

HILLENBRAND INDUSTRIES INC

Form 10-KT

January 06, 2003

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

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

**For the Transition Period from December 2, 2001
to September 30, 2002**

Commission File No. 1-6651

HILLENBRAND INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction of
incorporation or organization)

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

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

47006-8835
(Zip Code)

Registrant's telephone number, including area code: (812) 934-7000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, without par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

State the aggregate market value of the common stock held by non-affiliates of the registrant.

Common Stock, without par value \$2,474,219,113 as of December 17, 2002 (excluding stock held by persons deemed affiliates).

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

Common Stock, without par value 61,703,410 as of December 17, 2002.

Documents incorporated by reference.

Portions of the 2002 Proxy Statement furnished to Shareholders Part III.

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PART I

Item 1. BUSINESS

Hillenbrand Industries, Inc., an Indiana corporation incorporated on August 7, 1969 and headquartered in Batesville, Indiana, is a diversified, public holding company and the owner of 100% of the capital stock of its three major operating companies serving the health care and funeral services industries. Unless the context otherwise requires, the terms Hillenbrand and the Company refer to Hillenbrand Industries, Inc., and its consolidated subsidiaries, and the terms Hill-Rom Company, Batesville Casket Company and Forethought Financial Services, and derivations thereof, refer to one or more of the subsidiary companies of Hillenbrand that comprise those businesses. Hill-Rom is a manufacturer of equipment for the health care industry and a provider of associated systems for wound and pulmonary care. Batesville Casket and Forethought both serve the funeral services industry. Batesville Casket is a manufacturer of caskets and cremation-related products while Forethought is a provider of funeral planning financial products.

Health Care

Hill-Rom Company, an Indiana corporation, is a recognized leader in the worldwide health care community providing sales, rentals, service and support for products including beds, therapy surfaces, stretchers, infant warmers, incubators, furniture, communication systems, surgical columns, medical gas management systems, modular headwalls and operating room supplies. The Hill-Rom® line of electrically, hydraulically and manually adjustable hospital beds includes models which, through sideguard and pendant controls, can be raised and lowered, retracted and adjusted to varied orthopedic and therapeutic contours and positions. Hill-Rom also manufactures beds for special departments such as intensive care, emergency, perinatal, recovery rooms, neonatal and labor and delivery rooms. Other Hill-Rom® products include nurse call systems, sideguard communications, wood-finished and metal/plastic bedside cabinets, adjustable-height overbed tables, mattresses and upholstered wooden chairs. Its architectural products include customized, prefabricated modules, either wall-mounted or on freestanding columns, enabling medical gases, communication accessories and electrical services to be distributed in patient rooms.

Recent product introductions include the TotalCare IntelliDrive, a power assisted bed transport system, AvantGuard medical surgical bed in Europe, Affinity® Three birthing bed, the TotalCare SpO₂RT Pulmonary therapy bed system and the Versalet® 7700 unit, a combination incubator and infant warmer. The Company continues to expand its line of specialty accessories to improve the efficiency and effectiveness of the health care environment for patients and health care providers.

Hill-Rom operates hospital bed, therapy bed and patient room manufacturing and development facilities in the United States, France and the United Kingdom. Hill-Rom® products are sold directly to acute and long-term health care facilities throughout the United States, Canada and Europe by Hill-Rom account executives. Hill-Rom has contracts with a number of group purchasing organizations in the United States as well as government purchasers in other countries. A significant portion of Hill-Rom's sales are made pursuant to these contracts. Most Hill-Rom® products are delivered by Hill-Rom owned trucks. Hill-Rom also sells products through distributorships throughout the world.

Within the wound care business, CLINITRON® Air Fluidized Therapy is provided as a therapeutic adjunct in the treatment of advanced pressure sores, flaps, grafts and burns. The CLINITRON® unit achieves its support characteristics from the fluid effect created by forcing air up and through medical-grade ceramic microspheres contained in the unit's fluidization chamber. Various CLINITRON® products are designed to meet the specific requirements of acute care, long-term care and home-care settings. These products include the Clinitron® Rite-Hite® Air Fluidized Therapy unit, designed to meet the requirements of long-term care facilities and the Clinitron At-Home® unit, which was designed for delivery and use in the home.

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Hill-Rom's other wound and pulmonary care technology, low airloss therapy, consists of a sleep surface with air-filled cushions separated into integrated zones. Air pressure is automatically adjusted whenever the patient changes position. Micro air vents on the cushions allow for the controlled release of air. This technology is applied to either an integrated unit or as an overlay to an existing bed. Low airloss products include the Flexicair Eclipse® mattress, a portable, rental mattress replacement for the acute care environment; the Silkair® mattress, a low airloss overlay product for home care; and the V-Cue® mattress, a rotational mattress for pulmonary applications. In addition to the above products, Hill-Rom's European operations have also introduced the low airloss Primo mattress along with the Duo® and Alto mattresses, which are pressure relief and alternating pressure mattresses. During 2002, the Clinisert® mattress was introduced, which provides a lower cost non-powered, pressure reducing mattress for the prevention of pressure ulcers.

