

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

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

Internal Controls - Accounting documentation, policy and/or procedures	11
Internal Controls - Accounting personnel resources, competency/training	8
Internal Controls - Material and/or numerous auditor /YE adjustments	5
Internal Controls - Restatement or nonreliance of company filings	5
Internal Controls - Non-routine transaction control issues	4
Internal Controls - Restatement of previous 404 disclosures	3
Internal Controls - Untimely or inadequate account reconciliations	2
Internal Controls - Ethical or compliance issues with personnel	1
Internal Controls - Information technology, software, security & access issues	1
Internal Controls - Journal entry control issues	1
Internal Controls - Management/Board/Audit Committee investigation(s)	1
Internal Controls - Segregations of duties/ design of controls (personnel)	1

The following is a summary of the **material accounting weaknesses** reported in the eleven 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 - Cash flow statement (FAS 95) classification errors	4
Accounting - PPE , intangible or fixed asset (value/diminution) issues	4
Accounting - Tax expense/benefit/deferral/other (FAS 109) issues	3
Accounting - Accounts/loans receivable, investments & cash issues	2
Accounting - Deferred, stock-based or executive comp issues	2
Accounting - Debt ,quasi-debt, warrants & equity (BCF) security issues	1
Accounting - Debt and/or equity classification issues	1
Accounting - Depreciation, depletion or amortization issues	1
Accounting - Financial derivatives/hedging (FAS 133) acctg issues	1
Accounting - Inventory, vendor and cost of sales issues	1
Accounting - Lease, FAS 5, legal, contingency & commit issues	1
Accounting - Lease, leasehold & FAS 13 (98) (subcategory) issues	1
Accounting - Liabilities, payables, reserves and accrual est failures	1
Accounting - Revenue recognition issues	1



SHARPER IMAGE CORP

10-K/A 2006 Management - Internal Control Assessment

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

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. 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 the degree of compliance with the policies or procedures may deteriorate.

The Company's management has assessed the effectiveness of its internal control over financial reporting as of January 31, 2006. This evaluation was based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In Management's Report on Internal Control over Financial Reporting included in our original Annual Report on Form 10-K for the year ended January 31, 2006 filed on May 1, 2006, our prior management, including our then Chief Executive Officer and then Chief Financial Officer, concluded that as of January 31, 2006, the Company's internal control over financial reporting was not effective based on the criteria described in the COSO Internal Control—Integrated Framework.

A material weakness is a control deficiency, or combination of control deficiencies, that results in a more than 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 connection with its original assessment. The Company did not design and implement adequate controls over the selection and application of accounting policies for complex and non-routine transactions. As a result, certain audit adjustments to the 2005 financial statements, which were not material individually, but which affected various financial statement line items, were necessary to present the financial statements in accordance with generally accepted accounting principles.

We have restated our financial statements to reflect non-cash compensation expense associated with the issuance of options as described more fully in Note B to the consolidated financial statements. In connection with the restatement, our current management, including our current Interim Chief Executive Officer and Interim Chief Financial Officer has determined that the lack of adequate controls over the granting of stock options and the related documentation constituted a material weakness in internal control over financial reporting.



This weakness resulted in the use of incorrect accounting measurement dates for certain stock option grants and resulted in the errors in the recorded amount of compensation expense and the related restatement.

As a result of the additional material weakness identified in connection with the restatement of our consolidated financial statements management has revised its assessment to include such weakness. Additionally, because of the existence of the material weaknesses, our current management concluded that the Company did not maintain effective internal control over financial reporting as of January 31, 2006, based on the criteria described in the COSO Internal Control—Integrated Framework.

Management's revised assessment of the effectiveness of the Company's internal control over financial reporting as of January 31, 2006, has been audited by Deloitte & Touche LLP, the Company's independent registered public accounting firm, as stated in their report which appears herein.

