

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

The following is a copy of the three adverse reports that were issued from companies in the Entertainment industry with years ended in 2006. These were all of the accelerated filers in the Entertainment 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 three adverse Section 404 Self Assessments:

Internal Controls - Accounting documentation, policy and/or procedures	3
Internal Controls - Accounting personnel resources, competency/training	2
Internal Controls - Information technology, software, security & access issues	2
Internal Controls - Material and/or numerous auditor /YE adjustments	2
Internal Controls - Segregations of duties/ design of controls (personnel)	2
Internal Controls - Untimely or inadequate account reconciliations	2
Internal Controls - Journal entry control issues	1
Internal Controls - Non-routine transaction control issues	1
Internal Controls - Remediation of material weakness identified	1
Internal Controls - Senior management competency, tone, reliability issues	1

The following is a summary of the **material accounting weaknesses** reported in the three 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 - Consolidation, (Fin46r/Off BS) & foreign curr transl issues	2
Accounting - Accounts/loans receivable, investments & cash issues	1
Accounting - Acquisition, merger, disposal or reorganization issues	1
Accounting - Capitalization of expenditures issues	1
Accounting - Deferred, stock-based or executive comp issues	1
Accounting - Depreciation, depletion or amortization issues	1
Accounting - Expense recording (payroll, SG&A) issues	1
Accounting - Fin Stmt, footnote, US GAAP, segment disclosure issues	1
Accounting - Foreign, related party, affiliated and/or subsid issues	1
Accounting - Intercompany/Investment w/ sub/affil issues	1
Accounting - Lease, FAS 5, legal, contingency & commit issues	1
Accounting - Lease, leasehold & FAS 13 (9B) (subcategory) issues	1
Accounting - Liabilities, payables, reserves and accrual est failures	1
Accounting - PPE, intangible or fixed asset (value/diminution) issues	1
Accounting - Revenue recognition issues	1
Accounting - Unspecified/unidentified/inapplicable FASB/GAAP issues	1



CKX, Inc.

10-K 2006 Management - Internal Control Assessment

Management's Annual Report on Internal Controls Over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404) and as defined in Rules 13a-15(f) under the U.S. Securities Exchange Act of 1934, management is required to provide the following report on the Company's internal control over financial reporting:

1. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.
2. The Company's management has evaluated the system of internal control using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Management has selected the COSO framework for its evaluation as it is a control framework recognized by the SEC and the Public Company Accounting Oversight Board that is free from bias, permits reasonably consistent qualitative and quantitative measurement of the Company's internal controls, is sufficiently complete so that relevant controls are not omitted and is relevant to an evaluation of internal controls over financial reporting.
3. Based on management's evaluation under this framework, the Company determined that its internal control over financial reporting was not effective due to the following material weakness:

The Company determined that it lacked effective controls to ensure compliance with Financial Accounting Standards No. 52, Foreign Currency Translation, regarding foreign exchange gains and losses on certain short-term intercompany loans. The Company initially recorded foreign exchange translation adjustments on these loans in other comprehensive income (loss) on the balance sheet. The Company subsequently determined that currency movements on these loans should have been recorded as a component of other income (expense). The Company lacked an effective assessment process to determine the proper accounting for the loans.

This error resulted in the Company restating its interim financial results for 2006 and therefore management has concluded that it represents a material weakness in internal control over financial reporting. As a result of the material weakness management has concluded that its internal control over financial reporting was ineffective.

In light of the material weaknesses described above, the Company performed additional procedures to provide assurance that its consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

4. Management's evaluation of internal control over financial reporting during the fourth Quarter of 2006 determined that the previously identified material weakness in accounting for

income taxes had been remediated and therefore no longer represents a material weakness.

5. Except as described above, there has not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's fiscal fourth quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

6. The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued their report on management's assessment as to the effectiveness of internal control over financial reporting. This report is located on page 54 of this Form 10-K.

