

IMPACT OF SOX ON THE COMPUTER HARDWARE INDUSTRY
Adverse Section 404 Reports
For Companies with Years Ended in 2006
As of July 6, 2007

The following is a copy of the eight adverse reports that were issued from companies in the Computer Hardware industry with years ended in 2006. These were all of the accelerated filers in the Computer Hardware industry with adverse Sarbanes-Oxley Section 404 management self assessments. This information was gathered using the online research tool called Audit Analytics an Ives Group, Inc company.

The following is a summary of the **material internal control weaknesses** reported in the eight adverse Section 404 Self Assessments:

| | |
|--|---|
| Internal Controls - Material and/or numerous auditor /YE adjustments | 7 |
| Internal Controls - Accounting documentation, policy and/or procedures | 7 |
| Internal Controls - Accounting personnel resources, competency/training | 3 |
| Internal Controls - Untimely or inadequate account reconciliations | 2 |
| Internal Controls - Non-routine transaction control issues | 2 |
| Internal Controls - Segregations of duties/ design of controls (personnel) | 1 |
| Internal Controls - Restatement or nonreliance of company filings | 1 |

The following is a summary of the **material accounting weaknesses** reported in the eight adverse Section 404 Self Assessments. Section 404 is not just about internal control issues, but also about misapplication of financial accounting and reporting issues:

| | |
|--|---|
| Accounting - Inventory, vendor and cost of sales issues | 4 |
| Accounting - Liabilities, payables, reserves and accrual est failures | 4 |
| Accounting - Tax expense/benefit/deferral/other (FAS 109) issues | 3 |
| Accounting - Acquisition, merger, disposal or reorganization issues | 2 |
| Accounting - Foreign, related party, affiliated and/or subsid issues | 2 |
| Accounting - Accounts/loans receivable, investments & cash issues | 1 |
| Accounting - PPE , intangible or fixed asset (value/diminution) issues | 1 |
| Accounting - Revenue recognition issues | 1 |



PPOL INC

10-K 2006 Management - Internal Control Assessment

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal controls over financial reporting based on the framework in INTERNAL CONTROL--INTEGRATED FRAMEWORK issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluation under the framework in INTERNAL CONTROL--INTEGRATED FRAMEWORK, management has concluded that our internal control over financial reporting was not effective as of March 31, 2006. As a result of such evaluation, changes, as described in the foregoing paragraphs, in our internal controls over financial reporting identified during the most recent fiscal year that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting were implemented.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Disclosure controls and procedures are the controls and other procedures that we designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the Securities and Exchange Commission. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the aforementioned disclosure controls and procedures were not effective as of March 31, 2006 and were revised, as described in the following paragraphs. There were no other significant changes made in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

The Board of Directors has concluded that the delay in submitting this 10-K filing was primarily a result of inadequate documentation of factual information in our files with respect to transactions occurring prior to present management taking office. This required present management to take the time to obtain relevant facts to determine whether such transactions have been properly accounted for and its impact on the presentation of current financial statements. Documentation of past transactions with future impact has been substantially updated. In addition, the Company has devoted a substantial amount of time to respond to comment letters from the Securities and Exchange Commission (SEC) with respect to its Form 10-K for Fiscal Year Ended March 31, 2005 and Form 10-Q for the Quarter Ended December 31, 2005. The current 10-K filing reflects the requirements of SEC pursuant to their comment letters. By letter dated July 24, 2006, the SEC has notified us that they have completed their review of our Form 10-K and related filings and do not, at this time, have any further comments. To ensure we record, process summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the Securities and Exchange Commission, the Board of Directors has directed management of the Company to



retain additional personnel to assist the CFO.

Our independent registered public accounting firm, Windes & McClaughry, has advised our audit committee and management that it considers the three matters to be "material weaknesses" as that term is defined under standards established by the Public Company Accounting Oversight Board (United States).

The first matter related to the fact that our independent registered public accounting firm identified a material adjustment which was required to be made to the financial statements for the nine months ended December 31, 2005. The adjustment was to our provision for income taxes whereby we did not provide for the tax benefit of an operating loss carryforward that was needed by AJOL, our Japanese operating subsidiary. The adjustment was reflected in the financial statements included on Form 10-Q. Had such adjustment not been recorded, non-current deferred tax assets would have been understated by \$532,540 at December 31, 2005 and the net loss for the nine months ended December 31, 2005, would have been overstated by \$532,540.

