

Hillenbrand, Inc.  
Form 10-Q  
February 04, 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 December 31, 2013**

**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 63,049,281 shares of common stock, no par value per share, outstanding as of January 28, 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)*

	<b>Three Months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Net revenue	\$ 384.9	\$ 305.2
Cost of goods sold	253.9	194.7
Gross profit	131.0	110.5
Operating expenses	94.0	86.4
Operating profit	37.0	24.1
Interest expense	6.3	4.5
Other income (expense), net	(0.1)	0.9
Income before income taxes	30.6	20.5
Income tax expense	9.0	5.9
Consolidated net income	21.6	14.6
Less: Net income attributable to noncontrolling interests	1.3	0.3
Net income(1)	\$ 20.3	\$ 14.3
Net income(1) per share of common stock:		
Basic earnings per share	\$ 0.32	\$ 0.23
Diluted earnings per share	\$ 0.32	\$ 0.23
Weighted-average shares outstanding basic	63.1	62.4
Weighted-average shares outstanding diluted	63.7	62.6
Cash dividends per share	\$ 0.1975	\$ 0.1950

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(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)*

	<b>Three Months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Consolidated net income	\$ 21.6	\$ 14.6
Other comprehensive income (loss), net of tax		
Currency translation	8.7	10.2
Pension and postretirement (net of tax of \$1.0 and \$0.7)	2.2	1.1
Change in net unrealized gain (loss) on derivative instruments (net of tax of \$0.2 and \$0.0)	0.5	0.2
Change in net unrealized gain (loss) on available-for-sale securities (net of tax of \$0.0 and \$0.1)		(0.2)
Total other comprehensive income, net of tax	11.4	11.3
Consolidated comprehensive income	33.0	25.9
Less: Comprehensive income attributable to noncontrolling interests	1.2	0.3
Comprehensive income (2)	\$ 31.8	\$ 25.6

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(2) Comprehensive income attributable to Hillenbrand

*See Condensed Notes to Consolidated Financial Statements*

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

	December 31, 2013	September 30, 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 62.3	\$ 42.7
Trade receivables, net	189.6	213.4
Unbilled receivables from long-term manufacturing contracts	131.0	142.1
Inventories	178.6	177.5
Deferred income taxes	23.4	22.3
Prepaid expenses	28.9	20.4
Other current assets	16.7	21.0
<b>Total current assets</b>	<b>630.5</b>	<b>639.4</b>
Property, plant, and equipment, net	171.9	171.9
Intangible assets, net	556.1	558.6
Goodwill	599.4	585.8
Other assets	46.0	47.5
<b>Total Assets</b>	<b>\$ 2,003.9</b>	<b>\$ 2,003.2</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 169.6	\$ 183.2
Liabilities from long-term manufacturing contracts and advances	97.1	80.9
Current portion of long-term debt	11.2	10.0
Accrued compensation	43.3	59.6
Deferred income taxes	11.0	12.1
Other current liabilities	117.6	119.7
<b>Total current liabilities</b>	<b>449.8</b>	<b>465.5</b>
Long-term debt	640.5	654.3
Accrued pension and postretirement healthcare	193.0	190.3
Deferred income taxes	74.0	75.4
Other long-term liabilities	39.8	41.4
<b>Total Liabilities</b>	<b>1,397.1</b>	<b>1,426.9</b>
Commitments and contingencies		
<b>SHAREHOLDERS EQUITY</b>		
Common stock, no par value (63.1 and 63.1 shares issued, 63.0 and 62.9 shares outstanding)		
Additional paid-in capital	328.1	321.7
Retained earnings	259.8	252.2
Treasury stock (0.1 and 0.2 shares)	(1.6)	(4.2)
Accumulated other comprehensive gain (loss)	10.0	(1.4)
Hillenbrand Shareholders Equity	596.3	568.3
Noncontrolling interests	10.5	8.0
<b>Total Shareholders Equity</b>	<b>606.8</b>	<b>576.3</b>
<b>Total Liabilities and Equity</b>	<b>\$ 2,003.9</b>	<b>\$ 2,003.2</b>

*See Condensed Notes to Consolidated Financial Statements*

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

	<b>Three Months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Consolidated net income	\$ 21.6	\$ 14.6
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	14.3	15.0
Deferred income taxes	(5.4)	4.7
Share-based compensation	1.7	4.5
Trade accounts receivable and receivables on long-term manufacturing contracts	38.3	4.3
Inventories	0.4	8.4
Other current assets	(2.1)	(8.3)
Trade accounts payable	(16.6)	0.2
Accrued expenses and other current liabilities	(5.6)	(25.3)
Income taxes payable	(2.6)	(1.2)
Defined benefit plan funding	(4.2)	(1.2)
Defined benefit plan expense	3.6	3.8
Other, net	2.5	0.2
Net cash provided by operating activities	45.9	19.7
<b>Investing Activities</b>		
Capital expenditures	(5.6)	(5.6)
Proceeds from sales of property, plant, and equipment		1.2
Proceeds from sales of investments		1.4
Acquisition of business, net of cash acquired		(415.6)
Other, net	(0.6)	
Net cash used in investing activities	(6.2)	(418.6)
<b>Financing Activities</b>		
Proceeds from term loan		200.0
Repayments on term loan	(2.5)	(2.5)
Proceeds from revolving credit facilities, net of financing costs	94.2	535.3
Repayments on revolving credit facilities	(105.9)	(238.0)
Payment of dividends on common stock	(12.4)	(12.1)
Net proceeds (payments) on stock plans	7.6	(2.7)
Other, net	(0.3)	
Net cash (used in) provided by financing activities	(19.3)	480.0
Effect of exchange rates on cash and cash equivalents	(0.8)	0.8
<b>Net cash flows</b>	<b>19.6</b>	<b>81.9</b>
<b>Cash and cash equivalents:</b>		
At beginning of period	42.7	20.2
At end of period	\$ 62.3	\$ 102.1

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%. 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, 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 fiscal year ended September 30, 2013, as filed with the SEC. 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 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*

During the first quarter of fiscal 2014, we recorded an adjustment to operating expenses to correct errors related to the accounting for sales commissions at Coperion in fiscal 2013. The adjustment reduced operating expenses in the first quarter of fiscal 2014 by \$2.0, which should have been recorded in fiscal 2013. In connection with this same issue, we identified a classification error of \$8.5 between operating expenses and cost of goods sold in fiscal 2013. We have revised our consolidated statement of income for the three months ended December 31, 2012, to

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increase cost of goods sold and decrease operating expenses by \$0.1. We will revise the March 31, 2013; June 30, 2013; and September 30, 2013; consolidated statements of income to reflect the revisions the next time such financial information is included in future filings for comparable purposes. These revisions will decrease operating expenses and increase cost of goods sold by \$2.6 in the second quarter of 2013, \$2.3 in the third quarter of 2013, and \$8.5 for fiscal year 2013. We believe the impact of these income statement classification errors and the \$2.0 adjustment to correct prior period errors was immaterial to our consolidated financial statements for the current and prior periods.

### 2. Summary of Significant Accounting Policies

The significant 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, 2013.

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*Recently Adopted and Issued Accounting Standards*

In February 2013, the FASB issued an accounting standards 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 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 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 our highest priority from an integration perspective. 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:

	<b>December 1, 2012</b>
Cash and cash equivalents	\$ 32.8
Inventory	112.4
Current assets, excluding cash and cash equivalents and inventory	175.2
Property, plant, and equipment	54.4
Identifiable intangible assets	291.8
Goodwill	275.1
Other assets	2.1
Total assets acquired	943.8
Current liabilities	282.5
Accrued pension obligations	129.9
Deferred income taxes	68.6
Other long-term liabilities	6.7
Total liabilities assumed	487.7
Noncontrolling interests	8.2
Aggregate purchase price	\$ 447.9

Final purchase accounting adjustments were made during the first quarter of fiscal 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 current liabilities (\$1.3) and the noncontrolling interests (\$1.7) based on final valuation adjustments. The remaining change in consolidated goodwill during the first quarter of fiscal 2014 was related to change in foreign currency.

Set forth below is unaudited pro forma information for the first quarter of fiscal 2013. It excludes acquisition costs (\$8.2) and backlog amortization and inventory step-up costs (\$6.8). 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.

	<b>Three Months Ended December 31, 2012</b>
Pro forma net revenue	\$ 420.4
Pro forma net income(1)	28.3
Pro forma basic and diluted earnings per share	\$ 0.46

(1) Pro forma net income attributable to Hillenbrand

We incurred \$8.2 of net business acquisition costs associated with acquisitions during the first quarter of fiscal 2013. These costs consisted of \$9.0 of operating expenses, partially offset by \$0.8 of other income (see Note 12).



