

Hillenbrand, Inc.
Form 10-Q
August 08, 2011
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2011

Commission File No. 001-33794

HILLENBRAND, INC.

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of
incorporation or organization)

26-1342272

(I.R.S. Employer Identification No)

**One Batesville Boulevard
Batesville, IN**

(Address of principal executive offices)

47006

(Zip Code)

(812) 934-7500

(Registrant's telephone number, including area code)

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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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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 62,702,646 shares as of August 3, 2011.

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HILLENBRAND, INC.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****Hillenbrand, Inc.****Consolidated Statements of Income (Unaudited)***(in millions, except per share data)*

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|--------------------------------|-----------|-------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Net revenue | \$ 211.2 | \$ 205.8 | \$ 652.2 | \$ 537.2 |
| Cost of goods sold | 125.1 | 130.2 | 373.0 | 312.6 |
| Gross profit | 86.1 | 75.6 | 279.2 | 224.6 |
| Operating expenses | 51.2 | 55.8 | 154.4 | 121.5 |
| Operating profit | 34.9 | 19.8 | 124.8 | 103.1 |
| Interest expense | (2.6) | (1.0) | (8.3) | (1.5) |
| Investment income and other | 0.7 | 3.8 | 9.3 | 11.9 |
| Income before income taxes | 33.0 | 22.6 | 125.8 | 113.5 |
| Income tax expense | 10.5 | 9.3 | 43.2 | 41.3 |
| Net income | \$ 22.5 | \$ 13.3 | \$ 82.6 | \$ 72.2 |
| Earnings per share-basic and diluted | \$ 0.36 | \$ 0.22 | \$ 1.33 | \$ 1.17 |
| Weighted average shares outstanding basic and diluted | 62.1 | 62.0 | 62.0 | 61.9 |
| Cash dividends per share | \$ 0.1900 | \$ 0.1875 | \$ 0.5700 | \$ 0.5625 |

See Condensed Notes to Consolidated Financial Statements

Table of Contents**Hillenbrand, Inc.****Consolidated Balance Sheets (Unaudited)***(in millions)*

| | June 30, 2011 | September 30, 2010 |
|--|-------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 198.3 | \$ 98.4 |
| Trade receivables, net | 109.2 | 109.0 |
| Inventories | 75.6 | 64.9 |
| Interest receivable from Forethought | | 10.0 |
| Deferred income taxes | 23.1 | 25.5 |
| Other current assets | 22.3 | 16.6 |
| Total current assets | 428.5 | 324.4 |
| Property, net | 108.4 | 109.6 |
| Intangible assets, net | 425.9 | 418.2 |
| Auction rate securities | | 11.9 |
| Note and long-term interest receivable from Forethought | | 134.8 |
| Investments | 17.1 | 18.2 |
| Other assets | 30.3 | 31.8 |
| Total Assets | \$ 1,010.2 | \$ 1,048.9 |
| LIABILITIES | | |
| Current Liabilities | | |
| Trade accounts payable | \$ 25.6 | \$ 26.9 |
| Accrued compensation | 32.3 | 35.7 |
| Accrued customer rebates and advances | 27.1 | 27.1 |
| Other current liabilities | 30.6 | 28.3 |
| Total current liabilities | 115.6 | 118.0 |
| Long-term debt | 272.5 | 403.4 |
| Accrued pension and long-term postretirement healthcare | 89.9 | 88.7 |
| Deferred income taxes | 34.0 | 31.8 |
| Other long-term liabilities | 33.9 | 35.1 |
| Total Liabilities | 545.9 | 677.0 |
| Commitments and contingencies | | |
| SHAREHOLDERS EQUITY | | |
| Common stock, no par value, 63.4 and 63.1 shares issued, 62.7 and 62.3 shares outstanding, 0.9 and 0.6 restricted | | |
| Additional paid-in-capital | 313.4 | 304.9 |
| Retained earnings | 171.4 | 124.8 |
| Treasury stock, 0.7 and 0.8 shares | (13.4) | (14.8) |
| Accumulated other comprehensive loss | (7.1) | (43.0) |
| Total Shareholders Equity | 464.3 | 371.9 |
| Total Liabilities and Shareholders Equity | \$ 1,010.2 | \$ 1,048.9 |

See Condensed Notes to Consolidated Financial Statements

Table of Contents**Hillenbrand, Inc.****Consolidated Statements of Cash Flows (Unaudited)***(in millions)*

| | Nine Months Ended June 30, | |
|---|---------------------------------------|--------------|
| | 2011 | 2010 |
| Operating Activities | | |
| Net income | \$ 82.6 | \$ 72.2 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 26.0 | 19.5 |
| Deferred income taxes | 0.4 | (11.8) |
| Net gain on auction rate securities and investments | (0.5) | (0.2) |
| Interest income on Forethought note | (6.4) | (9.1) |
| Forethought note interest payment | 59.7 | |
| Equity in net income from affiliates | (4.1) | (2.7) |
| Stock-based compensation | 8.5 | 7.4 |
| Trade accounts receivable | 2.3 | (1.3) |
| Inventories | (9.1) | 14.7 |
| Other current assets | 0.2 | (5.9) |
| Trade accounts payable | (2.5) | (2.6) |
| Accrued expenses and other current liabilities | (2.5) | (0.3) |
| Income taxes | (5.6) | 36.3 |
| Defined benefit plan funding | (2.0) | (5.5) |
| Defined benefit plan expense | 6.8 | 6.9 |
| Other, net | 1.5 | (0.6) |
| Net cash provided by operating activities | 155.3 | 117.0 |
| Investing Activities | | |
| Capital expenditures | (11.4) | (10.2) |
| Forethought note principal repayment | 91.5 | |
| Acquisitions of businesses, net of cash acquired | (0.4) | (371.5) |
| Proceeds from redemption and sales of auction rate securities and investments | 12.4 | 23.0 |
| Return of investment capital from affiliates | 6.6 | 1.9 |
| Net cash provided by (used in) investing activities | 98.7 | (356.8) |
| Financing Activities | | |
| Proceeds from revolving credit facilities, net of financing costs | 20.0 | 464.0 |
| Repayments on revolving credit facilities | (151.0) | (143.1) |
| Payment of dividends on common stock | (35.2) | (34.7) |
| Proceeds from issuance of common stock | 0.7 | 1.7 |
| Net cash (used in) provided by financing activities | (165.5) | 287.9 |
| Effect of exchange rates on cash and cash equivalents | 11.4 | (1.1) |
| Net cash flows | 99.9 | 47.0 |
| Cash and cash equivalents | | |
| At beginning of period | 98.4 | 35.2 |
| At end of period | \$ 198.3 | \$ 82.2 |

See Condensed Notes to Consolidated Financial Statements

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Hillenbrand, Inc.

Condensed Notes to Consolidated Financial Statements (Unaudited)

(in millions, except share and per share data)

1. Background and Basis of Presentation

Hillenbrand, Inc. (Hillenbrand or the Company) is the parent holding company of its wholly owned subsidiaries, Batesville Services, Inc. (Batesville) and K-Tron International, Inc. (K-Tron).