BALLY TOTAL FITNESS HOLDING CORP

10-K 2006 Management - Internal Control Assessment

Management's Report on Internal Control Over Financial Reporting Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. 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 represents a significant deficiency (as defined in the Public Company Accounting Oversight Board's Auditing Standard No. 2), or a 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 on a timely basis. Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 based on the framework published by the Committee of Sponsoring Organizations of the Treadway Commission, Internal Control — Integrated Framework. Management has identified the following material weaknesses in the Company's internal control over financial reporting as of December 31, 2006: 1. Deficiencies in the Company's control environment. The Company did not maintain an effective control environment as defined in the Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission. Specifically, the following control deficiencies were identified: • The Company did not establish and maintain an appropriate consciousness regarding internal control over financial reporting and sufficient resources to address and remediate material weaknesses on a timely basis; • The Company's finance and accounting resources were insufficient in number, insufficiently trained, and authority and responsibility were not properly delegated as of December 31, 2006. Accordingly, in certain circumstances, accounting control activities were not performed consistently, accurately, and timely, and an effective review of technical accounting matters was not consistently performed; • Management did not have sufficient and clearly communicated policies reflecting an appropriate management attitude towards financial reporting and the financial reporting function, and did not have sufficient controls in place to ensure the appropriate selection of and modifications to accounting policies; • The Company did not establish effective policies and procedures to address the risk of management override in the financial reporting process; • Management did not have effective processes to ensure that all relevant information was communicated in a timely manner from the Company's national service center, property management department, information technology group, human resources, sales and marketing, and legal department to the Company's corporate accounting department; and

• The material weaknesses in Information Technology Program Development and Change Controls, described below, weakened the Company's control environment. These deficiencies resulted in material misstatements in the Company's preliminary 2006 annual consolidated financial statements, which were corrected prior to issuance. These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected, and contributed to the development of other material weaknesses described below.

2. Deficiencies in end-user computing controls. The Company did not maintain adequate policies and procedures regarding end-user computing. Specifically, controls over the access to, and completeness, accuracy, validity, and review of, certain spreadsheet information that supports the financial reporting process were either not designed appropriately or did not operate as designed. These deficiencies resulted in material misstatements in the Company's preliminary 2006 annual consolidated financial statements, which were corrected prior to issuance. These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

3. Inadequate controls associated with accounting for revenue. The Company did not maintain effective policies and procedures related to its accounting for revenue and did not employ personnel with the appropriate level of technical knowledge and experience to prepare, document and review its accounting for revenue to ensure that such accounting complied with U.S. generally accepted accounting principles. This lack of effective policies and procedures and lack of knowledge and experience contributed to the Company's failure to:

- Select and implement membership revenue accounting policies in accordance with U.S. generally accepted accounting principles;
- Effectively perform and document a periodic evaluation of the reasonableness of assumptions with respect to the deferral of revenue associated with personal training services;
- Establish procedures to identify and periodically assess promotional offers to ensure that they were accounted for in accordance with U.S. generally accepted accounting principles;
- Establish procedures to identify and periodically assess changes to the Company's principal member offers to ensure that they were accounted for in accordance with U.S. generally accepted accounting principles;
- Establish procedures to identify and assess the operational and accounting support requirements necessary to record the effects of new member offers on a timely basis in accordance with U.S. generally accepted accounting principles;
- Establish procedures to identify and periodically assess revenue collections and member attrition to ensure any changes or adjustments were accounted for in accordance with U.S. generally accepted accounting principles; and
- Execute policies and procedures to ensure that the financial reporting and disclosure obligations related to revenue recognition were appropriately understood and considered.