Table of Contents4. Supplemental Balance Sheet Information

	December 31, 2013	September 30, 2013
Trade accounts receivable reserves	\$ 18.7	\$ 19.3
Accumulated depreciation on property, plant, and equipment	\$ 272.0	\$ 268.0
Accumulated amortization on intangible assets	\$ 110.4	\$ 99.6
Inventories:		
Raw materials and components	\$ 54.8	\$ 58.3
Work in process	78.6	74.8
Finished goods	45.2	44.4
Total inventories	\$ 178.6	\$ 177.5

5. Financing Agreements

	December 31, 2013	September 30, 2013
\$700 revolving credit facility (excludes outstanding letters of credit)	\$ 315.4	\$ 325.5
\$200 term loan	187.5	190.0
\$150 senior unsecured notes, due July 15, 2020, net of discount	148.8	148.8
Total debt	651.7	664.3
Less: current portion	11.2	10.0
Total long-term debt	\$ 640.5	\$ 654.3

With respect to the \$700 revolving credit facility (the Facility), as of December 31, 2013, we had \$23.0 in outstanding letters of credit issued and \$361.6 of remaining borrowing capacity available. The weighted-average interest rate on borrowings under the Facility was 1.35% in the first quarter of fiscal 2014 and 2013.

The weighted average interest rates on the term loan were 1.68% and 1.81% for the first quarter of fiscal 2014 and 2013.

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 contract obligations. This form of trade finance is customary in the industry and, as a result, we are required to maintain adequate capacity to provide the guarantees. As of December 31, 2013, we had credit arrangements totaling \$301.0 under which \$210.9 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. There were no borrowings under these credit arrangements.

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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 December 31, 2013, we were in compliance with all covenants.

We had restricted cash of \$0.5 and \$1.6 at December 31, 2013 and 2012.





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Net income (1)	\$	20.3	\$	14.3
Weighted-average shares outstanding basic (in millions)		63.1		62.4
Effect of dilutive stock options and other unvested equity awards (in millions)		0.6		0.2
Weighted-average shares outstanding diluted (in millions)		63.7		62.6
Earnings per share basic	\$	0.32	\$	0.23
Earnings per share diluted	\$	0.32	\$	0.23
Shares with anti-dilutive effect excluded from the computation of diluted earnings per share (in millions)		0.6		2.4

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(1) Net income attributable to Hillenbrand

9. Shareholders' Equity

During the first quarter of fiscal 2014, we paid \$12.4 of cash dividends and acquired the remaining shares of one of the less than wholly-owned subsidiaries for \$1.4.

Table of Contents10. Other Comprehensive Income (Loss)

## Changes in Accumulated Other Comprehensive Income

	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, 2012	\$ (58.5)	\$ 16.2	\$ (0.3)	\$ 0.2	\$ (42.4)		
Other comprehensive income before reclassifications							
Before tax amount		10.2	0.2	(0.3)	10.1	\$	\$ 10.1
Tax benefit				0.1	0.1		0.1
After tax amount		10.2	0.2	(0.2)	10.2		10.2
Amounts reclassified from accumulated other comprehensive income(1)	1.1				1.1		1.1
Net current period other comprehensive income (loss)	1.1	10.2	0.2	(0.2)	11.3	\$	\$ 11.3
Balance at December 31, 2012	\$ (57.4)	\$ 26.4	\$ (0.1)	\$	\$ (31.1)		
Balance at September 30, 2013	\$ (33.0)	\$ 31.4	\$ 0.2	\$	\$ (1.4)		
Other comprehensive income before reclassifications							
Before tax amount	2.1	8.7	0.6		11.4	\$	(0.1) \$ 11.3
Tax expense	(0.6)		(0.2)		(0.8)		(0.8)
After tax amount	1.5	8.7	0.4		10.6		10.5
Amounts reclassified from accumulated other comprehensive income(1)	0.7		0.1		0.8		0.8
Net current period other comprehensive income (loss)	2.2	8.7	0.5		11.4	\$	(0.1) \$ 11.3
Balance at December 31, 2013	\$ (30.8)	\$ 40.1	\$ 0.7	\$	\$ 10.0		

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(1) Amounts are net of tax.

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## Reclassifications out of Accumulated Other Comprehensive Income

Affected Line in the Consolidated Statement of Operations:	Three Months Ended December 31, 2013			Total	
	Net Loss Recognized	Amortization of Pension and Postretirement (1)	Prior Service Costs Recognized		Realized (Gain)/Loss on Derivative Instruments
Net revenue	\$		\$	\$ 0.1	\$ 0.1
Cost of goods sold		0.6	0.1	(0.1)	0.6
Operating expenses		0.3	0.1		0.4
Other income (expense), net				0.1	0.1
Total before tax	\$	0.9	\$ 0.2	\$ 0.1	1.2
Tax expense					(0.4)
Total reclassifications for the period, net of tax					\$ 0.8

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(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

	<b>Three Months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Share-based compensation cost	\$ 1.7	\$ 4.5
Less impact of income tax	0.6	1.6
Share-based compensation cost, net of tax	\$ 1.1	\$ 2.9

During the first quarter of fiscal 2014, we made the following grants:

	<b>Number of Units</b>
Stock options	449,706
Time-based stock awards	22,891
Performance-based stock awards (maximum that can be earned)	575,782

Stock options granted had a weighted-average exercise price of \$28.16 and a weighted-average grant date fair value of \$6.95. Our time-based stock awards and performance-based stock awards had a weighted-average grant date fair value of \$28.39 and \$28.49. Included in the performance-based stock awards granted in the first quarter of fiscal 2014 are 185,278 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.

12. Other Income (Expense), Net

	<b>Three Months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Equity in net income (loss) of affiliates	\$ (0.2)	\$ (0.2)
Foreign currency exchange gain (loss)	(0.3)	0.8
Business acquisition and integration costs, net	0.8	0.8
Other, net	0.4	(0.5)
Other income and expense, net	\$ (0.1)	\$ 0.9

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.

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.

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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.

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. Batesville has moved for summary judgment on Matthews' claims. No trial date has been set.

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 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 ). In the Horstmann Litigation, the plaintiff alleged numerous claims relating to its purchase from ThyssenKrupp of a former ThyssenKrupp business in 1996. This judgment reversed a ruling on September 1, 2010, by the Court of First Instance that previously dismissed these claims.

Pursuant to a Framework Agreement entered into in 2000 between ThyssenKrupp and Admini Zweiundsiebzig ( Admini ) (predecessor to Coperion), ThyssenKrupp agreed to indemnify Coperion for all liability associated with the Horstmann Litigation. Additionally, pursuant to the Share Purchase Agreement by which the Company acquired Coperion, the sellers are required to indemnify Hillenbrand in the event ThyssenKrupp does not fulfill its indemnification obligations, subject to the terms and conditions of such Share Purchase Agreement.

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On August 22, 2013, the defendants in the Horstmann Litigation filed an appeal with the German Federal Court of Justice of the judgment that was entered on March 18, 2013. Even if the appeal is unsuccessful and the judgment stands, Hillenbrand believes it will be fully indemnified with respect to the Horstmann Litigation and does not believe that the outcome of this lawsuit will have a material adverse effect on the Company's financial condition or liquidity. Hillenbrand's balance sheet at December 31, 2013 and September 30, 2013, included a long-term liability of \$8.9 and \$8.7 and a corresponding indemnification receivable, recorded in other assets, for \$8.9 and \$8.7.



Table of Contents14. 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 December 31, 2013	Fair Value at December 31, 2013 Using Inputs Considered as:		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash and cash equivalents	\$ 62.3	\$ 62.3	\$	\$
Equity investments	1.0			6.2
Investments in rabbi trust	6.0	6.0		
Derivative instruments	1.8		1.8	
<b>Liabilities:</b>				
\$150 senior unsecured notes	148.8	159.1		
Revolving credit facility	315.4		315.4	
Term loan	187.5		187.5	
Derivative instruments	0.6		0.6	

The equity investments include \$1.0 of warrants to purchase the common stock of a privately held company that was acquired by a third-party on January 2, 2014. The warrants were exercised as described in Note 17, and had a fair value of \$6.2 at December 31, 2013.

The fair values of the revolving credit facility and term loan approximated book value at December 31, 2013. The fair values of the revolving credit facility and term loan 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 and term loan.

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 \$165.1 at December 31, 2013.