Material Weaknesses in Internal Control Over Financial Reporting

Material Weakness Relating to Internal Control Over the Selection and Application of Accounting Policies for Complex and Non-Routine Transactions

The material weaknesses resulted in accounting errors related to treasury stock retirement, long lived asset impairment and income taxes. The Company did not properly account for the retirement of its treasury stock, which resulted in a reclassification between equity accounts. There was no net effect on shareholders' equity. The Company retired its treasury stock for only the second time in its history and therefore accounting for retirement of treasury stock was not only complex but non-routine. In its year end determination of long lived asset impairment, the Company did not properly calculate whether two under performing stores were impaired. Initially, the Company determined that an impairment charge would be required, but subsequent calculation revealed that no such impairment existed. The Company reversed the initial impairment entry. The Company did not properly account for income taxes. A key member of the accounting staff, who accounted for income taxes in prior years, left the Company in late December 2005. While a new tax manager was hired in late December 2005, it was not possible to transition all of the knowledge and experience in such a short period of time. However, as of January 31, 2006, the tax accounts have been properly stated. Additionally, due to numerous unplanned events including departure of key accounting personnel in December 2005, the Company needed additional time to complete the year-end closing process. The untimely closing of the books resulted in the delay in filing of the Form 10-K.

Material Weakness Relating to Option Grant Practices

Based on the Special Committee's review, as set forth in Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Restatement of Financial Statements, our management has determined that we did not maintain adequate controls regarding the option granting process. In particular, we lacked a formal policy for granting and approving options and the procedures used were insufficient to ensure that all option grants complied with our stock option plans and applicable accounting rules. Our procedures, in particular the use of unanimous written consents with "as of" effective dates, provided insufficient control to ensure that all prerequisites of APB 25 had been met prior to the grant

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date and to prevent option grant dates from being selected with the benefit of hindsight.

The Special Committee could not rule out the possibility that the original grant dates for some of the grants were selected with the benefit of hindsight. For example, with respect to the 1996 Management Grant, correspondence between the former Chief Executive Officer and the directors suggests that the grant (which involved the cancellation of a prior grant in 1995 and the issuance of new options at a lower exercise price) was proposed in early May 1996, but the unanimous written consents which the directors on the stock option committee were requested to execute designated as the grant date March 26, 1996, the date on which our stock had traded at a year-to-date low. The September 1999 Management Grant was discussed at a morning meeting of the Board of Directors on Monday, September 27, 1999 but we designated Friday, September 24, 1999 as the grant date, when the price of our stock was \$0.88 lower. (As indicated on the table in Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Restatement of Financial Statements, the Special Committee recommended that the grant be measured as of November 10, 1999 because the grant list had not been completed when the directors met on September 27, 1999.) With respect to the May 2004 grant, the compensation committee members appear to have discussed the grant on May 19, 2004, but we selected May 21, 2004 as the grant date, when the price of our stock was \$1.62 lower. (As indicated on the table in Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Restatement of Financial Statements, the Special Committee recommended that the grant be measured as of June 7, 2004 because the grant list had not been completed when the compensation committee members first approved the grant on May 19, 2004.)

TWEETER HOME ENTERTAINMENT GROUP 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 that term is defined in Exchange Act Rules 13a-15 (f) and 15d-15 (f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our management, including the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of September 30, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control-Integrated Framework. Management has identified certain control deficiencies that represent material weaknesses (as defined in the Public Company Accounting Oversight Board Auditing Standard No. 2, “An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements”). A material weakness is a control deficiency, or a combination of control deficiencies, that result 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 September 30, 2006, the Company did not maintain effective internal control over financial reporting because of the material weaknesses described below. Controls over the Financial Close and Reporting Process (i) We incorrectly accounted for a new store lease as an operating lease when it should have been recorded as owned property under EITF Issue no. 97-10, The Effect of Lessee Involvement in Asset Construction, resulting in a material weakness. This error was first noted and brought to the attention of management by our independent registered public accounting firm in connection with their audit of our 2006 financial statements and has been corrected in those financial statements. (ii) We also had

