

Hillenbrand, Inc.
Form 10-Q
May 05, 2014
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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 March 31, 2014

Commission File No. 001-33794

HILLENBRAND, INC.

(Exact name of registrant as specified in its charter)

Indiana
(State of incorporation)

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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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 website, 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.

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

The registrant had 62,804,907 shares of common stock, no par value per share, outstanding as of April 30, 2014.

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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 March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Net revenue	\$ 396.8	\$ 398.5	\$ 781.7	\$ 703.7
Cost of goods sold	254.0	264.5	507.9	459.2
Gross profit	142.8	134.0	273.8	244.5
Operating expenses	99.9	108.4	193.9	194.8
Operating profit	42.9	25.6	79.9	49.7
Interest expense	5.6	6.8	11.9	11.3
Other income (expense), net	9.7	(0.3)	9.6	0.6
Income before income taxes	47.0	18.5	77.6	39.0
Income tax expense	13.7	5.3	22.7	11.2
Consolidated net income	33.3	13.2	54.9	27.8
Less: Net income attributable to noncontrolling interests	0.3	0.5	1.6	0.8
Net income(1)	\$ 33.0	\$ 12.7	\$ 53.3	\$ 27.0
Net income(1) per share of common stock:				
Basic earnings per share	\$ 0.52	\$ 0.20	\$ 0.84	\$ 0.43
Diluted earnings per share	\$ 0.51	\$ 0.20	\$ 0.83	\$ 0.43
Weighted average shares outstanding (basic)	63.3	62.7	63.2	62.6
Weighted average shares outstanding (diluted)	63.9	63.1	63.9	62.9
Cash dividends per share	\$ 0.1975	\$ 0.1950	\$ 0.3950	\$ 0.3900

(1) Net income attributable to Hillenbrand

See Condensed Notes to Consolidated Financial Statements

Table of Contents**Hillenbrand, Inc.****Consolidated Statements of Comprehensive Income (Unaudited)***(in millions)*

	Three Months Ended March 31,				Six Months Ended March 31,			
	2014		2013		2014		2013	
Consolidated net income	\$	33.3	\$	13.2	\$	54.9	\$	27.8
Changes in other comprehensive income (loss), net of tax								
Currency translation adjustment				(19.2)		8.6		(9.0)
Pension and postretirement (net of quarter-to-date tax of \$0.5 and \$0.7 and year-to date tax of \$1.5 and \$1.4)		0.9		0.2		3.1		1.3
Change in net unrealized gain (loss) on derivative instruments (net of quarter-to-date tax of \$0.3 and \$0.2 and year-to-date tax of \$0.1 and \$0.2)		(0.2)		(0.9)		0.3		(0.7)
Change in net unrealized gain (loss) on available-for-sale securities								(0.2)
Total changes in other comprehensive income (loss), net of tax		0.7		(19.9)		12.0		(8.6)
Consolidated comprehensive income (loss)		34.0		(6.7)		66.9		19.2
Less: Comprehensive income attributable to noncontrolling interests		0.5		0.5		1.7		0.8
Comprehensive income (loss)(2)	\$	33.5	\$	(7.2)	\$	65.2	\$	18.4

