<u>Via Electronic Mail</u>

The Honorable Christopher Cox, Chairman
U.S. Securities and Exchange Commission
Attn: Nancy M. Morris, Secretary
100 F Street, NE
Washington, DC 20549
Electronic Address: rule-comments@sec.gov

The Honorable Mark W. Olson, Chairman
Attn: Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803
Electronic
Address: comments@pcaobus.org

Subject: <u>Comments on File No. S7-24-06; Management's Report on Internal Control Over Financial Reporting; PCAOB Release No. 2006-007, Proposed Auditing Standard</u>

Dear Chairmen Cox and Olson:

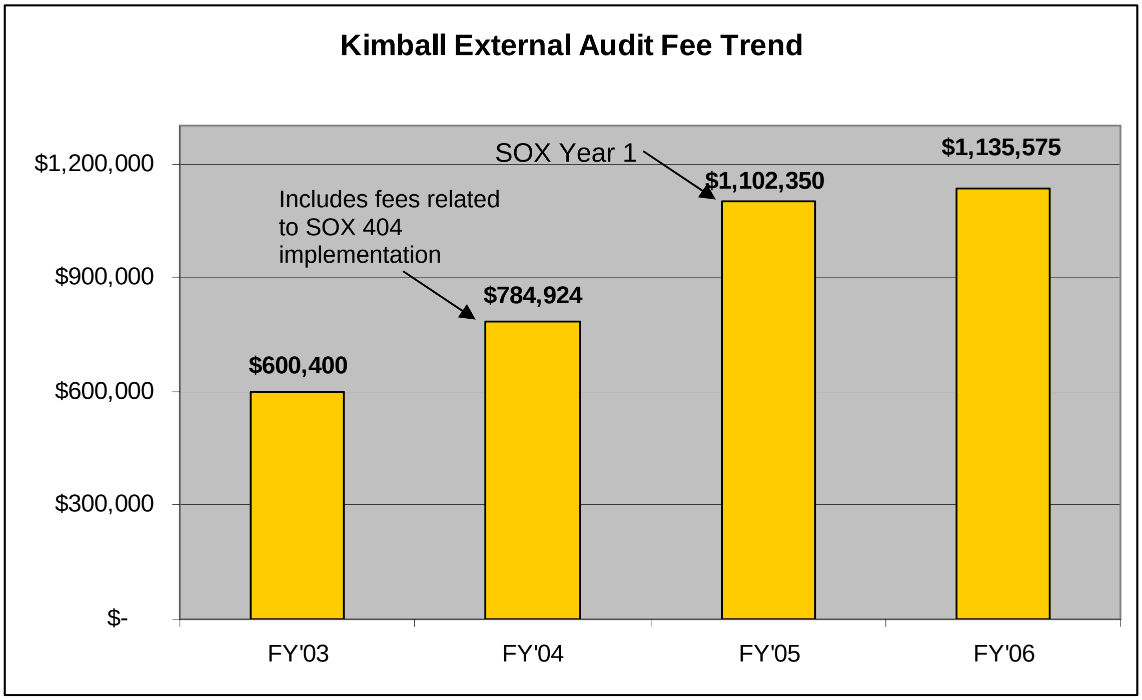
Kimball International would like to thank the SEC and the PCAOB for the opportunity to comment on the proposed changes in regulation and guidance used in the implementation of Section 404 of the Sarbanes-Oxley Act of 2002.

For more than 55 years, Kimball has proudly built a solid reputation as a highly ethical company competing in the furniture and electronics markets in North America, Europe, and Asia. We recognize and take seriously our role in restoring and maintaining public confidence in corporate America, including our responsibility to maintain an effective system of internal control.

Accordingly, we continue to support, in principle, the SEC and PCAOB goal of enhancing the effectiveness of internal controls and financial reporting. However, these goals need to be achieved in a more cost effective manner and are very much encouraged by your willingness to propose changes to accomplish that real cost burden relief.