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	Three Months Ended December 31,	
	2013	2012
<b>Net revenue</b>		
Process Equipment Group	\$ 242.2	\$ 153.7
Batesville	142.7	151.5
Total	\$ 384.9	\$ 305.2
<b>Adjusted EBITDA</b>		
Process Equipment Group	\$ 26.7	\$ 20.9
Batesville	34.5	38.5
Corporate	(8.0)	(8.0)
<b>Net revenue (1)</b>		
United States	\$ 202.4	\$ 205.5
International	182.5	99.7
Total	\$ 384.9	\$ 305.2

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

	December 31, 2013	September 30, 2013
<b>Total assets</b>		
Process Equipment Group	\$ 1,714.8	\$ 1,708.6
Batesville	236.3	238.3
Corporate	52.8	56.3
Total	\$ 2,003.9	\$ 2,003.2
<b>Tangible long-lived assets</b>		
United States	\$ 101.2	\$ 101.9
International	70.7	70.0
Total	\$ 171.9	\$ 171.9

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

	Three Months Ended December 31,	
	2013	2012
<b>Adjusted EBITDA:</b>		
Process Equipment Group	\$ 26.7	\$ 20.9
Batesville	34.5	38.5
Corporate	(8.0)	(8.0)
<b>Less:</b>		
Interest income	(0.2)	(0.1)

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Interest expense		6.3		4.5
Income tax expense		9.0		5.9
Depreciation and amortization		14.3		15.0
Business acquisition and integration		1.9		8.2
Inventory step-up				2.6
Restructuring		0.3		0.6
Antitrust litigation				0.1
Consolidated net income	\$	21.6	\$	14.6

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16. Condensed Consolidating Information

On January 9, 2013, the Company's subsidiary, Coperion Corporation, a Delaware corporation, was joined as a party to the Guaranty dated July 27, 2012 ( "Guaranty" ), by certain subsidiaries of the Company (including Coperion Corporation, the "Guarantors" ), which was entered into in connection with the Company's revolving credit facility. In accordance with the terms of the revolving credit facility, Coperion Corporation was required to join the Guaranty as a material domestic subsidiary of the Company following the acquisition of Coperion Capital GmbH.

On January 10, 2013, the Company, the Guarantors, and U.S. Bank National Association ( "Trustee" ) entered into a supplemental indenture pursuant to which the Guarantors agreed to guarantee the obligations of the Company under its 5.50% Notes due 2020 issued pursuant to an Indenture entered into on July 9, 2010, between the Company and the Trustee. As such, certain 100% owned subsidiaries of Hillenbrand fully and unconditionally, jointly and severally, agreed to guarantee all of the indebtedness relating to our obligations under our 5.50% Notes due 2020. The following are the condensed consolidating financial statements, including the guarantors, which present the statements of income, balance sheets, and cash flows of (i) the parent holding company, (ii) the guarantor subsidiaries, (iii) the non-guarantor subsidiaries, and (iv) eliminations necessary to present the information for Hillenbrand on a consolidated basis.

Table of Contents**Condensed Consolidating Statements of Income**

	Three months ended December 31, 2013					Three months ended December 31, 2012				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenue	\$	\$ 200.3	\$ 225.0	\$ (40.4)	\$ 384.9	\$	\$ 198.7	\$ 148.2	\$ (41.7)	\$ 305.2
Cost of goods sold		102.5	166.6	(15.2)	253.9		98.5	110.9	(14.7)	194.7
Gross profit		97.8	58.4	(25.2)	131.0		100.2	37.3	(27.0)	110.5
Operating expenses	9.0	61.9	48.3	(25.2)	94.0	18.1	60.8	34.5	(27.0)	86.4
Operating profit	(9.0)	35.9	10.1		37.0	(18.1)	39.4	2.8		24.1
Interest expense	4.9	0.1	1.3		6.3	4.1		0.4		4.5
Other income (expense), net	(0.1)	(0.7)	0.7		(0.1)	1.5	(0.9)	0.3		0.9
Equity in net income (loss) of subsidiaries	28.6	1.9		(30.5)		25.1	1.5		(26.6)	
Income (loss) before income taxes	14.6	37.0	9.5	(30.5)	30.6	4.4	40.0	2.7	(26.6)	20.5
Income tax expense (benefit)	(5.7)	13.2	1.5		9.0	(9.9)	14.4	1.4		5.9
Consolidated net income	20.3	23.8	8.0	(30.5)	21.6	14.3	25.6	1.3	(26.6)	14.6
Less: Net income attributable to noncontrolling interests			1.3		1.3			0.3		0.3
Net income (loss)(1)	\$ 20.3	\$ 23.8	\$ 6.7	\$ (30.5)	\$ 20.3	\$ 14.3	\$ 25.6	\$ 1.0	\$ (26.6)	\$ 14.3
Consolidated comprehensive income (loss)	\$ 31.8	\$ 24.5	\$ 18.7	\$ (42.0)	\$ 33.0	\$ 25.6	\$ 25.6	\$ 15.2	\$ (40.5)	\$ 25.9
Less: Comprehensive income attributable to noncontrolling interests			1.2		1.2			0.3		0.3
Comprehensive income (loss)(2)	\$ 31.8	\$ 24.5	\$ 17.5	\$ (42.0)	\$ 31.8	\$ 25.6	\$ 25.6	\$ 14.9	\$ (40.5)	\$ 25.6

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(1) Net income attributable to Hillenbrand

(2) Comprehensive income attributable to Hillenbrand

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**Condensed Consolidating Balance Sheets**

	As of December 31, 2013					As of September 30, 2013				
	Parent	Non-Guarantors		Eliminations	Consolidated	Parent	Non-Guarantors		Eliminations	Consolidated
Cash and equivalents	\$ 1.2	\$ 9.0	\$ 52.1	\$	\$ 62.3	\$ 0.6	\$ 8.7	\$ 33.4	\$	\$ 42.7
Trade receivables, net		92.7	96.9		189.6		97.0	116.4		213.4
Unbilled receivables from long-term manufacturing contracts		9.6	121.4		131.0		15.2	126.9		142.1
Inventories		75.6	105.9	(2.9)	178.6		72.4	107.8	(2.7)	177.5
Deferred income taxes	9.1	11.4	2.9		23.4	9.1	8.3	4.9		22.3
Prepaid expense	1.5	4.6	22.8		28.9	1.0	4.4	15.0		20.4
Intercompany receivables	238.3	1,019.9	71.7	(1,329.9)		222.5	1,011.3	33.3	(1,267.1)	
Other current assets	0.5	2.7	14.3	(0.8)	16.7	0.4	4.3	17.0	(0.7)	21.0
Total current assets	250.6	1,225.5	488.0	(1,333.6)	630.5	233.6	1,221.6	454.7	(1,270.5)	639.4
Property, plant and equipment, net	7.4	67.8	96.7		171.9	7.4	69.0	95.5		171.9
Intangible assets, net	2.6	191.6	361.9		556.1	2.7	194.3	361.6		558.6
Goodwill		209.1	390.3		599.4		209.3	376.5		585.8
Investment in consolidated subsidiaries	1,987.2	644.0		(2,631.2)		1,938.9	644.0		(2,582.9)	
Other assets	13.1	19.4	13.5		46.0	13.9	19.0	15.5	(0.9)	47.5
Total Assets	\$ 2,260.9	\$ 2,357.4	\$ 1,350.4	\$ (3,964.8)	\$ 2,003.9	\$ 2,196.5	\$ 2,357.2	\$ 1,303.8	\$ (3,854.3)	\$ 2,003.2
Trade accounts payable	\$ 0.3	\$ 21.0	\$ 148.3	\$	\$ 169.6	\$ 0.6	\$ 25.8	\$ 156.8	\$	\$ 183.2
Liabilities from long-term manufacturing contracts and advances		13.8	83.3		97.1		12.3	68.6		80.9
Current portion of long-term debt	11.2				11.2	10.0				10.0
Accrued compensation	1.0	14.7	28.4	(0.8)	43.3	3.6	22.3	33.7		59.6
Deferred income taxes			11.0		11.0			12.1		12.1
Intercompany payables	1,091.0	233.1	8.7	(1,332.8)		1,048.1	221.7		(1,269.8)	
Other current liabilities	5.0	62.6	50.0		117.6	3.6	69.3	47.5	(0.7)	119.7
Total current liabilities	1,108.5	345.2	329.7	(1,333.6)	449.8	1,065.9	351.4	318.7	(1,270.5)	465.5
Long-term debt	555.1		85.4		640.5	562.3		92.0		654.3
Accrued pension and postretirement healthcare	1.0	84.9	107.1		193.0		86.1	104.2		190.3
Deferred income taxes		21.8	52.2		74.0		46.2	30.1	(0.9)	75.4
Other long-term liabilities		23.6	16.2		39.8		24.4	17.0		41.4
Total Liabilities	1,664.6	475.5	590.6	(1,333.6)	1,397.1	1,628.2	508.1	562.0	(1,271.4)	1,426.9
Total Hillenbrand Shareholders Equity	596.3	1,881.9	749.3	(2,631.2)	596.3	568.3	1,849.1	733.8	(2,582.9)	568.3
Noncontrolling interests			10.5		10.5			8.0		8.0
Total Equity	596.3	1,881.9	759.8	(2,631.2)	606.8	568.3	1,849.1	741.8	(2,582.9)	576.3

