

Hill-Rom Holdings, Inc.  
Form 10-Q  
January 25, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended December 31, 2012

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_ to \_\_\_\_

Commission File No. 1-6651

HILL-ROM HOLDINGS, 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.)

1069 State Route 46 East  
Batesville, Indiana  
(Address of principal executive offices)

47006-8835  
(Zip Code)

(812) 934-7777  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes            No     

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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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 (as defined 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     

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

Common Stock, without par value – 60,335,161 shares as of January 18, 2013.

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HILL-ROM HOLDINGS, INC.

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## PART I – FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

Hill-Rom Holdings, Inc. and Subsidiaries  
Condensed Consolidated Statements of Income (Unaudited)  
(Dollars in millions except per share data)

	Quarterly Period Ended December	
	2012	2011
Net Revenues		
Capital sales	\$ 324.4	\$ 266.9
Rental revenues	104.0	114.2
Total revenues	428.4	381.1
Cost of Revenues		
Cost of goods sold	188.9	147.7
Rental expenses	48.1	48.3
Total cost of revenues	237.0	196.0
Gross Profit	191.4	185.1
Research and development expenses	17.2	15.3
Selling and administrative expenses	136.1	120.2
Litigation charge	1.0	-
Operating Profit	37.1	49.6
Interest expense	(2.3 )	(1.8 )
Investment income and other, net	0.5	0.6
Income Before Income Taxes	35.3	48.4
Income tax expense (Note 8)	11.3	15.5
Net Income	\$ 24.0	\$ 32.9
Net Income per Common Share - Basic	\$ 0.39	\$ 0.53
Net Income per Common Share - Diluted	\$ 0.39	\$ 0.53
Dividends per Common Share	\$ 0.1250	\$ 0.1125
Average Common Shares Outstanding - Basic (thousands) (Note 9)	60,903	61,976
Average Common Shares Outstanding - Diluted (thousands) (Note 9)	61,106	62,337

See Notes to Condensed Consolidated Financial Statements



Hill-Rom Holdings, Inc. and Subsidiaries  
 Condensed Consolidated Statements of Comprehensive Income (Unaudited)  
 (Dollars in millions)

	Quarterly Period Ended December	
	31	
	2012	2011
Net income	\$ 24.0	\$ 32.9
Other comprehensive income (loss):		
Available-for-sale securities and currency hedges, net of tax of \$0.0 million and \$0.0 million, respectively	0.2	0.2
Foreign currency translation adjustment, net of tax of \$0.0 million and (\$0.9) million, respectively	5.5	(3.4 )
Items not yet recognized as a component of net periodic pension and postretirement healthcare costs, net of tax of \$0.0 million and \$0.0 million, respectively	-	(0.2 )
Total other comprehensive income (loss)	5.7	(3.4 )
Total comprehensive income	\$ 29.7	\$ 29.5

See Notes to Condensed Consolidated Financial Statements

Hill-Rom Holdings, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets (Unaudited)  
(Dollars in millions)

	December 31, 2012	September 30, 2012
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 107.6	\$ 84.3
Trade accounts receivable, net of allowances (Note 2)	373.1	392.6
Inventories (Note 2)	122.7	126.9
Deferred income taxes (Notes 1 and 8)	48.3	48.6
Other current assets	30.7	29.4
<b>Total current assets</b>	<b>682.4</b>	<b>681.8</b>
Property, plant and equipment, net (Note 2)	245.5	250.1
Investments and investment securities (Notes 1 and 6)	7.3	7.3
Goodwill (Note 1)	342.5	335.2
Software and other intangible assets, net (Note 2)	280.5	290.8
Deferred income taxes (Notes 1 and 8)	34.3	38.9
Other assets	22.5	23.5
<b>Total Assets</b>	<b>\$ 1,615.0</b>	<b>\$ 1,627.6</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 78.2	\$ 80.7
Short-term borrowings (Note 4)	115.2	115.2
Accrued compensation	66.8	73.4
Accrued product warranties (Note 11)	42.0	42.2
Other current liabilities	69.5	66.6
<b>Total current liabilities</b>	<b>371.7</b>	<b>378.1</b>
Long-term debt (Note 4)	234.6	237.5
Accrued pension and postretirement benefits (Note 5)	89.8	89.6
Deferred income taxes (Notes 1 and 8)	56.1	68.1
Other long-term liabilities	41.9	41.7
<b>Total Liabilities</b>	<b>794.1</b>	<b>815.0</b>
Commitments and Contingencies (Note 13)		
<b>SHAREHOLDERS' EQUITY</b>		
Common Stock (Note 2)	4.4	4.4
Additional paid-in-capital	115.2	116.8
Retained earnings	1,416.7	1,400.3
Accumulated other comprehensive loss	(72.3 )	(78.0 )
Treasury stock, at cost (Note 2)	(643.1 )	(630.9 )
<b>Total Shareholders' Equity</b>	<b>820.9</b>	<b>812.6</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,615.0</b>	<b>\$ 1,627.6</b>