These deficiencies resulted in material misstatements in the Company's preliminary 2006 annual consolidated financial statements, which were corrected prior to issuance. These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

4. Inadequate controls associated with accounting for fixed assets. The Company did not maintain effective policies and procedures related to its accounting for fixed assets and did not employ personnel with the appropriate level of knowledge and experience to prepare, document and review its accounting for fixed assets to ensure that such accounting complied with U.S. generally accepted accounting principles. This lack of effective policies and procedures and lack of knowledge and experience contributed to the Company's failure to:

- Select and implement fixed asset accounting policies in accordance with U.S. generally accepted accounting principles;
- Effectively perform and document procedures to periodically assess the valuation of fixed assets;
- Effectively perform and document controls related to the ongoing monitoring of events that might require interim impairment analysis;
- Effectively

perform and document procedures to periodically review the valuation of capitalized costs incurred prior to the opening of a fitness center; • Effectively perform and document a review of fixed asset depreciation; • Effectively perform and document procedures to review capitalizable labor costs; • Effectively reconcile the subsidiary fixed asset ledger to consolidated fixed asset information; and • Execute policies and procedures to ensure that the financial reporting and disclosure obligations related to fixed assets were appropriately understood and considered. These deficiencies resulted in material misstatements in the Company's preliminary 2006 annual consolidated financial statements, which were corrected prior to issuance. These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected. 5. Inadequate controls associated with accounting for goodwill and other intangible assets. The Company did not maintain effective policies and procedures related to its accounting for goodwill and other intangible assets and did not employ personnel with the appropriate level of knowledge and experience to prepare, document and review its accounting for goodwill and other intangible assets to ensure that such accounting complied with U.S. generally accepted accounting principles. This lack of effective policies and procedures and lack of knowledge and experience contributed to the Company's failure to: • Select and implement accounting policies in accordance with U.S. generally accepted accounting principles; • Effectively identify, and allocate an appropriate portion of the cost of an acquisition to, identifiable intangible assets in conjunction with its purchase business combinations; • Effectively perform and document procedures to periodically reassess the valuation of goodwill; and • Execute policies and procedures to ensure that the financial reporting and disclosure obligations related to goodwill and other intangible assets were appropriately understood and considered. These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

6. Inadequate controls associated with accounting for leases. The Company did not maintain effective policies and procedures related to its accounting for leases and did not employ personnel with the appropriate level of knowledge and experience to prepare, document and review its accounting for leases to ensure that such accounting complied with U.S. generally accepted accounting principles. This lack of effective policies and procedures and lack of knowledge and experience contributed to the Company's failure to: • Perform and document procedures to ensure that leasehold improvements were properly depreciated over the lesser of the economic useful life or the lease term; • Perform and document procedures to ensure leases were appropriately accounted for as capital or operating leases; • Design and perform policies and procedures relating to the identification, valuation, and disclosure of contingent liabilities related to lease guarantees; and • Execute policies and procedures to ensure that the financial reporting and disclosure obligations related to leases were appropriately understood and considered. These deficiencies resulted in material misstatements in the Company's preliminary 2006 annual consolidated financial statements, which were corrected prior to issuance. These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected. 7. Inadequate controls associated with accounting for accrued liabilities. The Company did not maintain effective policies and procedures related to its accounting for accrued liabilities and did not employ personnel with the appropriate level of knowledge and experience to prepare, document and review its accounting for accrued liabilities to ensure that such accounting complied with U.S. generally accepted accounting principles. This lack of effective policies and procedures and lack of knowledge and experience contributed to the Company's failure to: • Effectively perform and document procedures to periodically evaluate the reasonableness of assumptions used to estimate liabilities associated with workers compensation, health care, and other insured arrangements with retained risk; • Perform and document procedures to periodically evaluate items that may meet the definition of unclaimed

