

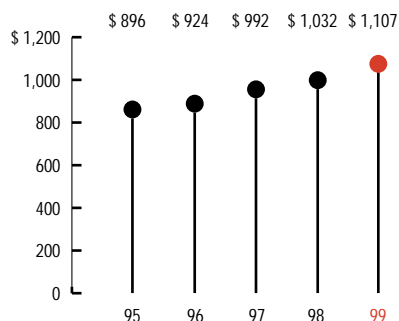
M A N Y F A C E S

O N E F O C U S

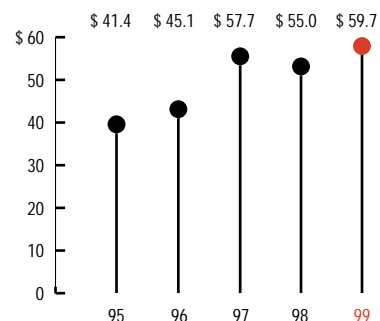
There are many ways to look at Kimball. Maybe you perceive us in terms of your own firsthand experience – seeing the skill and craftsmanship that goes into every product we manufacture. Or maybe you recognize us for the diversified, global manufacturer of furniture and cabinets and electronic contract assemblies that we are today. The fact is, there are many more faces to Kimball than meets the eye. Today's Kimball is a strategic balance of fine-tuned businesses that complement one another. Today's Kimball is aggressively pursuing new and profitable opportunities, both domestically and internationally, related to our core competencies. Our employees are ambassadors representing our heritage of quality and craftsmanship that has been passed down throughout our history. Our leaders are a team of seasoned professionals with proven world-class achievements. Above all, today's Kimball is the culmination of a singular strategic vision. This One Focus has shaped us into what we are today. This One Focus will shape us for our future.

Financial Highlights

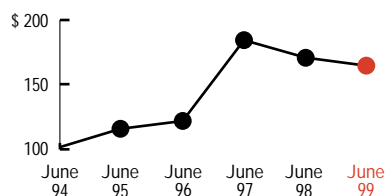
Net Sales
In Millions Of Dollars



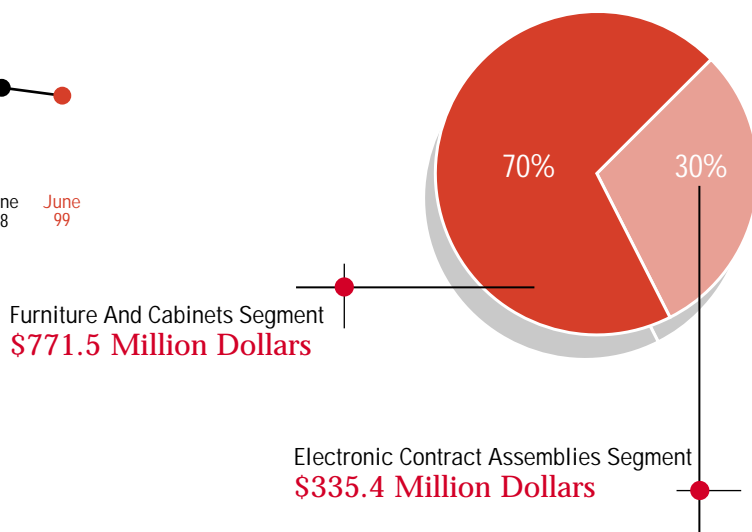
Net Income
In Millions Of Dollars



Share Owner Total Return
Based On \$100 Investment On June 30, 1994



Sales By Reportable Segment



Contents:

- (1) Letter To Our Share Owners
- (3) Vision Statement
- (4) "Many Faces . . . One Focus"
- (16) MD&A

Furniture and Cabinets Segment
The Furniture and Cabinets Segment of Kimball International, Inc. provides a vast array of products for the office, residential, hospitality and healthcare industries. Kimball's Office Furniture product lines serve the business market with casegoods, seating and systems furniture in both wood and metal, from

traditional to contemporary in style, produced and marketed under the family of Kimball brand names. Extensive product lines cover all businesses, from multinational corporations to small start-up companies. Kimball Home supplies the residential market with fine furnishings for every room of the home, as well as

home office furniture to meet the specialized needs of the growing work-at-home market. Kimball Lodging and Healthcare designs and manufactures furniture for the hospitality, healthcare and government markets. Kimball Store Fixtures designs, manufactures and installs wood and laminate store display fixtures for some of

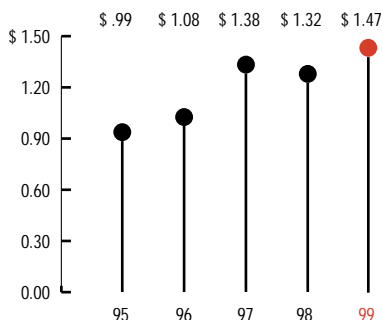
Kimball International, Inc. And Subsidiaries

Founded in 1950,

Kimball International manufactures and markets a broad range of diversified consumer durable products under the family of Kimball brand names.

The Company also manufactures products for other companies on an original equipment manufactured basis.

Earnings Per Share Of Common Stock Diluted Class B



(Amounts in Thousands, Except for Per Share Data)	1999	1998	% of Change
Net Sales	1,106,967	1,032,317	7.2%
Net Income	59,725	55,027	8.5%
Return on Capital	12.32%	11.90%	3.5%
Earnings Per Share (Diluted)			
Class A	1.45	1.31	10.7%
Class B	1.47	1.32	11.4%
Dividends Declared			
Class A	.62	.58875	5.3%
Class B	.64	.6050	5.8%
Market Price Per Share			
High	21.50	24.9375	
Low	14.5625	17.00	
Close	16.8750	18.1250	

(20) Report Of Management

(21) Financials

(40) Board Of Directors/Officers

Tribute To Our Founders
(Inside Back Cover)

Other Corporate Data
(Back Cover)

the largest retail chains in the United States. Kimball business units also produce a variety of original equipment manufacturer (OEM) products such as home audio systems, television cabinets and stands, store display fixtures, kitchen and bath cabinet components, pool tables and home furnishings for some of the world's

leading brand names. Kimball offers a variety of products and services such as dimension lumber, plywood, veneer and wood components, metal stamping and molded plastics for the Company's furniture manufacturing operations as well as for sale to external customers, both domestically and internationally.

Electronic Contract Assemblies Segment
The Electronic Contract Assemblies Segment provides design engineering, manufacturing, packaging and distribution of electronic assemblies, circuit boards, multi-chip modules and semiconductor components on a contract basis to customers in the transportation, defense, aerospace, telecommunications, computer and medical industries.

To Our Share Owners

Vision, strategy, execution. What's the significance of these words? When we reflect on our performance during fiscal 1999, these words represent to us our disciplined efforts to intensify our focus on growing Kimball International and improving profitability, and ultimately, living our Corporate Vision Statement. By living our Vision and executing our strategy, fiscal 1999 was marked with a number of important accomplishments including the culmination of several strategic acquisitions and divestitures, introductions of exciting new products and services and the enhancement of our leadership team, along with many other achievements. Needless to say, it has been a challenging year, but a year that we each look upon proudly as we reflect on these accomplishments, which position your Company for more aggressive growth in the future.

Our focus on accelerating growth was characterized by several important acquisitions that were completed during fiscal 1999. In August 1998, we nearly doubled our timberland holdings by acquiring 11,700 acres in western Kentucky to support our vertical integration strategy and provide possible sites for future expansion. And in September, our "Total Best Solution" office furniture program was enhanced by the purchase of Transwall, a manufacturer of stackable panel systems marketed under the brand name "Reasons" and the "Corporate Wall" brand of floor-to-ceiling products. Southeast Millwork, now known as

Kimball Store Fixtures, which designs, manufactures and installs customized wood and laminate store display fixtures, was purchased in January 1999. And finally, in April 1999, we bought a state-of-the-art manufacturing facility located in Juarez, Mexico, to increase our production of projection television cabinets and provide manufacturing capacity for other furniture and cabinet markets. We consider all of these acquisitions to be key components of our overall vision and strategy for more aggressive growth, improved profitability and increased Share Owner value.

And to intensify our focus on growing our core businesses, we reached a strategic decision to sell Kimball Furniture Reproductions based in Montgomery, Alabama, and ToolPro based in Jasper, Indiana. The sale of these two business units are examples of our commitment to increase our growth and profitability more aggressively by concentrating our energies on the primary markets in which we compete and generating additional capital for our acquisition strategy.

Linked to our acquisition strategy was our establishment of a \$100 million credit facility in May of this year. As we head into the next millennium, our growth plans and acquisition strategies will require additional financing above the operating cash flow historically used to fund our business. This line of credit will allow us to finance that growth while at the same time lower our overall cost of capital.

Fiscal 1999 was another exciting year filled with the introduction of several new products and services. We unveiled a number of new and innovative seating, systems and filing products to give our dealers and customers even more quality Kimball office furniture products to choose from. And to capitalize on the rapidly growing residential furniture market, we expanded our collections of distinctive residential furniture marketed under the Kimball Home brand while leveraging our well-known reputation in the lodging and hospitality markets to explore new opportunities for our custom casegoods products. Our recently introduced "Ovation" bed designed for the long-term care market is opening doors for further expansion of our casegoods products designed for the healthcare industry. And Kimball Electronics Group continues to diversify its customer base and related products and increase their value-added design engineering services offered by Kimball Electronics Design Services.

During fiscal 1999, we appointed several leaders to executive positions throughout the organization to guide your Company into a more competitive global marketplace, identify potential business opportunities and execute our growth strategies. These individuals were all chosen because they exemplified the leadership and managerial skills needed to execute our long-term strategic business plans as we head into our next phase of accelerated growth.



Douglas A. Habig
*Chairman of the Board,
 Chief Executive Officer*

Thomas L. Habig
Vice Chairman of the Board

James C. Thyen
President

July 23, 1999

Along with our accomplishments in fiscal 1999, your Company posted record consolidated sales of \$1.11 billion, an increase of 7% over consolidated sales of \$1.03 billion in fiscal 1998. Consolidated sales of Furniture and Cabinets, our largest business segment, increased 9% to \$771.5 million during fiscal 1999. Sales of office furniture increased by 7% during fiscal 1999, establishing a new record for annual sales while outpacing the office furniture industry's overall sales growth during the twelve-month period ended May 31, 1999, according to The Business and Institutional Furniture Manufacturer's Association (BIFMA). Higher sales of large-screen projection television cabinets, a double-digit

rise in sales of furniture components helped by new customers and products, and a modest improvement in sales of lodging furniture despite a general slowing in new orders in the hospitality industry all contributed to the increase. The Furniture and Cabinets Segment posted a double-digit increase in net income during fiscal 1999 due to the increase in sales and a decrease in selling, general and administrative expenses, as a percentage of sales, resulting from our cost containment efforts.

The Electronic Contract Assemblies Segment posted record sales of \$335.4 million, an increase of 3% from sales of \$325.6 million in fiscal 1998. Helped by further diversification of our product lines and new customers, we were able to recover from a relatively slow start during the early part of fiscal 1999 caused by a labor strike against General Motors. Net income was slightly higher during fiscal 1999 due to continued strong sales of components to the transportation industry, and further diversification of our portfolio of products and services, and intensified cost containment efforts including a global procurement strategy to seek lower-priced raw materials and components for our products.

Our combined financial performance in fiscal 1999 resulted in net income, excluding a gain of \$2.7 million from the sale of the two business units, of \$57.1 million, an increase from net income of

\$55.0 million recorded in fiscal 1998. Earnings per share, excluding the \$2.7 million gain, improved to \$1.41 per diluted share of Class B common stock from earnings of \$1.32 per diluted share of Class B common stock in fiscal 1998. Including the before mentioned gain, net income in fiscal 1999 was \$59.7 million or \$1.47 per diluted share of Class B common stock.

Our financial performance also led to a 29% increase in operating cash flow to \$98.0 million during fiscal 1999. Of that amount, a total of \$42.8 million was returned to our investors in the form of cash dividends and record share repurchases. We also deployed a record \$102.5 million in capital for strategic acquisitions, enhancements in technology and purchases of state-of-the-art production equipment all designed to build an infrastructure geared towards more aggressive growth.

Overall, fiscal 1999 was a year of focus; focus on positioning the Company for more accelerated growth and profitability, and ultimately, focus on our Corporate Vision Statement listed on the following page. We would like to thank our nearly 10,000 employees, the "many faces" of Kimball International, who have made your Company's progress possible. And, we would like to thank you, our loyal, long-term Share Owners for having the faith and confidence that you have shown in Kimball through the years.

We Build Success

Kimball International, Inc. And Subsidiaries


*Ron Pronyk**Terri Marquis**Keith Beatty**Don Charron**Spiro Vamvakas**Caroline Fairbanks*

Our Vision

Kimball International is a preeminent manufacturer of furniture, furniture components, and electronic assemblies, serving customers around the world. Our customers, both large and small, receive our undivided attention, as we treat every one as the only one. Our work with our customers is integrated into such an array of products and services, our touch is felt throughout daily life in both the workplace and in the home. Kimball builds products, brands, and a reputation as an ideal place to entrust your livelihood, whether as a customer, supplier, employee, or Share Owner.

Our vision is to advance a new industrial covenant: immediate access to world-class design and manufacturing. Our products will reach end users through many paths, whether as one of our own brand names that we market, as a brand that we agree to provide for a separate company, or as a component of another product. Regardless of the Kimball product or whether the customer is ourselves, a company, or a person, our covenant will stand firm.

Our unifying bonds across our company will continue to be our unique culture and our shared skills in the development of efficient, high quality operations and services. By fulfilling our vision, we will emerge as an employer and supplier of choice. Our name will signal reliability and quality to the countless people who use our products and services, as well as to the inventors, designers, and marketers whose dreams take form in our factories and whose success we help build.

Kimball International builds success.

Kimball International, Inc. And Subsidiaries

Kimball manufactures large-screen projection television cabinets on a contract basis for several customers.



Kimball's reputation for quality and craftsmanship and excellent customer service is known throughout the world. I understand how important it is to preserve that heritage which has been passed on over the years. The purchase of the Juarez facility is another example of Kimball's commitment to quality, reliability, value and speed in meeting the needs of our customers.

Keith Beatty
Vice President, Casegoods Group

With Keith's 24 years of manufacturing experience at Kimball along with a quality, diversified workforce already in place, production operations at the recently acquired Juarez facility are already on-line serving our customers.

Kimball International, Inc.

"Many Faces . . .
One Focus"

Leadership

Kimball's vision for the future has evolved from its founders and has steered the course since the Company's beginnings as a small, regional cabinetmaker in 1950. While Kimball has many faces, the Company's Vision Statement provides a singular focus and has been crafted to capture the beliefs and principles of its key leaders and the commitment and dedication of its employees, past and present, which have advanced Kimball International to the world-class manufacturer it is today.