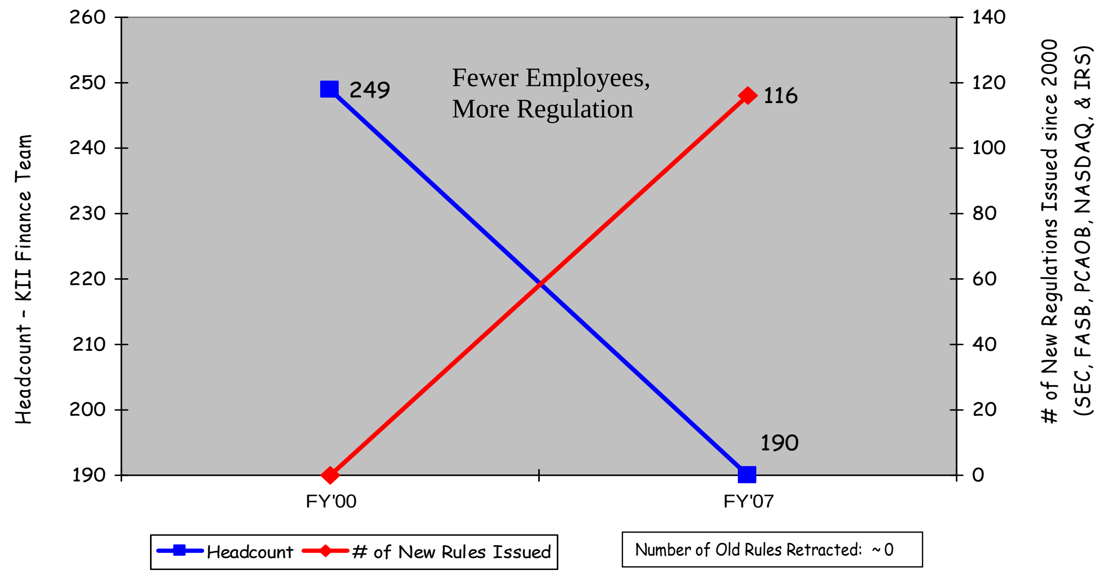
The current definition in use does not allow Kimball to qualify as a smaller public company. We do compete based on skill, as all small public companies also do, in an increasing globally competitive marketplace of significant scale players. It is heartening to see the courage to shed the "one size fits all" mantra by embracing the scaling recommendation of the Advisory Committee on Smaller Public Companies and formulating for implementation an alternative to the AS2 methodology.

The effect of SOX 404 on Kimball's cost structure has been significant. Employees throughout our worldwide organization invested 25,000 hours of their time designing and implementing a more formalized and detailed internal control system in 2003 and 2004. Our employees now maintain this more formalized system, driving on-going yearly costs. In addition to our internal costs, SOX 404 and the PCAOB required extremely detailed audit work by our external auditors, significantly increasing our audit costs. As illustrated by the following graph, our external audit fees (*exclusive of our internal audit* *costs*), as reported in our past proxy filings, have increased from $600,400 pre-SOX 404 to $1,135,575 in our most recently completed fiscal year. This represents an increase of 89%.



It is very easy to focus only on SOX 404 and the related activity and cost increase driven by this hotly debated regulation. What is not so clear to be seen, though, is the "layering effect" of government regulation on top of government regulation and the cumulative effect it has on global competitiveness of U.S. public companies. The diagram below illustrates a phenomenon we call "*The X-Factor*", which is impacting negatively our company, and likely most other U.S. public companies to varying degrees. Inch by inch (new regulation by new regulation), it is hard to see "*The X-Factor*", but when you look at trends over a period of time, it comes into focus very clearly. Starting in the late 1990's with the expansion of Asian manufacturing competition and the resulting pricing pressures, U.S. companies began to see intense margin pressure, perhaps unprecedented. At Kimball, like so many companies, our response included streamlining operations, including back-office processes, with tools such as Lean and 6-Sigma. As noted in the diagram below, Kimball reduced headcount in our financial organization from 249 in year 2000 down to 190 today in response to the globally competitive environment. Likely, many other manufacturers have experienced similar reductions to stay competitive. Over this time horizon, there have also been a staggering number of new regulations from the SEC, FASB, PCAOB and the IRS. For Kimball, we count approximately 116 new regulations that required research & analysis, consultation with our attorneys and auditors, and implementation throughout our company, as appropriate, by a smaller finance organization. Note that the 116 new regulations does not include the myriad of new payroll tax, property tax and less significant state and federal income tax changes that are far too numerous to count. Obviously, each new regulation drives incremental activity and cost. The most notable 10 in terms of complexity and resource consumption are listed at the bottom of the diagram below.