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Total Liabilities and Equity	\$ 2,260.9	\$ 2,357.4	\$ 1,350.4	\$ (3,964.8)	\$ 2,003.9	\$ 2,196.5	\$ 2,357.2	\$ 1,303.8	\$ (3,854.3)	\$ 2,003.2
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Table of Contents**Condensed Consolidating Statements of Cash Flows**

	Three months ended December 31, 2013				Three months ended December 31, 2012			
	Parent	Guarantors	Guarantors	Elimination	Parent	Guarantors	Guarantors	Elimination
Net cash provided by (used in) operating activities	\$ 11.8	\$ 2.2	\$ 31.9	\$ 45.9	\$ (12.1)	\$ 26.9	\$ 4.9	\$ 19.7
Investing activities:								
Capital expenditures	(0.3)	(1.9)	(3.4)	(5.6)	(0.9)	(2.7)	(2.0)	(5.6)
Proceeds from property, plant, and equipment					1.1	0.1		1.2
Proceeds from sales of investments					1.4			1.4
Acquisition of business, net of cash acquired					(404.2)	(0.5)	(10.9)	(415.6)
Other, net	(0.6)			(0.6)				
Net cash used in investing activities	(0.9)	(1.9)	(3.4)	(6.2)	(402.6)	(3.1)	(12.9)	(418.6)
Financing activities:								
Proceeds from term loan					200.0			200.0
Repayments on term loan	(2.5)			(2.5)	(2.5)			(2.5)
Proceeds from revolving credit facilities, net of financing costs	76.5		17.7	94.2	484.1		51.2	535.3
Repayments on revolving credit facilities	(80.0)		(25.9)	(105.9)	(238.0)			(238.0)
Payment of dividends on common stock	(12.4)			(12.4)	(12.1)			(12.1)
Net proceeds (payments) on stock plans	7.6			7.6	(2.7)			(2.7)
Other, net	0.5		(0.8)	(0.3)				
Net cash (used in) provided by financing activities	(10.3)		(9.0)	(19.3)	428.8		51.2	480.0
Effect of exchange rates on cash and cash equivalents			(0.8)	(0.8)			0.8	0.8
Net cash flow	0.6	0.3	18.7	19.6	14.1	23.8	44.0	81.9
Cash and equivalents at beginning of period	0.6	8.7	33.4	42.7	3.9	6.3	10.0	20.2
Cash and equivalents at end of period	\$ 1.2	\$ 9.0	\$ 52.1	\$ 62.3	\$ 18.0	\$ 30.1	\$ 54.0	\$ 102.1

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17. Subsequent Event

At December 31, 2013, we held warrants with a carrying value of \$1.0 to purchase common stock of a privately held company, which was acquired by a third party on January 2, 2014. In connection with that transaction, the Company exercised the warrants and received \$5.5 of cash in January with a majority of the remaining \$0.7 of payments due over the next 12 months. The transaction resulted in a gain of \$5.2 that will be recognized in the second quarter of fiscal 2014.

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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 are subject to a wide range of risks.

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

*We expect that future revenue associated with the Process Equipment Group will be influenced by order backlog.*

That is a forward-looking statement, as indicated by the word expect 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 our actual results could differ materially from those set forth in any 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 Part II of this Form 10-Q. We assume no obligation to update or revise any forward-looking statements.

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The following discussion compares our results for the three months ended December 31, 2013, to the same period in fiscal 2013. We begin the discussion at a consolidated level and then provide separate detail about the Process Equipment Group, Batesville, and Corporate. These financial results are prepared in accordance with accounting principles generally accepted in the U.S. ( GAAP ).

We also provide certain non-GAAP operating performance measures. These non-GAAP measures are referred to as adjusted and exclude expenses associated with backlog amortization, inventory step-up, business acquisition and integration, restructuring, and antitrust litigation. The related income tax for all of these items is also excluded. This non-GAAP information is provided as a supplement, not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP.

An important non-GAAP measure that we use is adjusted earnings before interest, income tax, depreciation and amortization ( adjusted EBITDA ). As previously discussed, a part of our strategy is to selectively acquire companies that we believe can 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 adjusted EBITDA, among other measures, to monitor our business performance.

We analyze net revenue on a constant currency basis to better measure the comparability of results between periods. We provide this information because exchange rates can distort the underlying change in sales, either positively or negatively.

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We use this non-GAAP information internally to make operating decisions and believe it is helpful to investors because it allows more meaningful period-to-period comparisons of our ongoing operating results. The information can also be used to perform trend analysis and to better identify operating trends that may otherwise be masked or distorted by these types of items. We believe this information provides a higher degree of transparency.

See page 28 for a reconciliation of non-GAAP measures to the closest GAAP-equivalent of each measure.

**CRITICAL ACCOUNTING ESTIMATES**

For the three months ended December 31, 2013, there were no significant changes to our critical accounting estimates, as outlined in our Annual Report on Form 10-K for the year ended September 30, 2013.

**EXECUTIVE OVERVIEW**

*(financial amounts in millions, except share and per share data, throughout Management's Discussion and Analysis)*

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, and performs several critical roles within the portfolio. It serves as the Company's core cash-generating operation by providing robust annual operating cash flows. In addition, as the source of Hillenbrand's strong core competencies, including Lean, strategy management, and talent development, it provides talent to imbed these core competencies in acquired companies.

Batesville's performance has allowed management to invest in acquisitions that provide diversification, with a focus on companies with growth opportunities and an ability to benefit from Hillenbrand's strong core competencies. We believe we can most effectively continue to increase shareholder value by leveraging our strong financial position and core competencies to continue to build a global diversified industrial company with strong positions in multiple growth-oriented industries.

On December 1, 2012, we acquired Coperion Capital GmbH (Coperion), in a transaction valued at \$545.0. The Coperion 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 will continue to be a key initiative for the near term. Combining our product offerings to provide a more complete system solution is our highest priority from an integration perspective. 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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During the first quarter of fiscal 2014, the Company integrated the Coperion and K-Tron (now Coperion K-Tron) businesses under the same management team to more quickly realize synergies identified when Coperion was acquired. This merger of the two reporting units was considered a triggering event that required management to perform impairment testing for the related goodwill and other indefinite-lived assets. In determining fair value, management relied on a number of factors including operating results, forecasts, anticipated future cash flows, and market data. No impairment was identified.

Table of Contents**OPERATIONS REVIEW CONSOLIDATED**

	Three Months Ended December 31,			
	2013		2012 (a)	
	Amount	% of Revenue	Amount	% of Revenue
Revenue	\$ 384.9	100.0	\$ 305.2	100.0
Gross profit	131.0	34.0	110.5	36.2
Operating expenses	94.0	24.4	86.4	28.3
Operating profit	37.0	9.6	24.1	7.9
Interest expense	6.3	1.6	4.5	1.5
Other income (expense), net	(0.1)		0.9	0.3
Income taxes	9.0	2.3	5.9	1.9
Net income (1)	20.3	5.3	14.3	4.7

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(1) Net income attributable to Hillenbrand

(a) Included one month of operations related to Coperion following its acquisition on December 1, 2012

***Three Months Ended December 31, 2013 Compared to Three Months Ended December 31, 2012***

**Revenue** grew \$79.7 (26%) or \$78.2 (26%) on a constant currency basis.

- The Process Equipment Group's revenue increased \$88.5 (58%) or \$86.4 (56%) on a constant currency basis. The revenue increase was primarily due to two additional months of Coperion revenue compared to the first quarter of fiscal 2013 (\$95.8). Revenue for the rest of the Process Equipment Group decreased 9% (\$7.3) primarily due to reduced demand for small systems and equipment in certain end markets, principally chemicals and engineered plastics.
- Batesville's revenue decreased \$8.8 (6%) or \$8.2 (5%) on a constant currency basis, due to decreased volume (\$7.2) and average selling price (\$1.0). The decrease in volume was driven by a decrease in North American burials combined with an increase in the year-over-year impact of customers buying ahead of price increases.

**Gross profit** grew \$20.5 (19%) to \$131.0 due to the Coperion acquisition. Consolidated gross profit margin was 34.0%, a decrease of 220 basis points. On an adjusted basis, which excluded items described below, the consolidated gross profit margin was 34.1%, a decrease of 310 basis points.