deficiencies related to the operating effectiveness over the recording of non-routine transactions, reviews of period-end reconciliations and analyses, and processing of reclassifications and adjustments. These deficiencies aggregated to a material weakness. While these deficiencies did not result in a material misstatement of the financial statements, due to the potential effect on financial statement balances and disclosures and the importance of the financial closing and reporting processes, management has concluded, that, in the aggregate, these deficiencies in internal control resulted in a more than remote likelihood that a material error would not have been prevented or detected, and therefore, constitute a material weakness. Controls for recording fixed asset additions and disposals We had operating deficiencies in our internal control procedures with respect to the assignment of useful lives to leasehold improvements, the timely review of the fixed asset ledger, the assignment of in-service dates and useful lives to fixed asset additions and a design deficiency with respect to effective policies and procedures to ensure that fixed asset disposals were reported and recorded. These significant deficiencies aggregated to a material weakness. While these deficiencies did not result in a material misstatement of the financial statements, management believes that these internal control deficiencies in the aggregate resulted in more than a remote likelihood that a material misstatement of our financial statements might not have been prevented or detected, and therefore constitute a material weakness. Changes in Internal Control over Financial Reporting. Our management, including the Chief Executive Officer and Chief Financial Officer, discussed the material weaknesses described above with the Audit Committee. We have taken the following actions regarding internal controls over financial reporting: 1. From April to September 2006, we added significant experienced finance and accounting staff, including a Chief Financial Officer in August and a corporate controller, SEC reporting personnel and other key accounting positions. Because of the timing of their hiring, the full benefit of their knowledge and expertise has not yet been realized. 2. With respect to non-routine transactions and new contracts we enter into, we have instituted new review and certification processes designed to identify such items. Every new contract is reviewed and discussed at our quarterly disclosure committee meetings. Regular meetings with accounting staff and executive-level officers involved and familiar with accounting issues related to complex non-routine transactions are being held to review documentation and appropriate accounting. 3. We are in the process of implementing additional monitoring procedures and training of our staff to mitigate the potential risk of other reporting errors. Further, we are designing additional procedures and controls to ensure that fixed asset additions and disposals are accounted for appropriately. Deloitte & Touche LLP, an independent registered public accounting firm that audited our financial statements included in this Annual Report on Form 10-K, has issued an attestation report on management's assessment of our internal control over financial reporting as of September 30, 2006, which is included in this Item 9A under the caption "Report of Independent Registered Public Accounting Firm."

SHARPER IMAGE CORP

[10-K/A](#) 2006 Management - Internal Control Assessment

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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 the degree of compliance with the policies or procedures may deteriorate.

The Company's management has assessed the effectiveness of its internal control over financial reporting as of January 31, 2006. This evaluation was based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In Management's Report on Internal Control over Financial Reporting included in our original Annual Report on Form 10-K for the year ended January 31, 2006 filed on May 1, 2006, our prior management, including our then Chief Executive Officer and then Chief Financial Officer, concluded that as of January 31, 2006, the Company's internal control over financial reporting was not effective based on the criteria described in the COSO Internal Control—Integrated Framework.

A material weakness is a control deficiency, or combination of control deficiencies, that results in a more than 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 connection with its original assessment. The Company did not design and implement adequate controls over the selection and application of accounting policies for complex and non-routine transactions. As a result, certain audit adjustments to the 2005 financial statements, which were not material individually, but which affected various financial statement line items, were necessary to present the financial statements in accordance with generally accepted accounting principles.

We have restated our financial statements to reflect non-cash compensation expense associated with the issuance of options as described more fully in Note B to the consolidated financial statements. In connection with the restatement, our current management, including our current Interim Chief Executive Officer and Interim Chief Financial Officer has determined that the lack of adequate controls over the granting of stock options and the related documentation constituted a material weakness in internal control over financial reporting. This weakness resulted in the use of incorrect accounting measurement dates for certain stock option grants and resulted in the errors in the recorded amount of compensation expense and the related restatement.

As a result of the additional material weakness identified in connection with the restatement of our consolidated financial statements management has revised its assessment to include such weakness. Additionally, because of the existence of the material weaknesses, our current management concluded that the Company did not maintain effective internal control over financial reporting as of January 31, 2006, based on the criteria described in the COSO Internal Control—Integrated Framework.

Management's revised assessment of the effectiveness of the Company's internal control over financial reporting as of January 31, 2006, has been audited by Deloitte & Touche LLP, the Company's independent registered public accounting firm, as stated in their report which appears herein.



Material Weaknesses in Internal Control Over Financial Reporting

Material Weakness Relating to Internal Control Over the Selection and Application of Accounting Policies for Complex and Non-Routine Transactions

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Material Weakness Relating to Option Grant Practices

Based on the Special Committee's review, as set forth in Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Restatement of Financial Statements, our management has determined that we did not maintain adequate controls regarding the option granting process. In particular, we lacked a formal policy for granting and approving options and the procedures used were insufficient to ensure that all option grants complied with our stock option plans and applicable accounting rules. Our procedures, in particular the use of unanimous written consents with "as of" effective dates, provided insufficient control to ensure that all prerequisites of APB 25 had been met prior to the grant date and to prevent option grant dates from being selected with the benefit of hindsight.