Clinical support for Hill-Rom's wound and pulmonary care therapy systems is provided by a sales force composed primarily of nurses and physician assistants. Technical support is made available by technicians and service personnel who provide maintenance and technical assistance from Hill-Rom Service Centers.

Hill-Rom® therapy systems are made available to hospitals, long-term care facilities and homes on a rental basis through more than 200 Service Centers located in the United States, Canada and Western Europe.

Funeral Services

Batesville Casket Company, an Indiana Corporation, was founded in 1884 and acquired by the Hillenbrand family in 1906. Batesville manufactures and sells gasketed caskets made of carbon steel, stainless steel, copper, bronze, and wood. It also manufactures and sells cloth-covered caskets, all wood construction (orthodox) caskets and a line of urns, cremation containers and other memorialization products used in cremations. In addition, Batesville produces and markets a line of non-gasketed steel caskets. Batesville also supplies selection room display fixturing through its Systems Solutions group.

Most Batesville-produced metal caskets are gasketed caskets that are electronically welded to help resist the entrance of outside elements through the use of rubber gaskets and a locking bar mechanism. Batesville's premium steel caskets also employ a magnesium alloy bar to cathodically help protect the casket from rust and corrosion. The Company believes that this system of Cathodic Protection is a feature found only on Batesville produced caskets. Hardwood caskets from Batesville are made from walnut, mahogany, cherry, maple, pine, oak, pecan and poplar. In October 2002, Batesville also introduced its Marquetry Collection, manufactured with a revolutionary new process for veneers that allows for rounded corners and a furniture-grade finished appearance. Batesville's cloth-covered caskets are constructed with a patented process using cellular fiberboard construction.

The Options by Batesville cremation division offers a complete cremation marketing system for funeral service professionals. In addition to a broad line of cremation caskets, cremation containers and urns, the system includes training, merchandising support and marketing support materials. Cremation caskets and containers are manufactured primarily of hardwoods and fiberboard. Options' wide assortment of memorial urns are made from a variety of materials, including cast bronze, cast acrylic, wood, sheet bronze, cloisonné and marble.

Batesville offers several other marketing and merchandising programs to funeral directors for both casket and cremation products. Batesville® caskets are marketed by Batesville's direct sales force to licensed funeral directors operating licensed funeral homes throughout the United States, the United Kingdom, Australia, Canada, Mexico and Puerto Rico. A significant portion of Batesville's sales are made to large national funeral services providers under contracts Batesville has entered into with several of these customers. Batesville maintains inventory at 82 company-operated Customer Service Centers (CSCs) and five Rapid Deployment Centers (RDCs) in North America. Batesville® caskets are generally delivered in specially equipped vehicles owned by Batesville.

Batesville mainly manufactures and distributes products in the U.S. It also has a small manufacturing facility in Mexico and distribution facilities in Canada, Mexico, the United Kingdom, Puerto Rico and Australia.

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Forethought Financial Services operates primarily through its life insurance subsidiaries, Forethought Life Insurance Company and Arkansas National Life Insurance Company, its bank, Forethought Federal Savings Bank, and its marketing company, The Forethought Group, Inc. These companies provide funeral planning products and services to consumers through funeral professionals. Forethought's core products are an insurance-funded funeral plan and a trust-funded funeral plan. The insurance-funded funeral plan consists of two discrete elements: a contract of life insurance between the consumer and a Forethought life insurance company (the Policy) and a funeral planning agreement between the consumer and the funeral firm (the FPA). The Policy provides whole life coverage and accumulates cash value. The death benefit of the Policy is designed to grow over time. In the FPA, the consumer and the funeral firm agree on the funeral goods and services to be provided and the current price of the consumer's funeral. The funeral firm then agrees that if the consumer fully funds the Policy, the funeral firm will accept the death benefit of the Policy as payment in full when the consumer dies and the funeral goods and services are provided (referred to in the industry as at time of need). In this way, consumers using insurance-funded funeral planning are assured that covered goods and services will be provided at time of need without additional cost. Because the death benefit of the Policy is designed to grow over time, the funeral firm is provided with protection against cost increases.

Forethought Life Insurance Company also issues life insurance coverage that is not tied to a guaranteed funeral plan. These policies are referred to in the industry as final expense coverage. Final expense coverage allows a consumer wishing to set aside funds for his or her funeral to gain immediate insurance protection and to place funds in a tax-advantaged vehicle that is designed to increase in value over time.

