

**IMPACT OF SOX ON THE SEMICONDUCTOR INDUSTRY**  
**Section 404 Material Weaknesses**  
**For Companies with Years Ended in 2006**  
**As of May 14, 2007**

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

IC - Accounting documentation, policy and/or procedures	13
IC - Accounting personnel resources, competency/training	9
IC - Material and/or numerous auditor /YE adjustments	7
IC - Restatement or nonreliance of company filings	4
IC - Information technology, software, security & access issue	3
IC - Untimely or inadequate account reconciliations	2
IC - Ethical or compliance issues with personnel	2
IC - Non-routine transaction control issues	2
IC - Restatement of previous 404 disclosures	2
IC - Segregations of duties/ design of controls (personnel)	2
IC - Senior management competency, tone, reliability issues	1
IC - Insufficient or non-existent internal audit function	1
IC - Ineffective or understaffed audit committee	1

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

Acc - Tax expense/benefit/deferral/other (FAS 109) issues	5
Acc - Deferred, stock-based or executive comp issues	4
Acc - Inventory, vendor and cost of sales issues	4
Acc - Liabilities, payables, reserves and accrual est failures	4
Acc - Consolidation, (Fin46r/Off BS) & foreign curr transl issues	3
Acc - Accounts/loans receivable, investments & cash issues	2
Acc - Acquisition, merger, disposal or reorganization issues	2
Acc - PPE, intangible or fixed asset (value/diminution) issues	2
Acc - Revenue recognition issues	2
Acc - Fin Stmt, footnote, US GAAP, segment disclosure issues	2
Acc - Foreign, related party, affiliated and/or subsid issues	2
Acc - Intercompany/Investment w/ sub/affil issues	1
Acc - Balance sheet classification of asset issues	1
Acc - Lease, FAS 5, legal, contingency & commit issues	1
Acc - Cash flow statement (FAS 95) classification errors	1
Acc - Unspecified/unidentified/inapplicable FASB/GAAP issues	1

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## **IXYS CORP /DE/**

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) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of March 31, 2006. In making this assessment, our management used the criteria set forth in Internal Control-Integrated Framework, which was issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management has concluded that, as of March 31, 2006, our internal control over financial reporting was not effective. In conducting its assessment, our management concluded that one material weakness existed as of March 31, 2006 as a result of the absence of a financial accounting professional with sufficient skills and experience to make estimates and judgments about non-routine transactions consistent with accounting principles generally accepted in the United States of America ("US GAAP") during the closing process. During the closing process, we were unable to support some of our estimates and judgments about non-routine transactions with appropriate analysis. Our initial analysis of goodwill under SFAS 142 was not sufficiently robust to support our conclusions. We drew an inappropriate conclusion regarding the presentation of a non-cash related item of \$15.3 million in the cash flow from operating activities of our consolidated statements of cash flows. In connection with the settlement of litigation after the end of a period but prior to filing financial statements with the SEC, we inappropriately concluded that aspects of the settlement should be recorded in a future period, as opposed to being accounted for as a subsequent event that should be reflected in the current period financial statements. As a result of the errant judgment, we understated our accounts payable at March 31, 2006 by \$560,000 and overstated our income before income taxes for the quarter ended March 31, 2006 by \$560,000. Our Audit Committee is aware of the material weakness. Management's assessment of the effectiveness of our internal control over financial reporting as of March 31, 2006 has been audited by BDO Seidman, LLP ("BDO"), an independent registered public accounting firm, as stated in their report, which is included elsewhere herein.