(2) Comprehensive income (loss) attributable to Hillenbrand

See Condensed Notes to Consolidated Financial Statements

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

	March 31, 2014	September 30, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 51.0	\$ 42.7
Trade receivables, net	185.2	213.4
Unbilled receivables from long-term manufacturing contracts	137.3	142.1
Inventories	183.1	177.5
Deferred income taxes	15.0	22.3
Prepaid expenses	34.1	20.4
Other current assets	19.6	21.0
Total current assets	625.3	639.4
Property, plant, and equipment, net	170.4	171.9
Intangible assets, net	548.8	558.6
Goodwill	598.0	585.8
Other assets	51.6	47.5
Total Assets	\$ 1,994.1	\$ 2,003.2
LIABILITIES		
Current Liabilities		
Trade accounts payable	\$ 177.7	\$ 183.2
Liabilities from long-term manufacturing contracts and advances	96.8	80.9
Current portion of long-term debt	13.5	10.0
Accrued compensation	53.6	59.6
Deferred income taxes	13.6	12.1
Other current liabilities	102.0	119.7
Total current liabilities	457.2	465.5
Long-term debt	612.6	654.3
Accrued pension and postretirement healthcare	191.2	190.3
Deferred income taxes	71.5	75.4
Other long-term liabilities	40.8	41.4
Total Liabilities	1,373.3	1,426.9
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Common stock, no par value (63.5 and 63.1 shares issued, 62.8 and 62.9 shares outstanding)		
Additional paid-in capital	340.7	321.7
Retained earnings	280.2	252.2
Treasury stock (0.7 and 0.2 shares)	(21.6)	(4.2)
Accumulated other comprehensive income (loss)	10.5	(1.4)
Hillenbrand Shareholders Equity	609.8	568.3
Noncontrolling interests	11.0	8.0
Total Shareholders Equity	620.8	576.3
Total Liabilities and Equity	\$ 1,994.1	\$ 2,003.2

See Condensed Notes to Consolidated Financial Statements

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

	Six Months Ended March 31,	
	2014	2013
Operating Activities		
Consolidated net income	\$ 54.9	\$ 27.8
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	29.0	42.9
Deferred income taxes	3.4	(15.9)
Share-based compensation	5.1	6.0
Net gain on investments	(7.9)	(0.3)
Trade accounts receivable and receivables on long-term manufacturing contracts	36.2	(4.6)
Inventories	(4.3)	6.1
Other current assets	(11.7)	(20.3)
Trade accounts payable	(8.3)	0.3
Accrued expenses and other current liabilities	1.4	(37.0)
Income taxes payable	(14.6)	13.0
Defined benefit plan funding	(8.3)	(4.3)
Defined benefit plan expense	7.2	8.5
Other, net	0.1	(2.5)
Net cash provided by operating activities	82.2	19.7
Investing Activities		
Capital expenditures	(11.4)	(11.2)
Proceeds from sales of property, plant, and equipment	0.7	1.1
Proceeds from investments	5.7	1.8
Acquisition of business, net of cash acquired		(415.6)
Other, net	0.9	
Net cash used in investing activities	(4.1)	(423.9)
Financing Activities		
Proceeds from term loan		200.0
Repayments on term loan	(5.0)	(5.0)
Proceeds from revolving credit facilities, net of financing costs	182.6	576.7
Repayments on revolving credit facilities	(218.6)	(323.0)
Proceeds from other borrowings	1.0	
Payment of dividends on common stock	(24.8)	(24.3)
Purchases of common stock	(16.5)	
Net proceeds (payments) on stock plans	12.7	(0.8)
Other, net	0.1	0.4
Net cash provided by (used in) financing activities	(68.5)	424.0
Effect of exchange rates on cash and cash equivalents	(1.3)	0.7
Net cash flows	8.3	20.5
Cash and cash equivalents:		
At beginning of period	42.7	20.2
At end of period	\$ 51.0	\$ 40.7

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") is a global diversified industrial company that makes and sells premium business-to-business products and services for a wide variety of industries. We pursue profitable growth and meaningful dividends for our shareholders by leveraging our leading brands, robust cash generation capabilities, and strong core competencies. Hillenbrand has two segments: the Process Equipment Group and Batesville®. The Process Equipment Group has multiple market-leading brands of process and material handling equipment and systems serving a wide variety of industries across the globe. Batesville is a recognized leader in the North American death care industry. Hillenbrand was incorporated on November 1, 2007, in the state of Indiana and began trading on the New York Stock Exchange under the symbol "HI" on April 1, 2008. Hillenbrand, the Company, we, us, our, and similar words refer to Hillenbrand and its subsidiaries.

The accompanying unaudited consolidated financial statements include the accounts of Hillenbrand and its subsidiaries, including Coperion Capital GmbH ("Coperion"), which was acquired on December 1, 2012. The acquisition of Coperion included a few small subsidiaries where Coperion's ownership percentage was less than 100%. The Company's fiscal year ends on September 30. Unless otherwise stated, references to years relate to fiscal years.