property, in order to properly value the Company's escheatment liability; • Effectively perform and document procedures to reconcile commission and other payroll related liabilities to supporting detail; • Effectively perform and document a review of expenses incurred in one period and paid in subsequent periods to ensure that the related accounting is reflected in the appropriate period; and • Execute policies and procedures to ensure that the financial reporting and disclosure obligations related to accrued liabilities were appropriately understood and considered. These deficiencies resulted in material misstatements in the Company's preliminary 2006 annual consolidated financial statements, which were corrected prior to issuance. These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected. 8. Inadequate controls associated with accounting for internal use computer software. The Company did not maintain adequate policies and procedures or employ sufficiently knowledgeable and experienced personnel to ensure appropriate application of Statement of Position ("SOP") 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This lack of effective policies and procedures and lack of knowledge and experience contributed to the Company's failure to select and implement software accounting policies in accordance with U.S. generally accepted accounting principles, and effectively perform and document procedures to periodically reassess their valuation.

These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected. 9. Inadequate Information Technology Development and Change Controls. The Company did not maintain adequate policies and procedures over the administration of its program development and change activities nor were existing policies and procedures consistently applied. Specifically, controls over the authorization, testing, and validation of applications prior to being placed into production were either not formalized or not consistently executed in order to support financial reporting requirements. These deficiencies resulted in material misstatements in the Company's preliminary 2006 annual consolidated financial statements, which were corrected prior to issuance. These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected. 10. Deficiencies in equity compensation monitoring and review procedures. The Company did not maintain adequate policies and procedures over the administration of its equity compensation programs and did not employ personnel with the appropriate level of knowledge and experience to prepare, document and review its accounting for the equity compensation programs to ensure that such accounting complied with U.S. generally accepted accounting principles. Specifically, the Company did not have: • Adequate policies and procedures to identify, periodically assess, and respond to events that give rise to changes in the rights or obligations of equity compensation holders; and • Effective policies and procedures to ensure that the financial reporting and disclosure obligations related to the acceleration of vesting and the exercise of expired options were appropriately understood and considered. These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected. 11. Inadequate financial statement preparation and review procedures. The Company did not maintain effective policies and procedures related to its financial statement preparation and review procedures and did not employ personnel with the appropriate level of knowledge and experience to ensure that accurate and reliable interim and annual consolidated financial statements were prepared and reviewed on a timely basis. Specifically, the Company did not have: • Effective reconciliation of significant balance sheet accounts; • Effective reconciliation of subsidiaries' accounts to consolidating financial information; • Effective reconciliation and conversion of foreign financial statements to consolidated financial information; • Policies and procedures relating to the origination and maintenance of contemporaneous documentation to support key judgments made in connection with the selection of significant accounting policies or the application of

judgments within its financial reporting process; • Policies and procedures related to the identification and disclosure of subsequent events; • Policies and procedures related to the review of complex or unusual transactions; • Adequate policies and procedures related to the review and approval of accounting entries; • Sufficient retention policies with respect to historical documentation that formed the basis of prior accounting judgments that have continuing relevance; and • Effective review of financial statement information, and related presentation and disclosure requirements.

These deficiencies resulted in material misstatements in the Company's preliminary 2006 annual consolidated financial statements, which were corrected prior to issuance. These deficiencies resulted in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected. As a result of the aforementioned material weaknesses, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2006. KPMG LLP, the Company's independent registered public accounting firm, has issued an audit report on management's assessment of the Company's internal control over financial reporting, which is included herein (Item 9A(e)).

YOUBET COM INC

10-K 2006 Management - Internal Control Assessment

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING Youbet's management is responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, Youbet's principal executive and principal financial officers and effected by Youbet'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 reporting purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: • Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; • Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that expenditures of Youbet are being made only in accordance with authorizations of management and directors of the Company; and • Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Youbet's assets that could have a material effect on the financial statements. The effectiveness of any system of internal control over financial reporting is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating and evaluating the controls and procedures. Because of these inherent limitations, internal control over financial reporting cannot provide absolute assurance regarding the reliability of financial reporting 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. Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2006, based on the control criteria established in a report entitled Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). That framework defines a material weakness as 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 such evaluation, we

have concluded that Youbet's internal control over financial reporting was not effective and contained significant deficiencies which represent a material weakness in the Company's internal control over financial reporting as of December 31, 2006.