Trust-funded funeral planning offers similar protection, but uses a different contractual framework. In a trust-funded funeral plan, the consumer and the funeral firm enter into a contract in which the funeral firm agrees to provide the goods and services at time of need in exchange for payment by the consumer to the funeral firm (the Trust Contract). The Trust Contract is similar to the FPA used for insurance-funded funeral planning in that the consumer and the funeral firm agree on the goods and services to be provided at time of need. Unlike the FPA used for insurance-funded funeral planning, the Trust Contract also includes terms and conditions under which the consumer will pay the funeral firm for the planned funeral. The funeral firm, in turn, places these funds in trust with Forethought Federal Savings Bank. These funds are deposited into interest-bearing accounts or publicly traded mutual funds. The consumer does not have a direct contractual relationship with any Forethought entity. At time of need, these funds are distributed in accordance with the Trust Contract. The Trust Contract provides that covered goods and services will be provided at time of need without additional cost to the consumer.

The Forethought Group, Inc. cooperates with Batesville Casket Company to offer the Total Casket Protection® program. Under this program, the Forethought Group agrees that it will pay a benefit to a funeral director who specifies and delivers a Batesville® casket under a Forethought funded funeral plan at the time the funeral is performed. This benefit is equal to the difference between the wholesale price of the casket at the time the funeral is planned and at the time it is provided.

Forethought is licensed and authorized to write life insurance in 49 states, Puerto Rico, the District of Columbia, and nine Canadian provinces. Forethought distributes its insurance-funded funeral planning products through funeral firms. In some cases, the funeral director acts as agent for the sale of the Policy; in other cases, a preneed insurance professional works in conjunction with funeral professionals to develop and fund the funeral plan. In all cases, a life insurance agent licensed by the appropriate state authority and appointed by Forethought solicits the Policy. Forethought trust-funded funeral planning products are distributed by funeral planning professionals in 29 states.

In addition to these core products, Forethought offers marketing and administrative products and services directly to its funeral firm customers. These products and services range from sales and training support and materials to analytical reports to business-to-business back office support through Forethoughtonline.com.

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BUSINESS SEGMENT INFORMATION

Net revenues, segment profitability, identifiable assets and other measures of segment reporting for each reporting segment are set forth in Note 10 to the Consolidated Financial Statements, which statements are included under Item 8.

While the Company serves two predominant industries, health care and funeral services, for segment reporting purposes each of the Company's three major operating companies constitute a reporting segment. The Company's three reporting segments are Hill-Rom, Batesville Casket and Forethought.

RAW MATERIALS

Principal materials used in Hill-Rom® products include carbon steel, aluminum, stainless steel, wood, high-pressure laminates, fabrics, plastics, silicone-coated soda-lime glass beads and other materials, substantially all of which are available from several sources. Motors for electrically and hydraulically operated beds and certain other components are purchased from one or more manufacturers.

Batesville Casket employs carbon and stainless steel, copper and bronze sheet, wood and wood by-products, fabrics, finishing materials, rubber gaskets, zinc and magnesium alloy in the manufacture of its caskets.

Prices for raw materials and finished goods used in the Company's products may fluctuate based on a number of factors beyond the Company's control, and such fluctuations may affect the Company's profitability. The Company does not engage in hedging transactions with respect to raw material purchases.

Additionally, although most of the raw materials and finished goods used by the Company in its products are generally available from several sources, certain of these raw materials and finished goods currently are available only from a single source.

Historically, the Company has been able to anticipate and react to changing raw material and finished good prices and availability through its purchasing practices and price adjustments so as to avoid any material adverse effect on profitability and supply. However, there can be no assurance that the Company will be able to do so in the future. See also the eighth risk factor under the heading "Risk Factors" below.

COMPETITION

Health Care

Hill-Rom is a recognized U.S. industry leader in the sale and rental of electrically and hydraulically operated hospital beds, specialty beds and surfaces for wound and pulmonary care, competing with several other manufacturers, including Stryker Corporation and Kinetic Concepts, Inc. In Europe, Hill-Rom competes with a number of other manufacturers in various countries and believes that it is a leader in the products and services it provides. Hill-Rom competes on the basis of product quality, service to its customers and price.

Funeral Services

Batesville Casket is a recognized North American industry leader in the sale of funeral services products. Batesville competes on the basis of product quality, innovation, personalization, customer service and price, and believes that there are at least two other companies, Aurora Casket Company and Matthews International Corporation, that also manufacture and/or sell funeral services products over a wide geographic area. However, throughout the United States, there are many enterprises that manufacture, assemble, or distribute funeral services products for sale within a limited geographic area.

Forethought's guaranteed insurance-funded funeral planning products compete with similar products offered by approximately ten other life insurers. Forethought's final expense products compete with products offered by a large number of life insurance companies. Forethought is a leader in insurance-funded funeral planning products. Forethought competes

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in this business primarily on the basis of service to funeral firm customers, compensation to the distribution channel, and price to the consumer. Forethought's trust-funded funeral planning products compete with similar products offered by banks and trade associations. Forethought competes in this business primarily on the basis of service to funeral firm customers and the return on funds placed in trust by funeral firm customers.