These unaudited consolidated 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, and should be read in conjunction with, the audited consolidated financial statements and notes thereto included in our latest Annual Report on Form 10-K for the year ended September 30, 2013, as filed with the SEC. The September 30, 2013 Consolidated Balance Sheet included in this Form 10-Q was derived from audited consolidated financial statements, but does not include all disclosures required by GAAP for a year-end balance sheet included in Form 10-K. Certain prior period balances have been reclassified to conform to the current presentation. In the opinion of management, these financial statements reflect all adjustments necessary to present a fair statement of the Company's consolidated financial position and the consolidated results of operations and cash flow 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 at the date of the consolidated financial statements and the reported amounts of revenue and expense during the period. Actual results could differ from those estimates. Examples of such estimates include, but are not limited to, revenue recognition under the percentage-of-completion method, the establishment of reserves related to customer rebates, doubtful accounts, warranties, early-pay discounts, inventories, income taxes, litigation, self-insurance, and progress toward achievement of performance criteria under the incentive compensation programs.

Correction of Errors

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During the first quarter of 2014, we recorded an adjustment to operating expenses to correct errors related to the accounting for sales commissions at Coperion in 2013. The adjustment reduced operating expenses in the first quarter of 2014 by \$2.0, which should have been recorded in 2013. In connection with this same issue, we identified a classification error of \$8.5 between operating expenses and cost of goods sold in 2013. We have revised our consolidated statement of income for the three and six months ended March 31, 2013, to increase cost of goods sold and decrease operating expenses by \$2.6 and \$2.7. We will revise the June 30, 2013 and September 30, 2013 consolidated statements of income to reflect the corrections in future filings. These corrections will decrease operating expenses and increase cost of goods sold \$2.3 in the third quarter of 2013, and \$8.5 for 2013. We believe the impact of these income statement classification errors and the \$2.0 adjustment to correct a prior period error was immaterial to our consolidated financial statements for the current and prior periods.

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2. Summary of Significant Accounting Policies

The significant accounting policies used in preparing these consolidated financial statements are consistent with the accounting policies described in our Annual Report on Form 10-K for 2013.

Recently Adopted and Issued Accounting Standards

In February 2013, the FASB issued an accounting standard update titled *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This standard is intended to improve the reporting of reclassifications out of accumulated other comprehensive income of various components. An entity is required to present significant amounts reclassified from each component of accumulated other comprehensive income and the income statement affected by the reclassification. The new disclosure requirements became effective and were adopted for our fiscal year beginning October 1, 2013. The adoption of this disclosure-only guidance did not have an impact on our consolidated financial statements.

In July 2013, the FASB issued an accounting standard update titled *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The new standard requires the netting of unrecognized tax benefits (UTBs) against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Under the new standard, UTBs will be netted against all available same jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs. The standard will be effective for our fiscal year beginning October 1, 2014. We do not expect the adoption of this standard to have a significant impact on our consolidated financial statements.

3. Business Acquisitions

We completed the acquisition of Coperion on December 1, 2012, in a transaction valued at \$545.0. The aggregate purchase consideration consisted of \$269.1 of cash, net of cash acquired, and the assumption of \$146.0 of debt and \$129.9 of pension liabilities. We utilized \$426.3 of borrowings under our revolving credit facility and cash on hand to finance the acquisition, including the repayment of \$146.0 of debt outstanding under Coperion's prior financing arrangements.

This acquisition was the largest in the Company's history and represented an important step in the execution of our strategic plans to further diversify Hillenbrand and accelerate the growth of the Process Equipment Group. The integration of Coperion with the Process Equipment Group will continue to be a key initiative for the near term. Combining our product offerings to provide a more complete system solution is an important part of our integration. In addition, we believe leveraging Coperion's global infrastructure will enable the existing businesses within the Process Equipment Group to enter new global markets more quickly. We also expect the Process Equipment Group's existing strong U.S. sales network will enhance Coperion's expansion in North America. Finally, the application of the Company's Lean tools and other core competencies to Coperion's operations is expected to contribute to improved margins and increased customer satisfaction.