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- The Process Equipment Group's gross profit grew \$23.3 (45%) to \$75.2, driven by two additional months of Coperion operations. This increase was offset in part by a \$1.1 decrease for the rest of the Process Equipment Group due to lower revenue. Gross profit margin was 31.0% compared to 33.8% in the prior year. The decrease in gross profit margin was a reflection of the Coperion acquisition, which includes large systems sales. A certain amount of revenue for large system sales comes from third-party-sourced products that carry only a small up-charge. As a result, margins are lower on these large system sales when compared to the rest of the business.

Gross profit also included \$2.6 of inventory step-up related to the Coperion acquisition and restructuring charges in fiscal 2013. Excluding these items, adjusted gross profit decreased from 35.5% in fiscal 2013 to 31.0% in fiscal 2014.

- Batesville's gross profit decreased 5% to \$55.8 due to lower volume. Gross profit margin grew 40 basis points to 39.1% due to supply chain cost reduction initiatives. Included in gross profit are restructuring charges (\$0.1 in fiscal 2014 and \$0.3 in fiscal 2013). Excluding these charges, adjusted gross profit was \$55.9, a \$3.0 decrease from the prior year. Adjusted gross profit margin was 39.2%, a 30 basis point improvement over the prior year.



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**Operating expenses** increased \$7.6 (9%) to \$94.0, primarily due to the Coperion acquisition, which added two months of operations in fiscal 2014. Operating expenses as a percentage of revenue decreased 390 basis points to 24.4% in fiscal 2014 due primarily to lower acquisition related costs in fiscal 2014. Operating expenses included the following items:

	<b>Three months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Business acquisition and integration costs	\$ 1.9	\$ 9.0
Backlog amortization		4.2
Restructuring charges	0.2	0.2
Antitrust litigation		0.1

On an adjusted basis, which excluded business acquisition and integration costs, backlog amortization, restructuring charges, and antitrust litigation, operating expenses increased \$19.1 to \$91.9. The adjusted operating expense-to-revenue ratio was flat to prior year at 23.9%.

**Interest expense** increased \$1.8 due primarily to borrowings in connection with the Coperion acquisition, which led to higher weighted-average principal borrowings and higher interest rates on the revolving credit facility, as well as interest expense incurred on the term loan.

**The income tax rate** was 29.4% compared to 28.8%. The year-over-year change in the effective tax rate was largely due to a prior year discrete tax benefit related to changes in California tax law, offset by higher business acquisition and integration costs related to Coperion in fiscal 2013. Our adjusted effective income tax rate was 29.3% compared to 27.9% for the prior year and excludes acquisition costs.

**OPERATIONS REVIEW PROCESS EQUIPMENT GROUP**

	<b>2013</b>		<b>Three Months Ended December 31,</b>		<b>2012 (a)</b>	
	<b>Amount</b>	<b>% of Revenue</b>	<b>Amount</b>	<b>% of Revenue</b>		
Net revenue	\$ 242.2	100.0	\$ 153.7	100.0		
Gross profit	75.2	31.0	51.9	33.8		
Operating expenses	60.3	24.9	44.4	28.9		
Operating profit	14.9	6.2	7.5	4.9		

(a) Included one month of operations related to Coperion following its acquisition on December 1, 2012

*Three Months Ended December 31, 2013 Compared to Three Months Ended December 31, 2012*

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**Revenue** increased \$88.5 (58%) or \$86.4 (56%) on a constant currency basis. The revenue increase was due to two additional months of Coperion operations compared to the prior year (\$95.8). For the rest of the Process Equipment Group, revenue decreased 9% (\$7.3) primarily due to reduced demand for small systems and equipment in certain end markets, principally chemicals and engineered plastics. Some of the larger orders in the prior year were for production line upgrades or new facilities for these industries. Beginning in early 2013, there was a decrease in new orders for these types of small systems, which led to lower revenue in fiscal 2014.

We believe that the industries the Process Equipment Group serves have attractive long-term growth prospects because of the increase in demand resulting from the expanding middle class in countries such as China and India. While overall demand for Process Equipment Group products is expected to increase over the long run, we expect demand to shift from time to time. These shifts can be attributed to the cyclical nature of these industries or by long-term capacity expansions, as demonstrated currently with the construction and expansion of polyolefin plants.

We expect future revenue for the Process Equipment Group to continue to be influenced by order backlog because of the lead time involved in fulfilling engineered-to-order equipment for customers. Though backlog can be an indicator of future revenue, it does not include projects and parts orders that are booked and shipped within the same

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quarter. The timing of order placement, size of orders, extent of order customization, and customer delivery dates can create fluctuations in backlog and revenue. Revenue attributable to backlog is also affected by foreign exchange rate fluctuations for orders denominated in currencies other than U.S. dollars. Based upon new orders accepted, less orders completed and shipped, backlog increased \$54.2 from \$556.6 on December 31, 2012, to \$610.8 on December 31, 2013.

**Gross profit** grew \$23.3 (45%) to \$75.2 due to the Coperion acquisition, which added two months of operations in fiscal 2014 compared to fiscal 2013. This was offset in part by a \$1.1 decrease for the rest of the Process Equipment Group due to lower revenue. Gross profit margin decreased from 33.8% in fiscal 2013 to 31.0% in fiscal 2014.

The decrease in gross profit margin was a reflection of the Coperion acquisition, which includes large system sales. A certain amount of revenue for large system sales comes from third-party-sourced products that carry only a small up-charge. As a result, margins are lower on these large system sales when compared to the rest of the business within the Process Equipment Group.

Gross profit included \$2.6 of inventory step-up charges related to the Coperion acquisition and restructuring charges in fiscal 2013. Step-ups in inventory value were recorded at the time of the Coperion acquisition and were subsequently expensed when the inventory was sold. Excluding inventory step-up and restructuring charges, adjusted gross profit increased \$20.6 (38%) to \$75.2 and adjusted gross profit margin decreased from 35.5% to 31.0%.

**Operating expenses** increased \$15.9 (36%) to \$60.3 due primarily to the acquisition of Coperion, which added two months of operations in fiscal 2014 compared to 2013. Operating expenses in fiscal 2014 included \$3.3 of ongoing amortization expense related to intangible assets compared to \$1.0 in fiscal 2013. The operating expense to sales ratio improved by 400 basis points to 24.9% in fiscal 2014 from 28.9% in fiscal 2013. The improved ratio is primarily due to lower acquisition-related costs in fiscal 2014.

Operating expenses included \$0.9 of business acquisition and integration costs and restructuring costs in fiscal 2014 and \$4.2 of backlog amortization related to Coperion in fiscal 2013. Excluding these items, the adjusted operating expense ratio improved by 160 basis points to 24.5% in fiscal 2014.

**OPERATIONS REVIEW BATESVILLE**

	2013		Three Months Ended December 31,		2012	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Net revenue	\$ 142.7	100.0	\$ 151.5	100.0		
Gross profit	55.8	39.1	58.6	38.7		
Operating expenses	24.6	17.2	24.2	16.0		
Operating profit	31.2	21.9	34.4	22.7		

*Three Months Ended December 31, 2013 Compared to Three Months Ended December 31, 2012*

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**Revenue** decreased \$8.8 (6%) or \$8.2 (5%) on a constant currency basis, due to decreased volume (\$7.2) and average selling price (\$1.0). The decrease in volume was driven by a decrease in North American burials combined with an increase in the year-over-year impact of customers buying ahead of price increases.

**Gross profit** decreased 5% to \$55.8. Gross profit margin increased 40 basis points to 39.1%. The decrease in gross profit was due to lower volume (\$5.3) offset in part by supply chain cost reduction initiatives (\$2.8).

Gross profit included restructuring charges of \$0.1 in fiscal 2014 and \$0.3 in fiscal 2013. Excluding these restructuring charges, adjusted gross profit margin increased 30 basis points to 39.2%.

**Operating expenses** increased \$0.4 to \$24.6 in fiscal 2014 driven primarily by increased technology initiatives and sales training. The operating expense-to-sales ratio increased 120 basis points to 17.2%.

Table of Contents**REVIEW OF CORPORATE EXPENSES**

	2013		Three Months Ended December 31,		2012	
	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue
Operating expenses, excluding business acquisition and integration costs and restructuring costs	\$ 7.9	2.1	\$ 8.6	2.8		
Business acquisition and integration costs	1.2	0.3	9.0	2.9		
Restructuring			0.2	0.1		
Operating expenses	\$ 9.1	2.4	\$ 17.8	5.8		

*Three Months Ended December 31, 2013 Compared to Three Months Ended December 31, 2012*

Operating expenses excluding business acquisition and integration costs and restructuring costs decreased \$0.7 (8%) primarily due to lower incentive compensation. These expenses as a percentage of revenue were 2.1%, an improvement of 70 basis points compared to 2.8% in fiscal 2013. The timing of the acquisition of Coperion drove a \$7.8 decrease in business acquisition and integration costs.

