

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based **Internal Revenue Code Section 355**

18 Can any resulting loss be recognized? **Although the distribution will qualify for non-recognition treatment under section 355 of the Internal Revenue Code, gain or loss will be recognized by shareholders with respect to any cash received in lieu of fractional shares of Kimball Electronics, Inc.**

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year **See Attached**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here
Signature **Michelle R Schroeder** Date **11/4/14**

Print your name **Michelle R. Schroeder** Title **VP, CFO**

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name	Firm's EIN			
	Firm's address	Phone no.			

Send Form 8937 (including accompanying statements) to: Department of the Treasury, Internal Revenue Service, Ogden, UT 84201-0054

**U.S. Federal Income Tax Information relating to
Kimball International, Inc.'s Distribution of Kimball
Electronics, Inc.'s Common Stock on October 31, 2014**

This notice does not apply to shares of Kimball International, Inc. common stock sold, exchanged or otherwise disposed of prior to the time of the Distribution.

On October 31, 2014, Kimball International, Inc., an Indiana corporation (“Kimball”), distributed (the “Distribution”) its outstanding shares of common stock of Kimball Electronics, Inc., an Indiana corporation (“KEI”), to the holders of record of Kimball common stock that were issued and outstanding as of 5:00 p.m. Eastern Time on October 22, 2014 (each a “Kimball Share Owner”). Each Kimball Share Owner received three shares of KEI common stock for every four shares of Kimball Class A common stock or Class B common stock held (“Distribution Ratio”). Kimball Share Owners will also receive cash in lieu of any fractional share of KEI common stock resulting from the Distribution.

Kimball Share Owners will be required to allocate the aggregate tax basis in their Kimball common stock held immediately prior to the Distribution among the shares of KEI common stock received (including the fractional share for which cash was received) in the Distribution and their shares of Kimball common stock. The excess of the cash received in lieu of a fraction of a share of KEI common stock over the basis allocable to such fractional share will be treated as capital gain from the sale of such fractional share.

A Kimball Share Owner’s aggregate tax basis in his or her shares of Kimball common stock prior to the Distribution should be allocated in proportion to the fair market value of the KEI common stock received (including any fractional share of KEI common stock for which cash was received) and the Kimball common stock in respect of which such KEI common stock was received. Fair market value generally is the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the facts. There are many potential ways to determine the fair market value of stock. One possible approach to determining the fair market value of the Kimball common stock and the KEI common stock is to utilize the closing price quoted on The NASDAQ Global Select Market on the day after the Distribution for both Kimball common stock, which was \$12.89 per share, and KEI common stock, which was \$7.22 per share. Based on such values and the distribution ratio of 0.75 of a share of KEI common stock for each share of Kimball common stock, 70.42% of a Kimball Share Owner’s aggregate tax basis in his or her shares of Kimball common stock prior to the Distribution should be allocated to such Kimball Share Owner’s shares of Kimball common stock and 29.58% should be allocated to such Kimball Share Owner’s shares of KEI common stock (including the fractional share of KEI common stock for which cash was received).

The following is an **example** of how the basis allocation would be so applied:

Assumptions:

Shares of Kimball common stock owned	125
Kimball Share Owner's aggregate tax basis (@ \$15 per share) (A)	\$1,875
Shares of KEI common stock received in the Distribution (including the 0.75 fractional share for which cash was received) (125 shares of Kimball common stock x 0.75 distribution ratio)	93.75

Tax Basis Allocation:

	# Shares Owned	NASDAQ Closing Price (11/3/2014)	Fair Market Value (11/3/2014)	Percentage of Total Fair Market Value (11/3/2014) (B)	Allocated Tax Basis = (A) x (B)
Kimball Common Stock	125	\$12.89	\$1,611.25	70.42%	\$1,320.37 (\$1,875 x 70.42%)
KEI Common Stock	93.75	\$7.22 ⁽¹⁾	\$676.88	29.58%	\$554.63 (\$1,875 x 29.58%)
Totals			<u>\$2,288.13</u>	<u>100%</u>	<u>\$1,875</u>

(1) In accordance with the Separation and Distribution Agreement between Kimball and KEI dated October 31, 2014, the distribution agent aggregated all fractional shares into whole shares, sold the whole shares in the open market at the prevailing market price (which was \$7.79) and distributed the aggregate cash proceeds of the sales pro rata (based on the fractional share such holder would otherwise be entitled to receive) to each holder who otherwise would have been entitled to receive a fractional share in the Distribution.

The information in this document does not constitute tax advice and is not intended or written to be used, and cannot be used, for the purposes of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein. It does not purport to be complete or to describe the consequences that apply to particular categories of Kimball Share Owners (e.g., it does not address Kimball Share Owners who did not hold their shares of Kimball common stock continuously from 5:00 p.m. Eastern Time on the record date until the time of the Distribution, who sold shares of KEI common stock or who acquired blocks of Kimball common stock at different times and prices). Kimball Share Owners are encouraged to consult with their tax advisors for questions on their own specific tax position.