Kimball International – Finance Complexity Trends
"The X-Factor"



Top 10 Tax & Accounting Rules Issued Since FY'00 In Terms of Complexity & Resource Consumption:

-Sarbanes Oxley, including SOX 404
-American Jobs Creation Act
-FIN 48 – Uncertain Tax Positions
-US/Mexico Advance Pricing Agreement Program
-Rev. Proc. 2004-45 (Added Schedule M-3 to tax return)
- FAS 123(R) – Stock Based Compensation
- FAS 133 – Derivatives Accounting
- Expanded 8-K Disclosure Rules
- Executive Compensation Disclosure Rules
- FIN 46 – Variable Interest Entities

And so while economic pressures have driven companies to be as lean as possible to compete globally, governmental regulations have continued to grow each year, reducing companies' competitiveness. Additionally, as companies have streamlined their organizations to remain competitive, the increasing layering of new regulations upon public companies coupled with the shorter 10-Q, 10-K and 8-K filing timelines increases the risk of financial statement errors and restatements, which is just the point that the Sarbanes Oxley legislation was intending to avoid. SOX 404 and its effect on U.S. competitiveness is very important to reassess; but what is more impactful is for our regulators to begin to take a more macro view of government regulation and begin balancing the cumulative "layering" effect of regulations from all governmental bodies and the impact it has on competitiveness of U.S. public companies in the world economy.

These are our specific thoughts on the significant aspects of new PCAOB proposed rules.

- A significant change providing an opportunity to reduce the Section 404 burden is eliminating the 2nd opinion on management's process. Removing the requirement to evaluate management's process will reduce duplicate work in areas of preparing, reviewing, and assessing the effectiveness of our processes.
- The increased emphasis to focus on company level controls with a top-down risk approach, while not new, could reduce the minutia of testing controls in a prescriptive manner provided the audit firms achieve and sustain a staff of strong auditors.

- The change in the definition of a significant deficiency and material weakness appear to us to be more perception than realistic change resulting in a lower cost burden. The change from “more than inconsequential” to “significant” could reduce efforts and activity on items that clearly would not become significant. It remains to be seen how it is applied.
- The proposal omits the statement that “each year’s audit must stand on its own”. This change, if it allows auditors to leverage prior year’s work, could have significant impact on some testing procedures, especially in those areas where no significant changes have occurred in the current year.

The Sarbanes-Oxley Act of 2002 was a necessary corporate governance reform. Section 404 of the act, and especially the chosen implementation methodology, has forced cost choices and placed a significant cost burden on U.S. public companies to achieve compliance that ultimately impacts shareowners in a negative manner.

We compliment the Commission and the PCAOB for reevaluating interpretations of Section 404, and in particular the PCAOB’s audit standard number 2 and strongly urge the continuance activity to consider future relief by eliminating bureaucratic requirements and permitting external audit firms to rely more on management’s assessment of internal controls.

Respectfully submitted,

James C. Thyen

President and Chief Executive Officer

Kimball International

Robert F. Schneider

Robert F. Schneider

Executive Vice President and CFO

Kimball International

cc: Mark Hodell, Kimball International

Dan Goezler, PCAOB

Mike Halleron, SEC