What is it that separates Kimball from its competition? Quite simply, it is the dedication and commitment of its employees and the products they manufacture and market every day that make the difference. The employees, the "many faces" of Kimball International, are today — and have always been — the driving force behind the success of the Company. Just compare the look and the feel of Kimball's rich wood finishes, the innovative features and quality of its electronics products or the distinctive sound of the Bösendorfer piano that is world renowned. This is the heritage of quality and craftsmanship embodied in the vision statement that has been passed on throughout the years to the many faces of Kimball, and what differentiates the Company from its competitors.

The Company continues this heritage with strong leaders that embrace and enhance the Vision of the future for Kimball International. During fiscal 1999, several leaders were appointed to executive positions to guide Kimball into a more competitive global marketplace and carry on the heritage of quality and craftsmanship. Dr. Rudolf Arlt was named Managing Director of Bösendorfer; Larry Knust, Vice President, Systems Furniture Group; Mark Phillips, Managing Director, Kimball U.K. and Ireland; Ron Pronyk, Vice President, Store Fixtures; and Chris Thyen, Vice President and General Manager, Lodging/Healthcare Group.

And the Electronic Contract Assemblies Segment continued its efforts this past fiscal year to fill out its leadership team and strengthen its position as a world-class provider of electronic contract assemblies and design engineering services. In May 1999, Don Charron was named President for Kimball Electronics Group and Executive Vice President for Kimball International, Inc., and Spiro Vamvakas was promoted to Vice President, Director Design Engineering. To actively lead Kimball's efforts to seek out and qualify potential acquisitions and joint ventures, both domestically and internationally, Paul Bergé was named Vice President, Business Development, in September 1998.

A key element of strong leadership is the ability to identify new markets, products and services for growth and increased profitability. In fiscal 1999,



Keith Beatty

Vice President, Casegoods Group

The Bösendorfer piano, known for its distinctive sound, has graced concert halls around the world.



Acquisitions

“Our customers, both large and small, receive our undivided attention.”

your Company was very active in these areas and invested a record amount of capital in production equipment, technology enhancements, new products and a number of strategic acquisitions.

In August 1998, Kimball nearly doubled its holdings of hardwood timberland with the acquisition of an 11,700-acre site located in western Kentucky along the Ohio River. In addition to securing a source of quality hardwood timber conveniently located near several of its wood product manufacturing facilities in southern Indiana and Kentucky, the site may also serve as a potential location for future expansion of Kimball’s manufacturing operations.

In September 1998, Kimball acquired the assets of Transwall, Inc., a privately owned manufacturer of stackable panel systems and floor-to-ceiling products in West Chester, Pennsylvania. The addition of these products to the extensive line of seating and office systems already offered by the Furniture and Cabinets Segment now allows Kimball’s customers even more options to choose from to fulfill their office furniture needs.

Kimball is very excited about the acquisition of Southeast Millwork of Boca Raton, Florida, in January 1999. Southeast Millwork, now known as Kimball Store Fixtures, designs, manufactures and installs customized wood and laminate products in the store display fixtures market. To meet the increasing demand for their products and better serve their customers, Kimball Store Fixtures has recently begun production at a new, leased facility located near Asheville, North Carolina.

And lastly, in April 1999, Kimball purchased a manufacturing facility featuring state-of-the-art manufacturing equipment located in Juarez, Mexico. Kimball was also able to retain the skilled labor force that was already in place prior to the acquisition. The acquisition of this facility strategically positions Kimball to manufacture projection television cabinets for North America and Latin America and other furniture products for the west coast of the United States. The belief in its Vision to treat each customer as though they were the only one played an important role in Kimball’s decision to acquire the Juarez facility.

And Kimball’s leadership did not stop with acquisitions. To help fuel growth and increase market share in its core markets, Kimball also introduced several new and exciting products in fiscal 1999.



Ron Pronyk

Vice President, Store Fixtures



At this year’s NEOCON office furniture show held in Chicago, Kimball not only unveiled its redesigned showroom but also an innovative theme, “Draw the right

Kimball’s acquisition of Transwall includes the “Corporate Wall” floor-to-ceiling panel product.



Kimball Store Fixtures manufactures this display case as well as others for the store display fixtures market.

Kimball International, Inc. And Subsidiaries

Joining the Kimball family is coming at a very exciting time for our business. The store fixtures industry continues to grow as retailers continue to expand and open new stores. With the Kimball organization, we have the resources of a world-class manufacturer to meet the growth demands of the future and carry on the reputation of quality, reliability, value and speed to our customers.

Ron Pronyk
Vice President, Store Fixtures

Ron Pronyk knows the importance of establishing close relationships with his customers and understanding their needs. After dedicating his career to building Southeast Millwork, now known as Kimball Store Fixtures, Ron will continue to expand and pursue opportunities with Kimball in the store display fixtures market.

Kimball International, Inc. And Subsidiaries

“Interworks”, produced by Harpers Manufacturing, is a comprehensive panel workstation system and freestanding desk series offering more options with fewer components to work with.



There are tremendous growth opportunities for Harpers Manufacturing today and that is why I accepted the challenge to become General Manager. We're gearing up to launch a number of new and exciting products and enhancements to our existing product lines that we feel will be very successful. We have implemented new technologies and process discipline that make Harpers more competitive than ever before!

After three decades of driving plant performance, Caroline is generating process improvements at Harpers Manufacturing. Caroline brings a seasoned manufacturing background, including experience working in international markets. Her expertise in manufacturing techniques will continue the focus on maximizing Harpers' manufacturing potential.

Caroline Fairbanks

General Manager, Harpers Manufacturing

Products

“Our touch is felt throughout daily life in both the workplace and in the home.”

conclusion: it’s all about integration”. Kimball’s products represent the function and aesthetics required for today’s dynamic work environment, all in an integrated solution to meet the myriad of unique needs of its customers.

Designed to broaden the portfolio of products featured under the popular “Total Best Solution” program, Kimball announced several unique seating and systems products at NEOCON. Debuting at NEOCON was “Waveworks”, National Office Furniture’s laminate modular collection offering a variety of work surface shapes and sizes and multiple storage options designed to inject creativity and flexibility into the work environment. Also introduced at NEOCON was “Gotcha!”, a dynamic, mid-management and task-seating line offering contemporary styling and several standard ergonomic features. To complement its extensive line of wood casegoods, Kimball introduced “Stature”, a contemporary wood, general purpose seating collection offering comfort, design and function at an affordable price.

And, to capitalize on the growing popularity of moveable wall systems for today’s dynamic work environment, Kimball also announced stackable and floor-to-ceiling capabilities to the very popular “Cetra” line of office systems. And a new line of metal filing systems called “Fundamental”, designed as a high quality solution for basic filing needs was introduced by Harpers at NEOCON.

To increase the Company’s share of the highly competitive lodging and hospitality market, Kimball Lodging expanded its customized product lines marketed to the luxury hotel and resort industry. Kimball Lodging is also leveraging its outstanding reputation in the lodging industry and extensive network of customers to expand its product offerings to the timeshare and condominium resort markets that have shown promising opportunities for growth. And the successful introduction of the “Ovation” bed designed for the assisted living and nursing home markets will provide Kimball Lodging an opportunity to increase its share of the casegoods market in this segment as well.

Kimball also expanded its line of distinctive residential furniture produced under the Kimball Home Furniture brand during this past year by adding “Victoria Passage” and “Outback Retreat”. In addition, Kimball Home also extended its market presence throughout the United States as a result of their innovative “Preferred Dealer Program”. This program offers participants a number of advantages including market exclusivity, 48-hour delivery of in-stock products, and a full range of sales aids and services.

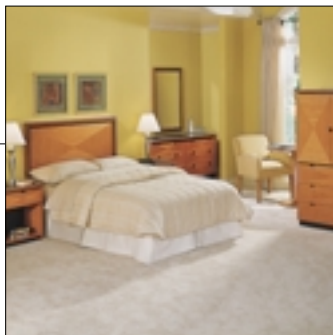


• *Caroline Fairbanks*

General Manager,

Harpers Manufacturing

• “Valhalla” is one of the many collections of quality products produced by Kimball Lodging for the hospitality industry.



Process

●
 "Our products will reach end users through many paths."

Included in the number of new products introduced by Kimball this past fiscal year, Kimball Electronics Group (KEG) reached an important agreement with Hewlett-Packard for production of their "SnapLED" assemblies. "SnapLED" is a lighting technology patented by Hewlett-Packard that includes a number of unique design features such as safety, reliability and flexibility. Because of the flexible characteristics of this technology, it can be used worldwide for automotive exterior lighting, electronic signs and signals and other applications. KEG is also pursuing opportunities to diversify and expand its portfolio of products and services by utilizing state-of-the-art manufacturing facilities, in-house design and testing capabilities and a talented staff of experienced engineers.

Along with acquisitions and new products in fiscal 1999, Kimball continued its journey of reviewing processes and making changes where necessary to improve the quality, reliability, value and speed of its products and services.

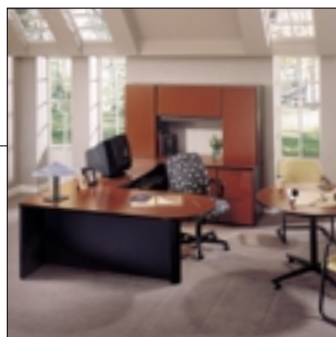
A key part of that effort during fiscal 1999 was the implementation of the assemble to order process at the Salem, Indiana manufacturing facility. By applying this process, Kimball intends to achieve standardization of manufacturing processes and increase manufacturing flexibility. This will result in improved process reliability, reduced costs and will require less time for finished products to be manufactured and shipped to customers after the order has been processed. The assemble to order process also features ergonomic workstations that improve productivity and provide an even safer work environment for Kimball employees.

Another example of Kimball's never-ending pursuit of improving their quality, reliability, value and speed is National Office Furniture's (NOF) continued strategy to target and remain focused on the mid-market segment of the office furniture industry. NOF has been successful in carving a niche as the "best value" in veneer casegoods providing quality, reliability, value and speed, and as a result, created other opportunities for their laminate casegoods and seating business. Their strategy has already started to pay dividends. Several of the largest office furniture wholesalers in the country have recently expanded the number of pages featuring NOF products. NOF's effort to seek out new markets for their products is indicative of the competitive spirit that exists within Kimball's workforce.

Kimball also focused heavily this past year on cost containment, and their employees responded to the challenge by managing their resources even more prudently and reducing their rate of overhead spending. In addition, Kimball accelerated its global procurement strategy as a means of more effectively seeking out alternative sources



●
 Don Charron
 President, Kimball Electronics Group,
 Executive Vice President,
 Kimball International, Inc.



●
 From simple configurations to multiple workstations and storage solutions, "Waveworks" delivers style, adaptability and function.



The Electronic Contract Assemblies Segment offers state-of-the-art manufacturing equipment and advanced technology and processes to meet today's, and tomorrow's, demanding standards.

Kimball International, Inc. And Subsidiaries

The foundation that has been developed over the years for the Kimball Electronics Group prior to my arrival is rock solid. I am excited about the opportunity to apply my experience in engineering, quality, production and operations to help expand the products and services offered by Kimball Electronics Group and Kimball Engineering Design Services. My decision to join the Kimball family was also influenced by the values that play an important role throughout the Company.

Don Charron
President, Kimball Electronics
Group, Executive Vice President,
Kimball International, Inc.

Don brings to Kimball Electronics Group a wealth of experience in the disciplines of engineering, quality, production, operations and general management in the United States and Mexico.

Kimball International, Inc. And Subsidiaries

With strong engineering experience and advanced in-house design and testing capabilities, Kimball Engineering Design Services provides a number of value-added services for customers.



Over the past year, we

have structured the engineering team within Electronics to position it for the globalization task that lies ahead, while at the same time ensuring that we drive efficiency and continuous improvement. It has been my experience that every culture of the world has a unique skill or trait that provides a competitive advantage, that fuels their success. The “family” atmosphere and willingness to “pitch in” attracted me to Kimball and has convinced me that this is clearly a strategic advantage to the business that must be leveraged.

For nearly 25 years, Spiro was employed by one of the world’s largest and most respected industrial giants in a variety of assignments in countries such as Japan, Singapore, Malaysia and Hungary. Spiro and his engineering team will continue to support and expand Kimball’s globalization.

Spiro Vamvakas
Vice President, Director Design Engineering,
Kimball Electronics Group

Quality

“Our name will signal superior quality and reliability.”

of better value and lower cost raw materials and components in both the Electronic Contract Assemblies Segment and Furniture and Cabinets Segment.

Kimball takes great pride in delivering products and services that are superior in quality, reliability, value and speed in all of the markets in which it operates. An example of this commitment to quality and continual process improvement is the growing number of business units that have had their quality systems modeled after and registered to ISO standards. Implementing quality systems enables Kimball business units to make on-going improvements in their design, manufacturing, delivery and service processes. This in turn helps to reduce waste and defects and to shorten lead times for the mutual benefit of Kimball’s Share Owners, customers and employees. During fiscal 1999, Batesville American Manufacturing located in Batesville, Mississippi, and Harpers Manufacturing located in Post Falls, Idaho, became Kimball’s 16th and 17th business units, respectively, to have their quality systems registered to internationally recognized quality standards.

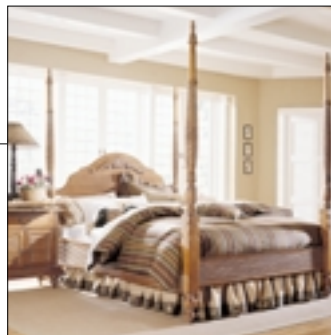
And Kimball’s quality systems have caught the eye of both government and customers alike. During fiscal 1999, several of Kimball’s business units were awarded the State of Indiana’s prestigious Quality Improvement Award: Kimball Electronics Group, Jasper Plastics, Jasper Laminates and Corporate Information Systems. The Quality Improvement Award recognizes manufacturers and other organizations that have achieved measurable progress in improving quality.

A number of Kimball’s business units received recognition by their customers for excellent service and superior quality during fiscal 1999. In April, Allied Signal presented Kimball Electronics Group with an Electronics/ Electromechanical Commodity Supplier Excellence Award for accomplishments in various areas including quality and delivery. In November 1998, Kimball’s Heritage Hills manufacturing facility located in Santa Claus, Indiana, was recognized by Toshiba for the second time in three years as their top supplier of cabinets for their projection television products. These awards are representative of Kimball’s commitment to quality and craftsmanship through its continuous improvement programs and its commitment to living its Vision Statement.