The second matter was that during the course of our procedures in preparing our third quarter 10-Q filing, we determined that Goodwill was understated by \$205,991 for the acquisition of USC on May 30, 2005.

The third matter relates to minor errors and omissions in certain financial statement disclosures discovered by our independent registered public accounting firm, which have been corrected.

The Board of Directors has concluded that the understatement of Goodwill, the material adjustment to deferred taxes and minor errors and omissions in certain financial statement disclosures discovered by our independent registered public accounting firm and the related delay in submitting the third quarter 10-Q was the result of insufficient staffing and the lack of internal expertise in international tax accounting. To ensure such adjustments and filing delays will be avoided in the future, we have hired a full time assistant to the CFO and retained the services of a consultant who was formerly a Director of International Tax at a Big Four accounting firm with over 20 years of experience. With the retention of the aforementioned staff and consultant, we believe that the controls and procedures designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the Securities and Exchange Commission as adequate.

Following the restatement of Goodwill as noted above, we have made a subsequent discovery of facts, which existed at the time of PPOL's acquisition of USC. What became known was that PPOL and USC were de facto entities under common control of Green Capital, PPOL's ultimate parent through their position as majority investor in Foster Strategic Investment Partnership. Prior to acquisition by PPOL, USC was a wholly owned subsidiary of Green Capital. Accordingly, the acquisition of USC must be treated in a way that is similar to the pooling method in accordance with paragraph 11 of SFAS No. 141, "Business Combinations," For accounting purposes, the excess of purchase price over the net assets of USC will be treated as a return of capital to Green Capital. We will restate and file amended filings for the quarters ended June 30, 2006, September 30, 2006 and December 31, 2006.

The Board of Directors have concluded that that the subsequent discovery of facts was a result of our not being aware of the intentions of the fund manager of Foster Strategic Investment Partnership to consult with Green Capital regarding its investment in PPOL or to direct its

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votes on matters brought up for shareholder voting, unless it had the prior concurrence of Green Capital. Conversely, we have been advised that Foster Corporation will comply with any matters Green Capital requested with respect to matters affecting FSIP's investment in PPOL. While the fund manager's adherence to Green Capital's requests and seeking prior concurrence of any decisions regarding FSIP's investment in PPOL or to direct its votes on matters brought up for shareholder voting is not believed to be legally binding, the substance is more important than the form. Members of the Board of Directors will hold periodic meetings with the fund manager of Foster Strategic Investment Partnership, as well as Green Capital, to receive information on matters that should be given accounting treatment by PPOL or otherwise disclosed to comply with reporting standards.

The Board of Directors has determined that the turnaround time in obtaining information necessary for consolidated financial reporting is delayed as a result of time zone differences between the United States and Japan. Accordingly, the Board of Directors has directed the CFO to complete the quarterly and annual consolidation procedures in Japan. This should shorten the time required to obtain necessary information and help educate the subsidiary accounting staff of what is required to be in compliance with SEC reporting guidelines.

INTERLINK ELECTRONICS INC

10-K 2006 Management - Internal Control Assessment

Management's Report on Internal Control Over Financial Reporting

Current System of Internal Control over Financial Reporting. Management is responsible for establishing and maintaining an adequate and effective system of internal control over financial reporting. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Remediation of Previously Disclosed Material Weaknesses. As of December 31, 2005, at which time we qualified as an accelerated filer and were required to furnish the information required by Items 307 and 308 of Regulation S-K, we carried out the 2005 Evaluation. The 2005 Evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, and included an evaluation of the effectiveness of (i) the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15, based on the framework in Internal Control-Integrated Framework (the "Framework") issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and (ii) our system of internal control over financial reporting. Based upon that evaluation, management, including our Chief Executive Officer and our Chief Financial Officer, concluded that, as of December 31, 2005, (a)

our disclosure controls and procedures were ineffective in alerting them in a timely manner to material information relating to the Company and its subsidiaries that is required to be included in the reports that we file or submit under the Securities Exchange Act of 1934 and (b) our system of internal control over financial reporting was ineffective. The 2005 Evaluation was audited and attested to by BDO Seidman LLP, an independent registered public accounting firm. The following material weaknesses were identified:

- Weaknesses related to the closing and financial reporting of our quarterly and annual financial statements, which resulted in material adjustments while completing our 2005 financial audit in accounts receivable and allowance for doubtful accounts, sales return reserves, prepaid expenses and other assets, accounts payable, stockholders' equity and due from stockholders. This weakness also required us to restate our 2004 and 2005 financial statements, and prevented us from filing various of our quarterly and annual reports in a timely manner;
- Weaknesses in our inventory management, reserves for excess and obsolete inventory and costing process, which required restatement of additional items in our 2004 and 2005 financial statements;
- Lack of effective controls over the application of appropriate accounting policies related to the measurement of stock-based compensation; and
- Weakness in the financial reporting control environment as a whole, due to the number and magnitude of deficiencies found within the Sales Order to Cash, Procure to Payment and Stockholders' Equity processes.

We made significant changes to our internal controls over financial reporting during the fiscal year 2006 and were able to remediate most, but not all, of these material weaknesses. Based on the 2006 Evaluation, management, including our Chief Executive Officer and our Chief Financial Officer, determined that a material weakness remained in our internal controls over financial reporting as of December 31, 2006, relating to our inventory costing methods. This material weakness is expected to be remediated by the end of the first fiscal quarter of 2007.

GATEWAY INC

10-K 2006 Management - Internal Control Assessment

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, pursuant to Rule 13a-15(c) of the Securities Exchange Act, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States ("GAAP"). A company's internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company, and (iii) provide reasonable assurance regarding

prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

In accordance with the internal control reporting requirements of the Securities and Exchange Commission, management completed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth in the Internal Control—Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The COSO framework summarizes each of the components of a company's internal control system, including the: (i) control environment, (ii) risk assessment, (iii) information and communication, and (iv) monitoring (collectively, the "entity-level controls"), as well as (v) a company's control activities ("process-level controls"). Management's evaluation of the design and operating effectiveness of our internal controls over financial reporting identified a material weakness resulting from design deficiencies in the internal control system related to the recording of liabilities, receivables from suppliers and component inventory. A "material weakness" is defined as a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Specifically, during the course of the year-end close process, management examined our processes relating to our receipt of components from original equipment manufacturers (OEMs) and sale of components to original design manufacturers (ODMs). As a result of that evaluation, management concluded that we did not adequately design controls to ensure the timely accrual of liabilities to OEMs, recording of receivables from ODMs and receipt of inventory through; (a) timely reconciliation of open purchase orders to OEMs with inventory delivered to ODMs, and (b) timely review and resolution of discrepancies between OEM invoices and ODM receiving data. As a result of these deficiencies, management posted a material closing adjustment to the balance sheet as of December 31, 2006.

In addition to posting the appropriate adjustment, management also is taking the following steps to remediate this material weakness in 2007:

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Structural and operational review of current procurement and receiving procedures.

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Review and re-design of process level controls in Gateway's procurement, receiving and accounts payable functions.

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Weekly review and comparison of OEM shipment reports to the open purchase order report.

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Monthly review and follow-up by accounting management to ensure appropriate reconciliation and accrual of un-vouchered invoices as required at period-end.

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Assessment and adjustment of current staffing in accounting and operational areas as necessary.

SECURE COMPUTING CORP

10-K 2006 Management - Internal Control Assessment

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes those written policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;
- provide reasonable assurance that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness in internal control over financial reporting is a significant deficiency (within the meaning of PCAOB Auditing Standard No. 2), or combination of significant deficiencies, that results in there being more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected by employees in the normal course of performing their assigned functions.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by



the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Management’s assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management identified, as of December 31, 2006, a material weakness existed in the company’s internal control over financial reporting related to the accounting for income taxes. There were ineffective controls relating to the review of our year-end tax provision, including review of the tax technical accounting items where our outside tax consultants typically provide input. This control deficiency resulted in a material misstatement of various income tax balances that was not prevented or detected by management. As a result, material errors in accounting for income taxes occurred, which were corrected prior to the issuance of the annual financial statements. Accordingly management has determined this control deficiency constitutes a material weakness.

Due to the material weakness described above, management concluded that, as of December 31, 2006, the Company’s system of internal control over financial reporting related to accounting for income taxes was not effective based on the criteria established in Internal Control—Integrated Framework.

