

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

The following is a copy of the nine adverse reports that were issued from companies in the Distribution industry with years ended in 2006. These were all of the accelerated filers in the Distribution 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 - Accounting documentation, policy and/or procedures	9
Internal Controls - Material and/or numerous auditor /YE adjustments	6
Internal Controls - Accounting personnel resources, competency/training	4
Internal Controls - Information technology, software, security & access issues	3
Internal Controls - Restatement or nonreliance of company filings	3
Internal Controls - Untimely or inadequate account reconciliations	3
Internal Controls - Restatement of previous 404 disclosures	2
Internal Controls - Insufficient or non-existent internal audit function	1
Internal Controls - Management/Board/Audit Committee investigation(s)	1
Internal Controls - Non-routine transaction control issues	1
Internal Controls - Segregations of duties/ design of controls (personnel)	1

The following is a summary of the **material accounting weaknesses** reported in the nine 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 - Accounts/loans receivable, investments & cash issues	3
Accounting - Liabilities, payables, reserves and accrual est failures	3
Accounting - Revenue recognition issues	3
Accounting - Tax expense/benefit/deferral/other (FAS 109) issues	3
Accounting - Expense recording (payroll, SG&A) issues	2
Accounting - Unspecified/unidentified/inapplicable FASB/GAAP issues	2
Accounting - Acquisition, merger, disposal or reorganization issues	1
Accounting - Deferred, stock-based or executive comp issues	1
Accounting - Inventory, vendor and cost of sales issues	1
Accounting - PPE , intangible or fixed asset (value/diminution) issues	1



TREX CO INC

10-K 2006 Management - Internal Control Assessment

Management's Report on Internal Control Over Financial Reporting

We, as members of management of Trex Company, Inc. (the "Company"), are responsible for establishing and maintaining adequate internal control over financial reporting. The 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. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) 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 (3) 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.

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 and procedures may deteriorate.

We assessed the Company's internal control over financial reporting as of December 31, 2006, based on criteria for effective internal control over financial reporting established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). Based on this assessment, management identified two material weaknesses (as defined by the Public Company Accounting Oversight Board) as of December 31, 2006, as follows:

- The Company lacked a sufficient complement of personnel with knowledge of the Company's financial reporting processes and adequate technical expertise in the application of U.S. generally accepted accounting principles and experience in resolving non-routine or complex accounting matters. As a result, errors occurred in the accounting for certain transactions. Management's review of these transactions and the related account analyses and reconciliations were not sufficient to detect the errors. The errors related to the Company's inventory, property, plant and equipment, accounts payable, cost of sales, selling, general and administrative expenses and income taxes. These errors resulted in a number of post-closing adjustments that were recorded during the preparation of the 2006 consolidated financial statements.
- The Company did not have appropriate controls to properly account for activity related to the purchase and receipt of goods and services and the related liabilities. In addition, the Company's related monitoring process is not sufficient to identify the resulting errors on a

timely basis. The errors were primarily due to the recording of inventory, property, plant and equipment, cost of sales and selling, general and administrative expenses at the time of receipt of the goods or services and again at the time the related invoices were received, resulting in an overstatement of assets, liabilities and expenses. These errors resulted in a number of post-closing adjustments that were recorded during the preparation of the 2006 consolidated financial statements.

Until these deficiencies are remediated, there is more than a remote likelihood that a material misstatement to the annual or interim consolidated financial statements could occur and not be prevented or detected by the Company's controls in a timely manner. Management has determined that, because of these material weaknesses, the Company did not maintain effective internal control over financial reporting as of December 31, 2006 based on the criteria specified in the COSO Framework.

Ernst & Young LLP, an independent registered public accounting firm, which audited the Company's consolidated financial statements included in this report, has issued a report on management's assessment of the effectiveness and on the Company's internal control over financial reporting, which is included in this report.

TREX COMPANY, INC. April 2, 2007 By: /S/ ANTHONY J. CAVANNA Anthony J. Cavanna
Chairman and Chief Executive Officer (Principal Executive Officer) April 2, 2007 By: /S/ PAUL
D. FLETCHER Paul D. Fletcher Senior Vice President and Chief Financial Officer (Principal
Financial Officer)

DANKA BUSINESS SYSTEMS PLC

10-K/A 2006 Management - Internal Control Assessment

Management's Annual Report on Internal Control Over Financial Reporting (as revised)

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, 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 and includes those policies and procedures that:

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Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

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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

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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.

Management assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2006. In making the assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework.