## **MAGNETEK, INC.**

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial control is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that:

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



Because of inherent limitations, internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements. Therefore, even effective internal control over financial reporting can only provide reasonable assurance with respect to the reliability of financial reporting and the preparation and presentation of financial statements. Also, projections of any evaluation about the effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluated the effectiveness of the Company's internal control over financial reporting as of July 2, 2006. In making this evaluation, management used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of July 2, 2006, management has concluded that the organizational structure of the Company's European subsidiary, Magnetek S.p.A., lacks adequate levels of personnel to timely perform certain critical accounting activities, including the review and approval of accounting adjustments and account reconciliations. Management has concluded that this control deficiency constitutes a material weakness. As a result of the material weakness noted, management has concluded that the Company did not maintain effective control over financial reporting as of July 2, 2006 based on the criteria set forth in Internal Control-Integrated Framework issued by the COSO. This European subsidiary is being divested as part of the Company's power electronics business, as described elsewhere in this Report on Form 10-K.

Management's evaluation of the effectiveness of internal control over financial reporting as of July 2, 2006, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

## **CIRRUS LOGIC INC**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM The Board of Directors and Stockholders Cirrus Logic, Inc. We have audited the accompanying consolidated balance sheets of Cirrus Logic, Inc. (the Company), as of March 25, 2006 (restated) and March 26, 2005 (restated), and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three fiscal years in the period ended March 25, 2006 (as restated). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cirrus Logic, Inc., at March 25, 2006 (restated) and March 26, 2005 (restated), and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended March 25, 2006 (as restated), in conformity with U.S. generally accepted accounting principles. As discussed in Note 1A to the consolidated financial statements, the 2006, 2005 and 2004 consolidated financial statements have been restated to correct errors in recording stock-based compensation expense, and the related tax impact. We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Cirrus Logic, Inc.'s internal control over financial reporting as of March 25, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 19, 2006, except for the effects of the material weakness described in the sixth paragraph, as to which the date is April 16, 2007, expressed an unqualified opinion on management's assessment of and an adverse opinion on the effectiveness of internal control over financial reporting. /s/Ernst & Young LLP Austin, Texas May 16, 2006, except for Note1A as to which the date is April 16, 2007

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## **BOOKHAM, INC.**

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Exchange Act Rule 13a-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 our financial statements for external reporting purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. As of July 1, 2006, our management has assessed the effectiveness of our internal control over financial reporting. In making its assessment of internal control over financial reporting, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. A material weakness is a significant deficiency (as defined in PCAOB Auditing Standard No. 2), 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 has identified a material weakness in internal control over financial reporting as it relates to the inconsistent treatment of translation/transaction gains and losses in respect to intercompany loan balances. The lack of communication to certain subsidiaries of the Corporate policy regarding the translation of intercompany balances as well as the lack of a worldwide oversight control did not reduce the likelihood that a material misstatement of certain accounts in the financial statements would be prevented or detected in a timely manner. This material weakness resulted in adjustments to the company's gain/loss on foreign exchange and accumulated other comprehensive income accounts. As a result, our Chief Executive Officer and Chief Financial Officer have concluded that, as of July 1, 2006, our system of internal control over financial reporting was not effective based on the criteria in COSO's Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on our assessment of our internal control over financial reporting. This report appears below.

## **SEMTECH CORP**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control – Integrated Framework, including provisions regarding restatements and antifraud programs and controls, our management has concluded that as of January 29, 2006 the Company's internal control over financial reporting was not effective 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 there was a material weakness in the Company's control environment. Specifically, as of January 29, 2006 the Company was under the leadership of the Former CEO, who was found by the Special Committee to have manipulated option grants in prior fiscal years, and the Former CFO, who the Special Committee found to have known or should have known of the past manipulation and initiated or participated in some manipulative acts in prior fiscal years.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this report, has issued an attestation report on our management's updated assessment of our internal control over financial reporting as of January 29, 2006. Ernst & Young LLP's Report of Independent Registered Public Accounting Firm On Internal Control Over Financial Reporting is included in Item 8 of this report.

## **RICHARDSON ELECTRONICS LTD/DE**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Because of its inherent limitations, internal



control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of 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 is a deficiency in internal control over financial reporting 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.