Through Batesville, we are the leader in the North American death care products industry where we manufacture, distribute, and sell funeral service products to licensed funeral directors who operate licensed funeral homes. Batesville-branded products consist primarily of burial caskets, but also include cremation caskets, containers and urns, burial vaults, selection room display fixturing for funeral homes, and other personalization and memorialization products and services, including web-based applications and the creation and hosting of websites for licensed funeral homes.

Through K-Tron, we design, produce, market, and service bulk solids material handling equipment and systems for a wide variety of industrial markets, particularly in the plastics, food, chemical, pharmaceutical, power generation, coal mining, pulp and paper, wood and forest products, and biomass energy generation industries.

The accompanying unaudited consolidated financial statements include the accounts of Hillenbrand, Inc. and its wholly owned subsidiaries. These unaudited financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements and therefore do not include all information required in accordance with accounting principles generally accepted in the United States (GAAP). The unaudited consolidated financial statements have been prepared on the same basis as the consolidated financial statements as of and for the fiscal year ended September 30, 2010. Certain prior period balances have been reclassified to conform to the current presentation. In the opinion of management, these financial statements reflect all normal and recurring adjustments considered necessary to present fairly the Company's consolidated financial position and the consolidated results of operations and cash flows as of the dates and for the periods presented.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities as of the dates presented. Actual results could differ from those estimates. Examples of such estimates include, but are not limited to, the establishment of reserves related to customer rebates, allowance for doubtful accounts, warranties, early pay discounts, inventories, income taxes, accrued litigation, and self-insurance; and the estimation of progress toward performance criteria under the incentive compensation programs.

2. Summary of Significant Accounting Policies

The accounting policies used in preparing these financial statements are consistent with the accounting policies described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010. The following represent additions and changes to significant accounting policies in the previously filed Form 10-K.

Recently Adopted and Issued Accounting Standards

On December 31, 2010, we adopted the Financial Accounting Standards Board's (FASB's) accounting standard update 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The standard requires companies to provide additional disclosures about the credit quality of their financing receivables and the credit reserves held against them. The disclosure requirements of this standard are included in Note 5.

In May 2011, the FASB issued *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (Topic 820, Fair Value Measurement)*. The new standard provides updates to measurement guidance and enhanced disclosure requirements. The most significant change is an expansion of the information required for Level 3 measurements based on unobservable inputs. The new disclosure requirements are

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effective during interim and annual periods beginning after December 15, 2011. We do not expect that the adoption of this standard will have a significant impact on our consolidated financial statements.

In June 2011, the FASB issued an accounting standards update titled *Presentation of Comprehensive Income*. This update eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate consecutive statements. Each component of net income and each component of other comprehensive income, together with totals for comprehensive income and its two parts, net income and other comprehensive income, must be displayed under either alternative. The new disclosure requirements are effective for fiscal years beginning after December 15, 2011.

3. Business Acquisitions*K-Tron Acquisition*

The financial information in the table below summarizes the combined results of operations for the Company, including K-Tron, for the nine months ended June 30, 2010, on a pro forma basis, as though the companies were combined as of the beginning of the period presented. The pro forma financial information is presented for informational purposes only and may not be indicative of the results of operations if the acquisition had actually taken place at the beginning of the period presented and should not be considered representative of future consolidated results of operations. The pro forma financial information for the nine months ended June 30, 2010, includes adjustments for additional interest expense (assuming we would have been able to borrow \$375.0 on October 1, 2009) and additional depreciation and amortization expense (associated with fair value adjustments to property and intangible assets), and excludes business acquisition costs and the non-recurring effects of fair value adjustments to inventory and backlog, all net of estimated income tax. See Note 17 for further information regarding K-Tron's financial contribution to consolidated financial results. We completed the final purchase price allocation as of April 1, 2011, which reduced goodwill and adjusted net deferred taxes and other liabilities by \$4.8.

| | Nine Months Ended June 30, 2010 | |
|--------------------------------------|--|-------|
| Pro forma net revenue | \$ | 618.9 |
| Pro forma net income | | 88.5 |
| Pro forma diluted earnings per share | | 1.43 |

4. Supplemental Balance Sheet Information

| | June 30, 2011 | | September 30, 2010 | |
|--------------------------------------|--------------------------|-------|-------------------------------|-------|
| Trade accounts receivable reserves | \$ | 18.9 | \$ | 20.1 |
| Accumulated depreciation on property | \$ | 251.8 | \$ | 239.7 |

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| | | | | |
|---|----|-------|----|-------|
| Accumulated amortization of intangible assets | \$ | 46.6 | \$ | 36.0 |
| Inventories: | | | | |
| Raw materials and components | \$ | 28.1 | \$ | 26.6 |
| Work in process | | 10.2 | | 6.7 |
| Finished products | | 40.5 | | 34.8 |
| Reserves for excess or obsolescence | | (3.2) | | (3.2) |
| Total inventories | \$ | 75.6 | \$ | 64.9 |

5. Financing Receivables and Allowances for Credit Losses

As of June 30, 2011, Batesville had \$8.2 of customer notes receivable, primarily representing long-term payment plans negotiated to collect unpaid balances. These notes generally carry repayment terms up to five years at a

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weighted average interest rate of 5.4%. The current portion of these notes, \$4.8, is included in trade receivables and the long-term portion, \$3.4, is included in other assets in the consolidated balance sheets. We evaluate the recoverability of each note receivable quarterly and record allowances based upon the customer's credit score and collection experience. Of the \$8.2 notes receivable, \$5.5 was current and \$2.7 was over 31 days past due as of June 30, 2011. Accordingly, we established \$0.9 of reserves for notes with a gross balance of \$2.0 as of June 30, 2011. There has not been a significant change in the reserve during the periods presented. Each quarter we perform a detailed review of all notes upon which a reserve was established to determine whether any amounts should be charged off. Amounts are charged off when they are deemed to no longer be collectible.

6. Auction Rate Securities

| | A | B | C |
|-------------------------------|---------|-------|----------|
| Balance at September 30, 2010 | \$ 11.9 | \$ | \$ |
| Change in fair value | 0.5 | (0.5) | |
| Purchases | | | |
| Sales and redemptions | (12.4) | 0.5 | (0.5) |
| Balance at June 30, 2011 | \$ | \$ | \$ (0.5) |

- A ARS - available for sale, at fair value
 B Amount included in accumulated other comprehensive loss (pre-tax)
 C Gain included in investment income and other (pre-tax)

We have now fully liquidated the original \$56.9 (par value) portfolio of ARS transferred to us on March 31, 2008, in connection with the separation from Hill-Rom. We recovered approximately 95.5% of the historical cost of these securities.

7. Financing Agreements

Borrowings under our financing agreements included:

| | June 30, 2011 | September 30, 2010 |
|--|------------------|-----------------------|
| \$400 revolving credit facility | \$ 124.0 | \$ 255.0 |
| \$150 senior unsecured notes, due July 15, 2020, net of discount | 148.5 | 148.4 |
| Total long-term debt | \$ 272.5 | \$ 403.4 |

As of June 30, 2011, we (i) had \$6.7 outstanding letters of credit under the facility, (ii) were in compliance with all covenants set forth in the credit agreement, and (iii) had \$269.3 of remaining borrowing capacity available under the facility. Under the Distribution Agreement with Hill-Rom, the ability to borrow against the facility for certain strategic transactions such as acquisitions may be limited. We received a covenant modification to the Distribution Agreement in May 2011 that allowed us to pay down our revolving credit facility with the proceeds from the collection of the Forethought note without impacting our ability in the future to redraw these funds to finance acquisitions. The term of the revolving credit facility expires in March 2013, and during the three- and nine-month periods ended June 30, 2011 and 2010, the weighted

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average interest rates were 0.7%.

