[INSIDE]

Financial failings

Anticipating changes in the law, a record number of Americans filed for bankruptcy in 2005. **[C2]**

• JOB PARADISE? It has to be Hawaii. **[C4]**

INSIDER ACTION

DANIEL LEE

Departing exec put Hillenbrand back on track

Top executives at Hillenbrand Industries Inc. are spending more time at "The Farm" these days.

That's the name of the overnight conference center near the company's Batesville headquarters used as a place to meet with customers.

The goal is for the company's top decision makers to have more face time with the people actually buying hospital beds and other products made by Hillenbrand's businesses.

Rolf Classon

That's just one of the many changes that were pushed by Rolf Classon during his 10 months at the company's helm, according to Hillenbrand Vice President and General Counsel Patrick de Maynadier.

"He brought tremendous energy. He's somebody who's very hard to keep up with," de Maynadier said. "He works tirelessly around the clock."

Classon stepped down last week as interim president and chief executive to make room for his permanent replacement, Peter Soderberg, former head of medical technology company Welch Allyn.

It was a job for which Classon was richly rewarded. He walks away from his temporary post with a $765,000 bonus. His pay package also included a $250,000 signing bonus, a pro-rated salary of $850,000 a year and restricted stock now worth about $1.1 million. He even had free use of Hillenbrand's corporate aircraft.

But so far, Wall Street seems to be pleased with the results.

Hillenbrand stock, which closed at $55 a share Friday, gained about 17 percent during Classon's tenure.

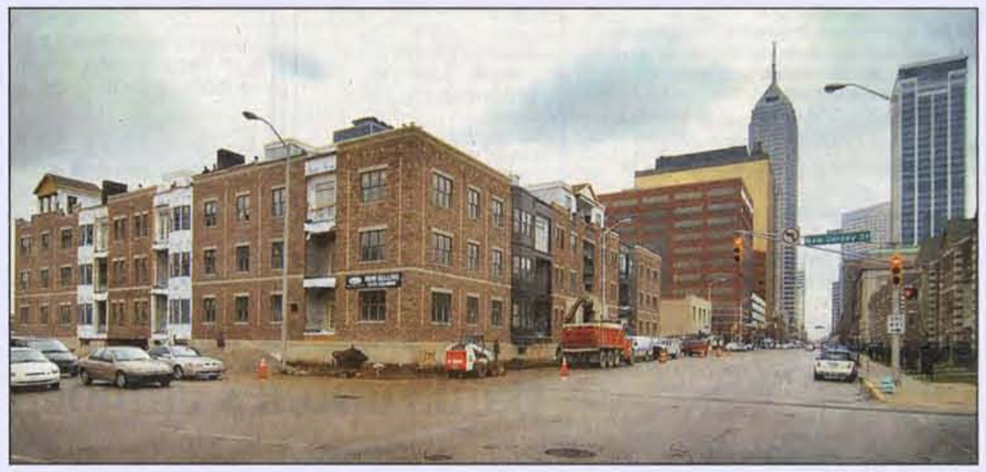
"I thought he was a very effective interim leader. I was disappointed that he evidently didn't consider himself to be a candidate for the permanent job," said Elliott Schlang, an analyst with Soleil Securities' Great Lakes Review in Cleveland. "I think he stabilized the company during a disruption in the management team."

Classon, a former top executive with Bayer HealthCare, took over leadership duties at the struggling Hillenbrand in May after then-CEO Frederick Rockwood abruptly retired.

A native of Sweden, Classon led a turnaround effort that included consolidating the executive ranks at Hillenbrand and its Hill-Rom division, de Maynadier said. Classon's efforts also included a reorganization of Hill-Rom's sales force.

Hillenbrand also has been shedding jobs. The company had 9,800 employees at the end of September, down from about

Decidedly Downtown



ALAN PETERSIME / The Star

THE CENTER OF A TREND: The Hudson townhouse condos (left), 355 E. Ohio St., are one of Kosene & Kosene's newer Downtown projects. In the last seven years, Kosene & Kosene has built five condominium projects Downtown and has 200 units in the city center.

Kosene & Kosene helped blaze the trail for condo development in Indy's city center

By Madhusmita Bora
maddie.bora@indystar.com

Nearly three decades ago, Indianapolis-based Kosene & Kosene began like many family businesses in America: Two siblings with a dream to strike out on their own.