Management’s assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 excluded the business operations of CipherTrust, Inc., acquired on August 31, 2006. The acquired business operations excluded represent \$66.0 million and \$19.1 million of total and net assets, respectively, and \$7.1 million of revenues of our related consolidated financial statement amounts as of and for the year ended December 31, 2006.

Our management’s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein on page 78.

SIGMA DESIGNS INC

10-K 2006 Management - Internal Control Assessment

Management’s Annual Report on Internal Controls Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). The Company’s internal control system is designed to provide reasonable assurance to the Company’s management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations

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of the Treadway Commission. As part of this evaluation, management established an internal control project team, engaged outside consultants and adopted a project work plan to document and assess the adequacy of our internal control over financial reporting, address any control deficiencies that were identified, and to validate through testing that the controls are functioning as documented.

There were two material weaknesses in internal control over financial reporting as of January 29, 2005 that we previously reported. One of these material weaknesses related to the inadequate supervision and review controls over the recording of stock options had been fully remediated as of January 28, 2006. The other material weakness was that we had inadequate controls in place to ensure that financial information is adequately analyzed to detect misstatements including the lack of understanding of generally accepted accounting principles, or GAAP, and Securities Exchange Commission, or SEC, reporting matters. We had not remediated this material weakness as of January 28, 2006. The following is a more detailed description of the material weakness. · The Company's personnel who are responsible for performing and overseeing the period-end financial closing and reporting process lack the understanding of generally accepted accounting principles (GAAP) and SEC reporting matters for their assigned duties, and consequently the Company's process to determine and monitor compliance with GAAP and SEC reporting matters is not operating effectively. In addition, the Company has not designed and implemented appropriate controls to ensure that financial information (both routine and non-routine) is adequately analyzed and reviewed to detect misstatements. For example, the Company did not adequately analyze all incurred direct costs totaling approximately \$276,000 associated with the acquisition of Blue7 Communications. The Company recorded an audit adjustment of approximately \$276,000 reclassifying the direct costs from expense as part of the acquisition cost.

The Company has instituted remediating actions to address this weakness. The Company hired a certified public accountant in January 2006 with a strong background in GAAP and in SEC reporting and intends to hire additional personnel with similar expertise. In addition, we will continue to provide training to accounting personnel and engage outside consultants in areas related to GAAP and SEC reporting as needed. In making its assessment of internal control over financial reporting, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Because of the material weakness described above, management believes that, as of January 28, 2006, the Company did not maintain effective internal control over financial reporting based on those criteria. The Company's independent registered public accountants have issued an attestation report on management's assessment of the Company's internal control over financial reporting. That report appears below.

MAXWELL TECHNOLOGIES INC

10-K 2006 Management - Internal Control Assessment

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway

Commission.

Based on its evaluation, management identified a material weakness in the operation of the Company's internal controls limited to the accounting for income taxes related to our Swiss subsidiary as of December 31, 2006. A material weakness is a control deficiency (within the meaning of Public Company Accounting Oversight Board Auditing Standard No. 2), or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by employees in the normal course of their work.

Over the past few years the Company has outsourced preparation of the calculation of its tax provisions, including tax calculations related to its foreign operations, and its tax compliance to an external tax service provider.

There was one primary tax issue related to our Swiss pension plan that led management to conclude that a material weakness existed. Specifically, the Company did not record an income tax liability associated with an adjustment made as a result of the implementation of FAS 158 Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans in the current year's comprehensive income when, in fact, an income tax liability should have been recorded.

Management has concluded that the principal factors contributing to the material weakness in accounting for income taxes related to our Swiss subsidiary were (a) inadequate consideration of the provisions of FAS No. 109 Accounting for Income Taxes by our external tax service provider resulting in an error in the accounting for income taxes and (b) insufficient or ineffective review practices by our internal personnel. This material weakness resulted in an accounting error which was corrected prior to the issuance of the consolidated financial statements for the year ended December 31, 2006. Management has not identified any other material weaknesses in its internal control over financial reporting.

Because of the material weakness described above, management concluded that, as of December 31, 2006, the Company did not maintain effective internal control over financial reporting based on the criteria established in Internal Control-Integrated Framework issued by COSO. McGladrey & Pullen, LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements has also audited management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006. The attestation report of McGladrey & Pullen, LLP follows this report.