The independent registered public accounting firm of Piercy Bowler Taylor & Kern, as auditors of Youbet's consolidated financial statements, has issued a report on management's assessment of Youbet's internal control over financial reporting, which report is included herein. Management's Discussion of Material Weakness Management has identified the following groups of control deficiencies, each of which, in the aggregate, represents a material weakness in the Company's internal control over financial reporting as of December 31, 2006:

- Pervasive control deficiencies across key COSO components, including information technology general controls (ITGC), information technology (IT) application controls, and business processes
- Pervasive control deficiencies across key ITGC categories relating to IT operations, planning and management
- Control deficiencies across key business processes at all operating units

Most of these deficiencies consisted of an insufficient or ineffective control environment, lack of segregation of duties, insufficient documentation of key business process policies and procedures, insufficient IT security, insufficient staffing and training among accounting personnel, incomplete and untimely reconciliations related to financial reporting and insufficient managerial oversight, review and approval processes over financial reporting. Many of these deficiencies had the effect of causing material misstatements in financial reporting to occur and not be detected by the Company's internal control and that required correction through significant audit adjustments. In addition, such deficiencies had the potential for causing further misstatements to occur and not be detected by the Company's internal control. Management of the Company takes very seriously the strength and reliability of the internal control environment of the Company. During 2006, the Company dedicated numerous resources to generating substantial improvement in the tone of that environment. Youbet retained the services of a third-party consulting firm to assist management with compliance with Section 404 of Sarbanes-Oxley Act of 2002 (SOX). This consulting firm worked closely with management to develop a plan to enhance compliance and strengthen certain controls and documentation identified in 2005. A SOX Compliance Manager was assigned within the accounting staff and tasked with executing these plans in a timely manner and oversight of the improved level of documentation. In February 2006, Youbet acquired United Tote Company. During preliminary analysis, management determined that the internal control environment at United Tote was inadequate, partly because it had previously been privately held and partly due to the company having had five prior owners in ten years. While management recognized United Tote as a valuable opportunity, its widely dispersed operations, including over 100 locations in 37 states and Canada, signaled significant effort to remediate and conform to Youbet standards. Because of the complexity introduced by the United Tote acquisition, including quadrupling the number of employees, substantial and immediate efforts were expended to identify a plan to remediate United Tote's control environment. During 2006, substantial progress was made with respect to Youbet deficiencies identified in 2005 and United Tote deficiencies, including:

- Hiring of a new Chief Accounting Officer and Controller, who started on January 1, 2007 and has substantial experience and skills appropriate for a publicly traded company;
- Implementation of a new accounting system effective as of January 1, 2007;
- Development of a revised organization chart for the accounting department to address the increased complexity of operations;
- Completion of documentation updates of all processes at all business units;
- Launch of an improved Change Management process;
- Creation of a plan to substantially enhance the experience level and skills of accounting management through recruitment of key accounting management tasked with specific roles and responsibilities;
- Initiation of a cascading sub-certification process among all process owners and managers;