Gerald Kosene and his brother David didn't have the financial backing, a family heritage or an established name. All they had was a shared vision and some experience in the real estate world constructing small shopping centers, medical office buildings and industrial warehouses.

In the late 1990s, the brothers decided to gamble.

They steered away from their commercial offerings and decided to focus mostly on building luxury condominiums. They believed that a "new urbanism" concept taking off in other cities would allow them to build and sell condominiums in Downtown Indianapolis, where residents could live close to work, shopping and cultural and sporting events.

Their bet paid off.

In the last seven years, Kosene & Kosene has built five condo projects Downtown, leading other developers to do the same. Now, more than 1,100 new housing units are expected to be built Downtown by 2010, according to Indianapolis Downtown Inc., a nonprofit that promotes the area.

The company didn't limit itself to the heart of the Circle City. It began making forays into Broad Ripple and Carmel and most recently landed projects in Illinois, Texas and Florida.

Kosene & Kosene grew from two employees to 71, with sales reaching $135 million in 2005. The company began developing projects with veterans such as Simon Property Group and CBL & Associates Properties.

"We want people to live work and play in the same location without being vehicle-dependent," said Gerald Kosene. "We are trying to reproduce what Broad Ripple is."

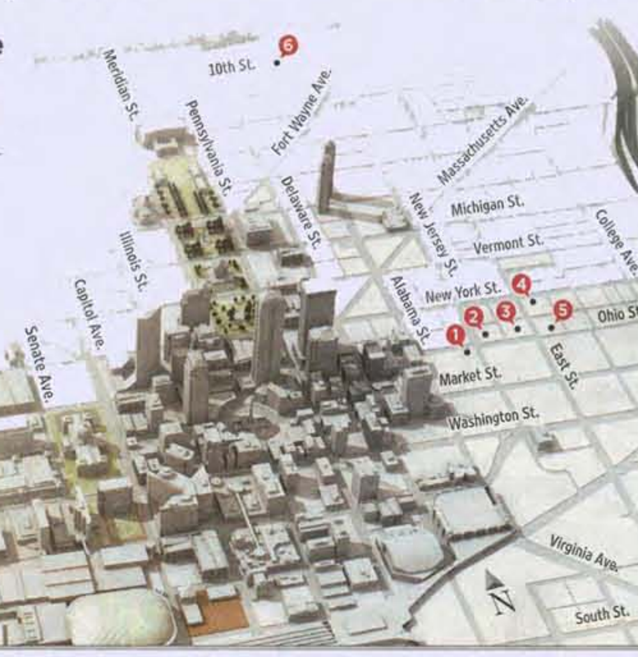
Experts say the developers were

See Kosene, Page C4

A look at Kosene & Kosene condominium projects in Downtown Indianapolis

Three of Kosene & Kosene's Downtown projects — The Hudson, The De Soto and The Maxwell — are currently under development.

1. **The Hudson** 355 E. Ohio St.
2. **The Clevelander** 223 New Jersey St.
3. **The Packard** 450 E. Ohio St.
4. **The De Soto** 521 E. New York St.
5. **The Maxwell** 530 E. Ohio St.
6. **The Alten** 1009 E. Alabama St.



GREG NICHOLS / The Star

Startups need to research investors

Entrepreneurs can face bad situations in which venture funds wrest control of firm

By Ellen Rosen
The New York Times

It's not quite 1999, but for entrepreneurs, the money is flowing again.

"It's a Goldilocks market — it's not too hot, it's not too cold — it's healthy," said James F. Fulton, a partner at the San Francisco law firm Cooley Godward who represents startup technology companies and venture capital firms.

But, he added, "we're not seeing the pendulum swing where entrepreneurs can write their own ticket," as was often true before the Internet bubble burst.

One thing has not changed — money can come with a high price. The biggest problems, legal and financial specialists say, are deals that excessively dilute management's holdings in the company or require the company to relinquish too much control to the investor.

When "your company is running out of money, you want to get the most money at the best price," said George R. Garrick, the former president of Wine.com.

Now, Garrick, along with the former chairman and other investors of Wine.com, has sued Baker Capital, a New York firm whose funds invested $17 million in Wine.com in 2004. On Wednesday, a state court in San Francisco will hear arguments on Baker Capital's motion to dismiss the case on jurisdictional grounds.