The Swiss subsidiary maintains additional availability of \$21.3 through local credit facilities collateralized by cash or real property. As of June 30, 2011, there were no borrowings under these facilities, and availability was reduced by \$6.4 for outstanding bank guarantees. We had \$3.9 additional outstanding letters of credit and bank guarantees with other financial institutions.

On July 9, 2010, we issued \$150.0 fixed-rate senior unsecured notes due July 15, 2020 (the Notes). The Notes bear interest at a fixed rate of 5.5%, payable semi-annually in arrears commencing January 15, 2011. The Notes were issued at an original issue discount of \$1.6, which is being amortized to interest expense over the term of the Notes using the effective interest rate method, resulting in an annual interest rate of 5.65%. Deferred financing costs associated with the Notes of \$2.1 are being amortized to interest expense over the term of the Notes.

Table of Contents8. Retirement Benefits*Defined Benefit Plans*

| | Three Months Ended June 30, | | | | Nine Months Ended June 30, | | | |
|---|--------------------------------|-------|------|-------|-------------------------------|--------|------|--------|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| Service costs | \$ | 1.4 | \$ | 1.4 | \$ | 4.1 | \$ | 4.0 |
| Interest costs | | 3.2 | | 3.3 | | 9.6 | | 9.5 |
| Expected return on plan assets | | (3.9) | | (3.6) | | (11.5) | | (10.3) |
| Amortization of unrecognized prior service costs, net | | 0.2 | | 0.2 | | 0.6 | | 0.6 |
| Amortization of net loss | | 1.0 | | 0.7 | | 3.0 | | 2.2 |
| Net pension costs | \$ | 1.9 | \$ | 2.0 | \$ | 5.8 | \$ | 6.0 |

Postretirement Healthcare Plans

The net postretirement healthcare costs for both the three months ended June 30, 2011 and 2010, were \$0.3. The net postretirement healthcare costs for the nine months ended June 30, 2011 and 2010, were \$1.0 and \$0.9.

Defined Contribution Plans

For the three months ended June 30, 2011 and 2010, expenses related to our defined contribution plans were \$1.7 and \$1.6. For the nine months ended June 30, 2011 and 2010, expenses related to our defined contribution plans were \$5.0 and \$4.2.

9. Income Taxes

The effective tax rates for the three months ended June 30, 2011 and 2010, were 31.8% and 41.2%. The rate was favorably impacted by non-deductible transaction costs incurred in the previous period, favorable effects of periodic reconciliation to recently filed returns, and an increase in the percentage of foreign source income in lower rate jurisdictions.

The effective tax rates for the nine months ended June 30, 2011 and 2010, were 34.3% and 36.4%. The rate was favorably impacted by the percentage of foreign source income in lower rate jurisdictions, non-deductible transaction costs incurred in the previous period, and an increase in the domestic manufacturing deduction.

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The activity within our reserve for unrecognized tax benefits was:

| | | |
|--|----|-------|
| Balance at September 30, 2010 | \$ | 7.8 |
| Additions for current-year tax positions | | 0.2 |
| Additions for prior-year tax positions | | 0.1 |
| Reductions for prior-year tax positions | | (0.2) |
| Balance at June 30, 2011 | \$ | 7.9 |
| Other amounts accrued at June 30, 2011, for interest and penalties | \$ | 1.5 |

10. Earnings per Share

At June 30, 2011 and 2010, potential dilutive effects of time-based restricted stock units and stock options, representing approximately 2.0 million and 1.3 million shares, were excluded from earnings per share as their effects were anti-dilutive. The dilutive effects of performance-based stock awards will be included in diluted net earnings per share when the related performance criteria are met. At June 30, 2011 and 2010, potential dilutive effects representing approximately 1.7 million and 1.1 million shares, were excluded from the computation of dilutive earnings per share as the related performance criteria were not met, although we expect to meet various levels of criteria in the future. There was no significant difference in basic and diluted earnings per share and average shares outstanding as a result of dilutive equity awards for the three- and nine-month periods ended June 30, 2011 and 2010.

Table of Contents11. Shareholders' Equity

During the nine months ended June 30, 2011, we paid \$35.2 of cash dividends and issued 0.3 million shares of stock pursuant to stock incentive plans.

12. Comprehensive Income and Accumulated Other Comprehensive Loss

The components of comprehensive income, net of tax, were:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|--------------------------------|---------|-------------------------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$ 22.5 | \$ 13.3 | \$ 82.6 | \$ 72.2 |
| Change in foreign currency translation adjustment | 18.5 | (4.4) | 32.8 | (3.6) |
| Change in items not recognized as a component of net pension and postretirement healthcare cost | 0.8 | 0.6 | 2.3 | 1.8 |
| Change in net unrealized gains (losses) on derivative instruments | 0.1 | 0.5 | (0.2) | 0.8 |
| Change in net unrealized gains (losses) on available-for-sale securities | 0.9 | | 1.0 | (0.2) |
| Comprehensive income | \$ 42.8 | \$ 10.0 | \$ 118.5 | \$ 71.0 |

The components of accumulated other comprehensive loss, net of tax, were:

| | June 30, 2011 | September 30, 2010 |
|---|------------------|-----------------------|
| Cumulative foreign currency translation adjustment | \$ 41.9 | \$ 9.1 |
| Items not recognized as a component of net pension and postretirement benefit costs | (49.7) | (52.0) |
| Net unrealized loss on derivative instruments | (0.3) | (0.1) |
| Net unrealized gain on available-for-sale securities | 1.0 | |
| Accumulated other comprehensive loss | \$ (7.1) | \$ (43.0) |

The cumulative foreign currency translation increase was the result of the strengthening Swiss Franc compared to the US dollar during the nine months ended June 30, 2011.

13. Stock-Based Compensation

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| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|--|--------------------------------|--------|-------------------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Stock-based compensation costs | \$ 2.3 | \$ 2.4 | \$ 8.5 | \$ 7.4 |
| Income tax benefit | 0.8 | 0.9 | 3.2 | 2.7 |
| Stock-based compensation costs, net of tax | \$ 1.5 | \$ 1.5 | \$ 5.3 | \$ 4.7 |

During the nine months ended June 30, 2011, we made the following grants:

| | Number of Units |
|--|-----------------|
| Stock options | 555,679 |
| Restricted stock units (RSUs) | 99,631 |
| Performance-based stock units (PBUs, maximum that can be earned) | 587,481 |

Stock options granted had a weighted average exercise price of \$19.78, and our RSUs and PBUs had a weighted average grant date fair value of \$21.61 and \$19.66 for the nine-month period ended June 30, 2011.