The Special Committee could not rule out the possibility that the original grant dates for some of the grants were selected with the benefit of hindsight. For example, with respect to the 1996 Management Grant, correspondence between the former Chief Executive Officer and the directors suggests that the grant (which involved the cancellation of a prior grant in 1995 and the issuance of new options at a lower exercise price) was proposed in early May 1996, but the unanimous written consents which the directors on the stock option committee were requested to execute designated as the grant date March 26, 1996, the date on which our stock had traded at a year-to-date low. The September 1999 Management Grant was discussed at a morning meeting of the Board of Directors on Monday, September 27, 1999 but we designated Friday, September 24, 1999 as the grant date, when the price of our stock was \$0.88 lower. (As indicated on the table in Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Restatement of Financial Statements, the Special Committee recommended that the grant be measured as of November 10, 1999 because the grant list had not been completed when the directors met on September 27, 1999.) With respect to the May 2004 grant, the compensation committee members appear to

have discussed the grant on May 19, 2004, but we selected May 21, 2004 as the grant date, when the price of our stock was \$1.62 lower. (As indicated on the table in Item 7— Management’s Discussion and Analysis of Financial Condition and Results of Operations— Restatement of Financial Statements, the Special Committee recommended that the grant be measured as of June 7, 2004 because the grant list had not been completed when the compensation committee members first approved the grant on May 19, 2004.)

Core-Mark Holding Company, Inc.

10-K 2006 Management - Internal Control Assessment

Management’s Report on Internal Control over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is 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.

With the participation of the Company’s chief executive officer and chief financial officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006, based on the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Deloitte and Touche LLP, the Company’s independent registered public accounting firm, as stated in their report which appears herein.

Management excluded from its assessment internal control over financial reporting at our Pennsylvania division, which we acquired on June 19, 2006 and which represented approximately 14% and 11% of our consolidated net and total assets, respectively, 6% of the consolidated revenues and less than 1% of the consolidated net income before income taxes of the consolidated financial statements as of and for the year ended December 31, 2006. Accordingly, management’s assessment did not include the internal control over financial reporting at the Pennsylvania division. Remediation of Material Weaknesses Identified as of December 31, 2005

A material weakness is a control deficiency, or a 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 disclosed in Item 9A of our 2005 annual report on Form 10-K, management had identified 11 material weaknesses in our internal control over financial reporting as of December 31, 2005. Two of the material weaknesses were related to the control environment, commitment and lack of sufficient technical resources to manage, review, and ensure certain accounts and balances were adequately accounted for and disclosed properly. These two material weaknesses contributed to the remaining nine material weaknesses that specifically related to certain transactions. During 2006 the control environment was assessed and actions were taken, in conjunction



with the implementation, testing and review of an internal control framework in compliance with Section 404 of the Sarbanes-Oxley Act of 2002, which we refer to as SOX 404. Specifically management undertook the following steps to remediate these material weaknesses:

- Reviewed our entity level controls, and held meetings to discuss the importance of financial controls and procedures and communicated expectations throughout the organization.
- Heightened awareness of the importance of an adequate control environment, starting with executive management and filtering throughout the organization.
- Increased the membership of the Disclosure Committee.
- Developed and communicated a disclosure communication protocol, including attestation procedures for field controllers.
- Implemented additional procedures to identify and properly account for complex routine and non-recurring transactions.
- Evaluated and enhanced the corporate finance organizational structure.
- Formalized technical training requirements for corporate accounting professional staff.
- Engaged an external advisory firm to provide technical support as well as assist in the evaluation of our remediation plan.
- Implemented the use of checklists and adopted process improvements for the Company's financial statement close process.
- Enhanced supervisory procedures that included additional levels of analysis and review for complex accounts.
- Implemented SOX 404 and tested the internal control framework.

Material Weakness Identified as of December 31, 2006

Management has completed their review and testing of the new procedures and controls that were put in place and has concluded that the following material weakness in our internal control over financial reporting remained as of December 31, 2006:

- The Company did not maintain effective controls over the financial reporting process due to an insufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with its financial reporting requirements and the complexity of the Company's operations and transactions.

Status of Material Weakness Remediation

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The Company believes it has made substantial progress in the remediation of the material weakness described above, through the design and implementation of an enhanced financial organizational structure and other steps described above. However, a number of the permanent technical staff and organizational changes were made in the later half of 2006 and have not had sufficient time to be fully integrated into the operations of our internal control over financial reporting. As such, the identified material weakness in our internal control over financial reporting will not be considered remediated until the organizational changes are in operation for a sufficient period of time for our management to conclude that the control environment is operating effectively.

