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COMMITTEES:
ARMED SERVICES
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ENERGY AND NATURAL RESOURCES
SELECT COMMITTEE ON INTELLIGENCE
SMALL BUSINESS
SPECIAL COMMITTEE ON AGING

October 13, 2003

William McDonough
Chairman
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Dear Chairman,

Enclosed, please find a letter from Kimball International of Jasper, Indiana. Kimball International recently contacted my office regarding the Sarbanes-Oxley Act. Specifically, the corporation is concerned with section 404(b) which addresses internal control evaluation and reporting. Please include their comments in your rulemaking process. I am forwarding Kimball's letter to you for consideration during your public comment period.

Sincerely,

Evan Bayh

Fax

Name: Mary Moore Hamrick
Organization: PCAOB
Fax: 862-8436
Phone: 207-9165

From: Shellie Bressler
Office of Senator Richard Lugar
202-224-2526

Date: November 17, 2003
Subject: Comment Letter
Pages: 1

To follow up on our earlier discussion, at Senator Lugar's request, please include Mr. Douglas Habig's letter addressed to Senator Lugar in the official comments of the regulation.

Thank you for you consideration in the matter.

Shellie

From the desk of...

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Kimball International

1600 Royal Street . Jasper, IN 47549
Telephone 812.482.1600

October 23, 2003

Senator Evan Bayh
463 Russell Building
Washington, DC 20510-1404

Senator Richard Lugar
306 Hart Senate Office Bldg
Washington, DC 20510-1401

Congressman Baron Hill
1024 Longworth
House Office Building
Washington, DC 20515

Dear Senators Bayh and Lugar, and Congressman Hill:

We are writing to you concerning a very important issue, not only for Kimball International, but for all American publicly held companies. We are also doing so because you are our elected Representative. We appreciate you as our "voice" in these matters and very much respect your leadership.

I am sure you are familiar with the proposed auditing standard recently published by the Public Company Accounting Oversight Board (PCAOB) as a result of direction given in the Sarbanes-Oxley Act under Section 404(b). We may be one of the first companies to contact you about this issue because we are a June 30 year-end company, and, as such, are one of the required "early-adopters" of the standard.

While certainly the past conduct of far too many U.S. corporations was egregious and unconscionable, it was still a small minority of American companies. Congress was wise to take prompt action to pass legislation which we all hoped would curb and prevent any further abuse, conflict of interest in the large public accounting firms, as well as restore public confidence in our stock markets.

However, we believe strongly that with this PCAOB standard on Section 404(b), the pendulum has swung much too far to the side of overly burdensome regulation which will continue to erode the competitiveness of American companies. All of this comes in an environment of incredibly intense international competition, especially from China. The regulatory burden and costs imposed by the PCAOB standard will further add to the cost structure of American business. These costs cannot be recovered from our customers and will drop us further behind in our competitiveness with Asian and other countries which are not burdened by such regulations.

To illustrate our point, we have already seen proposed increases in our audit fees for the internal control audits required by the PCAOB pronouncement in the neighborhood of nearly 90%. We estimate our internal compliance costs (our personnel, time in documenting processes, dealing with the external auditors, etc.) for our fiscal year ended June 30, 2004, in excess of $1.5 million.

This is a real cost that will be incurred annually and is in addition to rapidly increasing healthcare costs and a doubling of commercial insurance (D&O, Liability). Unfortunately, like many public U.S. manufacturing companies, this has left us no choice but to seek lower cost manufacturing geographies around the world to remain competitive. We know you are keenly aware of these factors and the resulting loss of U.S. manufacturing base and employment.

While no company is perfect, Kimball has, in the 50 years of its existence, prided itself on our Guiding Principles (copy enclosed) which have served us well in guiding our behavior and decision-making. We had ethical principles of business conduct published well before Sarbanes-Oxley was enacted. Our sense is that the vast majority of public companies did not need these regulations to conduct their business with high ethics, professionalism, transparency, and full disclosure. We know you are as committed in your leadership as we are in ours. Clearly the tone is set at the tope of any organization. The character of your leadership is very much appreciate and admired by those of us leading public companies like Kimball International, Inc.

We have watched the developments over the last 2 ½ years with the same disgust and disappointment that I am sure you have seen, but we feel that this PCAOB pronouncement is the proverbial "straw that breaks the camel's back". We think the PCAOB has exceeded its authority under Sarbanes-Oxley with this recent standard. Those regulations will cause controls to become an end in themselves. They bring the ultimate conflict of interest in self-evaluation by audit committees of boards and audit firms. And finally, the regulations give plaintiff lawyers a powerful tool to unfairly transfer the wealth of shareowners and drive very professional, high integrity executives away from service on public boards.

We would ask that as our elected representative you use whatever options might be available to you to attempt to see that this burdensome standard is not enacted. A further detailed explanation of our rationale is included in our CFO's comment letter of October 16th to the PCAOB which we have also enclosed.