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The following table summarizes fair values of the assets acquired and liabilities assumed for the Coperion acquisition:

	December 1, 2012
Cash and cash equivalents	\$ 32.8
Inventory	112.4
Current assets, excluding cash and cash equivalents and inventory	180.0
Property, plant, and equipment	54.4
Identifiable intangible assets	291.8
Goodwill	273.8
Other assets	2.1
Total assets acquired	947.3
Current liabilities	287.3
Accrued pension obligations	129.9
Deferred income taxes	67.3
Other long-term liabilities	6.7
Total liabilities assumed	491.2
Noncontrolling interests	8.2
Aggregate purchase price	\$ 447.9

Final purchase accounting adjustments were made during the first quarter of 2014 that increased goodwill (\$7.3) and the accrued pension obligations (\$4.3) based on finalization of the actuarial analysis for Coperion's defined benefit plans. In addition, adjustments were made to increase current liabilities (\$1.3) and noncontrolling interests (\$1.7). In the second quarter of 2014, a \$1.3 correction was made to the first quarter pension adjustment to decrease deferred income taxes resulting in total purchase accounting adjustments that increased goodwill by \$6.0 in 2014. These adjustments are reflected in the table above.

Set forth below is unaudited pro forma information for the six months ended March 31, 2013. The unaudited pro forma information is presented for informational purposes only and does not necessarily reflect the results of operations that would actually have been achieved.

	Six Months Ended March 31, 2013
Pro forma net revenue	\$ 818.9
Pro forma net income(1)	58.0
Pro forma basic earnings per share	\$ 0.93
Pro forma diluted earnings per share	\$ 0.93

(1) Pro forma net income attributable to Hillenbrand

We incurred \$10.7 of net business acquisition costs associated with the acquisition during the six months ended March 31, 2013. These costs consisted of \$10.9 of operating expenses and \$0.6 of interest expense, partially offset by \$0.8 of other income.

Table of Contents4. Supplemental Balance Sheet Information

	March 31, 2014	September 30, 2013
Trade accounts receivable reserves	\$ 19.0	\$ 19.3
Accumulated depreciation on property, plant, and equipment	\$ 276.2	\$ 268.0
Accumulated amortization on intangible assets	\$ 118.3	\$ 99.6
Inventories:		
Raw materials and components	\$ 55.9	\$ 58.3
Work in process	81.2	74.8
Finished goods	46.0	44.4
Total inventories	\$ 183.1	\$ 177.5

5. Financing Agreements

	March 31, 2014	September 30, 2013
\$700 revolving credit facility (excludes outstanding letters of credit)	\$ 291.2	\$ 325.5
\$200 term loan	185.0	190.0
\$150 senior unsecured notes, due July 15, 2020, net of discount	148.9	148.8
Other borrowings	1.0	
Total debt	626.1	664.3
Less: current portion	13.5	10.0
Total long-term debt	\$ 612.6	\$ 654.3

With respect to the \$700 revolving credit facility (the Facility), as of March 31, 2014, we had \$15.2 in outstanding letters of credit issued and \$393.6 of maximum borrowing capacity. Approximately \$283 of borrowing capacity is immediately available based on our leverage covenant at March 31, 2014, with additional amounts available in the event of a qualifying acquisition. The weighted-average interest rate on borrowings under the Facility were 1.37% and 1.36% for the three- and six-month periods ended March 31, 2014, and 1.39% and 1.38% for the same periods in the prior year. The Facility carries a leverage-based facility fee, assessed on the entire facility amount.

The weighted average interest rates on the term loan were 1.66% and 1.67% for the three- and six-month periods ended March 31, 2014, and 1.71% and 1.74% for the same periods in the prior year.

In the normal course of business, the Process Equipment Group provides certain customers with bank guarantees and other credit arrangements in support of performance, warranty, advance payment, and other contractual obligations. This form of trade finance is customary in the industry and, as a result, we maintain adequate capacity to provide the guarantees. As of March 31, 2014, we had credit capacity totaling \$291.6 under which \$217.3 was utilized for this purpose. These arrangements include a \$150.0 Syndicated Letter of Guarantee Facility (LG Facility) under which unsecured letters of credit, bank guarantees, or other surety bonds may be issued.