See Notes to Condensed Consolidated Financial Statements

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Hill-Rom Holdings, Inc. and Subsidiaries  
 Condensed Consolidated Statements of Cash Flows (Unaudited)  
 (Dollars in millions)

	Quarterly Period Ended December	
	2012	31 2011
<b>Operating Activities</b>		
Net income	\$ 24.0	\$ 32.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31.1	26.6
Provision for deferred income taxes	(4.4 )	(3.6 )
Loss (gain) on disposal of property, equipment leased to others, intangible assets and impairments	0.3	(1.6 )
Stock compensation	3.3	2.5
Excess tax benefits from employee stock plans	(0.1 )	(0.7 )
Change in working capital excluding cash, current investments, current debt, acquisitions and dispositions:		
Trade accounts receivable	19.5	34.8
Inventories	4.2	1.8
Other current assets	(4.7 )	16.5
Trade accounts payable	(2.5 )	(1.7 )
Accrued expenses and other liabilities	(7.9 )	(43.5 )
Other, net	2.0	(1.9 )
Net cash provided by operating activities	64.8	62.1
<b>Investing Activities</b>		
Capital expenditures and purchase of intangibles	(16.5 )	(18.6 )
Proceeds on sale of property and equipment leased to others	2.9	3.1
Payment for acquisition of businesses, net of cash acquired	(0.2 )	-
Net cash used in investing activities	(13.8 )	(15.5 )
<b>Financing Activities</b>		
Change in short-term debt	-	(3.8 )
Payment of long-term debt	(2.8 )	(47.3 )
Purchase of noncontrolling interest	(0.7 )	(0.7 )
Payment of cash dividends	(7.5 )	(7.0 )
Proceeds on exercise of options	2.5	2.1
Proceeds from stock issuance	0.7	0.9
Excess tax benefits from employee stock plans	0.1	0.7
Treasury stock acquired	(20.4 )	(1.7 )
Net cash used in financing activities	(28.1 )	(56.8 )
Effect of exchange rate changes on cash	0.4	(0.5 )
Net Cash Flows	23.3	(10.7 )
Cash and Cash Equivalents:		

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At beginning of period	84.3	224.6
At end of period	\$ 107.6	\$ 213.9

See Notes to Condensed Consolidated Financial Statements

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Hill-Rom Holdings, Inc. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited)  
(Dollars in millions except per share data)

1. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

Unless the context otherwise requires, the terms “Hill-Rom,” “we,” “our” and “us” refer to Hill-Rom Holdings, Inc. and our wholly-owned subsidiaries. The unaudited Condensed Consolidated Financial Statements appearing in this Quarterly Report on Form 10-Q 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, 2012 (“2012 Form 10-K”) as filed with the United States (“U.S.”) Securities and Exchange Commission. The September 30, 2012 Condensed Consolidated Balance Sheet was derived from audited Consolidated Financial Statements, but does not include all disclosures required by accounting principles generally accepted in the U.S. In the opinion of management, the Condensed Consolidated Financial Statements herein include all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial position, results of operations and cash flows for the interim periods presented. Quarterly results are not necessarily indicative of annual results.

The Condensed Consolidated Financial Statements include the accounts of Hill-Rom and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure 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 our accounts receivable reserves (Note 2), accrued warranties (Note 11), investments (Note 6), income taxes (Note 8) and commitments and contingencies (Note 13), among others.

Investment Securities

At December 31, 2012, investment securities consisted primarily of AAA rated student loan auction rate securities (“ARS”). These securities are generally insured through the U.S. government’s Federal Family Education Loan Program, to the extent the borrowers meet certain prescribed criteria in their underlying lending practices. These securities are classified as available-for-sale and changes in their fair value are recorded in Accumulated Other Comprehensive Loss (“AOCL”).

We regularly evaluate all investments classified as available-for-sale for possible impairment based on current economic conditions, credit loss experience and other criteria. The evaluation of investments for impairment requires significant judgments to be made including (i) the identification of potentially impaired securities; (ii) the determination of their estimated fair value; (iii) the assessment of whether any decline in estimated fair value is other-than-temporary; and (iv) the likelihood of selling before recovery. If there is a decline in a security’s net realizable value that is other-than-temporary and we are not likely to sell before recovery, the decline is separated into the amount of impairment related to credit loss and the amount of impairment related to all other factors. The decline related to the credit loss is recognized in earnings, while the decline related to all other factors is recognized in AOCL.

See Note 6 for further details on our fair value measurements.