The lawsuit, like two others filed in Silicon Valley in recent years involving Epinions.com and Nishan Systems, illustrates how seemingly good deals can go awry. And the details contained in the complaint, along with the documents filed in court, provide a glimpse of how relations with backers can sour.

Wine.com is in many ways a

See Startups, Page C4

Need a job? Head to Hawaii

Unemployment rate is lowest in U.S., leading businesses to offer big bonuses

By Mark Niesse
Associated Press

HONOLULU — Hawaii almost could change its state motto to "Help Wanted."

"Now hiring" signs decorate storefront windows. Some companies entice workers with flexible scheduling. First Hawaiian Bank has doubled its hiring bonus to $500 besides offering gym memberships, tuition reimbursements and medical spending programs.

At 2.4 percent, Hawaii's unemployment rate for January, the most recent figure available, was the lowest in the country. The national average rose to 4.8 percent in February, according to the Labor Department.

In other words, it's a great environment for those seeking work on the islands, said Beth Busch, president of Success Advertising Hawaii, which organizes several job fairs each year.

Workers are in such high demand that businesses are offering better salaries, more benefits and extra overtime pay.

Joelle Branch, a 27-year-old single mother, found a job that allows her to have Tuesdays and Thursdays off so she can attend university classes, and she already has received a raise.

Jamba Juice, which is rapidly expanding its smoothie outlets in the islands, offers a $10,000 bonus to store managers who stay on the job for three years.

"It's a continuous challenge to attract and retain workers," said Iris Matsumoto, senior vice president for human resources at First Hawaiian Bank.

Hawaii's unemployment rate is at its lowest level since January 1991, according to the state Department of Labor and Industrial Relations. Only 15,300 people are unemployed out of 645,700 in the total labor force.

No other state comes close to its unemployment rate. The next lowest are Florida and Virginia, at 3 percent each, while Mississippi has the highest jobless rate, at 8.4 percent.

But job hunters may want to think twice before relocating to Hawaii. Travel to anywhere beyond the islands is expensive, property values and rents are sky-high, and with a bustling economy and job market come worsening traffic, pricey lunch options and few places to get away from crowds of tourists.

On the other hand, businesses are willing to pay people higher salaries to compensate for the cost disadvantages of the island lifestyle.

Even starting pay at most fast-food restaurants is above the minimum wage, ranging from $7 to $12 an hour.

KOSENE & KOSENE RESIDENTIAL

- **Year founded:** 1977.
- **Entered residential market:** 1998.
- **Founders:** Gerald and David Kosene.
- **Principals:** Gerald Kosene, David Kosene, Tadd Miller, Angela Guinn.
- **2005 sales:** $135 million.
- **Current projects:** Downtown Indianapolis (The Hudson, The De Soto, The Maxwell); Broad Ripple (Ferguson Commons, Monon Row V, Monon Mews); Meridian Kessler (Woodmont); Carmel (The Commons at City Centre); Belleville, Ill. (Scheel Street Station); Bonita Springs, Fla. (The Residences at Coconut Point); Houston (Pearland Town Center).
- **Number of employees:** 71.

Source: Kosene & Kosene

Kosene

• Firm's first residential work was in Hamilton County.

From C1

helped by their early recognition of the shift toward Downtown living that was already in vogue in other cities.

"There is a big trend," said Adrienne Schmitz, director of residential community development at the Urban Land Institute in Washington. "It's taken 20 or 30 years to finally reach the mainstream, but you see more and more developers, architects and even the public embracing the concept."

And the interest is not just limited to residential developers.

Kosene & Kosene's success with Downtown condo projects such as the Clevelander and the Packard piqued the interest of mall developer Simon Property Group. The mall giant began experimenting with the concept and offered the developer a partnership at Simon's most extensive retail-residential development in Bonita Springs, Fla.

"There was a comfort level knowing who they are and seeing what they have done," said Tom Schneider, executive vice president for development at Simon Property Group.

Before Kosene & Kosene entered the residential market, its first project was a pharmacy-anchored shopping center on 116th Street and Allisonville Road.

That was followed with more single-story office buildings. Then, in 1999, the company began to look for a new business model in residential development.

"The fact was what we were doing until then was dominated by mostly publicly traded companies," David Kosene said.

Their first condo venture was Monon Row in Broad Ripple in 2000, closely followed by the Clevelander Downtown.

"People liked the contemporary lofts, the wood floors, granite counters, French doors and high ceilings," he said.