OVERLAND STORAGE INC

10-K 2006 Management - Internal Control Assessment

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in

reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, management conducted an assessment of the effectiveness of our internal control over financial reporting as of July 2, 2006. In making this assessment, management used the criteria established in the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) entitled Internal Control—Integrated Framework.

As of July 2, 2006, the Company did not maintain effective controls over the completeness and accuracy of accounts payable and accrued expenses. Specifically, controls over cut-off and completeness of accounts payable and accrued expenses were insufficient to ensure that invoices from certain vendors were properly evaluated at period end. This control deficiency resulted in audit adjustments to the Company's 2006 annual consolidated financial statements and the interim consolidated financial statements for the quarter ended July 2, 2006. Additionally, this control deficiency could result in a misstatement of the Company's accounts payable and accrued liabilities, cost of revenue, and operating expenses that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness. Because of this material weaknesses, management has concluded that we did not maintain effective internal control over financial reporting as of July 2, 2006, based on the criteria established in Internal Control—Integrated Framework issued by the COSO.

Management's assessment of the effectiveness of our internal control over financial reporting as of July 2, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

MICROFIELD GROUP INC

10-K 2006 Management - Internal Control Assessment

Management's Annual Report on Internal Control over Financial Reporting Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Those rules define internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

Index · pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

· provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting

principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors;

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency (as defined in PCAOB Auditing Standard No. 2), or combination of control deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Management's assessment of the effectiveness of our internal control over financial reporting identified the following material weaknesses as of December 30, 2006:

- Revenue Recognition - Implementing a consistent application of percent of completion estimation, implementing accurate project costing controls, as well as maintaining adequate records of contracts.
- Cash Disbursements and Liability Recognition - Standardizing purchasing policies and procedures, segregating purchasing duties where appropriate and improving the receipt and approval function.

In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Because of the material weaknesses described above, management concludes that, as of December 30, 2006, our internal control over financial reporting was not effective.

Management has corrected many significant weaknesses and made significant progress in correcting these material weaknesses. The Company will continue to dedicate significant personnel and financial resources to the ongoing remediation and control maintenance efforts. Management expects to remediate these material weaknesses timely.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 30, 2006 has been audited by Russell Bedford Stefanou Mirchandani, LLP, the Company's independent registered public accounting firm, as stated in their report, which follows.

Changes in Internal Control over Financial Reporting

Except as described below, there were no changes in internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially effect, our internal control over financial reporting. Among the changes in internal controls that have been implemented, or that are in the process of being

implemented are: Revenue recognition

- Criteria and procedures established defining approved customer contracts
- Control function established to review and monitor compliance to new procedures
- Improved document control and file check out procedures

Index • Procedure established defining consistent percentage completion Gross Margin estimation process

Cash disbursements and liability recognition • Document control system established and monitored for compliance

- Cut off procedures formalized and consistently applied
- Centralized departmental budgets and accountability established
- Purchasing procedures have been formalized and implementation has begun
- Procedures instituted to provide for appropriate separation of duties

Other • Procedures established and personnel assigned to reconcile key accounts on a timely basis

- Control function added to review reconciliations
- Control evidence records and procedures for each job function
- Timely and frequent project reviews
- Timely closing and review of books and records
- Deadlines imposed for period end closings

To correct the material weakness, checklists are being developed delineating tasks, preparation responsibilities, and review responsibilities targeting specific completion dates. The checklists provide evidentiary support of work performed and review. Specific checklists are being developed for non-quarter end months, quarter end months and the annual close. These checklists continue to be developed and have been implemented in the third quarter 2006 close process and utilized in the preparation of this Annual Report and subsequent period ends.

The Company's officers have been working with the Board of Directors to address recommendations from the Company's registered independent public accounting firm regarding deficiencies in the disclosure controls and procedures. The Company is currently engaged in the implementation of a new internal software system and associated new internal control procedures. Management expects that this system along with new associated



procedures, once implemented, will correct the deficiencies and will result in disclosure controls and procedures pursuant to Rule 13a-14 of the Exchange Act, which will timely alert the President to material information relating to the Company required to be included in the Company's Exchange Act filings.

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