RESEARCH

Each of the Company's operating subsidiaries conducts research efforts to further develop new products and improve its existing products, as well as to enhance its manufacturing and production methods. All research and development is Company sponsored and expensed as incurred. Research and development expense incurred for the ten-month period ended September 30, 2002 and fiscal years (twelve months) 2001 and 2000 were as follows:

	(millions)		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Research and development expense	\$42	\$43	\$45

PATENTS AND TRADEMARKS

The Company owns a number of patents on its products and manufacturing processes which are of importance to it, but does not believe any single patent or related group of patents are of material significance to the business of the Company as a whole.

The Company also owns a number of trademarks and service marks relating to its products and product services which are of importance to it, but does not believe any single trademark or service mark is of material significance to the business of the Company as a whole.

The Company's ability to compete effectively depends, to an extent, on its ability to maintain the proprietary nature of its intellectual property. However, the Company may not be sufficiently protected by its various patents, trademarks and service marks. Additionally, certain of its existing patents, trademarks or service marks may be challenged, invalidated, canceled, narrowed or circumvented. Beyond that, it may not receive the pending or contemplated patents, trademarks or service marks for which it has applied or filed.

In the past, certain of the Company's products have been copied and sold by others. The Company tries to vigorously enforce its intellectual property rights. However, the Company cannot assure that the copying and sale of its products by others would not materially adversely affect the sale of its products.

EMPLOYEES

As of September 30, 2002, the Company employed approximately 10,300 persons in its operations, of which approximately 1,700 are members of unions and work under collective bargaining agreements. The collective bargaining agreements have expiration dates ranging from February 2003 to November 2006. Although the Company has not experienced any significant work stoppages as a result of labor disagreements, it cannot assure that such a stoppage will not occur in the future. A labor disturbance at one of the Company's principal facilities could have a material adverse effect on the Company's operations.

REGULATORY MATTERS

FDA Regulation

Hill-Rom manufactures and distributes medical devices that are regulated by the Food and Drug Administration (FDA) in the United States and similar agencies in other countries. The regulations adopted and standards imposed by these agencies evolve over time and require Hill-Rom to make changes in its manufacturing processes and quality systems to remain in compliance. These agencies routinely inspect Hill-Rom's facilities, as with other medical device manufacturers. If

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Hill-Rom fails to comply with applicable regulations and standards, determined upon inspections or otherwise, Hill-Rom may have to recall products and cease their manufacture and/or distribution.

As necessary, Hill-Rom engages in voluntary product recalls and other corrective actions, including voluntarily ceasing shipment of devices. Hill-Rom has also implemented an extensive program to enhance its quality systems to comply with the FDA Quality System Regulation requirements and the regulatory equivalents under the Medical Device Directive in the European Union where its other manufacturing sites are located.

Over the past two years most of Hill-Rom's United States facilities have been inspected by FDA representatives who, as is customary in the industry, issued reports of their findings to management for discussion and remediation. While Hill-Rom believes it has responded fully to the findings and has implemented corrective actions when necessary, any determination by the FDA or similar foreign agency that Hill-Rom's products or quality systems do not comply with applicable regulations could result in future product recalls, injunctions preventing shipment of products, or other enforcement actions that could have a material adverse effect on financial condition, results of operations and cash flow of the Company.

Health Care Regulation

Hill-Rom's customers include hospitals and other acute and long-term care facilities that receive reimbursement for certain of the products and services they provide from various third-party payers including Medicare, Medicaid, managed care organizations, such as health maintenance organizations and preferred provider organizations, and traditional indemnity insurers. In the Company's home care rental business, the Company is reimbursed directly by such third party payors. Accordingly, the Company's customers are significantly affected by changes in reimbursement practices of such third-party payors. Historical changes to Medicare payment programs from traditional cost-plus reimbursement to a prospective diagnosis-based payment system resulted in a significant change in how the Company's health care customers acquire and utilize the Company's products. This has resulted in reduced utilization and downward pressure on prices. Future legislative or regulatory efforts relating to health care reimbursement policies or other factors affecting health care spending may further affect the manner in which the Company's customers acquire and use the Company's products.

Environmental Protection

The Company is subject to a variety of federal, state, local and foreign environmental laws and regulations relating to environmental, waste management, and health and safety concerns, including the handling, storage, discharge and disposal of hazardous materials used in or derived from its manufacturing processes. In the past, the Company has been identified as a potentially responsible party in investigations of offsite disposal facilities. The Company is committed to operating all of its businesses in a way that protects the environment. The Company has voluntarily entered into remediation agreements with various environmental authorities in the past, and has been issued Notices of Violation alleging violation of certain permit conditions. The Company, however, has successfully implemented measures to abate such conditions in compliance with the underlying agreements and/or regulations. The Notices of Violation involved no or only minor fines or penalties. In most cases, the voluntary remediation activities are complete or nearing completion. The Company has also been notified as a potentially responsible party in investigations of certain offsite disposal facilities. Based on the nature and volume of materials involved, the cost of such waste-site cleanups to be incurred by the Company in which it is currently involved is not expected to exceed \$5 million. The Company believes it has provided adequate reserves in its financial statements for all of these matters, which have been determined without consideration of possible loss recoveries from third parties. Future events or changes in existing laws and regulations or their interpretation may require the Company to make additional expenditures in the future. The cost or need for any such additional expenditures is not known.