Corporate citizenship is also a key attribute of Kimball’s Vision Statement. One of the many organizations that Kimball is proud to support is Special Olympics. In June 1999, the Company participated in the “Citation Special Olympics Airlift” for the World Special Olympics that were held in Raleigh, North Carolina. Kimball used its corporate aircraft and the services of its skilled pilots to transport handicapped athletes from the Indiana area to Raleigh and back for the competition.



• *Spiro Vamvakas*
Vice President,
Director Design Engineering,
Kimball Electronics Group



• Kimball Home recently introduced “Victoria Passage” to its growing number of collections of distinctive furniture designed for the residential market.

Focus

●
 "We will emerge
 as an employer and
 supplier of choice."

And in March 1999, Kimball Office Casegoods Manufacturing received the Indiana Association of Rehabilitative Facilities Partnership Award in recognition of their significant contributions to improving the lives of individuals with disabilities and the agencies that serve them. Kimball Office Casegoods Manufacturing has worked with Blue River Services, of Corydon, Indiana since 1991, outsourcing a variety of services and products such as decorative molding used in their office furniture products, and sorting and packaging accessory items. Blue River Services assists people with disabilities to achieve their maximum personal growth and development in the home, work and community.

Kimball strives to be an ideal place for its many employees to entrust their livelihood. The advancement of higher education through scholarship programs is but one example of the Company's efforts to accomplish this belief. The Kimball International Scholarship Program offers educational opportunities to qualified young men and women who are dependent children of full-time Kimball employees. And the Excellence through Education Trust is another Kimball-sponsored scholarship program designed to promote the continued education of minority students. To date, \$2.1 million in scholarship money has been awarded to over 600 recipients through these programs.

The many faces of Kimball represent the sense of community and charity that is woven into the Company's Vision. Kimball's employees continuously lend their support to a number of civic and charitable organizations, such as the Boy Scouts, Girl Scouts, Muscular Dystrophy Association and the American Cancer Society's Relay for Life. These are just a few examples of the many worthy causes that Kimball's employees unselfishly give of their time to help make the communities in which they live and work a better place for everyone.

Throughout Kimball, emphasis is placed on maintaining a balance between hard work, family, fun and good humor. Each year, business units sponsor summer picnics and special events during the holidays for their employees and families. Kimball's employee-friendly work environment and sense of family tradition has resulted in a more productive, loyal work force and helped make Kimball International one of the most admired and sought after employers.

With the many faces of Kimball keenly focused on living the Vision of its founders, Kimball International is well prepared to compete on quality, reliability, value and speed in each of its markets, today and beyond.



●
 Terri Marquis
 General Manager, Jasper Plastics



●
 Kimball provided air transportation for this group of Special Olympics athletes and their coach earlier this year.



Jasper Plastics continues to seek new markets and introduce new products for a variety of applications.

Kimball International, Inc. And Subsidiaries

Kimball's employee-friendly policies and emphasis on family and citizenship are part of our daily lives. As a parent myself, I realize how difficult it is today to achieve a healthy balance between work and family life. The opening of Kimball Kids Child Development Center has been a tremendous help to our employees seeking an alternative for dependable childcare. In today's highly competitive labor market, our Vision and corporate culture make Kimball International one of the most desirable companies to work for wherever we are located.

Terri Marquis
General Manager, Jasper Plastics

Since joining Kimball over five years ago, Terri has steadily climbed the ranks to achieve her position today as General Manager of Jasper Plastics. Her product knowledge and manufacturing experience have helped to expand the variety and application of products now offered by Jasper Plastics.

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Overview

Net sales of \$1,106,967,000 reached record levels in fiscal year 1999, surpassing the prior year by 7%. Net income and Class B diluted earnings per share were \$59,725,000 and \$1.47, respectively, an increase of 9% over fiscal year 1998 net income. Fiscal year 1999 results include a \$1,337,000 after tax gain (\$0.03 per diluted share) on the sale of a stock investment of which the Company held a minor interest and a \$2,674,000 after tax gain (\$0.06 per diluted share) on the disposition of two non-core operating facilities. Fiscal year 1998 results include a \$1,008,000 after tax gain (\$0.02 per diluted share) on the sale of real estate and a \$616,000 after tax gain (\$0.01 per diluted share) on the sale of a stock investment of which the Company held a minor interest.

The Company adopted Financial Accounting Standards Board Statement No. 131, Disclosures About Segments of an Enterprise and Related Information, for its fiscal year 1999 reporting. This new standard requires the presentation of segment information consistent with information utilized by management for

purposes of allocating resources and assessing performance. Upon adopting the new standard, aligning the requirements of the standard with the Company's operational and organizational structure, the Company has two reportable segments, the Furniture and Cabinets Segment and the Electronic Contract Assemblies Segment. The previous industry segment, Processed Wood Products and Other, has been integrated into the Furniture and Cabinets reportable segment consistent with the aggregation criteria outlined in Statement No. 131. The fiscal year 1998 discussion has been revised to reflect the change in segments.

consolidated results from the date of purchase. In April 1999, the Company purchased a manufacturing facility located in Juarez, Mexico. The Juarez facility will initially produce projection television cabinets and will provide additional capacity for other manufacturing operations in the future. The results of these acquisitions were not material to fiscal year 1999 consolidated operating results.

The Company also completed the sale of two of its non-core facilities in fiscal year 1999. In May 1999, the Company sold Kimball Furniture Reproductions, a furniture manufacturing facility located in Montgomery, Alabama. In June 1999, the Company sold ToolPro, a carbide cutting tools production operation located in Jasper, Indiana. Proceeds from the divestitures will be used to help fund future acquisitions and general corporate purposes to support the Company's growth strategy. An after tax gain of \$2,674,000 was recorded on these two dispositions.

Fiscal year 1999 net sales increased 9% in the Furniture and Cabinets Segment, including acquisitions, when compared to the prior year. Sales increased for all product lines within this segment.

Increased volumes in the office furniture product line resulted in record sales in fiscal year 1999. Casegoods and systems products within the office furniture line both increased over fiscal year 1998, while sales of seating products declined slightly. Excluding acquisitions, office furniture sales growth outpaced the 2% growth in shipments reported by the Business and Institutional Furniture Manufacturer's Association (BIFMA) for the twelve-month period ending May 1999.

The lodging and healthcare product line experienced increased net sales in fiscal year 1999 over the prior year. Increased sales of the Company's custom-made products more than offset sales declines of standard product offerings. The latter part of the fiscal year showed a general slowing in orders from the lodging industry.

Fiscal year 1999 outside net sales of OEM furniture and cabinets experienced double-digit growth when compared to 1998. Increased volume of OEM projection television cabinets was the major contributor to the sales growth. Fiscal year 1998 sales of these cabinets were lower due to the relocation of a large customer and its longer than anticipated start up time.

Results Of Operations

1999 Discussion

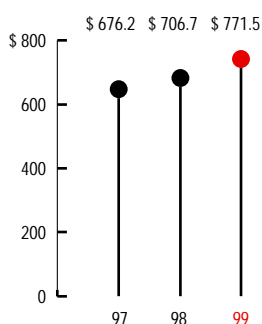
Net sales for the 1999 fiscal year surpassed 1998 levels on increases by both of the Company's segments — the Furniture and Cabinets Segment and the Electronic Contract Assemblies Segment. Net income for fiscal year 1999 also increased over the prior year in both segments.

Furniture And Cabinets

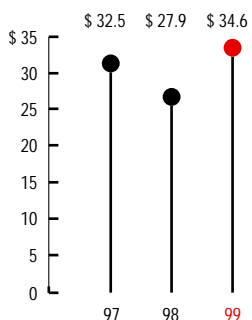
Product line offerings included in the Furniture and Cabinets Segment are office furniture, home furniture, lodging and healthcare furniture, store fixtures, original equipment manufactured (OEM) furniture and cabinets and furniture components. The Company's production flexibility allows it to utilize portions of the available production capacity created by lower volumes within these product lines to support and balance increased production schedules of other product lines within this segment.

In fiscal year 1999, the Company completed a number of acquisitions included within the Furniture and Cabinets Segment. In September 1998, the Company acquired the assets and assumed certain liabilities of Transwall, Inc., a privately held manufacturer of stackable panel office furniture systems and floor-to-ceiling products, which increased its already extensive office furniture product offering. In January 1999, the Company purchased the assets and assumed certain liabilities of Southeast Millwork, a privately held manufacturer of store display fixtures. This acquisition provided an entry point for the Company to pursue the store fixtures markets. These two acquisitions were accounted for as purchases with results of operations included in the Company's

Furniture And Cabinets Segment
Net Sales
In Millions Of Dollars



Furniture And Cabinets Segment
Net Income
In Millions Of Dollars



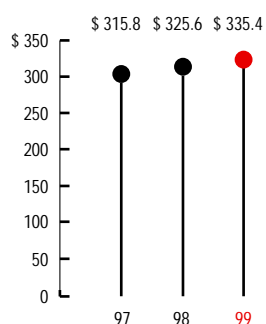
Kimball International, Inc. And Subsidiaries

Outside net sales of furniture components increased in fiscal year 1999 primarily as a result of volume increases in furniture component parts, mainly kitchen cabinet doors.

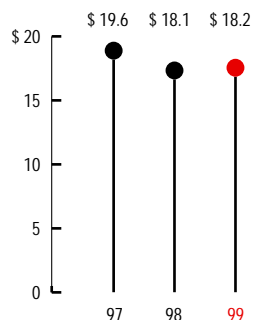
Net income in the Furniture and Cabinets Segment increased in 1999 when compared to 1998. Gross profit, as a percent of sales, decreased from 1998 primarily due to deeper discounting and increased material costs, as a percent of sales. Selling, general and administrative expenses increased in dollars in 1999 but decreased as a percent of sales as focused cost reductions resulted in lower freight, sales incentives and people costs, as a percent of sales.

Electronic Contract Assemblies
Net sales for fiscal year 1999 in the Electronic Contract Assemblies Segment exceeded the prior year by 3%. Sales of electronic transportation products increased while sales of computer related products declined when compared to the prior year. The Company continues to expand its product line offering in the Electronic Contract Assemblies Segment including components for consumer electronics, appliances, and industrial controls.

Electronic Contract Assemblies Segment
Net Sales
In Millions Of Dollars



Electronic Contract Assemblies Segment
Net Income
In Millions Of Dollars



Net income in fiscal year 1999 increased slightly over the prior year, primarily due to higher sales volumes. Gross profit, as a percent of net sales, remained relatively consistent in the current year when compared to 1998. Selling, general and administrative costs increased in dollars but decreased slightly, as a percent of sales, in fiscal year 1999. Net income was also affected by a higher effective state income tax rate.

Included in this segment are sales to one customer, Lucas Varity, PLC, which accounted for 16% of consolidated net sales in both fiscal year 1999 and 1998. Sales to this customer represent approximately one half of total sales in the Electronic Contract Assemblies Segment, which has historically carried a higher operating income margin than the Company's other business segment. In May 1999, Lucas Varity was acquired by TRW.

This segment's investment capital carries a higher degree of risk than the Company's other segment due to rapid technological changes, the contract nature of this industry and the importance of sales to one customer.

Consolidated Operations
Consolidated selling, general and administrative expenses decreased, as a percent of sales, 0.2 percentage point in fiscal year 1999 when compared to 1998. The Company has been focused on reducing costs and continues to review activities and processes to assess where costs could further be reduced while continuing to provide quality products and services to the marketplace.

Other income decreased from the prior year on lower interest income caused by lower average investment balances and a shift in the Company's investment portfolio to a mix more heavily weighted toward tax-free municipal bonds with lower pre-tax interest rates. Partially offsetting the decline in interest income was an increase in miscellaneous income. In fiscal year 1999 the Company recorded a \$1,337,000 after tax gain (\$0.03 per diluted share) on the sale of a stock investment of which the Company held a minor interest and a \$2,674,000 after tax gain (\$0.06 per diluted share) on the disposition of two non-core facilities. Fiscal year 1998 results include a \$1,008,000 after tax gain (\$0.02 per diluted share) on the sale of real estate and a \$616,000 after tax gain (\$0.01 per diluted share) on the sale of a stock investment of which the Company held a minor interest.

The effective income tax rate decreased 1.8 percentage points in fiscal year 1999 in comparison to 1998. An increase in state tax rates was more than offset by a decrease in the federal effective tax rate as the Company utilized available capital loss carryforwards to offset capital gains.

Net income and Class B diluted earnings per share of \$59,725,000 and \$1.47, respectively, in fiscal year 1999 increased 9% from the prior year levels of \$55,027,000 and \$1.32, respectively.

1998 Discussion

Net sales of \$1,032,317,000 for the 1998 fiscal year surpassed 1997 levels on increased sales by both of the Company's segments — the Furniture and Cabinets Segment and the Electronic Contract Assemblies Segment. Net income in 1998 decreased 5% to \$55,027,000, from \$57,745,000 in 1997.

Furniture And Cabinets

Fiscal year 1998 net sales in the Furniture and Cabinets Segment, the Company's largest segment, increased 5% over the prior year. A double-digit increase in office furniture sales was partially offset by sales declines in lodging furniture and original equipment manufactured (OEM) furniture and cabinets.

The office furniture product line experienced record annual net sales as of fiscal year 1998. Growth was achieved without acquisitions and was distributed across all major product groupings - casegoods, seating, and systems. Increases in net sales resulted primarily from higher volumes. Office furniture sales growth kept pace with the most recent twelve-month industry trend. Price discounting remained a competitive factor in the office furniture industry, resulting in lower operating margins in the year over year comparison.

Fiscal year 1998 home furniture product line sales increased in comparison to 1997.

Net sales of lodging and healthcare furniture in 1998 declined when compared to 1997. Increased sales in the Company's standard product lines were more than offset by reduced sales of custom-made product. Lower volumes were primarily the result of competitive pricing pressures. In the latter half of the fiscal year, the Company re-evaluated its lodging furniture pricing structure, and

initiated a new pricing strategy to offer more competitive pricing. In addition, based upon customer feedback certain products were reengineered which enabled the Company to lower costs without sacrificing customer-defined quality.

Outside net sales for OEM furniture and cabinets product line declined when compared to the prior year, with volume declines in television cabinets and stands and audio speaker cabinets. Sales of OEM cabinets and stands in the home entertainment market were impacted by the relocation of a large customer and its longer than anticipated start up time in the early part of the fiscal year, resulting in lower volumes in 1998.

Outside sales of furniture components in 1998 remained relatively flat when compared to the prior year as increased sales of lumber products were offset by a decline in sales of dimension product. In an effort to grow additional outside sales in this segment, the Company invested in additional human resources focused in the sales and marketing area.