Under the supervision of the Chief Executive Officer and Chief Financial Officer, management conducted an assessment of the effectiveness of our internal control over financial reporting as of June 3, 2006 based on the framework in the Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that assessment, management has identified the following material weakness in the Company's internal control over financial reporting as of June 3, 2006:

The Company did not effectively perform an evaluation of the reasonableness of assumptions with respect to the realizability of certain deferred tax assets. The Company did not have appropriate controls in place to determine that valuation allowances provided for deferred tax assets were calculated in accordance with income tax accounting standards. This control deficiency resulted in material errors in the deferred tax asset valuation allowances which required adjustment to the Company's financial statements for fiscal 2006 and the third quarter of 2006 and restatement of the Company's financial statements for fiscal 2005, for the third quarter of 2005 and for the first and second quarters of fiscal 2006.

As a result of this material weakness management has concluded that the Company did not maintain effective internal control over financial reporting.

Management's assessment of the effectiveness of our internal control over financial reporting as of June 3, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein (Item 9A(d)).

## **SANMINA-SCI CORP**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, or the Exchange Act). Our management, including our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2006. In making this assessment, our management used the criteria established in Internal Control—Integrated Framework, issued by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In November 2006, we identified a material weakness in our internal control over financial reporting as of September 30, 2006. The Public Company Accounting Oversight Board's Auditing Standard No. 2 defines a material weakness as a significant deficiency, or a combination of significant deficiencies, that results in there being a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management identified a material weakness in our internal control over financial reporting as of September 30, 2006. Specifically, the material weakness is comprised of the following internal control deficiencies:

- Inadequate segregation of responsibilities and oversight between the compensation administration function and stock administration function, each of which were administered outside of the oversight of the finance organization;
- Inadequate supervision and training for personnel involved in the stock option granting process;
- Inadequate policies and procedures regarding maintenance of records supporting the granting activities, grant date,

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and authorization of equity based transactions; and

· Inadequate documentation of stock option granting procedures and practices, inadequate policies and procedures to address the determination of the measurement date and exercise price of equity awards, and inadequate policies to identify the individuals who have authority to grant equity awards.

The material weakness resulted in errors in the accounting for equity based awards and the restatement of the consolidated balance sheet as of October 1, 2005 and the related consolidated statements of operations, stockholders' equity, comprehensive income (loss), and cash flows for each of the years in the two-year period ended October 1, 2005. As a result of the material weakness described above, management has concluded that the Company did not maintain effective internal control over financial reporting as of September 30, 2006, based on the criteria established in Internal Control—Integrated Framework, issued by COSO.

KPMG LLP, independent registered public accounting firm, has issued a report on management's assessment of internal control over financial reporting

## **ALLIANCE SEMICONDUCTOR CORP /DE/**

**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 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 that the degree of compliance with the policies or procedures may deteriorate. The Company conducted an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its internal control over financial reporting as of March 31, 2006. This evaluation was performed based on the framework in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of March 31, 2006, the Company did not maintain a sufficient complement of permanent personnel with an appropriate level of accounting knowledge, experience and training in the implementation of the Sarbanes-Oxley Act of 2002 and the application of generally accepted accounting principles commensurate with the Company's financial reporting requirements. The Company lacked sufficient permanent finance and accounting staff with adequate depth and skill in the application of generally accepted accounting principles with respect to: (i) external financial reporting and income taxes, and (ii) review procedures over the accounting for significant and unusual transactions and equity method investments. And during the first three quarters of fiscal 2006, we lost most of the accounting staff who had knowledge of what had been done in the past, and did not maintain effective controls over the reconciliation of unmatched material receipts. We also did not have full awareness of what made up other prepaid assets. These control deficiencies resulted in post-closing adjustments reducing the inventory purchase accrual by \$270,000 and reducing other prepaid assets by \$4.4 million to account for the conversion of the remaining book value of prepaid wafer credits. The Company's testing of the effectiveness of its internal control over financial reporting as of March 31, 2006, performed based on the framework in "Internal Control — Integrated Framework" issued by the COSO, resulted in the following significant control deficiencies:

- Minutes of meeting of the Compensation Committee were not available.
- Some controls in Inventory & Cost of Goods and General Ledger showed lack of proper authorizations.
- Board authorization for the Investment Manager to make investments on behalf of the Company was not found.
- The Company's communications on closing the trading window were ineffective.