Kosene & Kosene hasn't looked back since. It now has 200 Downtown units, 75 units in Broad Ripple and 125 Carmel units in its portfolio.

"They are a good solid company, and they have set a good example," said Todd Maurer of Halakar Real Estate, a competitor.

"When they came to Downtown, it was much more of a risk," Maurer said. "They had the vision and tested the market, making it easier for people like me to build residential products Downtown."

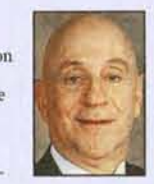
Today, the company has far more opportunities than it chooses to pursue, said Gerald Kosene. That's because it has learned the importance of being selective.

"Some people never find their niche," Gerald Kosene said. "We think we found ours."

★ Call Star reporter Madhusmita Bora at (317) 444-6202.

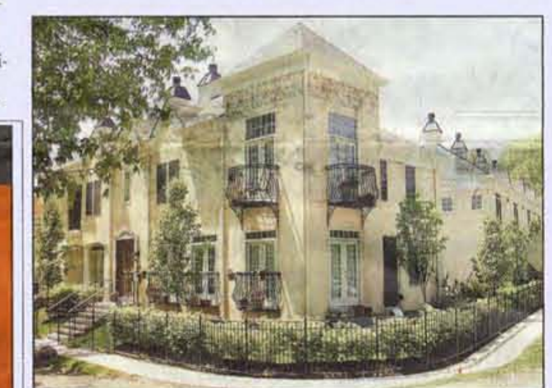
ALAN PETERSIME / The Star

EXPECTATIONS ARE HIGH: Workers are busy patching, sanding, priming and painting at The Hudson condos located at 355 E. Ohio St.



David Kosene

Gerald Kosene



IN BROAD RIPPLE: Monon Row in Broad Ripple was Kosene & Kosene's first condo venture. It was developed in 2000.

Startups

• Expert says entrepreneur due diligence is a must.

From C1

typical Internet retailer. Incorporated in 1999, its concept was straightforward — selling wine online. But as with so many online businesses, developing a dependable revenue stream took time.

Garrick joined the company in 2004 as president with a mandate to raise money for expansion. Because Wine.com is a private company, it does not publicly disclose its finances.

Garrick said he met with the partners of Baker Capital, which manages a $1.1 billion technology fund, according to a recent filing in another court proceeding. As a result of its investment, Baker had the right to appoint two directors to the board of Wine.com, according to the complaint.

Additionally, filings show, as part of the deal, the company amended its certificate of incorporation to give the Baker Funds, a subsidiary, the right to approve or reject any proposed merger or sale.

According to Garrick, relations between management and the Baker representatives went smoothly until last year, when Wine.com ran short of cash. At that time, the board decided that its best option was to sell the company, and it ultimately received a bid from Liberty Media for $67.5 million, according to a copy of an offer letter that was included in the complaint. Liberty Media did not return calls seeking comment.

"We had alternative sources of cash," Garrick recalled, "but what we concluded was that our investors would do better to sell to Liberty."

He explained that the company's management weighed raising more money and keeping control of the company against selling, and "calculated that if we continued to be independent and raise more money, the value to current investors would only be $25 million. But if Liberty bought us for $67 million, the investors would get more than twice that with no risk."

What happened next is at the heart of the dispute. According to Garrick, the board, including the two directors chosen by Baker Capital, liked the offer and voted to approve it. But, he said, when the Baker Funds voted as shareholders, "they blocked the deal."

"At that point, we were out of time and we were in a distressed situation," Garrick said. "The only option in lieu of bankruptcy was to get cash from Baker. They offered terms that were very favorable to them but onerous to the other investors."

Those terms included the dilution of the value of the existing investors' shares by 60 percent to 70 percent, said Ralph Alldredge, a partner in the San Francisco office of Preston Gates & Ellis who represents the plaintiffs.

John C. Baker, the founder of Baker Capital, did not return calls seeking comment. But his lawyer, Mitchell A. Karlan, a partner in the New York office of Gibson, Dunn & Crutcher, said the Liberty Media offer was not binding.

He added that there was "never a board vote" on the Liberty proposal "because there was never an offer, only a very vague expression of interest."

He described the lawsuit as having a "lack of merit" and said by e-mail that "Baker Capital saved Wine.com by providing it with needed funding at a time when no one else would do so."

Garrick subsequently left the company and last month