Net income in the Furniture and Cabinets Segment decreased in 1998 when compared to 1997, despite an increase in sales. Gross profit, as a percent of sales, remained flat with the prior year. Selling, general and administrative expenses rose in 1998 primarily due to increased investments in people and technology, higher product distribution costs, and increased sales-based incentive costs.

Electronic Contract Assemblies

The Electronic Contract Assemblies Segment achieved record net sales as of fiscal year 1998 with an increase of 3% over the prior year. Increased demand for electronic transportation products was partially offset by decreased volumes in computer-related products. Fiscal year 1998 fourth quarter results were unfavorably impacted by the General Motors (GM) labor strike, as the Electronic Contract Assemblies Segment assembles components that are installed in GM vehicles. The Company estimates that the impact resulting from the GM strike was less than 2% of fourth quarter consolidated sales. This segment's investment capital carries a higher degree

of risk than the Company's other segment due to rapid technological changes, the contract nature of this industry and the importance of sales to one customer. Included in this segment are sales to one customer, Lucas Varsity, PLC, which accounted for 16% and 15% of consolidated sales in fiscal 1998 and 1997, respectively.

Net income in 1998 decreased when compared to the prior year. Gross profit, as a percent of sales, decreased as lower material costs due to a product mix shift were more than offset by higher direct labor and overhead costs. Selling and administrative costs increased from one year ago on increased investments in people and technology. The Company continued to build its infrastructure to take advantage of the latest design and production technologies and to support growth opportunities within the segment.

Consolidated Operations

Other income in 1998 increased over the prior year as interest income increased on higher average investment balances. In the third quarter of fiscal year 1998, the Company realized a \$616,000 after tax gain, or \$0.01 per diluted share, on the sale of a stock investment of which the Company held a minor interest. The Company also recorded a \$1.0 million after tax gain, or \$0.02 per diluted share, on the sale of real estate in the second quarter of fiscal year 1998. In addition, the prior year includes a \$3.8 million pretax loss (no after tax affect) charged to Other-net related to the sale of a foreign subsidiary.

The effective income tax rate increased 2.3 percentage points in 1998 primarily due to a \$3.8 million tax benefit received on the sale of a foreign subsidiary in the prior year. Excluding this \$3.8 million benefit, the effective income tax rate decreased 0.4 percentage point when compared to the prior year primarily the result of a decrease in the state income taxes in fiscal year 1998.

Net income and Class B diluted earnings per share of \$55,027,000 and \$1.32, respectively, in fiscal year 1998, decreased 5% from the prior year levels of \$57,745,000 and \$1.38, respectively.

Liquidity And Capital Resources

The Company's aggregate of cash, cash equivalents, and short-term investments decreased from \$173 million at the end of fiscal year 1998 to \$132 million at the end of fiscal year 1999 due primarily to cash outlays for strategic capital investments. Working capital at June 30, 1999 was \$218 million with a current ratio of 2.3, compared to working capital of \$260 million and a current ratio of 2.7 at June 30, 1998.

Operating activities generated \$98 million of cash flow in fiscal year 1999 compared to \$76 million in fiscal year 1998. Net income and non-cash charges to net income were partially offset by increases in receivables of \$13 million. The Company reinvested a record \$103 million into capital investments for the future, including strategic acquisitions, the purchase of 11,700 acres of timber and harvest land, computer equipment, production equipment, office facilities and a child development facility. Financing cash flow activities were primarily in the form of \$17 million in share repurchases and \$26 million in dividend payments. Net cash flow, excluding the purchases and maturities of short-term investments was an outflow of \$39 million.

In July 1999, the Company announced plans to construct a new state-of-the-art veneer mill and face operation. Over the next 12 months, the Company plans to invest approximately \$13 million in capital resources constructing the new facility.

To meet short-term capital requirements, in fiscal year 1999 the Company established a \$100 million revolving credit facility to be used for acquisitions and general corporate purposes. The agreement allows for both issuance of letters of credit and cash borrowings. At June 30, 1999, no debt was outstanding under this revolving credit facility.

The Company anticipates maintaining a strong liquidity position for the 2000 fiscal year and believes its available funds on hand, unused credit line available under the revolving credit facility and cash generated from operations will be sufficient for working capital needs and to fund investments in the Company's future.

This statement is a forward-looking statement under the Private Securities Litigation Reform Act of 1995 and is subject to certain risks and uncertainties including, but not limited to a downturn in the economy, loss of key customers or suppliers, availability or increased costs of raw materials, or a natural disaster or similar unforeseen event.

Year 2000 Readiness Disclosure

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in a major system failure or miscalculations.

The Company completed an assessment of its computer systems and the embedded systems contained in its machinery, equipment and other infrastructure, and executed a plan to resolve the Year 2000 issue. The phases of the plan include inventory assessment, remediation and testing. An Executive Committee oversees completion of these activities. All phases of the Year 2000 plan have been completed for the Company's mission critical systems and equipment with the exception of the Juarez, Mexico manufacturing facility acquired late in fiscal year 1999. The Company anticipates this facility to be Year 2000 compliant by the end of September 1999. The Company also continues to make progress on Year 2000 compliance of non-critical computer and embedded systems. The Company will continue its Year 2000 assessment and testing efforts for new or modified systems throughout 1999 and will continue to test its critical systems for continued Year 2000 compliance. A corporate freeze on the introduction of certain business and information technology (IT) initiatives will occur December 1, 1999 through January 15, 2000 to maintain a stable environment through the turn of the century. While the Year 2000 issue has been given the highest priority among the IT group, any deferrals of other IT projects by the Company will not have a material effect on its financial condition or results of operations.

The total gross cost of Year 2000 compliance is estimated to range from \$9 million to \$11 million, of which approximately 75% had been incurred as of June 30, 1999. Existing information

technology resources have been redeployed, which are anticipated to account for approximately 50% of the total costs, with the balance being incremental costs to the Company. Approximately 30% of the total gross costs relate to machinery and other fixed assets which will be capitalized, with the remaining costs being expensed as incurred.

The Company believes the key risk factors associated with Year 2000 are those it cannot directly control, primarily the readiness of its key suppliers, distributors, customers, public infrastructure suppliers and other vendors. The Company has initiated discussions with mission critical third parties to determine their Year 2000 compliance status through both mailings and direct contacts. The Company continues to follow up with its suppliers on their state of readiness, and where appropriate, is conducting in-depth evaluations which could lead to replacement of the supplier. While the Company is working diligently to ensure its mission critical third parties will be compliant, there can be no assurance that the systems of any third party on which the Company's systems and operations rely will be timely converted and which will not have a material adverse effect on the Company.

The determination of the effect on the Company's results of operations for its own noncompliance or for third party noncompliance is complex and hinges on numerous unknowns. Therefore, while the Company does not have a reasonable estimate of the impact this could have on its results of operations, it recognizes this noncompliance could range from the malfunction of an embedded chip in a piece of machinery temporarily shutting down a product line, to a select public infrastructure of one of the Company's outlying locations or international facilities being unable to provide service temporarily idling one or more production facilities. In addition, worst case scenarios could include a key customer being unable to process transactions halting production on one of the Company's product lines, to a single source supplier, as well as back-up suppliers, being unable to provide necessary materials also suspending production on a product line(s). Some of these individually, and in the aggregate, could have a material effect on the Company's results of operations.

Kimball International, Inc. And Subsidiaries

Contingency plans outlining recovery strategies for possible failures are currently being developed. Contingency plans would include such items as sourcing alternatives for single source suppliers, developing business resumption plans for all of the Company's business units, and evaluating temporary alternate manual processes.

This Year 2000 disclosure contains forward-looking statements under the Private Securities Litigation Reform Act of 1995 and is subject to risks and uncertainties including, but not limited to such factors as the availability and cost of human resources with expertise in this area, the ability to locate and correct all relevant computer codes and time constraints.

Accounting Standards

In fiscal year 1999, the Company adopted Financial Accounting Standards No. 130, Reporting Comprehensive Income. This standard requires the disclosure of all changes in equity during a period except those resulting from investments by, and distributions to, Share Owners. Comprehensive income is reported in the Consolidated Statements of Share Owners' Equity.

Effective for the year ended June 30, 1999, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures About Segments of an Enterprise and Related Information. SFAS 131 establishes new standards for defining the Company's segments and disclosing information about them. The adoption of SFAS No. 131 did not affect results of operations or financial position, but did affect the disclosure of segment information. All prior year segment information has been restated to conform with SFAS No. 131.

In June, 1998, the Financial Accounting Standards Board issued Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, which requires the recognition of all derivatives as either assets or liabilities in the balance sheet and the measurement of those instruments at fair value. The Company currently engages in limited derivative activity and currently does not expect this new standard to have a material effect on the Company's financial condition or results of operations. This standard will be effective for the Company's fiscal year 2001.

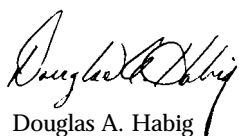
Report Of Management

To the Share Owners of Kimball International, Inc.

The management of Kimball International, Inc. is responsible for the preparation and integrity of the accompanying financial statements and other related information in this report. The consolidated financial statements of the Company and its subsidiaries, including the footnotes, were prepared in accordance with generally accepted accounting principles and include judgement and estimates, which in the opinion of management are applied on a conservative basis.

The Company maintains a system of internal controls intended to provide reasonable assurance that assets are safeguarded from loss or material misuse, transactions are authorized and recorded properly, and that the accounting records may be relied upon for the preparation of the financial statements. This system is tested and evaluated regularly for adherence and effectiveness by the Company's staff of internal auditors, as well as the independent public accountants in connection with their annual audit.

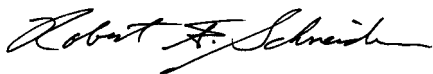
The Audit Committee of the Board of Directors, which is comprised of directors who are not employees of the Company, meets regularly with management, the internal auditors and the independent public accountants to review the work performed and to ensure that each is properly discharging its responsibilities. The internal auditors and the independent public accountants have free and direct access to the Audit Committee, and they meet periodically, without management present, to discuss appropriate matters.



Douglas A. Habig
Chairman of the Board,
Chief Executive Officer



James C. Thyen
President



Robert F. Schneider
Executive Vice President, Chief Financial Officer,
Assistant Treasurer

Report Of Independent Public Accountants

To the Board of Directors and Share Owners of Kimball International, Inc.

We have audited the accompanying consolidated balance sheets of Kimball International, Inc. (an Indiana corporation) and subsidiaries as of June 30, 1999 and 1998, and the related consolidated statements of income, cash flows and share owners' equity for each of the three years in the period ended June 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kimball International, Inc. and subsidiaries as of June 30, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1999, in conformity with generally accepted accounting principles.



ARTHUR ANDERSEN LLP

Chicago, Illinois
July 23, 1999

Consolidated Balance Sheets

Kimball International, Inc. And Subsidiaries

<i>(Amounts in Thousands, Except for Share Data)</i>	1999	June 30 1998
Assets		
Current Assets:		
Cash and cash equivalents	\$ 16,775	\$ 16,757
Short-term investments	114,996	156,010
Receivables, less allowances of \$3,816 and \$4,023, respectively	132,284	119,170
Inventories	96,157	96,303
Other	26,129	24,697
Total current assets	386,341	412,937
Property and Equipment, net	221,498	182,798
Other Assets	53,547	33,903
Total Assets	\$661,386	\$629,638
Liabilities and Share Owners' Equity		
Current Liabilities:		
Loans payable	\$ 3,518	\$ 4,318
Current maturities of long-term debt	1,185	434
Accounts payable	77,976	60,907
Dividends payable	6,380	6,521
Accrued expenses	79,505	81,030
Total current liabilities	168,564	153,210
Other Liabilities:		
Long-term debt, less current maturities	1,730	1,856
Deferred income taxes and other	26,815	25,949
Total other liabilities	28,545	27,805
Share Owners' Equity:		
Common stock-par value \$.05 per share:		
Class A- Shares authorized-49,945,000 (49,967,000 in 1998)		
Shares issued-14,486,000 (14,509,000 in 1998)	724	725
Class B- Shares authorized-100,000,000		
Shares issued-28,538,000 (28,516,000 in 1998)	1,427	1,426
Additional paid-in capital	6,379	6,022
Retained earnings	498,962	464,880
Accumulated other comprehensive income	1,312	3,709
Less: Treasury stock-at cost:		
Class A- 156,000 shares (125,000 in 1998)	(2,877)	(2,362)
Class B- 2,542,000 shares (1,688,000 in 1998)	(41,650)	(25,777)
Total share owners' equity	464,277	448,623
Total Liabilities and Share Owners' Equity	\$661,386	\$629,638

See Notes to Consolidated Financial Statements.

Consolidated Statements Of Income

<i>(Amounts in Thousands, Except for Per Share Data)</i>	Year Ended June 30		
	1999	1998	1997
Net Sales	\$1,106,967	\$1,032,317	\$992,049
Cost of Sales	778,551	723,378	692,636
Gross Profit	328,416	308,939	299,413
Selling, Administrative and General Expenses	250,839	236,463	218,421
Operating Income	77,577	72,476	80,992
Other Income (Expense):			
Interest Expense	(476)	(424)	(551)
Interest Income	6,554	9,458	8,484
Other, Net	8,719	5,917	(359)
Other Income, Net	14,797	14,951	7,574
Income Before Taxes on Income	92,374	87,427	88,566
Taxes on Income	32,649	32,400	30,821
Net Income	\$ 59,725	\$ 55,027	\$ 57,745
Earnings Per Share of Common Stock			
Basic: Class A	\$1.46	\$1.32	\$1.39
Class B	\$1.48	\$1.33	\$1.40
Diluted: Class A	\$1.45	\$1.31	\$1.38
Class B	\$1.47	\$1.32	\$1.38
Average Number of Shares Outstanding			
Basic: Class A	14,338	14,413	14,498
Class B	26,286	27,004	26,952
Totals	40,624	41,417	41,450
Diluted: Class A	14,338	14,413	14,498
Class B	26,501	27,401	27,265
Totals	40,839	41,814	41,763

See Notes to Consolidated Financial Statements.