Table of Contents14. Investment Income and Other

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|--------------------------------|--------|-------------------------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Interest income on note receivable from Forethought | \$ 0.6 | \$ 2.9 | \$ 6.4 | \$ 9.1 |
| Equity in net income of affiliates | 1.1 | 1.1 | 4.1 | 2.7 |
| Realized gain on sale of investments | | | | 0.5 |
| Realized gain (loss) on sale of ARS | | | 0.5 | (0.3) |
| Foreign currency exchange (loss) | (0.4) | (0.4) | (0.7) | (0.4) |
| Other income (expense), net | (0.6) | 0.2 | (1.0) | 0.3 |
| Investment income and other | \$ 0.7 | \$ 3.8 | \$ 9.3 | \$ 11.9 |

15. Commitments and Contingencies*Antitrust Litigation*

In 2005, the Funeral Consumers Alliance, Inc. (FCA) and a number of individual consumer casket purchasers filed a purported class action antitrust lawsuit on behalf of certain consumer purchasers of Batesville® caskets against the Company and our former parent company, Hillenbrand Industries, Inc., now Hill-Rom Holdings, Inc. (Hill-Rom), and three national funeral home businesses (the FCA Action). A similar purported antitrust class action lawsuit was later filed by Pioneer Valley Casket Co. and several so-called independent casket distributors on behalf of casket sellers who were unaffiliated with any licensed funeral home (the Pioneer Valley Action). Class certification hearings in the FCA Action and the Pioneer Valley Action were held before a Magistrate Judge in early December 2006. On November 24, 2008, the Magistrate Judge recommended that the plaintiffs' motions for class certification in both cases be denied. On March 26, 2009, the District Judge adopted the memoranda and recommendations of the Magistrate Judge and denied class certification in both cases. On April 9, 2009, the plaintiffs in the FCA case filed a petition with the United States Court of Appeals for the Fifth Circuit for leave to file an appeal of the Court's order denying class certification. On June 19, 2009, a three-judge panel of the Fifth Circuit denied the FCA plaintiffs' petition. On July 9, 2009, the FCA plaintiffs filed a request for reconsideration of the denial of their petition. On July 29, 2009, a three-judge panel of the Fifth Circuit denied the FCA plaintiffs' motion for reconsideration and their alternative motion for leave to file a petition for rehearing en banc (by all the judges sitting on the Fifth Circuit Court of Appeals).

The Pioneer Valley plaintiffs did not appeal the District Court's order denying class certification and, on April 29, 2009, pursuant to a stipulation among the parties, the District Court dismissed the Pioneer Valley Action with prejudice (i.e., Pioneer Valley cannot appeal or otherwise reinstitute the case). Neither the Company nor Hill-Rom provided any payment or consideration for the plaintiffs to dismiss this case, other than agreeing to bear their own costs rather than pursuing plaintiffs for costs.

Plaintiffs in the FCA Action have generally sought monetary damages on behalf of a class, trebling of any such damages that may be awarded, recovery of attorneys' fees and costs, and injunctive relief. The plaintiffs in the FCA Action filed a report indicating that they were seeking damages ranging from approximately \$947.0 million to approximately \$1.46 billion before trebling on behalf of the purported class of consumers they seek to represent, based on approximately one million casket purchases by the purported class members.

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Despite the ruling denying class certification, the FCA plaintiffs continued to pursue their individual injunctive and damages claims. Their individual damages claims are limited to the alleged overcharges on the plaintiffs' individual casket purchases (the complaint currently alleges a total of eight casket purchases by the individual plaintiffs), which would be trebled, plus reasonable attorneys' fees and costs.

In June 2010, co-defendant Stewart Enterprises, Inc. announced a settlement with the plaintiffs. Shortly thereafter, the remaining defendants filed a motion to dismiss for lack of subject matter jurisdiction. On September 24, 2010,

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the District Court granted the motion and ordered full dismissal of the lawsuit, concluding that plaintiffs shall take nothing by their suit.

Plaintiffs have appealed both the Court's final judgment of dismissal entered on September 24, 2010, and the Court's order denying class certification entered on March 26, 2009 to the United States Court of Appeals for the Fifth Circuit.

On February 23, 2011, the plaintiffs filed their appellate brief with the Fifth Circuit Court of Appeals. The defendants' opposition brief was filed with the Court on April 27, 2011. All appellate briefs have now been submitted. We are currently awaiting either notification from the Court of Appeals that it wants to hear oral argument on the briefs before making its ruling, or if no argument is requested by the Court of Appeals, then its ruling as to whether or not the District Court's decisions should be reversed or affirmed.

If plaintiffs succeed in overturning the judgment, reversing the District Court order denying class certification, and a class is subsequently certified in the FCA Action filed against Hill-Rom and Batesville, and if the plaintiffs prevail at a trial of the class action, the damages awarded to the plaintiffs, which would be trebled as a matter of law, could have a significant material adverse effect on our results of operations, financial condition, and cash flow. In antitrust actions such as the FCA Action, the plaintiffs may elect to enforce any judgment against any or all of the co-defendants, who have no statutory contribution rights against each other. We and Hill-Rom have entered into a judgment sharing agreement that apportions the costs and any potential liabilities associated with this litigation between us and Hill-Rom. See Note 6 to our Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

Because Batesville continues to adhere to its long-standing policy of selling Batesville caskets only to licensed funeral directors operating licensed funeral homes, a policy that it continues to believe is appropriate and lawful, if the case goes to trial, the plaintiffs are likely to claim additional alleged damages for the period between the time they served their expert reports and the time of trial. At this point, it is not possible to estimate the amount of any additional alleged damage claims they may make. The defendants are vigorously contesting both liability and the plaintiffs' damages theories.

As of June 30, 2011, we had incurred approximately \$28.8 million in cumulative legal and related costs associated with the FCA matter since its inception.

General

Like most companies 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. The ultimate outcome of these lawsuits cannot be predicted with certainty. An estimated loss from these contingencies is recognized when we believe it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated; however, it is difficult to measure the actual loss that might be incurred related to litigation. If a loss is not considered probable and/or cannot be reasonably estimated, we are required to establish a disclosure if there is at least a reasonable possibility that a material loss may have been incurred. Legal fees associated with claims and lawsuits are generally expensed as incurred.

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We are also involved in other possible claims, including product and general liability, workers compensation, auto liability, and employment-related matters. Claims other than employment and related matters have deductibles and self-insured retentions ranging from \$0.5 million to \$1.0 million per occurrence or per claim, depending upon the type of coverage and policy period. Outside insurance companies and third-party claims administrators establish individual claim reserves, and an independent outside actuary provides estimates of ultimate projected losses, including incurred but not reported claims, which are used to establish reserves for losses. Claim reserves for employment-related matters are established based upon advice from internal and external counsel and historical settlement information for claims and related fees, when such amounts are considered probable of payment.

The recorded amounts represent our best estimate of the costs we will incur in relation to such exposures, but it is virtually certain that actual costs will differ from those estimates.