Based on this evaluation, our management has concluded that the Company's internal control over financial reporting was ineffective as of December 31, 2006.

DUCKWALL ALCO STORES INC

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 control over financial reporting as defined in Rules 13a-15(f) under the Securities and Exchange Act of 1934, as amended. The Company's internal control system is a process designed to provide reasonable assurance to the Company's management, Board of Directors and shareholders regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principals. 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 assessed the effectiveness of the Company's internal control over financial reporting as of January 29, 2006 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). As a result of this assessment, management concluded that the Company's internal control over financial reporting was not effective as of January 29, 2006.

Management's assessment identified the following material weaknesses in the Company's internal control over financial reporting as of January 29, 2006:

1. The Company has not established controls to require a review of certain information prepared for inclusion in the Company's financial statements. Specifically:
 - The Company's information system generates a report of all changes in or additions to its accounts payable vendor master file. The Company does not have a control that requires a review of this report by personnel independent of the accounts payable function to assure that

all changes were properly authorized. • The Company makes manual journal entries as part of its reconciliation and closing process. The Company does not have a control that requires a review of these journal entries and supporting analysis by someone other than the preparer prior to being recorded in the general ledger. • The Company does not have a control that requires a sufficiently detailed review of the Company's financial statements prior to their issuance.

As a result of this deficiency, adjustments were made to cash, inventory and accrued liabilities. Furthermore, there is a more than a remote likelihood that a material misstatement of our annual or interim financial statements would not have been prevented or detected.

2. The Company has insufficient controls to ensure that warehouse inventory and cost of sales are properly reported in the interim financial statements. Specifically, warehouse inventory is only reconciled to the general ledger annually. This deficiency resulted in more than a remote likelihood that a material misstatement of our interim financial statements would not have been prevented or detected.

Our independent auditor, KPMG LLP, the independent registered public accounting firm that audited the financial statements included in this report on Form 10-K, has issued an audit report on management's assessment of the Company's internal control over financial reporting. Their audit report appears in Item 8 above.

BUCKLE INC

10-K/A 2006 Management - Internal Control Assessment

Management's Report on Internal Control over Financial Reporting (as revised) - Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15-d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting 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 State of America ("GAAP"). 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. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In the Company's 2006 annual report on Form 10-K, filed on April 11, 2006, management of the Company included Management's Report on Internal Control Over Financial Reporting, which expressed a conclusion by management that as of January 28, 2006, the Company's internal control over financial reporting was effective. In connection with the restatement of its financial statements, as described further in Note M to the financial statements, management determined that a material weakness in internal control over financial reporting existed as of January 28, 2006 and, accordingly, has revised its assessment of the effectiveness of the Company's internal control over financial reporting as of January 28, 2006. A 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 annual or interim financial statements will not be prevented or detected. Management identified the following material weakness in their revised assessment. The Company's controls over the accounting for cash and cash equivalents and short-term investments did not operate effectively to appropriately identify certain auction-rate securities and determine that such auction-rate securities and certain

other investments were presented in accordance with generally accepted accounting principles with the Company's balance sheet and statement of cash flows. This material weakness resulted in the restatement of the Company's 2004, 2005 and 2006 annual financial statements. Management based this revised assessment of the effectiveness of the Company's internal control over financial reporting as of January 28, 2006, on the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in their Internal Control-Integrated Framework. Based on the revised assessment of internal control over financial reporting, management has concluded that the Company's internal control over financial reporting was not effective as of January 28, 2006. The Company's independent registered public accounting firm, Deloitte & Touche LLP, has audited management's assessment of the Company's internal control over financial reporting. Their report appears herein.

CACHE INC

10-K 2006 Management - Internal Control Assessment

(2) Management's Annual 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 Exchange Act Rules 13a-15(f). A system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with generally accepted accounting principles. 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.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 30, 2006. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in Internal Control—Integrated Framework.

In performing this assessment, management evaluated the impact of certain matters identified during its financial year-end closing and reporting process. These matters related to the completeness of the review and inadequate consideration in the application of certain technical interpretations of generally accepted accounting principles, evidenced by adjustments in the following areas; (1) forfeiture rates associated with stock based compensation and classification of excess tax benefits, associated with the exercise of stock options within the statement of cash flows in accordance with Statement of Financial Accounting Standards No. 123(R) "Share-Based Payments", (2) completeness of the Company's analysis of the accounting for income taxes, and (3) documentation of an analysis in regard to fixed asset impairment, which resulted in the Company recording an adjustment relating to fixed asset impairment for one store that will close in 2007. Based upon the foregoing, management has determined that material weakness described above represents a material weakness and that the Company's internal control over financial reporting was not effective based on the criteria established by COSO as of December 30, 2006.