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The availability of borrowings under the Facility and the LG Facility is subject to our ability to meet certain conditions including compliance with covenants, absence of default, and continued accuracy of certain representations and warranties. As of March 31, 2014, we were in compliance with all covenants.

Other borrowings of \$1.0 at March 31, 2014 were comprised of debt at international locations maintained for working capital purposes.

We had restricted cash of \$0.5 and \$1.3 at March 31, 2014 and 2013.

Table of Contents6. Retirement Benefits*Defined Benefit Plans*

	U.S. Pension Benefits				Non-U.S. Pension Benefits			
	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013		Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
Service costs	\$	1.0	\$	1.2	\$	0.4	\$	0.4
Interest costs		3.6		3.0		1.0		1.4
Expected return on plan assets		(3.5)		(3.0)		(0.2)		(0.5)
Amortization of unrecognized prior service costs, net		0.2		0.2				
Amortization of net loss		1.0		1.8				
Net pension costs	\$	2.3	\$	3.2	\$	1.2	\$	1.3

	U.S. Pension Benefits				Non-U.S. Pension Benefits			
	Six Months Ended March 31, 2014		Six Months Ended March 31, 2013		Six Months Ended March 31, 2014		Six Months Ended March 31, 2013	
Service costs	\$	2.0	\$	2.4	\$	0.8	\$	0.8
Interest costs		7.3		5.9		2.1		2.0
Expected return on plan assets		(7.0)		(6.0)		(0.5)		(0.9)
Amortization of unrecognized prior service costs, net		0.4		0.4				
Amortization of net loss		1.9		3.6				
Net pension costs	\$	4.6	\$	6.3	\$	2.4	\$	1.9

Postretirement Healthcare Plans Net postretirement healthcare costs were \$0.1 and \$0.2 for the three months ended March 31, 2014 and 2013, and \$0.2 and \$0.3 for the six months ended March 31, 2014 and 2013.

Defined Contribution Plans Expenses related to our defined contribution plans were \$2.2 and \$2.1 for the three months ended March 31, 2014 and 2013, and \$4.3 and \$4.1 for the six months ended March 31, 2014 and 2013.

7. Income Taxes

The effective tax rates for the three months ended March 31, 2014 and 2013 were 29.1% and 28.6%. The effective tax rates for the six months ended March 31, 2014 and 2013 were 29.3% and 28.7%. The year-over-year change in the effective tax rate was largely due to a prior year discrete tax benefit.

Table of Contents8. Earnings Per Share

The dilutive effects of performance-based stock awards were included in the computation of diluted earnings per share at the level the related performance criteria were met through the respective balance sheet date. At March 31, 2014 and 2013, potential dilutive effects, representing approximately 1,800,000 and 2,000,000 shares were excluded from the computation of diluted earnings per share as the related performance criteria were not yet met, although we expect to meet various levels of criteria in the future.

	Three Months Ended March 31,				Six Months Ended March 31,			
	2014		2013		2014		2013	
Net income(1)	\$	33.0	\$	12.7	\$	53.3	\$	27.0
Weighted average shares outstanding (basic - in millions)		63.3		62.7		63.2		62.6
Effect of dilutive stock options and other unvested equity awards (in millions)		0.6		0.4		0.7		0.3
Weighted average shares outstanding (diluted - in millions)		63.9		63.1		63.9		62.9
Basic earnings per share	\$	0.52	\$	0.20	\$	0.84	\$	0.43
Diluted earnings per share	\$	0.51	\$	0.20	\$	0.83	\$	0.43
Shares with anti-dilutive effect excluded from the computation of diluted earnings per share (in millions)		0.4		1.2		0.4		1.9

(1) Net income attributable to Hillenbrand

9. Shareholders' Equity

During the six months ended March 31, 2014, we paid \$24.8 of cash dividends and acquired the remaining shares of a previously less than wholly-owned subsidiary for \$1.4. We also purchased approximately 527,000 shares of our common stock for \$16.5 as part of an approved and publicly announced program.