Table of Contents16. Fair Value Measurements

| Description | Carrying Value at June 30, 2011 | Quoted Prices in Active Markets (Level 1) | Fair Value Measurements at June 30, 2011 using: | |
|------------------------------|---------------------------------|---|---|---|
| | | | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Cash and cash equivalents | \$ 198.3 | \$ 198.3 | \$ | \$ |
| Equity investments | 4.5 | 3.5 | | 1.0 |
| Investments in rabbi trust | 5.5 | 5.5 | | |
| Liabilities: | | | | |
| Revolving credit facility | 124.0 | | 121.2 | |
| \$150 senior unsecured notes | 148.5 | 149.3 | | |
| Derivative instruments, net | 0.5 | | 0.5 | |

The following table reconciles the change in Level 3 financial assets:

| | Measurements Using Significant Unobservable Inputs | |
|--|--|--------------------|
| | Forethought Note | Equity Investments |
| Balance at September 30, 2010 | \$ 127.0 | \$ 3.0 |
| Total gains (losses): | | |
| Included in earnings, net | | |
| Included in other comprehensive income | | |
| Change in fair value | 24.2 | |
| Purchases, issuances, and settlements | (151.2) | |
| Transfers in (out) of Level 3 | | (2.0) |
| Balance at June 30, 2011 | \$ | \$ 1.0 |

On April 20, 2011, we received \$151.2 from Forethought Financial Group, Inc. representing full payment of principal and interest contractually due in 2014. The carrying value of the Forethought note was \$151.2; therefore, no gain or loss resulted from the transaction.

Table of Contents17. Segment and Geographical Information

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|----------------------------------|--------------------------------|----------|-------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Net revenue: | | | | |
| Batesville | \$ 150.6 | \$ 154.9 | \$ 482.7 | \$ 486.3 |
| K-Tron | 60.6 | 50.9 | 169.5 | 50.9 |
| Total net revenue | \$ 211.2 | \$ 205.8 | \$ 652.2 | \$ 537.2 |
| Gross profit: | | | | |
| Batesville | \$ 59.3 | \$ 64.9 | \$ 203.0 | \$ 213.9 |
| K-Tron | 26.8 | 10.7 | 76.2 | 10.7 |
| Total gross profit | \$ 86.1 | \$ 75.6 | \$ 279.2 | \$ 224.6 |
| Operating profit (loss): | | | | |
| Batesville(1) | \$ 33.5 | \$ 38.3 | \$ 125.2 | \$ 139.7 |
| K-Tron(2) | 9.2 | (6.4) | 24.6 | (6.4) |
| Corporate(3) | (7.8) | (12.1) | (25.0) | (30.2) |
| Total operating profit | \$ 34.9 | \$ 19.8 | \$ 124.8 | \$ 103.1 |
| EBITDA: | | | | |
| Batesville(1) | \$ 37.6 | \$ 42.4 | \$ 137.1 | \$ 152.1 |
| K-Tron(5) | 12.6 | (1.1) | 35.8 | (1.1) |
| Corporate(3) | (6.7) | (10.4) | (20.0) | (26.4) |
| Total EBITDA | \$ 43.5 | \$ 30.9 | \$ 152.9 | \$ 124.6 |
| Net revenue(4): | | | | |
| United States | \$ 172.4 | \$ 176.7 | \$ 546.3 | \$ 484.5 |
| Canada | 13.9 | 10.9 | 38.3 | 30.9 |
| Switzerland | 19.4 | 15.4 | 53.4 | 15.4 |
| All other foreign business units | 5.5 | 2.8 | 14.2 | 6.4 |
| Total consolidated net revenue | \$ 211.2 | \$ 205.8 | \$ 652.2 | \$ 537.2 |

(1) Includes antitrust litigation expense of \$0.7 and \$1.4 for the three months ended June 30, 2011 and 2010, and restructuring costs of \$0.7 for both the three and nine months ended June 30, 2011. Includes sales tax recoveries of \$0.7 and \$4.1 and antitrust litigation expense of \$1.3 and \$1.9 for the nine months ended June 30, 2011 and 2010.

(2) Includes \$1.7 of backlog step-up amortization expense for the three months ended June 30, 2010, and \$0.1 for business acquisition costs for both the three months ended June 30, 2011 and 2010. Includes \$1.7 of backlog step-up amortization expense for the nine months ended June 30, 2010, and \$0.2 and \$0.1 for business acquisition costs for the nine months ended June 30, 2011 and 2010.

(3) Includes \$0.3 and \$6.1 for business acquisition costs for the three months ended June 30, 2011 and 2010. Includes \$1.5 and \$9.9 for business acquisition costs for the nine months ended June 30, 2011 and 2010.

(4) Revenue is attributed to a geography based upon the location of the business unit that consummated the external sale.

(5) Includes \$0.1 for business acquisition costs for both the three months ended June 30, 2011 and 2010. Includes \$0.2 and \$0.1 for business acquisition costs for the nine months ended June 30, 2011 and 2010.

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| | June 30, 2011 | September 30, 2010 |
|---|------------------|-----------------------|
| Total assets assigned: | | |
| Batesville | \$ 275.4 | \$ 249.0 |
| K-Tron | 529.1 | 558.1 |
| Corporate | 205.7 | 241.8 |
| Total consolidated assets | \$ 1,010.2 | \$ 1,048.9 |
| Total goodwill assigned: | | |
| Batesville | \$ 5.7 | \$ 5.7 |
| K-Tron(1) | 198.6 | 185.9 |
| Total consolidated goodwill | \$ 204.3 | \$ 191.6 |
| Property, net, by physical location: | | |
| United States | \$ 93.4 | \$ 96.2 |
| Switzerland | 11.9 | 10.6 |
| All other foreign business units | 3.1 | 2.8 |
| Total property, net | \$ 108.4 | \$ 109.6 |

(1) The change in K-Tron's goodwill is due to foreign currency translation.

18. Subsequent event

We entered into a definitive agreement on August 4, 2011, to acquire 100% of Rotex Global, LLC (Rotex) for approximately \$240 in cash. We expect to use cash on hand and borrowings from our revolving credit facility to fund the acquisition. Rotex is a leading manufacturer of dry separation machines and replacement parts and accessories used in a broad range of domestic and international industries. The acquisition is subject to customary terms and conditions, including the expiration or termination of the required waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

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

Forward-Looking Statements and Factors That May Affect Future Results

Throughout this Form 10-Q, we make a number of forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. As the words imply, these are statements about future plans, objectives, beliefs, and expectations that might or might not happen in the future, as contrasted with historical information. Forward-looking statements are based on assumptions that we believe are reasonable, but by their very nature they are subject to a wide range of risks.

Accordingly, in this Form 10-Q, we may say something like,

We anticipate that the burial rate will be flat to slightly declining in future years.

That is a forward-looking statement, as indicated by the word *anticipate* and by the clear meaning of the sentence. Other words that could indicate we are making forward-looking statements include:

| | | | | | | |
|----------|-----------|----------|---------|----------|-----------|--------|
| intend | believe | plan | expect | may | goal | would |
| become | pursue | estimate | will | forecast | continue | could |
| targeted | encourage | promise | improve | progress | potential | should |

This is not an exhaustive list, but is intended to give you an idea of how we try to identify forward-looking statements. The absence of any of these words, however, does not mean that the statement is not forward-looking.

Here is the key point: Forward-looking statements are not guarantees of future performance, and actual results could differ materially from those set forth in forward-looking statements. Any number of factors many of which are beyond our control could cause our performance to differ significantly from what is described in the forward-looking statements.

For a discussion of factors that could cause actual results to differ from those contained in forward-looking statements, see the discussions under the heading *Risk Factors* in Item 1A of the Form 10-K for the year ended September 30, 2010, and Part II, Item 1A, of this Form 10-Q. We assume no obligation to update or revise any forward-looking statements.