We thank you very much for your consideration of this important matter. We would be more than happy to discuss this with you or your staff if you so desire. We thank you for your continued high integrity service and congressional leadership of this great country.

Sincerely,

KIMBALL INTERNATIONAL, INC.

Douglas A. Habig
Chairman, Chief Executive officer

James C. Thyen
President

Kimball International

1600 Royal Street Jasper, IN 47549
Telephone 812.482.1600

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street. N.W.
Washington, D.C. 20006-2803

October 16, 2003

RE: PCAOB Rulemaking Docket Matter No. 008 - Burden On U.S. Manufacturing Companies Greater Than Benefit

Dear Board Members:

I appreciate the Public Company Accounting Oversight Board's research and effort that clearly has been put into the proposed Auditing Standard, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statement,* and the opportunity for public comment. This Standard is pursuant to Section 404(b), among others, of the Sarbanes-Oxley Act of 2002.

It is commonly agreed that the Sarbanes-Oxley Act was rooted in the very significant and disturbing accounting scandals that became public immediately prior to the Act. Each scandal of course had different facts and circumstances but in my view, there were 3 common elements:

1. Lack Of Integrity Of Management & The Board
2. Lack Of Independence Of The Auditor
3. Lack Of SEC Oversight And Enforcement Of Existing Securities And Criminal Laws

The first item cannot be legislated; the second is being appropriately addressed by recent legislation and the third is also being addressed by increased staffing of the SEC and greater legal action being taken against companies, and more importantly, the individuals within companies that perpetrate frauds.

With respect to the passing of Sarbanes-Oxley legislation in 2002, many helpful changes were debated by Congress, and ultimately, included within the legislation. On the topic of internal controls, Congress included very specific language to keep management focused on the integrity of financial reporting. Section 404(b) of the Act states:

> *"(b) Internal Control Evaluation and Reporting.– with respect to the internal control assessment required by subsection (a), each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, the assessment made by management of the issuer."*

It is my view that our Congress men and women intended for this language to mean what it literally states, and not be subject to the interpretation of the Public Company Accounting Oversight Board. Specifically, public accounting firms should attest to the assessment made by management, not perform a detailed audit of internal controls. This is a very important distinction as a detailed audit of internal controls each year is extremely costly to American business and its competitiveness, and in the end, will not address the lack of integrity of management and the board, which is such an important cause of accounting scandals. The best of controls can be easily circumvented by unscrupulous management as you indicate in PCAOB Release No. 2003-017, Page 5:

> *"Regardless of how well any system of internal control over financial reporting is designed and operating, it cannot provide absolute assurance of achieving financial reporting objectives because of inherent limitations. These inherent limitations exist because internal control over financial reporting is a process that involves human diligence and compliance and, consequently, can be intentionally circumvented."*

It is my view that Congress recognized this fact and accordingly did not intend for a detailed audit of internal controls. They effectively balanced the value of a detailed audit with the cost to American business and its competitiveness.

Further, you indicate on Page 8 of Release No. 2003-17:

> *"...investors expect the independent auditor to test whether the company's internal control over financial reporting is effective, and the proposed auditing standard would require the auditor to do so."*

I do not agree with this. What I think investors want to know is simply if the numbers in the financial statements are correct or not and if the disclosures are correct or not. If the numbers and the disclosures are correct and complete, I do not think investors give weighty consideration as to *"how"* the numbers got to their reported correct state. In the end, investors know that internal controls are nothing more than a tool in running an effective business, and that the most important aspect to running an effective business for the long-term is the integrity of management and the board. And without that integrity, internal controls are ineffective, whether audited or not, in giving absolute assurance the numbers and disclosures in financial statements are correct.

As noted above, I think Congress knew this, and therefore did not intend for the PCAOB to write regulations requiring a detailed audit of internal controls. They did, however, see the value in having the public accounting firm attest to management's assertion of its internal controls, which is much less costly to American business.

The final analysis of this proposed Auditing Standard requiring a detailed audit of internal controls is that public companies across America will incur greater costs, will become uncompetitive with companies not subject to this standard; and in the end, all this cost and work on internal controls would not have stopped the accounting scandals that initiated the Sarbanes-Oxley legislation in the first place, as we cannot legislate integrity. It is important to note, though, that many aspects of the Sarbanes-Oxley legislation have had and will continue to have positive effects with respect to the 2nd point (Lack Of Independence Of The Auditor) and the 3rd point (Lack Of SEC Oversight and Enforcement Of Existing Securities and Criminal Laws); and in the end, it is these changes of real substance that give investors real confidence in the accuracy of financial reporting.

Sincerely,

Robert F. Schneider

Robert F. Schneider
Kimball International Inc.
Executive Vice President,
Chief Financial Officer, Treasurer

CC: Financial Executives International, Colleen Sayther, President and CEO