10. Other Comprehensive Income (Loss)

	Pension and Postretirement	Currency Translation	Net Unrealized Gain (Loss) on Derivative Instruments	Net Unrealized Gain (Loss) on Available- for-Sale Securities	Total attributable to Hillenbrand, Inc.	Noncontrolling Interests	Total
Balance at September 30, 2013	\$ (33.0)	\$ 31.4	\$ 0.2	\$	\$ (1.4)		
Other comprehensive income before reclassifications							
Before tax amount	2.4	8.5	1.2		12.1	\$ 0.1	\$ 12.2
Tax benefit (expense)	(0.7)		(0.3)		(1.0)		(1.0)
After tax amount	1.7	8.5	0.9		11.1	0.1	11.2
Amounts reclassified from accumulated other comprehensive income(1)	1.4		(0.6)		0.8		0.8
Net current period other comprehensive income (loss)	3.1	8.5	0.3		11.9	\$ 0.1	\$ 12.0
Balance at March 31, 2014	\$ (29.9)	\$ 39.9	\$ 0.5	\$	\$ 10.5		

(1) Amounts are net of tax.

Reclassifications out of Accumulated Other Comprehensive Income include:

Affected Line in the Consolidated Statement of Operations:	Three Months Ended March 31, 2014			Total
	Amortization of Pension and Postretirement (1) Net Loss Recognized	Prior Service Costs Recognized	(Gain)/Loss on Derivative Instruments	
Net revenue	\$	\$	\$ (0.5)	\$ (0.5)
Cost of goods sold	0.7	0.2	(0.2)	0.7
Operating expenses	0.2			0.2
Other income (expense), net			(0.4)	(0.4)
Total before tax	\$ 0.9	\$ 0.2	\$ (1.1)	
Tax expense				
Total reclassifications for the period, net of tax				\$

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Affected Line in the Consolidated Statement of Operations:	Six Months Ended March 31, 2014			Total
	Amortization of Pension and Postretirement (1) Net Loss Recognized	Prior Service Costs Recognized	(Gain)/Loss on Derivative Instruments	
Net revenue	\$	\$	\$ (0.4)	\$ (0.4)
Cost of goods sold	1.3	0.3	(0.3)	1.3
Operating expenses	0.5	0.1		0.6
Other income (expense), net			(0.3)	(0.3)
Total before tax	\$ 1.8	\$ 0.4	\$ (1.0)	1.2
Tax expense				(0.4)
Total reclassifications for the period, net of tax			\$	0.8

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 6).

Table of Contents11. Share-Based Compensation

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Share-based compensation costs	\$ 3.4	\$ 1.5	\$ 5.1	\$ 6.0
Less income tax benefit	1.3	0.6	1.9	2.2
Share-based compensation costs, net of tax	\$ 2.1	\$ 0.9	\$ 3.2	\$ 3.8

During the six months ended March 31, 2014, we made the following grants:

	Number of Units
Stock options	449,828
Time-based stock awards	59,294
Performance-based stock awards (maximum that can be earned)	574,600

Stock options granted had a weighted-average exercise price of \$28.16 and a weighted-average grant date fair value of \$6.97. Our time-based stock awards and performance-based stock awards had a weighted-average grant date fair value of \$29.26 and \$28.55. Included in the performance-based stock awards granted during 2014 are 185,327 units whose payout level is based upon the Company's total shareholder return as it relates to the performance of companies in its compensation peer group over a three-year measurement period. These units will be expensed on a straight-line basis over the measurement period.

During the second quarter of 2014, we increased the shares issuable under the stock compensation plans by 3,900,000.

12. Other Income (Expense), Net

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Equity in net income (loss) of affiliates	\$ 2.9	\$ (0.4)	\$ 2.7	\$ (0.6)
Foreign currency exchange gain (loss), net	(0.4)	0.3	(0.7)	1.1
Business acquisition and transition costs, net				0.8
Gain on exercise of warrants	5.2		5.2	
Service agreement cancellation	2.5		2.5	
Other, net	(0.5)	(0.2)	(0.1)	(0.7)
Other income and expense, net	\$ 9.7	\$ (0.3)	\$ 9.6	\$ 0.6

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Since our spin-off from our former parent, we have held warrants to purchase the common stock of Forethought Financial Group, Inc. (Forethought). Forethought was acquired by a third-party during the second quarter of 2014. In connection with that acquisition, these warrants were exercised for \$6.2, resulting in a gain of \$5.2.