**NON-GAAP OPERATING PERFORMANCE MEASURES**

The following are reconciliations from GAAP operating performance measures to the relevant non-GAAP (adjusted) performance measures.

	2013			Three Months Ended December 31,			2012		
	GAAP	Adjustments	Adjusted	GAAP	Adjustments	Adjusted	GAAP	Adjustments	Adjusted
Cost of goods sold	\$ 253.9	\$ (0.1)(a)	\$ 253.8	\$ 194.7	\$ (3.0)(d)	\$ 191.7			
Operating expenses	94.0	(2.1)(b)	91.9	86.4	(13.6)(e)	72.8			
Other income (expense), net	(0.1)		(0.1)	0.9	(0.9)(f)				
Income tax expense	9.0	0.6 (c)	9.6	5.9	4.2 (c)	10.1			
Net income (1)	20.3	1.6	21.9	14.3	11.5	25.8			
Diluted EPS	0.32	0.02	0.34	0.23	0.18	0.41			
<b>Ratios:</b>									
Gross margin	34.0%	0.1%	34.1%	36.2%	1.0%	37.2%			
Operating expenses as a % of revenue	24.4%	(0.5)%	23.9%	28.3%	(4.4)%	23.9%			

Both GAAP and adjusted results for the three months ended December 31, 2013, include an adjustment to operating expenses to correct errors related to the accounting for sales commissions at Coperion in fiscal 2013. The adjustment reduced operating expenses in the first quarter of fiscal 2014 by \$2.0, which should have been recorded in fiscal 2013.

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(1) Net income attributable to Hillenbrand

P = Process Equipment Group; B = Batesville; C = Corporate

- (a) Restructuring (\$0.1 B)
- (b) Business acquisition and integration costs (\$0.7 P, \$1.2 C), restructuring (\$0.2 P)
- (c) Tax effect of adjustments
- (d) Inventory step up (\$2.6 P), restructuring (\$0.1 P, \$0.3 B)
- (e) Business acquisition and integration costs (\$9.0 C), backlog amortization (\$4.2 P), restructuring (\$0.2 C), antitrust litigation (\$0.1 B), other (\$0.1 B)
- (f) Acquisition-related foreign currency transactions (\$0.8 C), other (\$0.1 B)

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	<b>Three Months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income of consolidated and affiliated subsidiaries	\$ 21.6	\$ 14.6
Interest income	(0.2)	(0.1)
Interest expense	6.3	4.5
Income tax expense	9.0	5.9
Depreciation and amortization	14.3	15.0
EBITDA	\$ 51.0	\$ 39.9
Business acquisition and integration	1.9	8.2
Inventory step-up		2.6
Restructuring	0.3	0.6
Antitrust litigation		0.1
EBITDA - Adjusted	\$ 53.2	\$ 51.4

For the first quarter of fiscal 2014, consolidated adjusted EBITDA grew \$1.8 (4%). Increased Process Equipment Group EBITDA was offset in part by lower volume at Batesville.

**LIQUIDITY AND CAPITAL RESOURCES**

We believe our ability to generate cash from operating activities is one of our fundamental financial strengths. In this section, we discuss our ability to generate and access cash to meet business needs. We describe actual results in generating and utilizing cash by comparing the first quarter of fiscal 2014 to the same period last year. We discuss how we see cash flow being affected for the next 12 months. While it is not a certainty, we explain where we think the cash will come from and how we intend to use it. Finally, we identify other significant matters that could affect liquidity on an ongoing basis.

We believe the twelve-month outlook for our business remains strong. As a result of our expected cash flows from operations, we have significant flexibility to meet our financial commitments including working capital needs, capital expenditures, and financing obligations. Our debt financing includes long-term notes, a term loan, and a revolving credit facility, as part of our overall financing strategy. We believe we continue to have ready access to capital markets and we regularly review the optimal mix of fixed-rate and variable-rate debt. In addition to cash balances and our ability to access long-term financing, we had \$361.6 of borrowing capacity available under the revolving credit facility as of December 31, 2013. The available borrowing capacity reflects a reduction of \$23.0 for outstanding letters of credit issued under the revolving credit facility. The Company has the ability to increase the total borrowing capacity under the revolving credit facility by an additional \$300.0 subject to approval of the lenders.

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 are required to maintain adequate capacity to provide the guarantees. As of December 31, 2013, we had credit arrangements totaling \$301.0, under which \$210.9 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. The Company has the ability to increase the total capacity under the LG facility by an additional \$70.0 subject to approval of the lenders. There were no borrowings under these credit arrangements as of December 31, 2013.

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We have significant operations outside the U.S. The majority of foreign earnings is considered to be indefinitely reinvested in foreign jurisdictions where the Company has made, and intends to continue to make, substantial investments to support the ongoing development and growth of our international operations. Accordingly, no U.S. federal and state income taxes have been accrued on the portion of our foreign earnings that is considered to be indefinitely reinvested in foreign jurisdictions. The cash at our international subsidiaries totaled \$50.8 at December 31, 2013. We do not intend, nor do we foresee a need, to repatriate these funds; however, repatriation of these funds under current regulatory and tax law for use in domestic operations would expose us to additional taxes.

We do not currently have plans to make contributions to our pension plans in excess of statutory requirements during 2014. Our minimum required contribution to our pension plans in 2014 is \$20.1. We will continue to



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monitor plan funding levels, performance of the assets within the plans, and overall economic activity, and will make funding decisions based on the net impact of these factors.

We currently expect to pay quarterly cash dividends in the future comparable to those we paid in 2013, which will require approximately \$12.4 each quarter based on our outstanding common stock at December 31, 2013. We are currently authorized by our Board of Directors to purchase additional shares of our common stock, and may elect to do so, depending on market conditions and other needs for cash consistent with our growth strategy. No repurchases were made in the first quarter of fiscal 2014.

We expect existing cash, cash flows from operations, and the issuance of debt to continue to be sufficient to fund our operating activities and cash commitments for investing and financing activities. Based on these factors, we believe our current liquidity position is strong, and will continue to meet all of our financial commitments for the foreseeable future.

	<b>Three Months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Cash flow provided by (used in):		
Operating activities	\$ 45.9	\$ 19.7
Investing activities	(6.2)	(418.6)
Financing activities	(19.3)	480.0
Effect of exchange rate changes on cash and cash equivalents	(0.8)	0.8
Net cash flow	\$ 19.6	\$ 81.9

**Operating Activities**

Cash provided by operating activities in the first quarter of fiscal 2014 compared to the same period in the prior year increased \$26.2 (133%) primarily due to decreased working capital and two additional months of Coperion operations. Working capital requirements for Coperion generally range from an optimal negative working capital position, where cash received from customers is more heavily weighted toward the beginning of the project, to a working capital position where a large portion of the cash will be received in later stages of manufacturing. We expect working capital may fluctuate in the future due to the mix and geography of customer projects in process at any point in time.

**Investing Activities**

The change in cash used in investing activities in the first quarter of fiscal 2014 compared to the same period in the prior year was primarily due to decreased acquisition activity. We paid \$415.6 in 2013 for Coperion but had no acquisition activity in 2014.

**Financing Activities**

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Cash (used in)/provided by financing activities was largely impacted by our acquisition activity. Our general practice is to utilize our cash to pay down debt unless it is needed for an acquisition. Cash used in financing activities in the first quarter of fiscal 2014 was \$19.3, including a total of \$14.2 of net debt repayments. Cash provided by financing activities in the first quarter of fiscal 2013 was \$480.0 primarily due to the acquisition of Coperion. This included net borrowings on the term loan (\$197.5) and net borrowings on the revolving credit facility (\$297.3).

We returned over \$12.4 to shareholders in the first quarter of fiscal 2014 in the form of quarterly dividends. We increased our quarterly dividend in 2014 to \$0.1975 per common share from \$0.1950 paid during 2013.

### **Off-Balance Sheet Arrangements**

We have no significant off-balance sheet arrangements.

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**Recently Adopted and Issued Accounting Standards**

For a summary of recently issued and adopted accounting standards applicable to us, see Item 1, Note 2 of this Form 10-Q.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

A discussion of quantitative and qualitative disclosures about market risk may be found in Item 7A of our 2013 Form 10-K. There have been no material changes in this information since the filing of our 2013 Form 10-K.