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FOREIGN OPERATIONS AND EXPORT SALES

Information about the Company's foreign operations is set forth in tables relating to geographic information in Note 10 to the Consolidated Financial Statements, which statements are included under Item 8.

The Company's export revenues constituted less than 10% of consolidated revenues in 2002 and prior years.

The Company's foreign operations are subject to risks inherent in doing business in foreign countries. Risks associated with operating internationally include political, social and economic instability, increased operating costs, expropriation and complex and changing government regulations, all of which are beyond the Company's control. Further, to the extent the Company receives revenues in currencies other than U.S. dollars, the value of assets and income could be, and have in the past been, adversely affected by fluctuations in the value of local currencies.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company are elected each year by the Board of Directors at its first meeting following the Annual Meeting of Shareholders to serve during the ensuing year and until their respective successors are elected and qualified. There are no family relationships between any of the executive officers of the Company or between any of them and any of the members of the Board of Directors. The following is a list of the executive officers of the Company as of December 17, 2002.

Frederick W. Rockwood, 55, was elected Chief Executive Officer and President of the Company on December 3, 2000 after being President since December 6, 1999. He has been employed by the Company since 1977. Previous positions held within the Company include President and Chief Executive Officer of Hillenbrand Funeral Services Group, Inc. from 1997 to 1999, President and Chief Executive Officer of Forethought Financial Services, Inc. from 1985 to 1997, Senior Vice President of Corporate Planning and Director of Corporate Strategy. He has also been a management consultant with Bain and Company and Boston Consulting Group. He is also a member of the Board of Directors of the Advanced Medical Technology Association (AdvaMed).

Kenneth A. Camp, 57, was elected President and Chief Executive Officer of Batesville Casket Company on May 1, 2001 and was elected as a Vice President of Hillenbrand Industries on October 8, 2001. He has been employed by the Company since 1981. Ken previously held the position of Vice President of Administration of Hillenbrand Industries from 2000 to 2001. Prior to that position he held various positions at Batesville Casket Company including Vice President/General Manager of Operations from 1995 to 2000; Vice President, Sales and Service; Vice President, Marketing; and Vice President, Strategic Planning.

Stephen R. Lang, 50, was elected President and Chief Executive Officer of Forethought Financial Services, Inc. on June 29, 2001 and was elected as a Vice President of Hillenbrand Industries on October 8, 2001. Steve is a 15-year Forethought veteran, holding various positions including Vice President and Chief Operating Officer from 1999 to 2001, Vice President and General Manager from 1995 to 1999, Vice President of Sales, and Vice President of Human Resources.

R. Ernest Waaser, 46, was elected President and Chief Executive Officer of Hill-Rom on January 22, 2001 and was elected as a Vice President of Hillenbrand Industries on October 8, 2001. He was previously Senior Vice President of AGFA Corporation and President of AGFA's Medical Imaging Division from 1999 to 2000. Prior to joining AGFA, Ernest was Executive Vice President and Chief Operating Officer of Sterling Diagnostic Imaging, Inc. from 1996 to 1999, a supplier of conventional and digital systems for the capture, communication, display and storage of medical diagnostic images. He also served as Research and Development Director, Diagnostic Imaging, for E. I. DuPont De Nemours & Co., Inc. and in various other management capacities with DuPont.

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Patrick D. de Maynadier, 42, was elected on January 28, 2002 as Vice President, General Counsel and Secretary. From 2000 to 2001 Patrick was Executive Vice President, General Counsel and Corporate Secretary for CombiMatrix Corporation, a biotechnology company that develops software addressable biochips for drug researchers, and has been President and Chief Executive Officer of SDI Investments, LLC, a currently inactive spin-off of Sterling Diagnostics Imaging, Inc., since 1999. He served as Senior Vice President, General Counsel and Corporate Secretary of Sterling Diagnostics Imaging, Inc. from 1996 to 1999. Prior to that he was Associate General Counsel of Falcon Seaboard Resources, Inc., a cogeneration and oil and gas company and a partner in the corporate and securities section of the law firm Bracewell & Patterson, L.L.P.

Matthew J. Ericksen, 41, was elected Vice President, Corporate Strategy for Hillenbrand Industries on July 7, 2002. Between 1998 and 2002 Matt ran his own general management consulting firm, MJE Consulting, in Wheaton, Illinois. Prior to 1998 he was a Vice President and Officer of the Boston Consulting Group, a leading international strategy management consulting firm. Matt worked for the Boston Consulting Group for eleven years, first in their Boston office and then Chicago.