Consolidated Statements Of Cash Flows

Kimball International, Inc. And Subsidiaries

<i>(Amounts in Thousands)</i>	Year Ended June 30		
	1999	1998	1997
Cash Flows From Operating Activities:			
Net income	\$ 59,725	\$ 55,027	\$ 57,745
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	39,710	33,806	33,395
Gain on sales of assets	(3,917)	(1,986)	(597)
Deferred income tax and other deferred charges	1,964	880	(1,247)
Change in current assets and liabilities:			
Receivables	(13,114)	(9,028)	6,432
Inventories	(4,816)	(15,174)	10,787
Other current assets	(2,529)	(1,413)	1,751
Accounts payable	17,069	7,844	4,055
Accrued expenses	3,936	6,248	9,487
Net cash provided by operating activities	98,028	76,204	121,808
Cash Flows From Investing Activities:			
Capital expenditures	(76,568)	(41,313)	(32,937)
Proceeds from sales of assets	820	1,177	1,366
Proceeds from sales of divisions/subsidiaries	7,156	3,150	2,345
Increase in other assets	(25,973)	(7,359)	(11,810)
Purchases of held-to-maturity securities	(400)	(21,415)	(34,465)
Maturities of held-to-maturity securities	5,425	46,932	51,446
Purchases of available-for-sale securities	(23,191)	(97,120)	(58,305)
Sales and maturities of available-for-sale securities	57,080	67,517	—
Net cash used for investing activities	(55,651)	(48,431)	(82,360)
Cash Flows From Financing Activities:			
Net change in short-term borrowings	(800)	1,846	190
Net change in long-term debt	625	(494)	(724)
Acquisition of treasury stock, net of sales	(17,184)	(8,323)	(4,878)
Dividends paid to share owners	(25,784)	(24,280)	(21,508)
Proceeds from exercise of stock options	986	1,495	808
Other-net	(176)	(63)	(132)
Net cash used for financing activities	(42,333)	(29,819)	(26,244)
Effect of exchange rate changes on cash	(26)	(15)	(33)
Net Increase (Decrease) in Cash and Cash Equivalents	18	(2,061)	13,171
Cash and Cash Equivalents at Beginning of Year	16,757	18,818	5,647
Cash and Cash Equivalents at End of Year	\$ 16,775	\$ 16,757	\$ 18,818
Total Cash, Cash Equivalents and Short-Term Investments:			
Cash and cash equivalents	\$ 16,775	\$ 16,757	\$ 18,818
Short-term investments	114,996	156,010	149,677
Totals	\$131,771	\$172,767	\$168,495

See Notes to Consolidated Financial Statements.

Consolidated Statements Of Share Owners' Equity

<i>(Amounts in Thousands, Except Share Data)</i>	Three Years Ended June 30, 1999						
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Share Owners' Equity
	Class A	Class B					
Amounts at June 30, 1996	\$2,285	\$4,438	\$ 898	\$399,024	\$1,441	(\$17,072)	\$391,014
Comprehensive income:							
Net income				57,745			57,745
Net change in unrealized gains and losses on securities					(73)		(73)
Foreign currency translation adjustment					280		280
Comprehensive income							57,952
Treasury stock acquired-net (134,000 shares)			34			(4,878)	(4,844)
Shares of Class A Common Stock converted to Class B Common Stock (37,000 shares)	(12)	12	647			(647)	—
Exercise of stock options (38,000 shares)			28			780	808
Cash dividends:							
Class A (\$.53 per share)				(7,682)			(7,682)
Class B (\$.535 per share)				(14,422)			(14,422)
Amounts at June 30, 1997	\$2,273	\$4,450	\$1,607	\$434,665	\$1,648	(\$21,817)	\$422,826
Comprehensive income:							
Net income				55,027			55,027
Net change in unrealized gains and losses on securities					2,247		2,247
Foreign currency translation adjustment					(186)		(186)
Comprehensive income							57,088
Treasury stock acquired-net (378,000 shares)			74			(8,213)	(8,139)
Shares of Class A Common Stock converted to Class B Common Stock (36,000 shares)	(3)	3	81			(81)	—
Exercise of stock options (117,000 shares)			(312)			1,972	1,660
Cash dividends:							
Class A (\$.58875 per share)				(8,483)			(8,483)
Class B (\$.605 per share)				(16,329)			(16,329)
Change par value from \$.3125 pre stock split to \$.05 post stock split	(1,545)	(3,027)	4,572				—
Amounts at June 30, 1998	\$ 725	\$1,426	\$6,022	\$464,880	\$3,709	(\$28,139)	\$448,623
Comprehensive income:							
Net income				59,725			59,725
Net change in unrealized gains and losses on securities					(2,100)		(2,100)
Foreign currency translation adjustment					(297)		(297)
Comprehensive income							57,328
Treasury stock acquired-net (973,000 shares)			77			(17,094)	(17,017)
Shares of Class A Common Stock converted to Class B Common Stock (22,000 shares)	(1)	1	311			(311)	—
Exercise of stock options (88,000 shares)			(31)			1,017	986
Cash dividends:							
Class A (\$.62 per share)				(8,891)			(8,891)
Class B (\$.64 per share)				(16,752)			(16,752)
Amounts at June 30, 1999	\$ 724	\$1,427	\$6,379	\$498,962	\$1,312	(\$44,527)	\$464,277

See Notes to Consolidated Financial Statements.

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Note 1 Summary Of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of all domestic and foreign subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidation.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts included in the consolidated financial statements and related footnote disclosures. While efforts are made to assure estimates used are reasonably accurate based on management's knowledge of current events, actual results could differ from those estimates.

Cash, Cash Equivalents and Short-Term Investments: Cash equivalents consist primarily of highly liquid investments with original maturities of three months or less at the time of acquisition. Cash equivalents are stated at cost, which approximates market value. Short-term investments are cash investments, primarily municipal bonds and U.S. Government securities with maturities exceeding three months at the time of acquisition. Held-to-maturity securities are stated at amortized cost. Available-for-sale securities are stated at market value, with unrealized gains and losses excluded from net income and recorded net of related tax effect, if any, in Accumulated Other Comprehensive Income, as a component of Share Owners' Equity.

Foreign Currency Translation: Assets and liabilities of foreign subsidiaries (except for Mexico, whose functional currency is the U.S. dollar) are translated into U.S. dollars at fiscal year-end exchange rates, income statement accounts are translated at the weighted average exchange rate during the year, and the resulting currency translation adjustments are recorded in Accumulated Other Comprehensive Income, as a component of Share Owners' Equity. Financial statements of Mexican operations are translated into U.S. dollars using both current and historical exchange rates, with translation gains and losses included in net income.

Inventories: Inventories are stated at the lower of cost or market value. Cost includes material, labor and applicable manufacturing overhead and is determined using the last-in, first-out (LIFO) method for approximately 51% and 52% of consolidated inventories in 1999 and 1998, respectively. Cost of the remaining inventories is determined using the first-in, first-out (FIFO) method.

Property, Equipment and Depreciation: Property and equipment are stated at cost. Depreciation is provided over the estimated useful life of the assets using the straight-line method for financial reporting purposes. Maintenance, repairs and minor renewals and betterments are expensed; major improvements are capitalized.

Research and Development: The costs of research and development are expensed as incurred. These costs were approximately, in millions, \$11.6 in 1999, \$13.1 in 1998, and \$11.5 in 1997.

Medical Care and Disability Benefit Plans: The Company is self-insured with respect to certain medical care and disability benefit plans for approximately 75% of covered domestic employees. The Company carries stop-loss insurance coverage to mitigate severe losses under these plans. The balance of domestic employees are covered under fully insured HMO plans. The costs for such plans are charged against earnings in the year in which the incident occurred. The Company does not provide benefits under these plans to retired employees. Employees of foreign subsidiaries are covered by local benefit plans, the cost of which is not significant to the consolidated financial statements.

Income Taxes: Unremitted earnings of foreign subsidiaries have been included in the consolidated financial statements without giving effect to the United States taxes that may be payable on distribution to the United States because it is not anticipated such earnings will be remitted to the United States. If remitted, the additional United States taxes paid would not be material.

Off-Balance Sheet Risk: The Company engages in several types of financing arrangements with customers, primarily certain guarantees, and also has business and credit risks concentrated in the transportation, computer, telecommunications, consumer electronics and furniture industries.

Reclassifications: Certain prior year amounts have been reclassified to conform with the 1999 presentation.

Stock-Based Compensation: The Company continues to account for its employee stock option plans using Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, which results in no charge to earnings when options are issued at fair market value. The Company has adopted the disclosure requirements of Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation.

New Accounting Standards: In fiscal year 1999, the Company adopted Financial Accounting Standards No. 130, Reporting Comprehensive Income. This standard requires the disclosure of all changes in equity during a period except those resulting from investments by, and distributions to, Share Owners. Comprehensive income is reported in the Consolidated Statements of Share Owners' Equity.

Notes To Consolidated Financial Statements

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Note 1 Summary Of Significant Accounting Policies (continued)

Effective for the year ended June 30, 1999, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information. SFAS 131 establishes new standards for defining the Company's segments and disclosing information about them. The adoption of SFAS No. 131 did not affect results of operations or financial position, but did affect the disclosure of segment information. All prior year segment information has been restated to conform with SFAS No. 131.

In June, 1998, the Financial Accounting Standards Board issued Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, which requires the recognition of all derivatives as either assets or liabilities in the balance sheet and the measurement of those instruments at fair value. The Company currently engages in limited derivative activity and currently does not expect this new standard to have a material effect on the Company's financial condition or results of operations. This standard will be effective for the Company's fiscal year 2001.

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Note 2 Acquisitions and Dispositions

Acquisitions of Subsidiaries: During fiscal year 1999, the Company completed a number of acquisitions related to its core competencies aimed at penetrating new markets and expanding existing markets. In the first quarter, the Company acquired the assets and assumed certain liabilities of Transwall, Inc., a privately held manufacturer of stackable panel office furniture systems and floor-to-ceiling products. In the third quarter, the Company acquired the assets and assumed certain liabilities of Southeast Millwork, a privately held manufacturer of store display fixtures. These acquisitions were accounted for as purchases with operating results included in the Company's Consolidated Statements of Income from the date of acquisition. The results of these acquisitions were not material to fiscal year 1999 consolidated operating results.

In the fourth quarter of fiscal year 1999, the Company purchased a manufacturing facility located in Juarez, Mexico. The Juarez facility will initially produce projection television cabinets and will provide additional capacity for other manufacturing operations in the future.

Dispositions of Subsidiaries: The Company sold its piano key and action production facility located in the United Kingdom, Herrburger Brooks, PLC, during the first quarter of fiscal year 1997. Included in the 1997 Consolidated Statement of Income is a \$3.8 million pretax loss on the sale reported in Other-net, with an offsetting \$3.8 million income tax benefit reported in Taxes on Income. This tax benefit was the result of a higher U.S. tax basis in this subsidiary due to previously nondeductible losses on the investment in this U.K. subsidiary. This transaction resulted in no impact to fiscal year 1997 consolidated net income.

The Company sold Kimball Furniture Reproductions, a furniture manufacturing facility located in Montgomery, Alabama, and ToolPro, a carbide cutting tools production operation located in Jasper, Indiana in the fourth quarter of fiscal year 1999. The sale of these subsidiaries generated a \$2.7 million after-tax gain which is included in the 1999 Consolidated Statement of Income.

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Note 3 Inventories

Inventories are valued using the lower of last-in, first-out (LIFO) cost or market value for approximately 51% and 52% of consolidated inventories in 1999 and 1998, respectively. The remaining inventories are valued using the lower of first-in, first-out (FIFO) cost or market value.

Had the FIFO method been used for all inventories, net income would have been, in millions, \$0.2 lower in 1999, \$0.6 higher in 1998, and \$0.1 lower in 1997. Additionally, inventories would have been, in millions, \$20.0 and \$20.3 higher at June 30, 1999 and 1998, respectively, if the FIFO method had been used. During 1999 and 1998, certain inventory quantity reductions caused a liquidation of LIFO inventory values, which were immaterial.

Inventories components at June 30 are as follows:

<i>(Amounts in Thousands)</i>	1999	1998
Finished products	\$33,262	\$31,365
Work-in-process	14,471	12,971
Raw materials	48,424	51,967
Total inventory	\$96,157	\$96,303

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Note 4 Property And Equipment

Major classes of property and equipment consist of the following:

<i>(Amounts in Thousands)</i>	1999	1998
Land	\$ 6,931	\$ 4,471
Buildings and improvements	171,504	145,880
Machinery and equipment	291,432	264,316
Construction-in-progress	16,772	13,882
Total	486,639	428,549
Less: Accumulated depreciation	(265,141)	(245,751)
Property and equipment, net	\$ 221,498	\$ 182,798

The useful lives used in computing depreciation are based on the Company's estimate of the service life of the classes of property, as follows:

	Years
Buildings and improvements	12 to 50
Machinery and equipment	4 to 40
Leasehold improvements	Life of Lease

Depreciation and amortization of property and equipment totaled, in millions, \$33.4 for 1999, \$29.9 for 1998, and \$29.4 for 1997.

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Note 5 Lease Commitments

Operating leases for certain office, showroom, warehouse and manufacturing facilities, and equipment, which expire from fiscal year 2000 to 2008, contain provisions under which minimum annual lease payments are, in millions, \$7.8, \$6.0, \$4.3, \$3.7, and \$2.5 for the five years ended June 30, 2004, respectively, and aggregate \$2.0 million from 2005 to the expiration of the leases in 2008. The Company is obligated under certain real estate leases to maintain the properties and pay real estate taxes.

Total rental expenses amounted to, in millions, \$7.1, \$6.7, and \$5.9 in 1999, 1998 and 1997, respectively.

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Note 6 Long-Term Debt And Credit Facility

Long-term debt is principally obligations under long-term capitalized leases. Aggregate maturities of long-term debt for the next five years are, in thousands, \$1,185, \$629, \$441, \$144, and \$151, respectively, and aggregate \$365 thereafter. Interest rates range from 0% to 10%. Interest paid was immaterial in the three years ending June 30, 1999. Based upon borrowing rates currently available to the Company, the fair value of the Company's debt approximates the carrying value.

In fiscal year 1999, the Company established a five year revolving credit facility that provides for up to \$100 million in borrowings. The Company intends to use this facility for acquisitions and general corporate purposes. A commitment fee is payable on the unused portion of the credit facility. The interest rate applicable to borrowings under the agreement is based on the London Interbank Offered Rate (LIBOR) plus a margin. The Company is in compliance with debt covenants requiring it to maintain certain debt-to-total capitalization, interest coverage ratio, minimum net worth, and other terms and conditions. No debt was outstanding under this agreement at June 30, 1999.

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Note 7 Retirement Plans

The Company has a trustee defined contribution Retirement Plan in effect for substantially all domestic employees meeting the eligibility requirements. Company contributions are based on a percent of net income as defined in the plan; the percent of contribution is determined by the Board of Directors up to specific maximum limits. The plan includes a 401(k) feature, thereby permitting participants to make additional voluntary contributions on a pretax basis. Payments by the Company to the trustee plan are vested and held for the sole benefit of participants. Total contributions to the Retirement Plans for 1999, 1998 and 1997 were approximately, in millions, \$10.8, \$10.1, and \$11.3, respectively.

