.

With respect to our accounting for income taxes, including the determination of income taxes payable, deferred income tax assets and liabilities and the related income tax provision, the following steps were taken:

The addition of a Director of Tax specializing in the accounting for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes.

The addition of other key personnel and skill sets, including additions in specialty and compliance areas.

Development of definitive procedures for the detailed documentation and reconciliations supporting the income tax payable, deferred income tax and tax provision balances and amounts, including the review and approval of related journal entries by appropriate subject matter experts.

With the implementation of the above measures and other events occurring throughout fiscal 2005, we have significantly improved our internal control over financial reporting and reduced to a remote likelihood the possibility of a misstatement that would not be prevented or detected. We have therefore concluded that the above referenced material weaknesses in internal control over financial reporting have been fully corrected as of September 30, 2005.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f), that occurred during the fiscal quarter ended December 31, 2004, other than certain steps taken as part of the remediation of the material weaknesses discussed above, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 6. EXHIBITS**

A. Exhibits

- Exhibit 10.1 Form of Director Stock Award granted to non employee directors under the Stock Incentive Plan\*
- Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*\*
- Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*\*
- Exhibit 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*\*
- Exhibit 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*\*

\* Filed with original filing of the Form 10-Q for the quarterly period ended December 31, 2004.

\*\* Filed with this Form 10-Q/A.

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**SIGNATURES**

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

**HILLENBRAND INDUSTRIES, INC.**

DATE: January 23, 2006

BY: /S/ Gregory N. Miller

Gregory N. Miller  
Senior Vice President and  
Chief Financial Officer

DATE: January 23, 2006

BY: /S/ Richard G. Keller

Richard G. Keller  
Vice President Controller and  
Chief Accounting Officer