• Hiring of a new Accounting Manager for each business unit; • Establishment of an Internal Audit staff for IRG operations in Curacao; • Development of a plan to reorganize the accounting department at corporate headquarters in Woodland Hills; • Analysis of United Tote's control environment and development of a plan to remediate identified deficiencies; • Substantial improvement of United Tote's field operations, including creation and implementation of policies and procedures; • Relocation of United Tote's accounting department at corporate headquarters in Woodland Hills from Glen Rock, Pennsylvania; • Development of a reconciliation process between international revenue detail and client receivables for IRG ; • Implementation of a complete physical inventory at United Tote's San Diego and Glen Rock facilities, and reconciliation to perpetual inventory records; • Conversion from manual stock plan administration to an automated system; • Documentation of a substantially enhanced IT general control structure, and creation of a plan to implement the required changes; and • Focus on developing a top-down, risk-based approach to SOX compliance that focuses on key controls. Management recognized that the scope of the task and practical issues of timing made completion of all the desired results impractical by December 31, 2006. For instance, changing the accounting system mid-year would have been illogical, even though it may have improved certain processes earlier. Other circumstances transpired that further inhibited the designed plans for improvement. Those circumstances included the complete loss of United Tote's accounting staff. In spite of vigorous efforts by management, none of United Tote's accounting staff could be persuaded to move their families to Woodland Hills. The loss of institutional knowledge was disappointing, and substantial efforts are being made to retain and train new staff and to integrate the difficult and complex accounting nuances of United Tote. In addition, key accounting management from Youbet left the Company before all the initiatives identified in the plan for 2006 could be accomplished. These included the Chief Accounting Officer and Controller, as well as the Assistant Controller, who was acting as the SOX Compliance Manger. In spite of Youbet's proximity to the large Los Angeles employment market, finding suitably qualified replacements in the currently tight accounting employment market has been challenging. Besides the challenges discussed above, Youbet's substantial and sophisticated IT group was subject to certain changes in the IT control environment that were determined by management's assessment of the control clarifications published by COSO and related bodies. These changes are designed to bring business process and IT application processes into sync, creating improved industry standards. Management plans to implement increased management and monitoring over IT applications to enhance their control environment. As a result, management acknowledges that substantial efforts remain to improve the Company's internal control over financial reporting. Management also acknowledges that such efforts will remain an ongoing effort requiring monitoring and vigilance. Management's Remediation Initiatives Management has launched a substantial effort to remediate the weaknesses discovered during testing for 2006, and these weaknesses have been reported to the Audit Committee. In addition to completing the efforts initiated during 2006, management has specifically determined that the Director of Human Resources and the Chief Accounting Officer will coordinate the improvement of the organization chart and the development of job descriptions with clearly defined duties and responsibilities. Those organizational foundations will be coordinated with a plan for adequate segregation of duties and coordination of policies and procedures across all business units. Youbet has created an internal SOX Compliance Department and has hired a Director of Compliance and Senior Compliance Accountant. Both individuals have significant experience in managing and directing SOX reviews and remediation. They will work closely with management to develop a plan to enhance compliance and strengthen certain controls and documentation identified in 2006. More specifically, they will review the design and operation of key business processes, including the automation of transaction processing, and eliminate identified design deficiencies. Additionally, the Company will proceed with implementation of automation of compliance efforts to improve effectiveness of management's program to monitor controls at



all business units.

Management has converted its Youbet core operations and IRG to a new and more robust accounting system and staff training is continuing. The new Chief Accounting Officer has outlined a phased plan to strengthen the organization of the Accounting Department and is actively recruiting competent accounting resources. The strengthening of the proficiency and experience level of dedicated accounting resources is a first step in improving the design and operation of accounting procedures. Based on the new leadership in the accounting department and on identification of deficiencies in the control environment, management believes that it had made substantial progress in addressing this material weakness as of December 31, 2006. However, the material weakness was not remediated as of December 31, 2006. Management expects that identified material weakness will be fully remediated once management has filled the remaining open key management positions with qualified personnel and those personnel have had sufficient time in their positions. These staffing arrangements will be coordinated with solutions for other identified deficiencies, and a program of monitoring and review will be established. The independent registered public accounting firm of Piercy Bowler Taylor & Kern, as auditors of Youbet's consolidated financial statements, has issued a report on management's assessment and expressed an adverse opinion on the effectiveness of Youbet's internal control over financial reporting, which report is included herein. /s/ Charles F. Champion /s/ Gary W. Sproule Charles F. Champion Gary W. Sproule President and Chief Executive Officer Chief Financial Officer and Treasurer

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