Employees of certain foreign subsidiaries are covered by local pension or retirement plans. Annual expense and accumulated benefits of these foreign plans are not significant to the consolidated financial statements.

Notes To Consolidated Financial Statements

Note 8 Stock Options

On August 11, 1987, the Board of Directors adopted the 1987 Stock Incentive Program, which was approved by the Company's Share Owners on October 13, 1987. Under this plan, 3,600,000 shares of Class B Common Stock were reserved for incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, and performance share awards available for grant to officers and other key employees of the Company, and to members of the Board of Directors who are not employees. Approximately 275 employees were eligible to participate in the program during 1997. This Stock Incentive Program expired in August 1997, with prior year grants expiring annually through July 2001.

On June 11, 1996, the Board of Directors adopted the 1996 Stock Incentive Program, which was approved by the Company's Share Owners on October 22, 1996. Under this plan, 4,200,000 shares of Class B Common Stock were reserved, in addition to the approximately 2 million remaining shares currently reserved under the 1987 plan, for incentive stock options, nonqualified stock options, stock appreciation rights, and performance share awards available for grant to officers and other key employees of the Company, and to members of the Board of Directors who are not employees. The 1996 Stock Incentive Program is a ten year plan. Approximately 290 employees were eligible to participate in the program during 1999 and 1998.

Stock options are priced at the fair market value of the stock at the date of grant. Options granted under the plans generally are exercisable from six months to two years after the date of grant and expire five to ten years after the date of grant. Shares of stock issued by the exercise of stock options granted through June 30, 1999 must be held for a five year period before being sold, except in certain situations. For stock options granted after June 30, 1999, shares of stock issued through exercise have no required holding period. Stock options are forfeited when employment terminates, except in case of retirement, death or permanent disability.

There are 250,000 additional shares reserved for issuance under the Directors' Stock Compensation and Option Plan which is available to all members of the Board of Directors. Under terms of the plan, Directors electing to receive all, or a portion, of their fees in the form of Company stock will also be granted a number of stock options equal to 50% of the number of shares received for compensation of fees. Option prices and vesting are similar to those of the 1996 Stock Incentive Program. The plan is in effect through October 2006.

Stock option transactions are as follows:

	Number of Shares	Weighted Average Exercise Price
Options outstanding June 30, 1996	1,099,700	\$13.15
Granted	402,838	13.80
Exercised	(90,872)	12.64
Forfeited	(35,600)	13.31
Options outstanding June 30, 1997	1,376,066	13.37
Granted	588,889	21.82
Exercised	(225,769)	13.35
Forfeited	(89,170)	14.89
Options outstanding June 30, 1998	1,650,016	16.30
Granted	551,521	18.20
Exercised	(141,993)	13.78
Forfeited	(180,716)	16.57
Expired	(20,871)	14.80
Options outstanding June 30, 1999	1,857,957	\$17.05
Shares available for future options	5,536,506	

Following is a status of options outstanding at June 30, 1999:

Exercise Price Range	Outstanding Options			Exercisable Options	
	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$12.00-\$16.00	807,309	1 years	\$13.19	805,833	\$13.19
\$16.00-\$20.00	522,759	6 years	18.20	102,738	18.24
\$20.00-\$24.00	527,889	4 years	21.82	123,082	21.83
Total	1,857,957	4 years	\$17.05	1,031,653	\$14.72

Kimball International, Inc. And Subsidiaries

The Company adopted the disclosure requirements of Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation (FAS 123) effective in fiscal year 1997. The Company has elected to continue to follow the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretations; accordingly, no compensation cost has been reflected in the financial statements for its incentive stock options. Had compensation cost for the Company's incentive stock options been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share amounts):

	Year Ended June 30		
	1999	1998	1997
Net Income			
As Reported	\$59,725	\$55,027	\$57,745
Pro Forma	\$57,444	\$53,343	\$56,765
Earnings per Share of Common Stock			
As Reported:			
Basic: Class A	\$1.46	\$1.32	\$1.39
Class B	\$1.48	\$1.33	\$1.40
Diluted: Class A	\$1.45	\$1.31	\$1.38
Class B	\$1.47	\$1.32	\$1.38
Pro Forma:			
Basic: Class A	\$1.40	\$1.28	\$1.37
Class B	\$1.42	\$1.29	\$1.37
Diluted: Class A	\$1.40	\$1.27	\$1.36
Class B	\$1.42	\$1.28	\$1.36

The pro forma effects on net income for the year ended June 30, 1997 may not be representative of the pro forma effect on net income in future years because FAS 123 does not take into consideration pro forma compensation expense related to grants made prior to fiscal year 1996.

The weighted average fair value at date of grant for options granted during the years ended June 30, 1999, 1998 and 1997 was \$3.72, \$4.84 and \$2.50 per option, respectively.

The fair value of the options at the date of grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 34.0% in 1999, 31.7% in 1998 and 31.4% in 1997; risk-free interest rates of 5.4% in 1999, 6.2% in 1998 and 6.3% in 1997; dividend yield of 3.7% in 1999, 2.9% in 1998 and 2.9% in 1997; and an expected life of 3.5 years for all years.

● **Note 9** Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation reserve is provided for deferred tax assets relating to foreign net operating losses and U.S. capital loss carryforward benefits, due to uncertainty surrounding the utilization of these deferred tax assets. Income tax benefits associated with the foreign net operating losses have no expiration period under current tax laws, while benefits associated with the U.S. capital loss carryforward all expire during the 2002 fiscal year.

The components of the deferred tax assets and liabilities as of June 30, 1999 and 1998, are as follows:

(Amounts in Thousands)	1999	1998
Deferred tax assets:		
Receivables	\$ 1,690	\$ 1,830
Inventory	2,311	2,338
Employee benefits	6,690	6,579
Other current liabilities	5,920	6,507
Miscellaneous	587	658
Foreign net operating losses	2,253	2,581
Capital loss carryforward benefit	627	2,597
Valuation reserve	(2,880)	(4,794)
Total asset	\$17,198	\$18,296
Deferred tax liabilities:		
Property & equipment	\$14,366	\$15,144
Miscellaneous	339	255
Total liability	\$14,705	\$15,399

Notes To Consolidated Financial Statements

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Note 9 Income Taxes (continued)

The components of income before taxes on income are as follows:

<i>(Amounts in Thousands)</i>	Year Ended June 30		
	1999	1998	1997
United States	\$90,674	\$87,327	\$87,626
Foreign	1,700	100	940
Total income before taxes	\$92,374	\$87,427	\$88,566

Taxes on income are composed of the following items:

<i>(Amounts in Thousands)</i>	Year Ended June 30		
	1999	1998	1997
Currently payable:			
Federal	\$26,347	\$29,363	\$28,418
Foreign	565	224	179
State	5,333	3,650	4,538
Total current	32,245	33,237	33,135
Deferred Federal	404	(837)	(2,314)
Total taxes on income	\$32,649	\$32,400	\$30,821

A reconciliation of the statutory U.S. income tax rate to the Company's effective income tax rate follows:

<i>(Amounts in Thousands)</i>	Year Ended June 30					
	1999		1998		1997	
	Amount	%	Amount	%	Amount	%
Taxes computed at statutory rate	\$32,331	35.0%	\$30,600	35.0%	\$30,998	35.0%
State income taxes, net of Federal income tax benefit	3,466	3.7	2,373	2.7	3,179	3.6
Foreign tax effect	(595)	(0.6)	(35)	—	(329)	(0.4)
Capital loss benefit	(1,586)	(1.7)	—	—	(3,650)	(4.1)
Tax-exempt interest income	(1,412)	(1.5)	(454)	(0.5)	(531)	(0.6)
Other-net	445	0.4	(84)	(0.1)	1,154	1.3
Total taxes on income	\$32,649	35.3%	\$32,400	37.1%	\$30,821	34.8%

Cash payments for income taxes, net of refunds, were in thousands, \$28,884, \$28,183 and \$37,069 in 1999, 1998 and 1997, respectively.

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Note 10 Common Stock

On a fiscal year basis, shares of Class B Common Stock are entitled to an additional \$.02 per share dividend more than the dividends paid on Class A Common Stock, provided that dividends are paid on the Company's Class A Common Stock. The owners of both Class A and Class B Common Stock are entitled to share pro-rata, irrespective of class, in the distribution of the Company's available assets upon dissolution.

Owners of Class B Common Stock are entitled to elect, as a class, one member of the Company's Board of Directors. In addition, owners of Class B Common Stock are entitled to full voting powers, as a class, with respect to any consolidation, merger, sale, lease, exchange, mortgage, pledge, or other disposition of all or substantially all of the Company's fixed assets, or dissolution of the Company. Otherwise, except as provided by statute with respect to certain amendments to the Articles of Incorporation, the owners of Class B Common Stock have no voting rights, and the entire voting power is vested in the Class A Common Stock, which has one vote per share. The Habig family owns directly or shares voting power in excess of 50% of the Class A Common Stock of Kimball International, Inc. The owner of a share of Class A Common Stock may, at their option, convert such share into one share of Class B Common Stock at any time.

If any dividends are not paid on shares of the Company's Class B Common Stock for a period of thirty-six consecutive months, or if at any time the number of shares of Class A Common Stock issued and outstanding is less than 15% of the total number of issued and outstanding shares of both Class A and Class B Common Stock, then all shares of Class B Common Stock shall automatically have the same rights and privileges as the Class A Common Stock, with full and equal voting rights and with equal rights to receive dividends as and if declared by the Board of Directors.

Note 11 Quarterly Financial Information (Unaudited)

Quarterly financial information is summarized as follows:

<i>(Amounts in Thousands, Except for Per Share Data)</i>	Three Months Ended			
	September 30	December 31	March 31	June 30
1999:				
Net Sales	\$264,646	\$280,080	\$288,054	\$274,187
Gross Profit	78,557	83,053	86,433	80,373
Net Income	12,563	14,935	15,189	17,038
Basic Earnings Per Share:				
Class A	\$.31	\$.36	\$.37	\$.42
Class B	.31	.37	.38	.42
Diluted Earnings Per Share:				
Class A	\$.30	\$.36	\$.37	\$.42
Class B	.31	.37	.38	.42
1998:				
Net Sales	\$245,857	\$264,524	\$265,001	\$256,935
Gross Profit	74,280	79,952	77,732	76,975
Net Income	13,029	15,485	13,702	12,811
Basic Earnings Per Share:				
Class A	\$.31	\$.37	\$.33	\$.31
Class B	.31	.38	.33	.31
Diluted Earnings Per Share:				
Class A	\$.31	\$.36	\$.33	\$.30
Class B	.31	.37	.33	.31
1997:				
Net Sales	\$247,700	\$253,780	\$243,277	\$247,292
Gross Profit	73,134	75,169	73,819	77,291
Net Income	13,521	14,621	14,521	15,082
Basic Earnings Per Share:				
Class A	\$.32	\$.35	\$.35	\$.36
Class B	.33	.35	.35	.36
Diluted Earnings Per Share:				
Class A	\$.32	\$.35	\$.34	\$.36
Class B	.32	.35	.34	.36

Net income in the second quarter of fiscal 1998 was increased by, in thousands, \$1,008 or \$0.02 per share, representing the gain on the sale of real estate. Net income in the third quarter of fiscal 1998 was increased by, in thousands, \$616 or \$0.01 per share, from the gain on the sale of a stock investment of which the Company held a minor interest. Net income in the second quarter of fiscal 1999 was increased by, in thousands, \$1,337 or \$0.03 per share, representing the gain on the sale of a stock investment of which the Company held a minor interest. Net income in the fourth quarter of fiscal 1999 was increased by, in thousands, \$2,674 or \$0.06 per share, representing the gain on the sale of two subsidiaries.

Note 12 Short-Term Investments

The Company classifies its short-term investments in accordance with Financial Accounting Standards Board Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. Fair values are estimated based upon the quoted market values of those, or similar instruments. Carrying costs reflect the original purchase price, with discounts and premiums amortized over the life of the security.

Held-to-maturity securities are reported at carrying cost and consist primarily of government obligations with fair value equal to carrying cost of, in thousands, \$399 at June 30, 1999, compared to fair value and carrying cost of \$5,430 and \$5,429 at June 30, 1998, respectively. Unrealized holding gains and losses were immaterial at June 30, 1999 and 1998. All held-to-maturity securities mature within a 12 month period.

Available-for-sale securities are reported at fair value and consist primarily of government and municipal obligations with fair values and carrying costs of, in thousands, \$114,597 and \$114,523 at June 30, 1999, compared to \$150,581, and \$148,408 at June 30, 1998, respectively. Unrealized holding gains and losses at June 30, 1999 were, in thousands, \$277 and (\$203), compared to \$2,254 and (\$80) at June 30, 1998, respectively. All available-for-sale securities mature within a four year period.

Notes To Consolidated Financial Statements

• **Note 12** Short-Term Investments (continued)

Proceeds from sales of available-for-sale securities were, in thousands, \$17,273 and \$27,236 for the years ended June 30, 1999 and 1998, respectively. Gross realized gains and losses on the sale of available-for-sale securities at June 30, 1999 were, in thousands, \$172 and (\$2) respectively, compared to gross realized gains of, in thousands, \$76 at June 30, 1998. The cost was determined on each individual security in computing the realized gain.

• **Note 13** Accrued Expenses

Accrued expenses at June 30 consist of:

<i>(Amounts in Thousands)</i>	June 30	
	1999	1998
Income taxes	\$ 2,292	\$ 1,183
Property taxes	4,290	4,089
Compensation	31,938	30,327
Retirement plan	10,529	9,889
Other expenses	30,456	35,542
Total accrued expenses	\$79,505	\$81,030

• **Note 14** Segment And Geographic Area Information

Effective for the year ended June 30, 1999, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information. The adoption of SFAS 131 requires the presentation of segment information which is consistent with information utilized by management for purposes of allocating resources and assessing performance. Upon adopting the new standard, aligning the requirements of the standard with the Company's operational and organizational structure, the Company now discloses two reportable segments, the Furniture and Cabinets Segment and the Electronic Contract Assemblies Segment. The previous segment, Processed Wood Products and Other, has been integrated into the Furniture and Cabinets reportable segment consistent with the aggregation criteria outlined in SFAS 131.

Management organizes the Company into segments based upon differences in products and services offered in each segment. The segments and their principal products and services are as follows:

The Furniture and Cabinets Segment produces office, lodging, healthcare and home furniture, OEM furniture and cabinet products, store fixtures, and a variety of other furniture and furniture components produced on a contract basis. Intersegment sales are insignificant.