Based on our assessment, management determined that, as of March 31, 2006, a material weakness related to the revenue and billing process existed within the Company's internal controls over financial reporting, therefore management has determined that its internal control over financial reporting was ineffective. This material weakness related to (a) controls over the recording of copies made by customers in order to calculate service revenue, (b) controls over accurate input of contract information into Danka's billing system in order to determine correct amounts to bill, (c) controls to timely identify and correct billing errors, including errors in sales taxes, (d) controls to determine the correct allocation for the provisions for billing disputes and inaccuracies and bad debt expense between revenue reductions and bad debt expense and (e) controls over ensuring that all criteria necessary to recognize revenue have been met prior to recognizing revenue. This material weakness also existed as of March 31, 2005 and was disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2005 (the "2005 Form 10-K").

Additionally, on February 5, 2007, management concluded that the Company should restate its previously filed financial statements for fiscal years ended March 31, 2006, 2005 and 2004, and for the interim quarterly periods in fiscal year 2007, to correct the accounting for its domestic income tax valuation allowance. The Company had previously established its domestic income tax valuation allowances assuming future taxable income would be generated from the turnaround of non-reversing book/tax timing difference for goodwill. It has been determined that the valuation allowance for Deferred Tax Assets should have been increased by \$1.4 million during the fiscal year ended March 31, 2006 and by \$2.0 million for fiscal year 2005. As a result of this restatement, management identified a material weakness in its controls over the accounting for its domestic income tax valuation allowance.

Management's assessment of the effectiveness of our internal control over financial reporting as of March 31, 2006 has been audited by Ernst & Young LLP, an independent registered certified public accounting firm, as stated in their report which is included below in Item 9A of this Form 10-K/A.

SCANSOURCE INC

10-K/A 2006 Management - Internal Control Assessment

Management's Report on Internal Controls over Financial Reporting (Restated)

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 as amended. Internal control over financial reporting is the process designed by, or under the supervision of, the Chief Executive Officer and Chief Financial Officer, and effected by the Board of Directors, management and other personnel, 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, and includes those policies and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of assets;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and
3. 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 cannot provide absolute assurance of achieving financial reporting objectives. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. 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 established policies or procedures may deteriorate.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2006 based on the criteria set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a control deficiency, 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. Management identified the following material weakness in the Company's internal control over financial reporting as of June 30, 2006:

Control activities relating to stock option grant administration and accounting

In connection with the restatement discussed above, the Company recorded \$5.3 million of additional pre-tax non-cash stock-based compensation expense related to stock option grant measurement date determinations for grants that occurred from 1994 to 2006. There were not sufficient safeguards in place to monitor grant award practices and to foster a consistent flow of information and communication between those initiating the stock option grant transactions, those approving the transactions, and those responsible for their administration



and financial reporting. Inadequate coordination, monitoring, and communication in and among Board members, finance, and legal functions prevented management from assuring that the accounting consequences of decisions affecting the measurement dates of options awarded were identified on a timely basis and accounted for properly in the Company's financial statements.

In Management's Report on Internal Control Over Financial Reporting included in the Company's original Annual Report on Form 10-K for the fiscal year ended June 30, 2006, management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company maintained effective internal control over financial reporting as of June 30, 2006. The Chief Executive Officer and Chief Financial Officer have subsequently concluded that the material weakness described above existed as of June 30, 2006. As a result, management has concluded that the Company did not maintain effective internal control over financial reporting as of June 30, 2006, based on the criteria in Internal Control-Integrated Framework issued by the COSO. Accordingly, management has restated its report on internal control over financial reporting. The material weakness described above resulted in errors, the cumulative impact of which is reflected as a restatement of the Company's 2006, 2005, and 2004 financial statements.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report included in this amended Annual Report on Form 10-K/A.