Table of Contents**Executive Overview***(in millions throughout Management's Discussion and Analysis)*

| Hillenbrand | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|--------------------------------|-------------|-------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net revenue | \$ 211.2 | \$ 205.8 | \$ 652.2 | \$ 537.2 |
| Gross profit | 86.1 | 75.6 | 279.2 | 224.6 |
| Operating expenses | 51.2 | 55.8 | 154.4 | 121.5 |
| Operating profit | 34.9 | 19.8 | 124.8 | 103.1 |
| Interest expense | (2.6) | (1.0) | (8.3) | (1.5) |
| Investment income and other | 0.7 | 3.8 | 9.3 | 11.9 |
| Income taxes | 10.5 | 9.3 | 43.2 | 41.3 |
| Net income | 22.5(1) | 13.3(2) (5) | 82.6(3) | 72.2(4) (5) |
| Reconciliation of Net Income to EBITDA | | | | |
| Net income | \$ 22.5 | \$ 13.3 | \$ 82.6 | \$ 72.2 |
| Interest income | (0.8) | (3.2) | (7.2) | (9.9) |
| Interest expense | 2.6 | 1.0 | 8.3 | 1.5 |
| Income tax expense | 10.5 | 9.3 | 43.2 | 41.3 |
| Depreciation and amortization | 8.7 | 10.5 | 26.0 | 19.5 |
| EBITDA | \$ 43.5(1) | \$ 30.9(2) | \$ 152.9(3) | \$ 124.6(4) |

(1) Includes \$0.4 of business acquisition costs, \$0.7 of antitrust litigation expense, and \$0.7 of restructuring charges.

(2) Includes \$11.6 of inventory step-up, \$6.2 of business acquisition costs, and \$1.4 of antitrust litigation expense.

(3) Includes \$1.7 of business acquisition costs, \$1.3 of antitrust litigation expense, \$0.7 of sales tax recoveries, and \$0.7 of restructuring charges.

(4) Includes \$11.6 of inventory step-up, \$10.0 of business acquisition costs, \$4.1 of sales tax recoveries, and \$1.9 of antitrust litigation expense.

(5) Also includes \$1.7 of backlog step-up amortization.

While we report financial results in accordance with accounting principles generally accepted in the United States (GAAP), we also provide a non-GAAP measure, Earnings Before Interest, Income Tax, Depreciation, and Amortization (EBITDA). We have previously discussed our strategy to prudently acquire selected manufacturing businesses that have a record of success and could benefit from our core competencies to spur faster and more profitable growth. Given that strategy, it is a natural consequence to incur related expenses such as amortization from acquired intangible assets and additional interest expense from debt-funded acquisitions. Accordingly, we use EBITDA, among other measures, to monitor our business performance. While EBITDA is not in accordance with, nor is it a substitute for, a GAAP measure, we believe it enables investors to better understand the ongoing operating performance of the Company. Investors should consider non-GAAP measures in addition to, not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP.

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Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

- Batesville's revenue was \$150.6, a decrease of \$4.3 (2.8%) compared to the prior year. K-Tron's revenue was \$60.6, an increase of \$9.7 (19.1%) or \$4.8 (9.5%) on a constant currency basis compared to the prior year.
- Gross profit margin of 40.8% increased by 410 basis points from 36.7% in the prior year.
- Batesville's gross profit margin was 39.4% and 41.9%. The decline was driven by rising commodity costs.
- K-Tron's gross profit margin was 44.2% and 21.0%. Step-ups in inventory value were recorded at the time of the acquisition in April 2010 and were subsequently expensed when the inventory was sold in the third quarter of 2010, resulting in a reduction to gross profit of \$11.6.
- Operating expenses decreased \$4.6 compared to the prior year.

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- Acquisition-related expenses were \$7.5 higher in the prior year including the amortization of backlog step-ups of \$1.7 in 2010. Business acquisition costs were \$0.4 in the current year compared to \$6.2 in the prior year.
- Compensation and benefits increased by \$1.1 compared to the prior year. As we continue to execute on our global growth strategy, we have incurred additional compensation expense related to our corporate infrastructure and the continued development of our international footprint.
- Interest expense increased \$1.6 compared to the prior year due to the senior notes issued in July 2010. The proceeds from the notes were used to pay down our revolving credit facility, which has a lower interest rate than the senior notes.
- Investment income and other decreased \$3.1 compared to the prior year. See Note 14 for more detailed information.
- The income tax rate was 31.8% compared to 41.2% in the prior year. The rate was favorably impacted by non-deductible transaction costs incurred in the previous period, favorable effects of periodic reconciliation to recently filed returns, and the percentage of foreign source income in lower rate jurisdictions.

Nine Months Ended June 30, 2011 Compared to Nine Months Ended June 30, 2010

- Batesville's revenue was \$482.7, a decrease of \$3.6 (0.7%) compared to the prior year. K-Tron's revenue was \$169.5, an increase of \$118.6 over the prior year as 2011 contains a full nine months of revenue compared to only three months in 2010. Favorable currency fluctuations impacted K-Tron's revenue by \$4.9.
- Gross profit margin of 42.8% increased by 100 basis points from 41.8% in the prior year.
- Batesville's gross profit margin was 42.1% and 44.0%. The decline was driven by rising commodity costs.
- K-Tron's gross profit margin for the nine months ended June 30, 2011, was 44.9%. The nine months ended June 30, 2010, includes three months of K-Tron operations. The gross profit margin in the prior year was 21.0%, reflecting \$11.6 of inventory step-ups recorded at the time of acquisition.
- Operating expenses increased \$32.9 compared to the prior year.
- The K-Tron acquisition added \$34.0 of operating expenses, including \$8.1 relating to amortization of the acquired intangible assets.
- Acquisition-related expenses were \$10.0 higher in the prior year including the amortization of backlog step-ups of \$1.7 in 2010. Business acquisition costs were \$1.7 in the current year compared to \$10.0 in the prior year.
- Compensation and benefits increased by \$1.6 compared to the prior year.

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- An increase of \$3.4 was due to sales tax recoveries for Batesville. We recognized a benefit of \$0.7 in the nine months ended June 30, 2011, compared to \$4.1 in the prior year. These recoveries relate to overpayments in previous years and are not a normal part of ongoing operations. Additional recoveries are not expected to be significant.
- Interest expense increased \$6.8 compared to the prior year due to the borrowings to fund the K-Tron acquisition.
- Investment income and other decreased \$2.6 compared to the prior year. See Note 14 for more detailed information.
- Our income tax rate was 34.3% compared to 36.4% in the prior year. The rate was favorably impacted by the percentage of foreign source income in lower rate jurisdictions, non-deductible transaction costs incurred in the previous period, and an increase in the domestic manufacturing deduction.