Catherine Greany, 46, was elected Vice President, Corporate Development on May 21, 2002. Since 1998, Catherine was Vice President, Mergers and Acquisitions, for Omnicare, Inc., a Covington, Kentucky-based health care services provider. Prior to joining Omnicare, Inc., Catherine was Vice President, Mergers and Acquisitions, for Vitalink Pharmacy Services Inc. She has also held a variety of corporate development and financial leadership positions with Linc Anthem Financial Corporation; American Ophthalmic, Inc.; GranCare Inc.; Donaldson, Lufkin & Jenrette Securities Corporation; and Atlantic Richfield Company.

Gregory N. Miller, 39, was elected Vice President Controller and Chief Accounting Officer for Hillenbrand Industries on May 16, 2002. He previously held the position of Vice President-Controller from November 9, 2001 to May 16, 2002. Prior to joining the Company he held a number of positions with Newell Rubbermaid, Inc., a manufacturer and marketer of name-brand consumer products and its divisions including Group Vice President and Controller, Photo Fashions and Juvenile Products Groups, Newell Rubbermaid from 2000 to 2001; Vice President and Controller, Little Tikes Company, a Newell Rubbermaid division from 1999 to 2000; Vice President and Controller, Newell Window Furnishings/Kirsch from 1995 to 1999. Prior to his Newell positions, he held positions with the accounting firms of Deloitte & Touche LLP and Grant Thornton.

David L. Robertson, 57, has been employed by the Company since March 23, 1998, and was elected Vice President, Administration on May 1, 2001. He previously served as Vice President, Executive Leadership Development from June 26, 2000 to May 1, 2001, Vice President, Administration from December 6, 1999 to June 26, 2000 and Vice President, Human Resources from March 23, 1998 to December 6, 1999. Prior to joining the Company, he was Senior Vice President, Human Resources for Rubbermaid, Inc., a manufacturer and marketer of name-brand consumer products, in Wooster, Ohio from 1994 to 1998. From 1982 to 1994 Mr. Robertson served as Vice President, Human Resources for Hillenbrand Industries, Inc.

Scott K. Sorensen, 41, was elected Vice President and Chief Financial Officer on March 1, 2001. Prior to joining the Company, he was employed by Pliant Corporation (formerly Huntsman Packaging), a polymer based thin film and flexible packaging producer as its Executive Vice President and Chief Financial Officer, Treasurer since 1998. Prior to joining Pliant Corporation, Scott held various senior financial leadership positions with Westinghouse Electric Corporation/CBS including Chief Financial Officer of the Power Generation Division and the Communication and Systems Divisions from 1996 to 1998. He has also been an executive with Phelps Dodge Corporation and a management consultant with McKinsey & Company.

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The Company's website is www.hillenbrand.com. The Company makes available on this website, free of charge, access to its annual, quarterly and current reports and other documents filed by it with the Securities and Exchange Commission. The Company also makes available on this website position specifications for the Chairman, members of the Board of Directors and the Chief Executive Officer, the Company's Code of Ethical Business Conduct, the Corporate Governance Standards of the Company's Board of Directors and the charters of each of the standing committees of the Board of Directors, each of which are also filed as an Exhibit to this Form 10-K.

Item 2. PROPERTIES

The principal properties of the Company and its subsidiaries are listed below, and are owned by the Company or its subsidiaries subject to no material encumbrances. All facilities are suitable for their intended purpose, are being efficiently utilized and are believed to provide adequate capacity to meet demand for the next several years.

<u>Location</u>	<u>Description</u>	<u>Primary Use</u>
Health Care:		
Batesville, IN	Manufacturing, development and distribution facilities Office facilities	Manufacture and development of health care equipment Administration
Cary, NC	Manufacturing, development and office facilities	Manufacture and development of health care equipment
Charleston, SC	Manufacturing and development facilities Office facilities	Manufacture and development of therapy units Administration
Hatboro, PA	Manufacturing plant and development facility	Manufacture and development of infant-care equipment
Pluvigner, France	Manufacturing plant and development facility	Manufacture and development of health care equipment
Funeral Services:		
Batesville, IN	Manufacturing plants Office facilities	Manufacture of metal caskets Administration and Insurance Operations
Manchester, TN	Manufacturing plants	Manufacture of metal caskets
Vicksburg, MS	Kiln drying and lumber cutting plant	Drying and dimensioning of lumber
Batesville, MS	Manufacturing plant	Manufacture of hardwood caskets
Nashua, NH	Manufacturing plant	Manufacture of hardwood caskets

In addition to the foregoing, the Company leases or owns a number of other manufacturing facilities, warehouse distribution centers, service centers and sales offices throughout the United States, Canada, Western Europe, Mexico and the Far East.