Limitations on the Effectiveness of Controls

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States. However, the Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls or internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty. Breakdowns in the control systems can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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COINMACH SERVICE 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 such term is defined in the Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published consolidated financial statements for external purposes and in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of the assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) 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. Our management performed an assessment of the effectiveness of our internal controls over financial reporting as of March 31, 2006 using the specific criteria set forth in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The objective of this assessment is to determine whether our internal control over financial reporting was effective as of March 31, 2006. A material weakness is a control deficiency, 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. As of March 31, 2006, we did not maintain effective control over the franchise and income tax process. Specifically, we did not adequately identify, quantify and account for such taxes; reconcile certain tax accounts on a timely basis; and we did not adequately review the difference between the income tax basis and financial reporting basis of assets and liabilities and reconcile the difference to recorded deferred income tax assets and liabilities. These deficiencies resulted in a \$2.0 million reclassification between the deferred tax liability and current tax payable accounts as well as deferred income tax expense and operating expense. These errors have been corrected by management in the accompanying consolidated financial statements. Had these errors not been detected, these control deficiencies could have resulted in more than a remote likelihood that a material misstatement of annual or interim financial statements would not be prevented or detected. Accordingly, based on the specific criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, management determined that these control deficiencies constitute a material weakness. Our management's assessment of the effectiveness of our internal control over financial reporting as of March 31, 2006 was audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which expresses an unqualified opinion on management's assessment and an adverse opinion on the effectiveness of our internal control over financial reporting as of March 31, 2006.

DESIGN WITHIN REACH INC

10-K 2006 Management - Internal Control Assessment

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting refers to the process designed by, or under the supervision of, our CEO and CFO, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP, and includes those policies and procedures that:

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and
- (3) 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, 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.

Management assessed the effectiveness of our internal control over financial reporting as of December 30, 2006. In making this assessment, management used the framework set forth in the report entitled Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company's internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Management identified the following material weaknesses during its assessment of our internal control over financial reporting as of December 30, 2006:

Control Environment—Accounting and Finance Personnel

We had an entity level material weakness in our control environment in that we did not have a sufficient number of personnel or appropriate depth of experience in our accounting and finance departments to prepare accurate and timely interim and annual financial statements in accordance with U.S. GAAP and to comply with SEC requirements. In addition, due to

significant turnover during the course of the year, including the CFO and VP of Finance, without adequate transition of knowledge, Company-level and process-level internal controls were inconsistently performed throughout the year. This material weakness impacts all significant accounts.

Risk Assessment

We had an entity level material weakness related to insufficient controls and procedures to identify and assess risks relevant to the achievement of our financial reporting objectives in adherence with regulatory filing requirements. The Company has also been unable to adequately assess and manage on a timely basis the risk of financial reporting errors associated with ineffective internal control over financial reporting. We do not periodically review financial performance, including account reconciliations and account analysis. This material weakness impacts all accounts.

Control Activities—Policies and Procedures

We had an entity level material weakness related to ineffective controls over the documentation, application and review of our significant accounting policies and procedures. This includes controls over the initiation, authorization, recording, processing and reporting of accounting transactions, analyses and conclusions. In addition, we failed to assess adequately the consistency and appropriateness of our accounting policies and procedures in accordance with U.S. GAAP. This material weakness impacts all significant accounts.

Information and Communication

We had an entity level material weakness related to insufficient processes and controls to identify, capture, and communicate financially significant information to the entity and stakeholders on a timely basis. We did not maintain adequate policies and procedures for accounting and process-related transactions and did not effectively communicate policies and procedures to finance and accounting personnel. This material weakness impacted all significant accounts and impacted management's ability to comply with SEC requirements for timely filings.

Monitoring

We had an entity level material weakness related to insufficient oversight procedures performed by management of our internal controls. We did not maintain processes to verify that internal controls over financial reporting and regulatory filings were performed correctly or in a timely and consistent basis.

Segregation of Duties

We had a material weakness related to certain employees who had incompatible responsibilities within all significant processes affecting financial reporting. We failed to implement controls that restrict access to financially significant systems or to monitor access to those systems, which resulted in conflicting access and/or inappropriate segregation of duties. This material weakness impacts all significant accounts.

Record Retention

We had an entity-level material weakness related to inadequate records retention. The Company did not have a record retention policy for retention of hard copy documents. Cases of inadequate records retention or supporting documentation were noted in the accounting departments and impacted our ability to support and account for transactions.

Account Reconciliations

We had a transactional material weakness related to inadequate, inconsistent, or non-performance of account analyses, account summaries and account reconciliations. In some cases, inaccurate or incomplete account analyses, account summaries and account reconciliations were prepared during the financial closing and reporting process and consistent reviews of account analyses, account summaries and account reconciliations were not performed. For reconciliations that were performed, there was not a process to analyze and resolve reconciling items. This material weakness impacts almost all significant accounts.

As a result of this conclusion, management performed significant additional substantive review of those areas described above where it identified material weaknesses to gain assurance that the financial statements as included herein are fairly stated in all material respects.

Our independent registered public accounting firm, Grant Thornton LLP, has issued an audit report on our assessment of our internal control over financial reporting. Their audit report is included herein.