**Item 4. CONTROLS AND PROCEDURES**

Our management, with the participation of our President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer (the Certifying Officers ), 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) of the Securities Exchange Act of 1934, as amended (the Exchange Act )). Based upon that evaluation, the Certifying Officers concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective.

There have been no changes in internal controls over financial reporting for the period covered by this report that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

Information pertaining to legal proceedings can be found in Note 13 to the interim consolidated financial statements included in Part I, Item 1 of this report.

**Item 1A. RISK FACTORS**

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In this section of the Form 10-Q, we describe the risks we believe are most important for you to think about when you consider investing in, selling, or owning our stock or debt. This information should be assessed along with the other information we provide you in this Form 10-Q. Like most companies, our business involves risks. The risks described below are not the only risks we face, but these are the ones we currently think have the potential to significantly affect stakeholders in our Company if they were to develop adversely (due to size, volatility, or both). We exclude risks that we believe are inherent in all businesses broadly as a function of simply being in business. Additional risks not currently known or considered immaterial by us at this time and thus not listed below could also result in adverse effects on our business. We have assigned the risks into categories to help you understand from where they emanate (e.g. the overall Company or a specific segment).

### **Risk Related to Hillenbrand**

*1. A key component of our growth strategy is making significant acquisitions, some of which may be outside the industries in which we currently operate. We may not be able to achieve some or all of the benefits that we expect to achieve from these acquisitions. If an acquisition were to perform unfavorably, it could have an adverse impact on our value.*

All acquisitions involve inherent uncertainties, which may include, among other things, our ability to:

- successfully identify targets for acquisition;
- negotiate reasonable terms;
- properly perform due diligence and determine all the significant risks associated with a particular acquisition;

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- properly evaluate target company management capabilities; and
- successfully transition the acquired company into our business and achieve the desired performance.

We may acquire businesses with unknown liabilities, contingent liabilities, internal control deficiencies, or other risks. We have plans and procedures to review potential acquisition candidates for a variety of due diligence matters, including compliance with applicable regulations and laws prior to acquisition. Despite these efforts, realization of any of these liabilities or deficiencies may increase our expenses, adversely affect our financial position, or cause us to fail to meet our public financial reporting obligations.

We generally seek indemnification from sellers covering these matters; however, the liability of the sellers is often limited, and certain former owners may be unable to meet their indemnification responsibilities. We cannot assure you that these indemnification provisions will fully protect us, and as a result we may face unexpected liabilities that adversely affect our profitability and financial position.

We may not achieve the intended benefits of the acquisition and our business could be materially impacted. Under such circumstances, management could be required to spend significant amounts of time and resources in the transition of the acquired business. In addition, any benefits we anticipate from application of our Lean manufacturing and Lean business expertise may not be fully realized.

If we acquire a company that operates in an industry that is different from the ones in which we currently operate, our lack of experience with that company's industry could have a material adverse impact on our ability to manage that business and realize the benefits of that acquisition.

***2. Global market and economic conditions, including those related to the financial markets, could have a material adverse effect on our operating results, financial condition, and liquidity.***

Our business is sensitive to changes in general economic conditions, both inside and outside the U.S. Although we have seen stability or growth in some geographies since the global economic turmoil that began in 2008, we cannot assure you that these improvements will be sustainable or predict when the next recession will occur. In addition, uncertainties in the euro zone may depress demand in the area and create additional risk to our financial results.

Instability in the global economy and financial markets can adversely affect our business in several ways, including limiting our customers ability to obtain sufficient credit or pay for our products within the terms of sale. Competition could further intensify among the manufacturers and distributors with whom we compete for volume and market share, resulting in lower net revenue due to steeper discounts and product mix-down. In addition, if certain key or sole suppliers were to become capacity constrained or insolvent, it could result in a reduction or interruption in supplies or a significant increase in the price of supplies.

Substantial losses in the equity markets could have an adverse effect on the assets of the Company's pension plans. Volatility of interest rates and negative equity returns could require greater contributions to the defined benefit plans in the future.

**3. *International economic, political, legal, and business factors could negatively affect our operating results, cash flows, financial condition, and growth.***

We derived approximately 47% and 33% of our revenue from outside the U.S. for the first quarter of fiscal 2014 and 2013. This revenue is primarily generated in Europe, the Middle East, Asia, South America, and Canada. In addition, we have manufacturing operations, suppliers, and employees located outside the U.S. Since our growth strategy depends in part on our ability to further penetrate markets outside the U.S., we expect to continue to increase our sales and presence outside the U.S., including in emerging markets.

Our international business is subject to risks that are often encountered in non-U.S. operations, including:

- interruption in the transportation of materials to us and finished goods to our customers;
- differences in terms of sale, including payment terms;
- local product preferences and product requirements;

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- changes in a country's or region's political or economic condition, including with respect to safety and health issues;
- trade protection measures and import or export licensing requirements;
- unexpected changes in laws or regulatory requirements, including negative changes in tax laws;
- limitations on ownership and on repatriation of earnings and cash;
- difficulty in staffing and managing widespread operations;
- differing labor regulations;
- difficulties in enforcing contract and property rights under local law;
- difficulties in implementing restructuring actions on a timely or comprehensive basis; and
- differing protection of intellectual property.

Such risks may be more likely in emerging markets, where our operations may be subject to greater uncertainty due to increased volatility associated with the developing nature of their economic, legal, and governmental systems.

If we are unable to successfully manage the risks associated with expanding our global business, or to adequately manage operational fluctuations, it could adversely affect our business, financial condition or results of operations.

***4. We rely upon our employees, agents, and business partners to comply with laws in many different countries and jurisdictions. We establish policies and provide training to assist them in understanding our policies and the regulations applicable to our business; however, our reputation, ability to do business, and financial results may be impaired by improper conduct by these individuals.***

We cannot provide assurance that our internal controls and compliance systems will always protect us from acts committed by our employees, agents, or business partners that would violate U.S. and/or non-U.S. laws, including the laws governing payments to government officials, bribery, fraud, anti-kickback and false claims, competition, export and import compliance, money laundering, and data privacy. In particular, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business, and we operate in many parts of the world that have experienced governmental corruption to some degree. Any such improper actions could subject us to civil or criminal investigations in the U.S. and in other jurisdictions; could lead to substantial civil and criminal, monetary and non-monetary penalties, and related shareholder lawsuits; could cause us to incur significant legal fees; and could damage our reputation.

***5. We are subject to risks arising from currency exchange rate fluctuations, which may adversely affect our results of operations and financial condition.***

We are subject to currency exchange rate risk to the extent that our costs are denominated in currencies other than those in which we earn revenues. In addition, since our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our results of operations. Although we address currency risk management through regular operating and financing activities, and through the use of derivative financial instruments, those actions may not prove to be fully effective.

***6. Increased prices for, or unavailability of, raw materials used in our products could adversely affect profitability.***

Our profitability is affected by the prices of the raw materials used in the manufacture of our products. These prices fluctuate based on a number of factors beyond our control, including changes in supply and demand, general economic conditions, labor costs, fuel-related delivery costs, competition, import duties, tariffs, currency exchange rates, and, in some cases, government regulation. Significant increases in the prices of raw materials that cannot be recovered through increases in the price of our products could adversely affect our results of operations and cash flows.

We cannot guarantee that the prices we are paying for commodities today will continue in the future or that the marketplace will continue to support current prices for our products or that such prices can be adjusted to fully offset commodity price increases in the future. Any increases in prices resulting from a tightening supply of these or other



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commodities could adversely affect our profitability. We do not engage in hedging transactions for raw material purchases, but we do enter into some fixed-price supply contracts.

Our dependency upon regular deliveries of supplies from particular suppliers means that interruptions or stoppages in such deliveries could adversely affect our operations until arrangements with alternate suppliers could be made. Several of the raw materials used in the manufacture of our products currently are procured from a single source. If any of these sole-source suppliers were unable to deliver these materials for an extended period of time as a result of financial difficulties, catastrophic events affecting their facilities, or other factors, or if we were unable to negotiate acceptable terms for the supply of materials with these sole-source suppliers, our business could be adversely affected. We may not be able to find acceptable alternatives, and any such alternatives could result in increased costs. Extended unavailability of a necessary raw material could cause us to cease manufacturing one or more products for a period of time.

***7. The Company could face labor disruptions that would interfere with operations.***

Approximately 40% of Hillenbrand's employees work under collective bargaining agreements. Although we have not experienced any significant work stoppages in the past 20 years as a result of labor disagreements, we cannot ensure that such a stoppage will not occur in the future. Inability to negotiate satisfactory new agreements or a labor disturbance at one or more of our facilities could have a material adverse effect on our operations.