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Item 3. LEGAL PROCEEDINGS

On December 31, 2002, Hillenbrand entered into a comprehensive settlement agreement relating to the longstanding antitrust litigation between the Company and its Hill-Rom business unit and the plaintiffs, Kinetic Concepts Inc. of San Antonio, Texas and one of its affiliates. At the request of the parties, on January 2, 2003, the United States District Court for the Western District of Texas, San Antonio Division dismissed the lawsuit with prejudice. Upon dismissal of the lawsuit, Hillenbrand paid KCI \$175 million out of its cash on hand. Hillenbrand will pay KCI an additional \$75 million no earlier than one year after the initial payment, unless KCI becomes bankrupt or undergoes a change of control. A change of control includes the acquisition by others of more than 50% of the voting securities of KCI, the sale of substantially all the assets of certain designated business units of KCI or the consummation of any such transaction if a definitive agreement for the transaction was in existence on the first anniversary date of the initial payment. Additionally, in connection with the dismissal of the lawsuit the parties released each other from all claims relating to the litigation and all pre-settlement claims relating to their respective businesses, as well as the future effects of certain pre-settlement matters. Neither party admitted any liability or fault in connection with the settlement.

In connection with the settlement, the Company took a litigation charge and established a litigation accrual in the amount of \$250 million in the fourth quarter of fiscal 2002, subject to an adjustment of the accrual if the second payment of \$75 million is not made.

On August 16, 1995, the plaintiffs had filed this suit against Hillenbrand and its Hill-Rom subsidiary in the United States District Court for the Western District of Texas, San Antonio Division. The plaintiffs alleged violation of various antitrust laws, including illegal bundling of products, predatory pricing, refusal to deal and attempting to monopolize the hospital bed industry. They sought monetary damages totaling in excess of \$350 million, trebling of any damages that might be allowed by the court, and injunctions to prevent further alleged unlawful activities. On September 27, 2002, the jury in this litigation matter awarded the plaintiffs \$173.6 million in damages, subject to trebling, the addition of attorneys' fees and potential injunctive relief if the court upheld the jury award. Hillenbrand initially announced its intention to appeal the verdict if it was upheld by the court, a process that could have taken as long as two years.

In 2000, Hill-Rom, Inc. sued Ohmeda Medical and Datex-Ohmeda, Inc. (collectively, Ohmeda) in Federal Court in Indianapolis, Indiana alleging patent infringement. Hill-Rom succeeded in obtaining a preliminary injunction prohibiting Ohmeda from continuing efforts to make, import, sell, or offer for sale its combination incubator and infant warmer, the Giraffe Omnibed, pending a jury trial on Hill-Rom's patent infringement claim. A jury trial on this matter was held in May 2002, with the jury finding on behalf of Hill-Rom. Prior to the holding of a separate trial for determination of damages, the parties reached a settlement. While specific terms of the settlement are confidential, the settlement granted cross-licensing of certain patents and Hill-Rom also received a cash payment for past damages and a royalty on certain future product sales. The settlement amount has been recognized as a component of Other income within the Statement of Consolidated Income, and represents the primary variation in Other income (expense) for the period.

Batesville Casket Company and certain funeral homes were subject to a suit filed in the State Superior Court, Lake County, California, which alleged violations of portions of the California Business and Professional Code concerning unfair business practices and false advertising related to sales of caskets in California. Batesville Casket and the plaintiff reached a settlement late in fiscal 2001, which was approved by the court late in 2002. The settlement amount, which was recorded in fiscal 2001, was not material to the Company's financial condition, results of operations, or cash flows.

With respect to environmental matters, see Regulatory Matters - Environmental Protection under Item 1. Business.

The Company is subject to various other claims and contingencies arising out of the normal course of business, including those relating to commercial transactions, product liability, employee related matters, safety, health, taxes, environmental and other matters. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. It is reasonably possible that some litigation matters for which reserves have not been established could be decided unfavorably to the Company. Management believes, however, that the ultimate liability, if any, in excess of amounts already provided or covered by insurance, is not likely to have a material adverse effect on the Company's financial condition, results of operations and cash flows.

Table of Contents**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to a vote of security holders during the quarter ended September 30, 2002.

PART II**DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS**

Certain statements in this Transition Report on Form 10-K contain forward-looking statements within the meanings of the *Private Securities Litigation Reform Act of 1995* (the "Act") or adopted rules, regulations and releases by the Securities and Exchange Commission (SEC) regarding the Company's future plans, objectives, beliefs, expectations, representations and projections. The Company desires to take advantage of the "safe harbor" provisions in the Act for forward-looking statements made from time to time, including, but not limited to, the forward-looking statements relating to the future performance of the Company contained in Management's Discussion and Analysis (under Items 7 and 7A of Form 10-K), and the Notes to Consolidated Financial Statements (under Item 8 of Form 10-K) and other statements made in this Form 10-K and in other filings with the SEC. The Company has tried, whenever possible, to identify these forward-looking statements by using words such as "intend," "anticipate," "believe," "plan," "encourage," "expect," "may," "goal," "become," "pursue," "estimate," "strategy," "will," "projection," "promise," "increase," or the negative of those terms or other variations of them or by comparable terminology. The absence of such terms, however, does not mean that the statement is not forward-looking.

The Company cautions readers that any such forward-looking statements are based on assumptions that the Company believes are reasonable, but are subject to a wide range of risks, and there is no assurance that actual results may not differ materially from those in any such forward-looking statements. Forward-looking statements are not guarantees of future performance. Information about factors that may affect future results is set forth under the caption "Risk Factors" below.