We recognized a \$2.5 gain related to the cancellation of a service agreement at Batesville.

The acquisition of Coperion was transacted in euros. Business acquisition and integration costs, net within other income and expense represent the foreign exchange gain recognized on euro-denominated cash required to fund the acquisition, offset by the costs of derivative contracts that hedged currency exposure on the funds required to close the transaction.

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13. Commitments and Contingencies

Litigation

General Like most companies, we are involved on an ongoing basis in claims, lawsuits, and government proceedings relating to our operations, including environmental, patent infringement, business practices, commercial transactions, product and general liability, workers' compensation, auto liability, employment, and other matters. The ultimate outcome of these matters 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 make a disclosure if there is at least a reasonable possibility that a significant loss may have been incurred. Legal fees associated with claims and lawsuits are generally expensed as incurred.

Claims other than employment and related matters have deductibles and self-insured retentions ranging from \$0.5 to \$1.0 per occurrence or per claim, depending upon the type of coverage and policy period. Outside insurance companies and third-party claims administrators assist in establishing 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 possible that actual costs will differ from those estimates.

Matthews Litigation In August 2010, the York Group, Inc., Milso Industries Corporation, and Matthews International Corporation (collectively Matthews) filed a lawsuit against Scott Pontone and Batesville Casket Company, Inc. in the U.S. District Court, Western District of Pennsylvania, which was subsequently amended by Matthews in February 2011 to include two additional defendants, Harry Pontone and Pontone Casket Company, LLC (the Matthews Litigation). The Matthews Litigation arises, in part, as a result of a Marketing Consulting Agreement entered into between Batesville and Pontone Casket Company effective June 24, 2010, and Batesville's hiring of two former employees of certain Matthews entities in June 2010. Scott Pontone provides consulting services to Batesville pursuant to the Marketing Consulting Agreement entered into between Batesville and Pontone Casket Company. Matthews alleges that Scott Pontone and Harry Pontone breached contractual and business obligations with Matthews and that Batesville induced certain of those breaches as part of its sales initiatives in the New York metropolitan area. Batesville has also asserted counterclaims against Matthews.

Matthews claims that it has lost revenue and will lose future revenue in the New York metropolitan area, although the amount of those alleged damages is unspecified. Matthews seeks to: (i) recover compensatory damages, punitive damages, attorneys' fees and costs; and (ii) enjoin certain activities by Harry Pontone, Scott Pontone, Pontone Casket Company, and Batesville and its employees in the New York metropolitan area. Although Matthews originally moved for a preliminary injunction, that request was withdrawn. Discovery has closed. The court has ruled on the parties' summary judgment motions, determining that factual issues exist for trial on claims and counterclaims. The jury trial has been scheduled to occur in December 2014.

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The Company believes Batesville acted lawfully and intends to defend this matter vigorously. The Company does not believe, based on currently available information, that the outcome of this lawsuit will have a material adverse effect on the Company's financial condition or liquidity. If Matthews prevails at trial, however, the outcome could be materially adverse to the Company's operating results or cash flows for the particular period, depending, in part, upon the operating results or cash flows for such period.

Horstmann Litigation As previously disclosed, on March 18, 2013, a joint and several judgment was entered by the Higher Regional Court (OLG) Hamm, Germany, in favor of plaintiff, Jürgen Horstmann, and against defendants, Atlas-Vermögensverwaltungs GmbH, ThyssenKrupp Technologies Beteiligungen (ThyssenKrupp), and Hillenbrand subsidiary, Coperion, in the amount of 10.3, plus interest, for a total estimated judgment of 18.5 to 19.6 (the Horstmann Litigation).