The Electronic Contract Assemblies Segment produces electronic and electro-mechanical products (electronic assemblies) manufactured on a contract basis to customers' specifications, semiconductor processing, testing, engineering design and packaging services. Intersegment sales are insignificant. Included in the Electronic Contract Assemblies Segment are sales to one customer totaling in millions, \$178.9, \$168.2 and \$152.2 in 1999, 1998 and 1997, respectively, representing 16%, 16% and 15% of consolidated net sales.

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" with additional explanation of segment allocations as follows. Corporate operating costs are allocated to the segments based on the extent to which each segment uses a centralized function, where practicable. However, certain common costs have been allocated among segments less precisely than would be required for stand alone financial information prepared in accordance with generally accepted accounting principles. Unallocated corporate assets include cash and cash equivalents, short-term investments and other assets not allocated to segments.

The Company evaluates segment performance based upon several financial measures, although the two most common include economic profit, which incorporates a segment's cost of capital when evaluating financial performance, and net income. Pursuant to SFAS 131, net income is reported for each segment as it is the measure most consistent with the measurement principles used in the Company's consolidated financial statements.

Kimball International, Inc. And Subsidiaries

<i>(Amounts in Thousands)</i>	1999			
	Furniture and Cabinets	Electronic Contract Assemblies	Unallocated Corporate and Eliminations	Consolidated
Net sales	\$771,528	\$335,395	\$ 44	\$1,106,967
Depreciation and amortization	29,763	9,947	—	39,710
Interest income	—	—	6,554	6,554
Interest expense	412	—	64	476
Taxes on income	19,566	11,856	1,227	32,649
Net income	34,569	18,185	6,971	59,725
Total assets	389,725	140,905	130,756	661,386
Capital expenditures	67,141	9,427	—	76,568

<i>(Amounts in Thousands)</i>	1998			
	Furniture and Cabinets	Electronic Contract Assemblies	Unallocated Corporate and Eliminations	Consolidated
Net sales	\$706,679	\$325,602	\$ 36	\$1,032,317
Depreciation and amortization	25,719	8,087	—	33,806
Interest income	—	—	9,458	9,458
Interest expense	386	—	38	424
Taxes on income	17,917	10,932	3,551	32,400
Net income	27,904	18,050	9,073	55,027
Total assets	331,247	128,165	170,226	629,638
Capital expenditures	29,000	12,313	—	41,313

<i>(Amounts in Thousands)</i>	1997			
	Furniture and Cabinets	Electronic Contract Assemblies	Unallocated Corporate and Eliminations	Consolidated
Net sales	\$676,218	\$315,816	\$ 15	\$992,049
Depreciation and amortization	26,106	7,289	—	33,395
Interest income	—	—	8,484	8,484
Interest expense	486	12	53	551
Taxes on income	16,820	11,985	2,016	30,821
Net income	32,451	19,595	5,699	57,745
Total assets	301,018	114,783	165,782	581,583
Capital expenditures	24,110	8,827	—	32,937

Geographic Area

The following geographic area data include net sales based on product shipment destination and long-lived assets based on physical location. Long-lived assets include property and equipment and other long-term assets such as software.

<i>(Amounts in Thousands)</i>	Year Ended June 30		
	1999	1998	1997
Net Sales:			
United States	\$1,022,943	\$ 977,716	\$942,086
Foreign	84,024	54,601	49,963
Total Net Sales	\$1,106,967	\$1,032,317	\$992,049
Long-Lived Assets:			
United States	\$ 233,132	\$ 199,043	\$190,904
Foreign	26,172	7,762	5,009
Total Long-Lived Assets	\$ 259,304	\$ 206,805	\$195,913

Notes To Consolidated Financial Statements

• **Note 15** Earnings Per Share

Effective December 31, 1997, the Company adopted Financial Accounting Standards Board Statement No. 128, Earnings Per Share. Earnings per share are computed using the two-class common stock method due to the dividend preference of Class B Common Stock. Basic earnings per share are based on the weighted average number of shares outstanding during the period. Diluted earnings per share are based on the weighted average number of shares outstanding plus the assumed issuance of common shares for all potentially dilutive securities. Earnings per share of Class A and Class B Common Stock are as follows:

<i>(Amounts in Thousands, Except Per Share Data)</i>	1999			
	Available Income	Average Shares	Earnings Per Share	
			Class A	Class B
Net income	\$59,725			
Distributed earnings:				
Class A dividends declared	(8,891)		\$.620	
Class B dividends declared	(16,752)			\$.640
Undistributed basic earnings	\$34,082	40,624	.839	.839
Basic Earnings Per Share			\$1.459	\$1.479
Basic Earnings Per Share (rounded)			\$1.46	\$1.48
Dilutive effect of stock options	(138)	215		
Undistributed diluted earnings	\$33,944	40,839	.831	.831
Diluted Earnings Per Share			\$1.451	\$1.471
Diluted Earnings Per Share (rounded)			\$1.45	\$1.47

981,902 of the 1,901,947 average outstanding stock options were antidilutive, and were excluded from the dilutive computation for this period.

<i>(Amounts in Thousands, Except Per Share Data)</i>	1998			
	Available Income	Average Shares	Earnings Per Share	
			Class A	Class B
Net income	\$55,027			
Distributed earnings:				
Class A dividends declared	(8,483)		\$.58875	
Class B dividends declared	(16,329)			\$.60500
Undistributed basic earnings	\$30,215	41,417	.72953	.72953
Basic Earnings Per Share			\$1.31828	\$1.33453
Basic Earnings Per Share (rounded)			\$1.32	\$1.33
Dilutive effect of stock options	(240)	397		
Undistributed diluted earnings	\$29,975	41,814	.71687	.71687
Diluted Earnings Per Share			\$1.30562	\$1.32187
Diluted Earnings Per Share (rounded)			\$1.31	\$1.32

468,891 of the 1,685,007 average outstanding stock options were antidilutive, and were excluded from the dilutive computation for this period.

Kimball International, Inc. And Subsidiaries

<i>(Amounts in Thousands, Except Per Share Data)</i>	1997			
	Available Income	Average Shares	Earnings Per Share	
			Class A	Class B
Net income	\$57,745			
Distributed earnings:				
Class A dividends declared	(7,682)		\$.530	
Class B dividends declared	(14,422)			\$.535
Undistributed basic earnings	\$35,641	41,450	.860	.860
Basic Earnings Per Share			\$1.390	\$1.395
Basic Earnings Per Share (rounded)			\$1.39	\$1.40
Dilutive effect of stock options	(167)	313		
Undistributed diluted earnings	\$35,474	41,763	.849	.849
Diluted Earnings Per Share			\$1.379	\$1.384
Diluted Earnings Per Share (rounded)			\$1.38	\$1.38

All outstanding stock options were dilutive and were included in the dilutive computation for this period.

• **Note 16** Comprehensive Income

Effective July 1, 1998, the Company adopted Financial Accounting Standards Board Statement No. 130, Reporting Comprehensive Income, which establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption had no impact on the Company's net income or Share Owners' Equity. Comprehensive income includes all changes in equity during a period except those resulting from investments by, and distributions to, Share Owners. Comprehensive income consists of net income and other comprehensive income, which includes the net change in unrealized gains and losses on securities, and foreign currency translation adjustments. The Company has elected to disclose comprehensive income in the Consolidated Statements of Share Owners' Equity. Accumulated balances of other comprehensive income are as follows:

	Accumulated Other Comprehensive Income (Net of tax if applicable)		
	Foreign Currency Translation Adjustments	Net Change in Unrealized Gains and Losses on Securities	Accumulated Other Comprehensive Income
Balance at June 30, 1996	\$1,441	\$ —	\$1,441
Current year change	280	(73)	207
Balance at June 30, 1997	1,721	(73)	1,648
Current year change	(186)	2,247	2,061
Balance at June 30, 1998	1,535	2,174	3,709
Current year change	(297)	(2,100)	(2,397)
Balance at June 30, 1999	\$1,238	\$ 74	\$1,312

Eleven-Year Summary Of Financial Condition

<i>(Amounts in Thousands, Except for Per Share Data and Number of Employees)</i>	1999	1998	1997	1996
Assets:				
Current Assets	\$386,341	\$412,937	\$376,773	\$342,251
Property and Equipment, net	221,498	182,798	174,010	174,009
Other Assets	53,547	33,903	30,800	21,965
Total Assets	\$661,386	\$629,638	\$581,583	\$538,225
Liabilities and Minority Interest:				
Current Liabilities	\$168,564	\$153,210	\$133,258	\$122,043
Long-Term Debt, less Current Maturities	1,730	1,856	2,313	3,016
Deferred Income Taxes and Other	26,815	25,949	23,186	22,152
Minority Interest in Subsidiary	—	—	—	—
Total Liabilities and Minority Interest	197,109	181,015	158,757	147,211
Share Owners' Equity	464,277	448,623	422,826	391,014
Total Liabilities and Share Owners' Equity	\$661,386	\$629,638	\$581,583	\$538,225
Other Financial Data:				
Current Ratio	2.3:1	2.7:1	2.8:1	2.8:1
Working Capital	\$217,777	\$259,727	\$243,515	\$220,208
Capital Expenditures-net of Retirements and Disposals:				
Net Capital Expenditures	\$ 72,509	\$ 38,972	\$ 29,823	\$ 28,575
Depreciation and Amortization	(33,372)	(29,913)	(29,381)	(30,781)
Net Capital Expenditures over (under) Depreciation	\$ 39,137	\$ 9,059	\$ 442	\$ (2,206)
Long-Term Debt as Percent of Share Owners' Equity	0.4%	0.4%	0.5%	0.8%
Book Value Per Share of Common Stock Outstanding	\$ 11.43	\$ 10.83	\$ 10.20	\$ 9.35
Average Number of Employees	9,884	9,198	8,786	8,660
Dividends:				
Total Declared	\$ 25,643	\$ 24,812	\$ 22,104	\$ 19,775
Per Share Dividends Declared:				
Class A	\$.62	\$.58875	\$.530	\$.470
Class B	\$.64	\$.605	\$.535	\$.475
Percent of Net Income				
Declared in Dividends	42.9%	45.1%	38.3%	43.9%

Eleven-Year Sources Of Revenue

<i>(Amounts in Thousands)</i>	1999	1998	1997	1996
Furniture and Cabinets	\$ 771,528	\$ 706,679	\$676,218	\$638,943
	70%	69%	68%	69%
Electronic Contract Assemblies	335,395	325,602	315,816	284,639
	30%	31%	32%	31%
Unallocated Corporate	44	36	15	54
	0%	0%	0%	0%
Total Revenue	\$1,106,967	\$1,032,317	\$992,049	\$923,636
	100%	100%	100%	100%

Segment data has been adjusted to reflect the change in segments resulting from the adoption of Financial Accounting Standards Board Statement No. 131, Disclosures about Segments of an Enterprise and Related Information.

Kimball International, Inc. And Subsidiaries

1995	1994	1993	June 30 1992	1991	1990	1989
\$306,816	\$288,238	\$295,458	\$275,507	\$242,726	\$233,856	\$191,003
177,130	171,243	152,361	142,304	135,757	140,766	143,685
13,140	11,932	4,886	4,212	4,202	3,361	3,058
\$497,086	\$471,413	\$452,705	\$422,023	\$382,685	\$377,983	\$337,746
\$105,046	\$102,164	\$100,070	\$ 80,769	\$ 65,262	\$ 72,371	\$ 64,364
924	811	2,017	3,157	4,392	6,873	8,933
19,779	17,486	17,277	16,960	17,677	18,338	16,100
—	—	—	—	891	1,050	1,373
125,749	120,461	119,364	100,886	88,222	98,632	90,770
371,337	350,952	333,341	321,137	294,463	279,351	246,976
\$497,086	\$471,413	\$452,705	\$422,023	\$382,685	\$377,983	\$337,746
2.9:1	2.8:1	3.0:1	3.4:1	3.7:1	3.2:1	3.0:1
\$201,770	\$186,074	\$195,388	\$194,738	\$177,464	\$161,485	\$126,639
\$ 33,011	\$ 45,992	\$ 36,436	\$ 31,449	\$ 18,279	\$ 19,756	\$ 40,109
(27,726)	(26,919)	(26,205)	(24,902)	(23,288)	(22,675)	(21,528)
\$ 5,285	\$ 19,073	\$ 10,231	\$ 6,547	\$ (5,009)	\$ (2,919)	\$ 18,581
0.2%	0.2%	0.6%	1.0%	1.5%	2.5%	3.6%
\$ 8.81	\$ 8.29	\$ 7.87	\$ 7.56	\$ 6.97	\$ 6.59	\$ 5.83
8,589	8,140	7,621	7,641	7,559	7,971	8,351
\$ 18,039	\$ 17,704	\$ 16,454	\$ 14,745	\$ 13,889	\$ 12,218	\$ 10,524
\$.425	\$.415	\$.385	\$.345	\$.325	\$.285	\$.245
\$.430	\$.420	\$.390	\$.350	\$.330	\$.290	\$.250
43.5%	48.9%	53.8%	38.2%	46.3%	28.1%	30.7%

1995	1994	1993	Year Ended June 30 1992	1991	1990	1989
\$650,756	\$618,243	\$541,871	\$484,779	\$463,085	\$490,999	\$471,099
73%	75%	75%	78%	83%	80%	79%
245,101	204,149	180,464	132,507	92,118	121,937	123,894
27%	25%	25%	22%	17%	20%	21%
55	92	65	15	60	20	12
0%	0%	0%	0%	0%	0%	0%
\$895,912	\$822,484	\$722,400	\$617,301	\$555,263	\$612,956	\$595,005
100%	100%	100%	100%	100%	100%	100%

Eleven-Year Summary Of Operations

<i>(Amounts in Thousands, Except for Per Share Data)</i>	1999	1998	1997	1996
Net Sales	\$1,106,967	\$1,032,317	\$992,049	\$923,636
Cost of Sales	778,551	723,378	692,636	664,311
Gross Profit	328,416	308,939	299,413	259,325
Selling, Administrative and General Expenses	250,839	236,463	218,421	193,414
Product Line Exit Costs	—	—	—	3,400
Restructuring Expense	—	—	—	—
Operating Income	77,577	72,476	80,992	62,511
Other Income (Expense):				
Interest Expense	(476)	(424)	(551)	(408)
Interest Income	6,554	9,458	8,484	7,411
Other, Net	8,719	5,917	(359)	4,801
Other Income, Net	14,797	14,951	7,574	11,804
Income Before Taxes on Income	92,374	87,427	88,566	74,315
Taxes on Income	32,649	32,400	30,821	29,220
Net Income	\$ 59,725	\$ 55,027	\$ 57,745	\$ 45,095
Percent of Net Sales	5.4%	5.3%	5.8%	4.9%
Earnings Per Share:				
Basic:				
Class A	\$1.46	\$1.32	\$1.39	\$1.08
Class B	\$1.48	\$1.33	\$1.40	\$1.08
Diluted:				
Class A	\$1.45	\$1.31	\$1.38	\$1.07
Class B	\$1.47	\$1.32	\$1.38	\$1.08
Average Shares Outstanding:				
Basic	40,624	41,417	41,450	41,810
Diluted	40,839	41,814	41,763	41,856