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS
Market Information

Hillenbrand Industries' common stock is traded on the New York Stock Exchange under the ticker symbol "HB". The following table reflects the range of high and low selling prices of the Company's common stock by quarter for the twelve months ended September 30, 2002 and 2001.

		2002		2001	
		High	Low	High	Low
October	December	\$57.90	\$48.95	\$56.38	\$42.81
January	March	\$62.09	\$53.35	\$52.75	\$41.56
April	June	\$66.48	\$52.85	\$58.48	\$46.30
July	September	\$60.67	\$48.30	\$58.51	\$48.30

 Holders

On December 17, 2002, there were approximately 17,600 shareholders of record.

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Dividends

The Company has paid cash dividends on its common stock every quarter since its first public offering in 1971, and those dividends have increased each year thereafter. In 2002, dividends were paid on February 22, June 28 and September 30 to shareholders of record as of February 8, May 31 and September 16. Cash dividends of \$0.69 (\$0.23 per quarter) in 2002 and \$0.84 (\$0.21 per quarter) in 2001 were paid on each share of common stock outstanding. As a result of the Company's change in its fiscal year end to September 30, the Company also paid a special dividend of \$0.0767 per share on March 29, 2002 to shareholders of record as of March 1, 2002. This one-time dividend was for the month of March 2002 and represented one-month of the regular quarterly dividend of \$0.23 per share paid throughout the remainder of 2002. The Company currently believes that comparable quarterly cash dividends will continue to be paid in the future, as evidenced by the Board of Directors recent approval of a dividend of \$0.25 per share for the first quarter of fiscal 2003.

Table of Contents**Item 6. SELECTED FINANCIAL DATA**

The following table presents selected consolidated financial data of Hillenbrand Industries, Inc., for fiscal years 1998 through 2001, based on the Company's previous fiscal year end of the Saturday nearest November 30, and the ten month period ending September 30, 2002, the Company's new fiscal year end. Also presented are comparable data for the twelve month periods ended September 30, 2001 and 2002.

	Twelve Months Ended		Ten Months Ended September 30, 2002	Fiscal Year Ended			
	September 30,			December 1, 2001	December 2, 2000	November 27, 1999	November 28, 1998
	2002	2001					
	<i>(Unaudited)</i>		<i>(53 weeks)</i>				
	<i>(In millions except per share date)</i>						
Net revenues (a)	\$ 2,147	\$ 2,144	\$ 1,757	\$ 2,107	\$ 2,096	\$ 2,047	\$ 2,001
Net income (loss) (a)	\$ 44	\$ 153	\$ (10)	\$ 170	\$ 154	\$ 124	\$ 184
Net income (loss) per share-Basic (a)	\$ 0.70	\$ 2.44	\$ (0.16)	\$ 2.71	\$ 2.44	\$ 1.87	\$ 2.73
Net income (loss) per share-Diluted (a)	\$ 0.70	\$ 2.43	\$ (0.16)	\$ 2.70	\$ 2.44	\$ 1.87	\$ 2.73
Total assets	\$ 5,442	\$ 4,949	\$ 5,442	\$ 5,049	\$ 4,597	\$ 4,433	\$ 4,280
Long-term debt	\$ 322	\$ 302	\$ 322	\$ 305	\$ 302	\$ 302	\$ 303
Cash dividends per share	\$ 0.98	\$ 0.83	\$ 0.77	\$ 0.84	\$ 0.80	\$ 0.78	\$ 0.72

(a) The selected financial data presented above includes a number of non-recurring and special charges. Following is a summary of these charges, on a net-of-tax basis, and a reconciliation of net income exclusive of the charges. The amounts are summarized based upon the line items within the Statement of Consolidated Income impacted. Further detail regarding these adjustments in recent periods can be found in Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Twelve Months Ended September 30,		Ten Months Ended September 30, 2002	Fiscal Year Ended			
	2002	2001		December 1, 2001	December 2, 2000	November 27, 1999	November 28, 1998
	<i>(Unaudited)</i>		<i>(53 weeks)</i>				
	<i>(In millions except per share date)</i>						
Net income (loss) as reported	\$ 44	\$ 153	\$ (10)	\$ 170	\$ 154	\$ 124	\$ 184
Net Revenues							
Realized capital losses and bond impairments	36		21	16			
Litigation and Other Income/Expense							
Litigation charges, net	152		152				
Sale of Medeco Security Locks, Inc.							(47)
Unusual Charges							
Severance and benefit costs, asset impairments and other realignment activities	10	18	3	21	2	24	42
Operating Expense							
Write-off of technology asset	4		4				
Income Taxes							
Reversal of tax reserves and valuation allowance	(32)		(6)	(26)			
Net income as adjusted	\$ 214	\$ 171	\$ 164	\$ 181	\$ 156	\$ 148	\$ 179