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In February 2014, the Federal Court of Justice rejected an appeal of that judgment filed by the defendants, therefore making the judgment final and non-appealable. On April 28, 2014, Hillenbrand received confirmation that ThyssenKrupp paid the judgment amount specified by the court (including interest) to plaintiff Jürgen Horstmann.

Hillenbrand's balance sheet at March 31, 2014 and September 30, 2013, included a long-term liability of \$9.0 and \$8.7 and a corresponding indemnification receivable, recorded in other assets, for \$9.0 and \$8.7. These amounts will be eliminated in the third quarter.

14. Fair Value Measurements

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The authoritative guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are from sources independent of the Company. Unobservable inputs reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The categorization of financial assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is broken down into three levels:

Level 1: Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable for the asset or liability.

	Carrying Value at March 31, 2014	Fair Value at March 31, 2014 Using Inputs Considered as:		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 51.0	\$ 51.0	\$	\$
Investments in rabbi trust	5.5	5.5		
Derivative instruments	1.3		1.3	
Liabilities:				
\$150 senior unsecured notes	148.9	161.8		
Revolving credit facility	291.2		291.2	
Term loan	185.0		185.0	
Other borrowings	1.0		1.0	
Derivative instruments	0.4		0.4	

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Included in Level 3 financial assets at September 30, 2013 were equity investments composed of \$1.0 of warrants with a fair value of \$5.0 to purchase the common stock of Forethought who was acquired by a third-party on January 2, 2014. These warrants were exercised during the second quarter of 2014 for \$6.2 resulting in a \$5.2 gain recorded in other income (expense), net.

The fair values of the revolving credit facility, term loan, and our other borrowings approximated book value at March 31, 2014. The fair values of the revolving credit facility, term loan, and other borrowings are estimated based on internally developed models, using current market interest rate data for similar issues as there is no active market for our revolving credit facility, term loan or other borrowings.

The fair values of the Company's derivative instruments are based upon pricing models using inputs derived from third-party pricing services or observable market data such as currency spot and forward rates. These values are periodically validated by comparing to third-party broker quotes. The aggregate notional value of these derivatives was \$90.0 at March 31, 2014.

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	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Net revenue				
Process Equipment Group	\$ 239.5	\$ 227.4	\$ 481.7	\$ 381.1
Batesville	157.3	171.1	300.0	322.6
Total	\$ 396.8	\$ 398.5	\$ 781.7	\$ 703.7
Adjusted EBITDA				
Process Equipment Group	\$ 26.0	\$ 24.2	\$ 52.7	\$ 45.2
Batesville	44.9	48.4	79.4	86.9
Corporate	(1.7)	(8.5)	(9.7)	(16.5)
Net revenue (1)				
United States	\$ 215.9	\$ 234.7	\$ 418.3	\$ 440.2
International	180.9	163.8	363.4	263.5
Total	\$ 396.8	\$ 398.5	\$ 781.7	\$ 703.7

(1) We attribute revenue to a geography based upon the location of the business unit that consummates the external sale.

	March 31,	September 30,
	2014	2013
Total assets		
Process Equipment Group	\$ 1711.1	\$ 1708.6
Batesville	242.8	238.3
Corporate	40.2	56.3
Total	\$ 1,994.1	\$ 2003.2
Tangible long-lived assets		
United States	\$ 100.0	\$ 101.9
International	70.4	70.0
Total	\$ 170.4	\$ 171.9

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The following schedule reconciles segment adjusted EBITDA to consolidated net income.

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2014	2013	2014	2013
Adjusted EBITDA:				
Process Equipment Group	\$ 26.0	\$ 24.2	\$ 52.7	\$ 45.2
Batesville	44.9	48.4	79.4	86.9
Corporate	(1.7)	(8.5)	(9.7)	(16.5)
Less				
Interest income	(0.1)	(0.2)	(0.3)	(0.3)
Interest expense	5.6	6.8	11.9	11.3
Income tax expense	13.7	5.3	22.7	11.2
Depreciation and amortization	14.7	27.8	29.0	42.9
Business acquisition and integration	1.1	1.8	3.0	10.0
Inventory step-up		8.1		10.7
Restructuring				