Manufacturing And Service Operations

Furniture and Cabinets <i>Artec Manufacturing</i> Jasper and French Lick, Indiana <i>Office furniture systems</i>	<i>Facilities/Technology Support Group</i> Jasper, Indiana <i>Product testing, property and woodlands management, energy production, research in furniture finishes</i>	<i>Harpers Manufacturing</i> Post Falls, Idaho <i>Office furniture casegoods, systems and filing</i>	<i>Jasper Laminates</i> Jasper, Indiana <i>Flat, molded, postformed and plastic-faced plywood, banded flakeboard, veneer faces</i>
<i>Batesville American Manufacturing</i> Batesville, Mississippi <i>Metal stampings and assemblies, healthcare beds</i>	<i>Furniture Showrooms & Service Centers</i> New York, Chicago, Boston, Los Angeles, San Francisco, Denver, Atlanta, Dallas, Seattle, Newport Beach, High Point, Post Falls, Tupelo, Jasper, London, Toronto, Vienna <i>Product display and regional distribution</i>	<i>Heritage Hills</i> Santa Claus, Indiana and Mexicali, Mexico <i>TV and audio cabinets, TV stands, and office furniture</i>	<i>Jasper Plastics</i> Jasper, Indiana <i>Molded polyurethane, polyester, elastomers</i>
<i>Corporate Logistics Services</i> Jasper, Indiana <i>Transportation and fleet operations</i>		<i>Indiana Hardwoods</i> Chandler, Indiana <i>Lumber</i>	<i>Kimball de Juarez, S.A. de C.V.</i> Juarez, Mexico and El Paso, Texas <i>Projection television cabinets</i>
<i>Evansville Veneer & Lumber Company</i> Evansville, Indiana <i>Veneer, lumber</i>	<i>Greensburg Manufacturing</i> Greensburg, Kentucky <i>Lumber, dimension wood, furniture components</i>	<i>Indiana Hardwoods Sawmill</i> Cloverport, Kentucky <i>Lumber</i>	<i>Kimball Home Furniture</i> Jasper, Indiana <i>Residential furniture</i>
		<i>Jasper Furniture Company</i> Jasper and West Baden, Indiana <i>Lodging and healthcare casegoods, contract furniture and components</i>	<i>Kimball Lodging Group</i> Jasper, Indiana <i>Lodging and healthcare furniture</i>

Kimball International, Inc. And Subsidiaries

Year Ended June 30						
1995	1994	1993	1992	1991	1990	1989
\$895,912	\$822,484	\$722,400	\$617,301	\$555,263	\$612,956	\$595,005
645,591	588,849	512,781	422,563	376,533	409,373	407,589
250,321	233,635	209,619	194,738	178,730	203,583	187,416
188,495	179,981	161,984	146,891	140,154	140,014	134,476
—	—	—	—	—	—	—
—	—	2,850	—	—	—	—
61,826	53,654	44,785	47,847	38,576	63,569	52,940
(273)	(202)	(1,200)	(991)	(1,085)	(1,483)	(1,379)
5,755	2,240	4,237	7,146	8,580	6,989	2,446
3,487	3,727	5,500	6,712	3,062	1,978	2,352
8,969	5,765	8,537	12,867	10,557	7,484	3,419
70,795	59,419	53,322	60,714	49,133	71,053	56,359
29,356	23,250	22,739	22,086	19,116	27,578	22,060
\$ 41,439	\$ 36,169	\$ 30,583	\$ 38,628	\$ 30,017	\$ 43,475	\$ 34,299
4.6%	4.4%	4.2%	6.3%	5.4%	7.1%	5.8%
\$0.98	\$0.85	\$0.72	\$0.91	\$0.71	\$1.02	\$0.81
\$0.99	\$0.86	\$0.72	\$0.92	\$0.71	\$1.03	\$0.81
\$0.98	\$0.85	\$0.72	\$0.91	\$0.71	\$1.02	\$0.81
\$0.99	\$0.86	\$0.72	\$0.92	\$0.71	\$1.03	\$0.81
42,143	42,330	42,398	42,302	42,329	42,391	42,400
42,148	42,330	42,398	42,302	42,329	42,391	42,400

Kimball Northeast Manufacturing
West Chester, Pennsylvania
Office furniture, stackable panel and floor-to-ceiling systems

Kimball Office Casegoods Manufacturing
Borden, Salem and Santa Claus, Indiana and Fordsville, Kentucky
Office furniture casegoods

Kimball Office Group
Jasper, Indiana and Post Falls, Idaho
Office furniture casegoods, systems, seating and filing

Kimball Store Fixtures
Boca Raton, Florida and Weaverville, North Carolina
Store display fixtures

Kimball U.K.
London, England
Office furniture casegoods, systems, seating and filing

Kimball Upholstered Products
Jasper and West Baden, Indiana
Office, residential, lodging and healthcare seating

L. Bösendorfer Klavierfabrik GmbH
Vienna and Wiener Neustadt, Austria
Grand and vertical pianos

Lafayette Manufacturing
Lafayette, Tennessee
Lumber, dimension wood

Lafayette Sawmill
Gordonsville, Tennessee
Lumber

Product Design & Research Center
Jasper, Indiana
Product design and development

The Jasper Corporation
Jasper, Indiana
TV and audio cabinets, lodging, office and residential furniture

Transwall
West Chester, Pennsylvania
Office furniture, stackable panel and floor-to-ceiling systems

Electronic Contract Assemblies
Elmo Semiconductuers SARL
Mantes La Jolie, France
Electronic assemblies

Elmo Semiconductor Corporation
Burbank, California
Electronic assemblies

Kimball Electronics Design Services
Jasper, Indiana
Contract electronic component design services

Kimball Electronics
Jasper, Indiana
Electronic assemblies

Kimco, S.A. de C.V.
Reynosa, Mexico and McAllen, Texas
Electronic assemblies

Corporate
Corporate Headquarters
Jasper, Indiana
Executive, administrative and sales offices

Education Center & Corporate Showroom
Jasper, Indiana
Training, product display

Kimball Flight Operations
Huntingburg, Indiana
Flight services

Board Of Directors

Douglas A. Habig #*
Chairman of the Board,
Chief Executive Officer
Director 26 years

*Thomas L. Habig**
Vice Chairman of the Board
Director 49 years

James C. Thyen #*
President
Director 18 years

John B. Habig
Chairman of the Board of Directors
of SVB&T Corporation, a Bank Holding
Company of Springs Valley Bank
& Trust Co.
Director 43 years

*Ronald J. Thyen**
Senior Executive Vice President,
Operations Officer,
Furniture and Cabinets Segment
Director 26 years

*John T. Thyen**
Senior Executive Vice President,
Marketing and Sales, Kimball Consumer
Products, Furniture and Cabinets Segment
Director 9 years

Gary P. Critser #*
Senior Executive Vice President,
Corporate Secretary and Treasurer
Director 9 years

Brian K. Habig
Proposal Center Manager,
Kimball Electronics Group
Director 7 years

Jack R. Wentworth+ #
Arthur M. Weimer Professor Emeritus of
Business Administration, Indiana University
Director 15 years

Christine M. Vujovich+ #
Vice President, Worldwide Marketing,
Bus and Light Commercial Automotive
and Environmental Management,
Cummins Engine Company, Inc.
Director 5 years

Alan B. Graf, Jr.+
Executive Vice President, Chief Financial
Officer, FDX Corporation
Director 3 years

Polly B. Kawalek+
Vice President of The Quaker Oats Company
and President, Hot Breakfast Division
Director 2 years

* Member of the Executive
Committee of the Board

+ Member of the Audit
Committee of the Board

Member of the Compensation
and Stock Option Committees
of the Board

Executive Officers

Corporate Officers

Randall L. Catt
Executive Vice President,
Human Resources

Donald D. Charron
Executive Vice President,
President, Kimball Electronics Group

John H. Kahle
Executive Vice President,
General Counsel, Assistant Secretary

Lawrence J. Kuntz
Executive Vice President, Organization
Development, Electronics Group

Gregory W. Kuper
Executive Vice President,
Casegoods Group

Robert F. Schneider
Executive Vice President,
Chief Financial Officer,
Assistant Treasurer

Gary W. Schwartz
Executive Vice President,
Chief Information Officer

J. Keith Beatty
Vice President,
Casegoods Group

Gary L. Beckman
Vice President,
Strategic Planning and
Quality Systems

Paul Bergé
Vice President,
Business Development

James R. Hampton
Vice President,
Raw Materials Group

Alan B. Hoffman
Vice President,
Corporate Risk

Ronald J. Sermersheim
Vice President,
Environmental, Health & Safety

Roy W. Templin
Vice President,
Corporate Controller

Kenneth J. Van Winkle
Vice President,
Manufacturing Information Systems

Dean M. Vonderheide
Vice President,
Seating Group

Subsidiary Officers

Dr. Rudolf Arlt
Managing Director,
Bösendorfer

Robert R. Burke
Vice President,
Marketing & Sales,
Kimball Office Furniture

Larry J. Knust
Vice President,
Systems Furniture Group

George W. Manz
Vice President,
Marketing and Sales,
Transwall

James R. McIntyre
Vice President,
Sales, Electronics Group

Mark Phillips
Managing Director,
Kimball U.K. and Ireland

Ronald J. Pronyk
Vice President,
Store Fixtures

Michael K. Sergesketter
Vice President, Chief Financial Officer,
Electronics Group

Christopher J. Thyen
Vice President and
General Manager,
Lodging/Healthcare Group

Spiro Vamvakas
Vice President,
Director Design Engineering,
Electronics Group



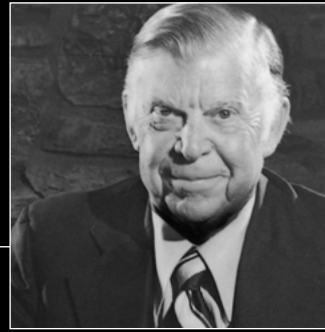
H.E. "Herb" Thyen
1912-1999

"...I am sure

Kimball will continue toward world-class competition with its high-class employees making total quality products at competitive prices."

September 1990

Herb Thyen's contributions to Kimball International and tireless community efforts have helped make Kimball International and Jasper, Indiana, ideal locations for its employees to work and live today.



Arnold F. Habig
1907-1999

"More than

anything else, the satisfaction I get today is knowing we've improved the benefits for our employees and that we've made a better standard of living for all of them."

June 1985

Arnold Habig committed his life to building a better future for Kimball and the welfare of its employees. His vision to create a world-class manufacturing operation recognized for its quality and craftsmanship continues to grow today.

1600 Royal Street
 Jasper, Indiana 47549
 812-482-1600
 812-482-8500 TDD

Other Corporate Data

• **Dividends:** During fiscal year 1999 dividends declared were \$25.6 million or \$.62 per share on Class A Common Stock and \$.64 per share on Class B Common Stock. The dividends by quarter for 1999 compared to 1998 are as follows:

	1999		1998	
	Class A	Class B	Class A	Class B
First Quarter	\$.155	\$.16	\$.14375	\$.145
Second Quarter	\$.155	\$.16	\$.145	\$.15
Third Quarter	\$.155	\$.16	\$.145	\$.15
Fourth Quarter	\$.155	\$.16	\$.155	\$.16
Total Dividend	\$.62	\$.64	\$.58875	\$.605

• **Share Owners:** On July 30, 1999, the Company's Class A Common Stock was owned by approximately 650 Share Owners of record and the Company's Class B Common Stock by approximately 2,470 Share Owners of record, of which approximately 390 also owned Class A Common Stock.

• **Market Prices:** Kimball International Class B Common Stock is traded on the Nasdaq Stock Market under the symbol: KBALB. High and low price ranges by quarter for the last two fiscal years as quoted by the National Association of Security Dealers (NASDAQ) are as follows:

	1999		1998	
	High	Low	High	Low
First Quarter	\$20.375	\$14.875	\$23.4375	\$19.75
Second Quarter	\$21.50	\$14.9375	\$22.1875	\$18.375
Third Quarter	\$20.0625	\$14.75	\$23.75	\$17.00
Fourth Quarter	\$18.8125	\$14.5625	\$24.9375	\$17.625

There is no active trading market for the Company's Class A Common Stock.

• **Annual Meeting:** The annual meeting of Share Owners will be held at 9:30 a.m. Eastern Standard Time on October 19, 1999, at the General Office Building, Kimball International, Inc., 1600 Royal Street, Jasper, Indiana. Share Owners are cordially invited to attend.

• **10-K Report:** A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K is available, without charge, upon written request directed to Gary P. Critser, Senior Executive Vice President, Corporate Secretary and Treasurer, at the address below.

• **Transfer Agent and Registrar of the Class B Common Stock:** Share Owners with questions concerning address changes, dividend checks, registration changes, lost share certificates or transferring shares may contact:
 ChaseMellon Shareholder Services, L.L.C. Phone: (800) 851-9677
 85 Challenger Road Internet Address: www.chasemellon.com
 Overpeck Centre
 Ridgefield Park, NJ 07660

• **Analyst Contact:** Financial analysts with questions concerning the Company may contact Gregory J. Shields, Director of Investor Relations at (812) 482-8353.

• **Share Owner Contact:** Share Owners with general questions concerning the Company may contact Gary P. Critser, Senior Executive Vice President, Corporate Secretary and Treasurer. All members of management welcome suggestions about the Company and its performance.

• **Corporate Headquarters:** 1600 Royal Street
 Jasper, Indiana 47549-1001
 Phone: (812) 482-1600
Internet Address:
 Additional information on Kimball International is available at www.kimball.com on the Internet.

• **Private Securities Litigation Reform Act of 1995:** This annual report contains forward-looking statements that involve risks and uncertainties regarding Kimball International's operations and future results. In accordance with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, Kimball provides cautionary statements, detailed in the Company's Securities and Exchange Commission filings including, without limitation, the Company's Form 10-K, which identifies specific factors that could cause actual results or events to differ materially from those described in the forward-looking statements.