Table of Contents**Results of Operations**

The sections that follow present operating results for Batesville, K-Tron, and corporate operations.

| | Three Months Ended June 30, | | | | Nine Months Ended June 30, | | | |
|-----------------------|-----------------------------|--------------|----------|--------------|----------------------------|--------------|----------|--------------|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| Batesville | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue |
| Revenue | \$ 150.6 | 100.0 | \$ 154.9 | 100.0 | \$ 482.7 | 100.0 | \$ 486.3 | 100.0 |
| Gross profit | 59.3 | 39.4 | 64.9 | 41.9 | 203.0 | 42.1 | 213.9 | 44.0 |
| Operating expenses(1) | 25.8 | 17.1 | 26.6 | 17.2 | 77.8 | 16.1 | 74.2 | 15.3 |
| Operating profit(1) | 33.5 | 22.3 | 38.3 | 24.7 | 125.2 | 26.0 | 139.7 | 28.7 |

(1) Includes antitrust litigation expense of \$0.7 and \$1.4 for the three months ended June 30, 2011 and 2010, and restructuring costs of \$0.7 for the three months ended June 30, 2011. Includes sales tax recoveries of \$0.7 and \$4.1 and antitrust litigation expense of \$1.3 and \$1.9 for the nine months ended June 30, 2011 and 2010, and restructuring costs of \$0.7 for the nine months ended June 30, 2011.

Revenue Batesville's net revenue for the three months ended June 30, 2011, decreased from the prior year by \$4.3 (2.8%). Burial unit volume decreased \$6.1 (4.9%) and was the primary contributor to the reduction in net revenue. Offsetting this impact was a modest increase in the average selling price that contributed \$0.9 to revenue. We believe that Batesville's merchandising initiatives and new product launches helped improve average selling prices and slow the downward trend in product mix, especially in customer locations that used the Batesville merchandising system. Favorable foreign currency increased revenue by \$0.9 for the three months ended June 30, 2011, compared to the same period in the prior year.

Batesville's net revenue for the nine months ended June 30, 2011, decreased from the prior year by \$3.6 (0.7%). Burial unit volume decreased \$6.0 and foreign currency rate changes increased revenue by \$2.1 for the nine months ended June 30, 2011, compared to the prior year.

Gross profit Batesville's gross profit for the three months ended June 30, 2011, decreased \$5.6 (8.6%) compared to the prior year. Despite lower revenue, cost of goods sold increased \$1.3, driven primarily by rising commodity costs of \$2.4, particularly fuel and steel. These commodity increases were partially offset by lower operating costs as we continue to optimize our cost structure using lean business principles.

Batesville's gross profit for the nine months ended June 30, 2011, decreased \$10.9 (5.1%) compared to the prior year. Despite lower revenue, cost of goods sold increased \$7.3, driven primarily by rising commodity costs of \$7.7. These commodity increases were partially offset by lower operating costs driven by Batesville's focus on lean business principles.

Operating expenses Batesville operating expenses decreased \$0.8 (3.0%) for the three months ended June 30, 2011, compared to the prior year. Batesville operating expenses increased \$3.6 (4.9%) for the nine months ended June 30, 2011, compared to the prior year. Recoveries from

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sales tax overpayments decreased \$3.4 and restructuring costs increased \$0.7 during the nine months ended June 30, 2011 compared to the prior year. These amounts were partially offset by a decrease in legal expenses related to the FCA antitrust litigation.

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| K-Tron | Three Months Ended June 30, | | 2010 | | Nine Months Ended June 30, | |
|----------------------------|-----------------------------|---------|---------|---------|----------------------------|---------|
| | 2011 | % of | 2010 | % of | 2011 | % of |
| | Amount | Revenue | Amount | Revenue | Amount | Revenue |
| Revenue | \$ 60.6 | 100.0 | \$ 50.9 | 100.0 | \$ 169.5 | 100.0 |
| Gross profit(1) | 26.8 | 44.2 | 10.7 | 21.0 | 76.2 | 44.9 |
| Operating expenses(2) | 17.6 | 29.0 | 17.1 | 33.6 | 51.6 | 30.4 |
| Operating profit (loss)(2) | 9.2 | 15.2 | (6.4) | (12.6) | 24.6 | 14.5 |

(1) Gross profit includes an inventory step-up charge of \$11.6 for the three months ended June 30, 2010.

(2) Operating expenses and operating profit include \$1.7 of backlog step-up amortization expense associated with the acquisition of K-Tron for the three months ended June 30, 2010, and \$0.1 of business acquisition costs for both of the three-month periods ended June 30, 2011 and 2010.

Comparative results are not presented for the nine months ended June 30, 2010, as K-Tron was acquired on April 1, 2010.

Revenue K-Tron's revenue increased \$9.7 (19.1%) for the three months ended June 30, 2011, compared to the prior year. This increase was driven by volume of \$4.8 and favorable foreign currency impact of \$4.9.

Future revenue associated with K-Tron's business lines is influenced by order backlog. There is a lead time involved in manufacturing specialized equipment and parts for customers. Backlog can be an indicator of future revenue; however, it may not include many projects and parts orders that are booked and shipped within the same quarter. The timing of order placement, size, and customer delivery dates can create unusual fluctuations in backlog and revenue. Backlog is also affected by foreign exchange fluctuations for orders denominated in currencies other than U.S. dollars.

Based upon new orders accepted, less orders completed and shipped during the third quarter of 2011, K-Tron's backlog increased from \$79.3 on March 31, 2011, to \$94.4 on June 30, 2011. K-Tron's backlog increased from \$57.1 on September 30, 2010, to \$94.4 on June 30, 2011.

Gross profit K-Tron's gross profit for the three months ended June 30, 2011, increased \$16.1 compared to the prior year. Step-ups in inventory value were recorded at the time of the acquisition in April 2010 and were subsequently expensed when the inventory was sold in the third quarter of 2010, resulting in a reduction to gross profit of \$11.6.

Operating expenses K-Tron operating expenses increased \$0.5 (2.9%) for the three months ended June 30, 2011, compared to the prior year primarily due to sales commissions on increased revenues. Step-ups in value to backlog were recorded at the time of the acquisition in April 2010 and were subsequently expensed when the inventory was sold in the third quarter of 2010, increasing operating expenses by \$1.7.

| | | | | |
|-----------|-------------------------------------|------|------------------------------------|------|
| Corporate | Three Months Ended June 30, 2011 | 2010 | Nine Months Ended June 30, 2011 | 2010 |
|-----------|-------------------------------------|------|------------------------------------|------|

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| | | | | | | | | |
|--|----|-----|----|------|----|------|----|------|
| Operating expenses, excluding business acquisition costs | \$ | 7.5 | \$ | 6.0 | \$ | 23.5 | \$ | 20.3 |
| Business acquisition costs | | 0.3 | | 6.1 | | 1.5 | | 9.9 |
| Operating expenses | \$ | 7.8 | \$ | 12.1 | \$ | 25.0 | \$ | 30.2 |

Operating expenses, excluding business acquisition costs We separately discuss business acquisition costs because we believe it provides a clearer picture for analyzing our operating cost structure due to their significant and infrequent nature. Operating expenses excluding business acquisition costs increased \$1.5 (25.0%) for the three months ended June 30, 2011, compared to the prior year, primarily due to a \$1.1 increase in compensation and benefits. Operating expenses excluding business acquisition costs increased \$3.2 (15.8%) for the nine months ended

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June 30, 2011, compared to the prior year, primarily due to a \$1.4 increase in compensation and benefits and a \$0.9 increase in legal expenses. As we continue to execute on our global growth strategy, we have incurred additional compensation expense related to our corporate infrastructure and the continued development of our international footprint.