(c) Management's Remediation Initiatives

We are in the process of evaluating the deficiencies we identified in 2005 and 2006. We already have begun to remediate many of the deficiencies. However, others will require additional people, process and technology infrastructure, which will take longer to remediate.

To facilitate some of the improvements in the internal control environment, we are in the process of implementing a new ERP system. This new ERP system should replace the majority of our existing legacy systems. We expect the new system to allow us to leverage more automated controls which will help remediate some of the deficiencies.

Our management has discussed the material weaknesses described above and other deficiencies with our Audit Committee. In an effort to remediate the identified material weaknesses and other deficiencies, we have initiated and/or taken action to remediate material weaknesses related to the following areas:

Control Environment

We plan to develop policies and procedures for hiring and training of personnel to verify that we have a sufficient number of personnel with knowledge, experience and training in the application of generally accepted accounting principles commensurate with our financial reporting and U.S. GAAP requirements. Where necessary, we will supplement personnel with qualified external advisors. We plan to assess the adequacy of knowledge within our current staff and monitor our need for additional personnel. Additionally, where appropriate, we plan to identify training on accounting principles and procedures that would benefit our accounting

and finance personnel.

Once we have documented policies and procedures for all of our processes, we plan to verify that internal controls that address our key risks are integrated into the processes and are performed consistently and timely. In addition, we plan to develop working procedures for the transition of knowledge in cases of staff turnover to enhance our ability to determine that internal controls are implemented consistently.

Risk Assessment

We plan to develop a formal process to identify our key business risks. We plan to assess these risks, and evaluate whether we have sufficient financial and operational controls to mitigate them. Based on our evaluation, we plan to determine whether we need to implement new control procedures or enhance the monitoring of existing controls.

Additionally, through periodic review of our actual performance against set goals per our strategy and business objectives, as well as through detailed financial analysis, account reconciliations, and budget to actual analysis, we will monitor and re-assess these risks.

Control Activities

Management plans to develop a process to emphasize the importance of internal controls and verify that all process owners are involved with performance of internal controls. We plan to provide training to all process owners on the appropriate requirements to document and perform internal control procedures. In addition, one of our employees has assumed the full-time position of Director of Internal Audit and will be responsible for compliance with internal controls.

We plan to develop a process whereby on a periodic basis, process owners will perform self-assessment testing and report results to management. Periodic independent testing also will be performed to evaluate the adequacy of design and effectiveness of internal control procedures.

Information and Communication

We plan to document and maintain formal accounting policies and procedures that will be used by the Finance and Accounting staff. In addition, we plan to implement a process to periodically update our staff on significant changes to accounting policies and procedures.

We plan to develop a process whereby staff and management have access to information needed to perform their job functions, and plan to promptly inform staff and management of any significant changes to the way we perform our business.

Monitoring

We plan to implement formal policies and procedures relating to performance of internal controls, including monitoring functions. We plan to perform a top-down risk-based approach to identify those accounts, financial statement assertions, business processes, and locations which have a higher likelihood of resulting in a material misstatement to our financial

statements and adjust the nature, timing, and extent of control monitoring efforts accordingly.

In addition, we plan to implement third party software to aid us with managing the assessment and testing of internal controls. One of our employees will be tasked to monitor compliance with internal control requirements, including the performance of self-testing by process owners.

Segregation of Duties

We plan to establish segregation of duties matrices and review the job responsibilities of our personnel to evaluate how to create appropriate segregation of duties, considering the size and complexity of our operations. To the extent possible, we plan to limit user access to segregate duties within our IT systems. Where that is not possible, we plan to implement controls to verify that incompatible functions performed by the same individual are appropriately monitored.

In addition, we plan to add a process for the IT department personnel to monitor the access rights according to the segregation of duties matrices and provide periodic exception reports for management.

Record Retention

We plan to establish a records retention policy that outlines the requirements and procedures for retaining the appropriate supporting documentation for financial transactions and plan to implement procedures designed to verify compliance with the related policy.

Account Reconciliations

We plan to formalize and communicate policies for account analyses, account summaries and account reconciliations, including the methodologies for analyzing and resolving reconciling items. We plan to establish a process to determine that significant account balances are reconciled periodically, and that appropriate supporting documentation is maintained with each reconciliation.

NeuroMetrix, 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 Rule 13a-15(f). 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. Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006 based on the criteria in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations

of the Treadway Commission (“COSO”).