***8. Volatility in our investment portfolio could adversely impact our operating results and financial condition.***

Hillenbrand has certain investments that were transferred to us by our former parent company with an aggregate carrying value of \$10.9 as of December 31, 2013. Volatility in our investment portfolio impacts earnings. These investments could be adversely affected by general economic conditions, changes in interest rates, equity market volatility, and other factors, resulting in an adverse impact on our operating results and financial condition.

***9. We are involved on an ongoing basis in claims, lawsuits, and governmental proceedings relating to our operations, including environmental, antitrust, patent infringement, business practices, commercial transactions, and other matters. The ultimate outcome of these claims, lawsuits, and governmental proceedings cannot be predicted with certainty, but could have a material adverse effect on our financial condition, results of operations, and cash flows.***

We are also subject to other potential claims, including product and general liability, workers compensation, auto liability, and employment-related matters. While we maintain insurance for certain of these exposures, the policies in place are high-deductible policies. For a more detailed discussion of asserted claims, see Item 1, Note 13 of this Form 10-Q.

***10. Upon the closing of our recent acquisition of Coperion, we increased our debt obligations significantly. This increase could adversely affect the Company and limit our ability to respond to changes in our businesses.***

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As of December 31, 2013, our outstanding debt was \$651.7. This level of debt could have important consequences to our businesses. For example:

- We may be more vulnerable to general adverse economic and industry conditions because we have lower borrowing capacity.
- We will be required to dedicate a larger portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow for other purposes, including business development efforts and acquisitions.
- We will continue to be exposed to the risk of increased interest rates because a portion of our borrowings is at variable rates of interest.
- We may be more limited in our flexibility in planning for, or reacting to, changes in our businesses and the industries in which they operate, thereby placing us at a competitive disadvantage compared to competitors that have less indebtedness.

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***11. Provisions in our Articles of Incorporation and By-laws and facets of Indiana law may prevent or delay an acquisition of the Company, which could decrease the trading price of our common stock.***

Our Articles of Incorporation and By-laws, as well as Indiana law, contain provisions that could delay or prevent changes in control if our Board of Directors determines that such changes in control are not in the best interests of our shareholders. While these provisions have the effect of encouraging persons seeking to acquire control of our Company to negotiate with our Board of Directors, they could enable our Board of Directors to hinder or frustrate a transaction that the Board of Directors believes is not in the best interests of shareholders, but which some, or a majority, of our shareholders might believe to be in their best interests.

These provisions include, among others:

- the division of our Board of Directors into three classes with staggered terms;
- the inability of our shareholders to act by less than unanimous written consent;
- rules regarding how shareholders may present proposals or nominate directors for election at shareholder meetings;
- the right of our Board of Directors to issue preferred stock without shareholder approval; and
- limitations on the right of shareholders to remove directors.

Indiana law also imposes some restrictions on mergers and other business combinations between us and any holder of 10% or more of our outstanding common stock.

We believe these provisions are important for a public company and protect our shareholders from coercive or otherwise potentially unfair takeover tactics by requiring potential acquirers to negotiate with our Board of Directors and by providing our Board of Directors with appropriate time to assess any acquisition proposal. These provisions are not intended to make our Company immune from takeovers; however, they may apply if the Board of Directors determines that a takeover offer is not in the best interests of our shareholders, even if some shareholders believe the offer to be beneficial.

**Risk Related to the Process Equipment Group**

***1. A significant portion of our investments in the Process Equipment Group includes goodwill and intangible assets that are subject to periodic impairment evaluations. An impairment loss on these assets could have a material adverse impact on our financial condition and results of operations.***

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We acquired intangible assets with the acquisitions of Coperion, K-Tron, and Rotex, portions of which were identified as either goodwill or indefinite-lived assets. We periodically assess these assets to determine if they are impaired. Significant negative industry or economic trends, disruptions to our business, inability to effectively integrate acquired businesses, unexpected significant changes, or planned changes in use of the assets, divestitures, and market capitalization declines may impair these assets. Any charges relating to such impairments could adversely affect our results of operations in the periods recognized.

### ***2. The Process Equipment Group operates in cyclical industries.***

As an industrial capital goods supplier, the Process Equipment Group serves industries that are cyclical. During periods of economic expansion, when capital spending normally increases, the Process Equipment Group generally benefits from greater demand for its products. During periods of economic contraction, when capital spending normally decreases, the Process Equipment Group generally is adversely affected by declining demand for new equipment orders, and it may be subject to uncollectible receivables from customers who become insolvent. There can be no assurance that economic expansion or increased demand will be sustainable.

### ***3. The Process Equipment Group derives significant revenues from the energy industry. Any decrease in demand for electricity, natural gas, or coal, or an increase in regulation of the energy industry, could have a material adverse effect on our business, financial condition, and results of operations.***

The Process Equipment Group sells dry material separation and size reduction equipment to the electric generating, natural gas, and coal mining industries. A significant portion of its sales are tied to the consumption of natural gas

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and coal as a means of generating electricity. The demand for natural gas and coal is dependent upon the availability and cost of alternative sources of energy, such as oil or nuclear power. Additionally, the cost of compliance with federal, state, and local laws and regulations on the energy industry may impact the demand for our products. As a result, any downturn in or disruption to the natural gas or coal industries or decrease in the demand for electricity could have a material adverse effect on our business, financial condition, and results of operations.

**Risk Related to Batesville**

***1. Continued fluctuations in mortality rates and increased cremations may adversely affect, as they have in recent years, the sales volume of our burial caskets.***

The life expectancy of U.S. citizens has increased steadily since the 1950s and is expected to continue to do so for the foreseeable future. As the population of the U.S. continues to age, we anticipate the number of deaths in the U.S. will be relatively flat until aging baby boomers cause the number of deaths to increase.

Cremations as a percentage of total U.S. deaths have increased steadily since the 1960s and are expected to continue to increase for the foreseeable future. The increase in the number of cremations in the U.S. has resulted in a contraction in the demand for burial caskets. This has been a contributing factor to lower burial casket sales volumes for Batesville in each of the last five years. We expect these trends to continue in the foreseeable future and will likely continue to negatively impact burial casket volumes.

Finally, the number of deaths can vary over short periods of time and among different geographical areas, due to a variety of factors, including the timing and severity of seasonal outbreaks of illnesses such as pneumonia and influenza. Such variations could cause the sale of burial caskets to fluctuate from quarter to quarter and year to year.

***2. Batesville's business is dependent on several major contracts with large national funeral providers. The relationships with these customers pose several risks.***

Batesville has contracts with a number of national funeral home customers that constitute a sizeable portion of its overall sales volume. Any decision by national funeral home customers to discontinue purchases from Batesville could have a material adverse effect on our financial condition, results of operations, and cash flows. Also, while contracts with national funeral service providers give Batesville important access to purchasers of death care products, they may obligate Batesville to sell products at contracted prices for extended periods of time, therefore limiting Batesville's ability, in the short term, to raise prices in response to significant increases in raw material prices or other factors.

***3. Batesville is facing competition from a number of non-traditional sources and from caskets manufactured abroad and imported into North America.***

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Non-traditional death care product providers, such as large discount retail stores, casket stores, and internet casket retailers could present more of a competitive threat to Batesville and its sales channel than is currently anticipated. In addition, a few foreign manufacturers, mostly from China, import caskets into the U.S. and Canada. For the past three years, sales from these non-traditional and Chinese providers have remained relatively stable and represent a small percentage of total casket sales in North America, collectively less than 5%. It is not possible to quantify the financial impact that these competitors will have on Batesville in the future. These competitors and any new entrants into the funeral products business may drive pricing and other competitive actions in an industry that already has nearly twice the necessary domestic production capacity. Such competitive developments could have a negative impact on our results of operations and cash flows.

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

There were no unregistered sales of equity securities in the three months ended December 31, 2013.

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**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. Except where explicitly stated otherwise, these representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not necessarily 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;
- 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: February 4, 2014

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

Date: February 4, 2014

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



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**EXHIBIT INDEX**

Exhibit 3.1	Amended and Restated Code of By-laws of Hillenbrand, Inc. (as adopted by the Board of Directors on December 4, 2013) (Incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K, filed on December 6, 2013)
Exhibit 10.1*	Employment Agreement dated as of November 4, 2013, by and between Hillenbrand, Inc. and William A. Canady
Exhibit 10.2*	Change in Control Agreement dated as of November 4, 2013, by and between Hillenbrand, Inc. and William A. Canady
Exhibit 10.3*	Form of Hillenbrand, Inc. Stock Incentive Plan Performance Based Unit Award Agreement - Relative Total Shareholder Value, by and between Hillenbrand, Inc. and certain employees including executive officers
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

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\* Filed herewith.