A material weakness in internal control over financial reporting is a control deficiency (within the meaning of the Public Company Accounting Oversight Board's ("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. PCAOB Auditing Standard No. 2 identifies a number of circumstances that, because of their likely significant negative effect on internal control over financial reporting, are to be regarded as at least significant deficiencies as well as strong indicators that a material weakness exists, including the restatement of previously issued financial statements to reflect the correction of a misstatement.

The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on management's assessment of the Company's internal control over financial reporting. This report appears below.

Remediation Steps to Address the Material Weakness—We are currently reviewing our remediation process for the material weakness described above. We may conclude to take one or more of the following actions:

- i. Clearly define roles and responsibilities throughout the accounting/finance organization;
- ii. Implement additional training of finance personnel;
- iii. Conducting a review of accounting processes to strengthen the design and operation of controls;
- iv. Implement policies to ensure the accuracy of accounting calculations supporting the amounts reflected in our financial statements

These remediation plans will be implemented during the second and third quarters of fiscal 2007. The material weakness will not be considered remediated until the applicable remedial procedures operate for a period of time, such procedures are tested and management has concluded that the procedures are operating effectively.

FINLAY ENTERPRISES INC /DE

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 our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), 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.

We excluded from our assessment the internal control over financial reporting within our Carlyle subsidiary, which was acquired on May 19, 2005, and whose financial statements reflect total assets and net sales constituting 13.0% and 7.0%, respectively, of the related consolidated financial statement amounts as of and for the year ended January 28, 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. Management's assessment identified the following material weakness in internal control over financial reporting.

During the year ended January 28, 2006, an error was made in the classification of the payment of Carlyle debt assumed upon acquisition as a component of cash flows from operating activities rather than as a component of cash flows from financing activities on the consolidated statements of cash flows. This misclassification had no impact on the increase (decrease) in cash and cash equivalents for the period. This misclassification was corrected and is reflected properly in the consolidated statements of cash flows for the year ended January 28, 2006. The correction of this misstatement will result in the restatement of the consolidated statements of cash flows for the thirteen weeks and twenty-six weeks ended July 30, 2005 and thirty-nine weeks ended October 29, 2005 to reflect the repayment of the debt in accordance with SFAS No. 95, "Statement of Cash Flows" as cash used in financing activities rather than operating activities. We anticipate correcting this in our Form 10-Q filings for the second and third quarters of 2006. As a result, the Company's controls related to the review, monitoring and analysis of the consolidated statements of cash flows to determine that transactions were appropriately classified in accordance with SFAS No. 95, "Statement of Cash Flows" did not operate effectively.

Management concluded that as of January 28, 2006, as a result of the material weakness described above, we did not maintain effective internal control over financial reporting. Management and the Audit Committee agree that this control deficiency constitutes a material weakness.

Our management's assessment of the effectiveness of our internal control over financial reporting as of January 28, 2006 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

FINLAY FINE JEWELRY 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 Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), 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.

We excluded from our assessment the internal control over financial reporting within our Carlyle subsidiary, which was acquired on May 19, 2005, and whose financial statements reflect total assets and net sales constituting 13.0% and 7.0%, respectively, of the related consolidated financial statement amounts as of and for the year ended January 28, 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

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financial statements will not be prevented or detected. Management's assessment identified the following material weakness in internal control over financial reporting.

During the year ended January 28, 2006, an error was made in the classification of the payment of Carlyle debt assumed upon acquisition as a component of cash flows from operating activities rather than as a component of cash flows from financing activities on the consolidated statements of cash flows. This misclassification had no impact on the increase (decrease) in cash and cash equivalents for the period. This misclassification was corrected and is reflected properly in the consolidated statements of cash flows for the year ended January 28, 2006. The correction of this misstatement will result in the restatement of the consolidated statements of cash flows for the thirteen weeks and twenty-six weeks ended July 30, 2005 and thirty-nine weeks ended October 29, 2005 to reflect the repayment of the debt in accordance with SFAS No. 95, "Statement of Cash Flows" as cash used in financing activities rather than operating activities. We anticipate correcting this in our Form 10-Q filings for the second and third quarters of 2006. As a result, the Company's controls related to the review, monitoring and analysis of the consolidated statements of cash flows to determine that transactions were appropriately classified in accordance with SFAS No. 95, "Statement of Cash Flows" did not operate effectively.