A material weakness is a control deficiency, 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. Based on its evaluation, our management identified the following material weakness as of December 31, 2006: We did not maintain effective controls over our sales tax liability and related expense accounts. Specifically, we did not have adequate controls designed and in place to assure that state sales taxes were properly collected and remitted in all states in which the Company operates. This control deficiency resulted in the restatement of the Company’s financial statements for the years ended December 31, 2005 and 2004, each of the quarters of 2005 and the first three quarters of the year ended December 31, 2006. Additionally, this control deficiency could result in a misstatement of our sales tax liability and related accounts that, in the future, would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Accordingly, management has concluded that this control deficiency constitutes a material weakness.

Because of the material weakness described above, our management concluded that our internal control over financial reporting was not effective as of December 31, 2006 based on our evaluation under the framework in Internal Control—Integrated Framework issued by the COSO. Management’s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006, has been audited by PricewaterhouseCoopers LLP, an independent registered accounting firm, as stated in their report which is included herein.

HANDLEMAN CO /MI/

10-K 2006 Management - Internal Control Assessment

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Act, as amended. The 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. 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.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an assessment of the effectiveness of its internal control over financial reporting as of April 29, 2006. The assessment was based on criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a control deficiency, 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. Management identified the following material weakness in the Company’s internal control over financial reporting as of April 29,

2006:

The Company did not maintain effective controls over the completeness and accuracy of revenue and the related valuation of accounts receivable. Specifically, controls over invoice cancellations were not effective to ensure revenue was recorded in the appropriate accounting period and that the corresponding accounts receivable were properly valued. This control deficiency resulted in an adjustment to the Company's fiscal 2006 consolidated financial statements. Additionally, this control deficiency could result in a misstatement of the Company's revenues and accounts receivable that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Therefore, management has concluded this control deficiency constitutes a material weakness.

Because of the material weakness described above, management has concluded that the Company's internal control over financial reporting was not effective as of April 29, 2006, based on the criteria established in Internal Control – Integrated Framework issued by the COSO.

Management excluded Crave Entertainment Group, Inc. from its assessment of internal control over financial reporting as of April 29, 2006 because it was acquired by the Company in a purchase business combination during fiscal 2006. Crave Entertainment Group, Inc. is a wholly-owned subsidiary whose total assets and total revenues represent 19.3% and 6.5%, respectively, of the related consolidated financial statement amounts as of and for the year ended April 29, 2006.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of April 29, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

FLOTEK INDUSTRIES INC/CN/

10-K 2006 Management - Internal Control Assessment

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We are responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined by the Securities and Exchange Act of 1934 Rule 13a-15(f). Our internal controls are designed to provide reasonable assurance as to the reliability of our financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting has inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance, not absolute, assurance with respect to the financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our internal control over financial reporting as of December 31, 2006 as required by the Securities and Exchange Act of 1934



Rule 13a-15(c). In making its assessment, we have utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework. We concluded that based on our evaluation, our internal control over financial reporting was ineffective as of December 31, 2006.

Our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by UHY LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/S/ JERRY D. DUMAS SR.

/S/ LISA G. MEIER Jerry D. Dumas Sr. Lisa G. Meier Chief Executive Officer Chief Financial Officer

An internal control material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected on a timely basis by employees in the normal course of their work.

Our management's assessment is that the Company did not maintain effective ICFR as of December 31, 2006 within the context of the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our ICFR as designed, documented and tested, we identified two material weaknesses. The material weaknesses in our internal controls related to inadequate staffing within our accounting department and not having adequate monitoring controls in place during the year. As a result of these material weaknesses, the Company recorded adjustments to the financial statements for the year ended December 31, 2006, prior to their issuance, that affected several financial statement line items.

In order to address the material weaknesses identified, management has initiated corrective measures that will continue through 2007 including:

1) Adding experienced personnel to our accounting and financial reporting function to provide the necessary resources to ensure we have effective and timely monitoring controls in place, particularly related to acquisitions. We expect that by adding a senior accounting acquisitions manager and internal audit manager, we will be better able to address technical accounting issues on a timely basis. In addition, we will reevaluate all other finance and accounting needs and personnel and change and enhance, as necessary.

2) Implementation of Rental Tool Management Software (RTMS) to better monitor our drilling tool rental activities.

The Company believes that the above measures will address all matters identified as a material weakness by management and the independent registered public accounting firm. The Company will continue to monitor the effectiveness of its internal controls and procedures on an ongoing basis and will take further actions, as appropriate.

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