Business acquisition costs We had \$0.3 acquisition-related expenditures during the three months ended June 30, 2011, while acquisition-related expenditures were \$6.1 for the three months ended June 30, 2010. We incurred \$1.7 of acquisition related expenditures during the nine months ended June 30, 2011, of which \$1.5 were incurred by our corporate operations. Business acquisition costs were \$10.0 for the nine months ended June 30, 2010. The decline is attributable to the reduction in business acquisition activity following our acquisition of K-Tron on April 1, 2010.

Liquidity and Capital Resources

We believe the ability to generate cash is critical to the value of the Company. In this section, we tell you about the ability to generate and access cash to meet business needs. We will describe actual results in generating and utilizing cash by comparing the first nine months to the same period last year. We will also talk about any significant trends to help you understand how this could impact us going forward.

We will tell you about how we see operating, investing, and financing cash flows being affected for the next 12 months. While it is not a certainty, we will tell you where we think the cash will come from and how we intend to use it. We will also talk about significant risks or possible changes that could change those expectations. Finally, we will tell you about other significant matters that could affect liquidity on an ongoing basis.

| | Nine Months Ended June 30, | |
|--|-----------------------------------|-------------|
| | 2011 | 2010 |
| Cash flows provided by (used in): | | |
| Operating activities | \$ 155.3 | \$ 117.0 |
| Investing activities | 98.7 | (356.8) |
| Financing activities | (165.5) | 287.9 |
| Effect of exchange rate changes on cash and cash equivalents | 11.4 | (1.1) |
| Increase in cash and cash equivalents | \$ 99.9 | \$ 47.0 |

Operating activities

Net cash flows from operating activities were \$38.3 higher during the nine months ended June 30, 2011, compared to the prior year. This increase was primarily driven by three quarters of K-Tron operations in fiscal year 2011 compared to one quarter in 2010 and interest collected on the Forethought note, partially offset by the timing of income tax payments in 2010 and increased inventory.

Investing activities

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Cash from investing activities for the nine months ended June 30, 2011 was a \$98.7 net cash inflow compared to a prior year net cash outflow of \$356.8. This was primarily due to the acquisition of K-Tron on April 1, 2010, the collection of the Forethought note in April 2011, and the sale of our remaining auction rate securities.

Financing activities

Cash from financing activities for the nine months ended June 30, 2011 was a \$165.5 net cash outflow compared to a prior year net cash inflow of \$287.9. This was primarily due to financing the acquisition of K-Tron on April 1, 2010.

During the quarter ended December 31, 2010, we announced an increase in our quarterly dividend to \$0.19 per common share, which we paid on December 31, 2010; March 31, 2011; and June 30, 2011. We plan to pay a cash dividend that will require about \$11.7 each quarter based on our outstanding common stock at June 30, 2011.

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12-Month Outlook

We believe that our cash on hand, cash generated from operations, and cash available under our credit facility will be sufficient to fund operations, working capital needs, capital expenditure requirements, and financing obligations.

We entered into a definitive agreement on August 4, 2011, to acquire 100% of Rotex Global, LLC (Rotex) for approximately \$240 in cash. We expect to use cash on hand and borrowings from our revolving credit facility to fund the acquisition.

Other Liquidity Matters

As of June 30, 2011, we: (i) had \$6.7 in outstanding letters of credit under our revolving credit facility, (ii) were in compliance with all covenants set forth in the credit agreement, and (iii) had complete access to the remaining \$269.3 of borrowing capacity available under the facility. In addition, we have approximately \$21.3 of available credit under our Swiss facilities. We have no other significant changes to report to the discussion included in our previously filed Form 10-K for the year ended September 30, 2010.

Under the Distribution Agreement with Hill-Rom, the ability to borrow against the facility for certain strategic transactions such as acquisitions may be limited. We received a covenant modification in May 2011 that allowed us to pay down our revolving credit facility with the proceeds from the collection of the Forethought note without impacting our ability in the future to redraw these funds to finance acquisitions.

Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements.

Contractual Obligations or Contingent Liabilities and Commitments

There were no significant changes to our contractual obligations or contingent liabilities and commitments during the three and nine months ended June 30, 2011.

Critical Accounting Estimates

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There have were no significant changes to this information during the three and nine months ended June 30, 2011, as outlined in our Annual Report on Form 10-K for the year ended September 30, 2010.

Recently Adopted and Issued Accounting Standards

On December 31, 2010, we adopted the Financial Accounting Standards Board's (FASB's) accounting standard update 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The standard requires companies to provide additional disclosures about the credit quality of their financing receivables and the credit reserves held against them. The disclosure requirements of this standard are included in Note 5.

In May 2011, the FASB issued *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (Topic 820, Fair Value Measurement)*. The new standard provides updates to measurement guidance and enhanced disclosure requirements. The most significant change is an expansion of the information required for Level 3 measurements based on unobservable inputs. The new disclosure requirements are effective during interim and annual periods beginning after December 15, 2011.

In June 2011, the FASB issued an accounting standards update titled *Presentation of Comprehensive Income*. This update eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate consecutive statements. Each component of net income and each component of other comprehensive income, together with totals for comprehensive income and its two parts, net income and other comprehensive income, must be displayed under either alternative. The new disclosure requirements are effective for fiscal years beginning after December 15, 2011.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

There have been no material changes from the information provided in our Annual Report on Form 10-K for the year ended September 30, 2010.

Item 4. CONTROLS AND PROCEDURES

Our management, with the participation of our President and Chief Executive Officer and our 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. Based upon that evaluation, the Certifying Officers concluded that our disclosure controls and procedures were 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 Securities and Exchange Commission's rules and forms and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2011 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 1. LEGAL PROCEEDINGS

Information pertaining to legal proceedings can be found in Note 15 to the interim consolidated financial statements included in Part I of this report.

Item 1A. RISK FACTORS

For information regarding the risks we face, see the discussion under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2010. The impairment risk associated with our portfolio of auction rate securities no longer exists as the remaining securities were sold in January 2011. The collection risk associated with our note receivable from Forethought no longer exists as full payment was received on April 20, 2011. There have been no other material changes to the risk factors described in that report.

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

There were no unregistered sales of equity securities in the three months ended June 30, 2011.

Item 6. EXHIBITS

The exhibits filed with this report are listed on the Exhibit Index, which is incorporated herein by reference. In reviewing any agreements included as exhibits to this report, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about us or the other parties to the agreements. The agreements may contain representations and warranties by the parties to the agreements, including us. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

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- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

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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, INC.

DATE: August 8, 2011

BY: /s/ Cynthia L. Lucchese
Cynthia L. Lucchese
Senior Vice President and Chief Financial Officer

DATE: August 8, 2011

BY: /s/ Elizabeth E. Dreyer
Elizabeth E. Dreyer
Vice President, Controller and Chief Accounting Officer

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EXHIBIT INDEX

| | |
|-------------------|---|
| 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 |
| Exhibit 101.INS** | Instance document |
| Exhibit 101.SCH** | Schema document |
| Exhibit 101.CAL** | Calculation linkbase document |
| Exhibit 101.LAB** | Labels linkbase document |
| Exhibit 101.PRE** | Presentation linkbase document |
| Exhibit 101.DEF** | Definition linkbase document |

* Filed herewith.

** Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.