## Goodwill

	North America	Surgical and Respiratory Care	International	Total
Balances at September 30, 2012:				
Goodwill	\$ 383.0	\$ 271.5	\$ 153.5	\$808.0
Accumulated impairment losses	(358.1 )	-	(114.7 )	(472.8 )
Goodwill, net at September 30, 2012	24.9	271.5	38.8	335.2
Changes in Goodwill during the period:				
Goodwill related to acquisitions	-	6.1	-	6.1
Currency translation effect	-	-	1.2	1.2
Balances at December 31, 2012:				
Goodwill	383.0	277.6	153.5	814.1
Accumulated impairment losses	(358.1 )	-	(113.5 )	(471.6 )
Goodwill, net at December 31, 2012	\$ 24.9	\$ 277.6	\$ 40.0	\$342.5

During the first quarter of fiscal 2013, we recorded an adjustment to goodwill related to the Aspen Surgical acquisition completed during the fourth quarter of fiscal 2012. See Note 3 for further details.

## Taxes Collected from Customers and Remitted to Governmental Units

Taxes assessed by a governmental authority that are directly imposed on a revenue producing transaction between us and our customers, including but not limited to sales taxes, use taxes and value added taxes, are accounted for on a net (excluded from revenues and costs) basis.

## Income Taxes

We and our eligible domestic subsidiaries file a consolidated U.S. income tax return. Foreign operations file income tax returns in a number of jurisdictions. Deferred income taxes are computed using an asset and liability approach to reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. We have a variety of deferred tax assets in numerous tax jurisdictions. These deferred tax assets are subject to periodic assessment as to recoverability. If it is determined that it is more likely than not that the benefits will not be realized, valuation allowances are recognized. In evaluating whether it is more likely than not that we would recover these deferred tax assets, future taxable income, the reversal of existing temporary differences and tax planning strategies are considered.

Entering the fiscal year we had \$8.6 million of valuation allowances on deferred tax assets, on a tax-effected basis, primarily related to foreign operating loss carryforwards and other tax attributes. We believe that our estimates for the valuation allowances recorded against deferred tax assets are appropriate based on current facts and circumstances.

We account for uncertain income tax positions using a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The difference between the tax benefit recognized in the financial statements for an uncertain income tax position and the tax benefit claimed in the tax return is referred to as an unrecognized tax benefit.

## Recently Issued Accounting Standards

There have been no significant changes to our assessment of the impact of recently issued accounting standards included in Note 1 of Notes to Consolidated Financial Statements in our 2012 Form 10-K except as noted below:

In June 2011, the FASB issued an amendment to the authoritative guidance on comprehensive income. The amendment eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity or include the components in the Notes to our Consolidated Financial Statements and instead requires the presentation of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Effective October 1, 2012, we adopted the two consecutive statements approach for the presentation of components of net income and other comprehensive income (loss) and a total for comprehensive income.

## 2. Supplementary Balance Sheet Information

	December 31, 2012	September 30, 2012
Allowance for possible losses and discounts on trade receivables	\$ 37.7	\$ 38.5
Inventories:		
Finished products	\$ 67.9	\$ 71.8
Raw materials and work in process	54.8	55.1
Total inventory	\$ 122.7	\$ 126.9
Accumulated depreciation of property, plant and equipment	\$ 573.3	\$ 584.8
Accumulated amortization of software and other intangible assets	\$ 209.2	\$ 198.8
Preferred stock, without par value:		
Shares authorized	1,000,000	1,000,000
Shares issued	None	None
Common stock, without par value:		
Shares authorized	199,000,000	199,000,000
Shares issued	80,323,912	80,323,912
Shares outstanding	60,319,088	60,796,923
Treasury shares	20,004,824	19,526,989

## 3. Acquisitions

## Aspen Surgical

On July 23, 2012, we completed a stock purchase agreement with the stockholders and optionholders of Aspen Surgical Products Holding, Inc. ("Aspen Surgical") to acquire the entire equity interest in Aspen Surgical. Aspen Surgical provided a portfolio of well-established surgical consumable and specialty medical products, focused on improving the safety of patients and health care professionals.

The purchase price for Aspen Surgical was \$402.2 million (\$399.8 million net of cash acquired). We funded the transaction with a combination of cash on hand and borrowings under the revolving credit facility. The results of Aspen Surgical are included in the Condensed Consolidated Financial Statements since the date of acquisition.

The following summarizes the fair value of assets acquired and liabilities assumed at the date of the acquisition.

	Amount
Inventory	\$ 25.9
Other current assets	19.7
Property, plant, and equipment	24.0
Goodwill	221.4
Trade name (Indefinite Lived)	29.0



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Trade name (15-year weighted-average useful life)	4.6
Customer relationships (13-year weighted-average useful life)	121.9
Technology (10-year weighted-average useful life)	9.1
Other noncurrent assets	1.6
Current liabilities	(13.7)