Management concluded that as of January 28, 2006, as a result of the material weakness described above, we did not maintain effective internal control over financial reporting. Management and the Audit Committee agree that this control deficiency constitutes a material weakness.

Our management's assessment of the effectiveness of our internal control over financial reporting as of January 28, 2006 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

COLDWATER CREEK INC

10-K/A 2006 Management - Internal Control Assessment

Management's Report on Internal Control Over Financial Reporting (restated)

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 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. 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 has assessed the effectiveness of the Company's internal control over financial reporting as of January 28, 2006. Management's assessment was based on criteria set forth in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In the Company's Annual Report in Form 10-K for the year ended January 28, 2006, filed on April 13, 2006, management concluded that the Company's internal control over financial

reporting was effective as of January 28, 2006. Subsequently, the Company determined to restate certain of its previously issued financial statements to correct the recognition of revenue under its co-branded credit card program. As a result of this restatement, management reassessed the Company's internal control over financial reporting using the COSO criteria and identified a material weakness related to the recognition of revenue under its co-branded credit card program that existed as of January 28, 2006. Specifically, the Company determined that it lacked technical expertise to evaluate revenue arrangements containing multiple deliverables and effectively identify and analyze the terms of such arrangements to ensure that financial reporting complied with generally accepted accounting principles. As a result, the Company has restated the interim financial statements in its quarterly reports on Form 10-Q for the quarters ended July 30, 2005 and October 29, 2005 and the fiscal 2005 financial statements and fourth quarter financial information included in its Form 10-K for the year ended January 28, 2006 to correct an overstatement in credit card marketing revenue.

A material weakness in internal control over financial reporting is a control deficiency (within the meaning of the Public Company Accounting Oversight Board's ("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. PCAOB Auditing Standard No. 2 identifies a number of circumstances that, because of their likely significant negative effect on internal control over financial reporting, are to be regarded as at least significant deficiencies, as well as strong indicators of a material weakness, including the restatement of previously issued financial statements to reflect the correction of a misstatement. As a result of the aforementioned material weakness related to the Company's accounting for revenue arrangements containing multiple deliverables, management has revised its previously reported assessment and has concluded that, as of January 28, 2006, the Company's internal control over financial reporting was not effective based on the criteria set forth in the COSO framework.

The Company's independent registered public accounting firm, KPMG LLP, has issued an audit report on management's restated assessment of the Company's internal control over financial reporting, included elsewhere in this report.

ZALE CORP

10-K 2006 Management - Internal Control Assessment

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING To the Stockholders of Zale Corporation: The management of Zale Corporation and its subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed to provide reasonable assurance to management and the Board of Directors 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 the 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 included in such controls may deteriorate. Our management has assessed the effectiveness of our internal control over financial reporting as of July 31, 2006. In making this assessment, management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal



Control — Integrated Framework. Based on this assessment, the following material weakness was identified in the Company’s internal control over financial reporting: The Company did not maintain effective policies and procedures to ensure the accounting for certain derivative financial instrument in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). Specifically, the Company had inadequate policies and procedures in place to ensure compliance with the documentation requirements of SFAS 133 at inception of the hedge relationship and failed to properly assess effectiveness and measure ineffectiveness at inception and on a quarterly basis. In addition, the Company did not have resources with sufficient technical experience related to the application of the provisions of SFAS 133. These deficiencies resulted in errors related to the recognition and classification of gains and losses on certain derivative financial instruments in the Company’s financial statements. These deficiencies also resulted in more than a remote likelihood that a material misstatement of the annual or interim financial statements would not be prevented or detected. Because of the material weakness described above, management concluded that the Company’s internal control over financial reporting was not effective as of July 31, 2006. KPMG LLP, the registered public accounting firm that audited the financial statements included in this Form 10-K filing, has issued an audit report on management’s assessment of our internal control over financial reporting. That report appears on page F-3. Mary E. Burton George R. Mihalko, Jr. President, Chief Executive Officer Chief Financial Officer, and Director Chief Administrative Officer and Director October 12, 2006 October 12, 2006

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