In addition, Revenue & Receivables was determined to have a material weakness based on a lack of documentation

and use of forms together with ineffective procedures authorizing return of materials from customers. While these control deficiencies have not resulted in any other material misstatements of account balances or disclosures that we are aware of, they could result in misstatements or disclosures which could cause a material misstatement of annual or interim financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness. Because of these material weaknesses, management has concluded that the Company did not maintain effective internal control over financial reporting as of March 31, 2006, based on criteria established in "Internal Control — Integrated Framework" issued by the COSO. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 2006 has been audited by Mark Bailey, an independent registered public accounting firm, as stated in their report which appears immediately preceding the Consolidated Financial Statements in this Annual Report on Form 10-K.

## **OSI SYSTEMS INC**

We are responsible for establishing and maintaining adequate internal controls over financial reporting. Our internal controls over financial reporting include the policies and procedures that pertain to (a) the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (b) the recording of transactions as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles; (c) the making of receipts and expenditures only in accordance with authorizations of our management and directors; and (d) the prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements. We recognize that because of inherent limitations, internal controls 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 policies or procedures may deteriorate. Accordingly, internal controls over financial reporting cannot provide absolute assurance of achieving financial reporting objectives.

As of June 30, 2006, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal controls over financial reporting. This evaluation was based on the framework in "Internal Control—Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission. The evaluation included an assessment of the design of our internal controls over financial reporting and testing of the operational effectiveness of our internal controls over financial reporting. Our management, Chief Executive Officer and Chief Financial Officer reviewed the results of their evaluation with the Audit Committee of our Board of Directors and determined that as of June 30, 2006, there were material weaknesses in our internal controls over financial reporting. As defined by the Public Company Accounting Oversight Board Auditing Standard No. 2, a material weakness is a significant control deficiency or a combination of significant 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. In light of the material weaknesses, our management, Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2006, we did not maintain effective internal controls over financial reporting. Moss Adams LLP, an independent registered public accounting firm that audited the financial statements included in this Annual Report, has issued its attestation report on our management's assessment of our internal controls over financial reporting, which appears on page 57 to this report.

As a result of its assessment, management identified the following control deficiencies that represent material weaknesses in our internal control over financial reporting as of June 30, 2006:

1) In our testing of information technology controls we determined that controls over systems change management, program development, end-user computing, and systems access and related monitoring were inadequately designed and implemented. In assessing these control deficiencies, we determined that there was an incomplete adoption of recognized industry standards resulting in the lack of a comprehensive internal control framework over information technology; we determined that there was a lack of adequate oversight by experienced managers knowledgeable and fully engaged with the design and implementation of effective information technology controls; we determined there was a lack of a comprehensive training program related to information technology controls supporting our internal

controls over financial reporting; and we determined that the evaluation and testing of information technology controls was insufficient and was conducted by personnel who lacked the competency needed to fully evaluate this area.

2) In our overall testing of internal controls, we determined that there was a weakness in the monitoring and oversight component of our control environment. We found that there was insufficient and inappropriate verification of the performance of certain review controls and inadequacies in the documentation supporting those controls. Although we did not identify an error in financial reporting as a result of these observations, we determined that a material weakness in our monitoring and oversight controls is evident. Therefore, we determined that the design and operation of our control environment did not sufficiently promote effective internal control over financial reporting.

## **JDS UNIPHASE CORP /CA**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined under Rule 13a-15(f) promulgated 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.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an assessment of the effectiveness of our internal control over financial reporting as of July 1, 2006. In making this assessment, we used the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. In connection with our assessment of the Company's internal control over financial reporting described above, we have identified the following control deficiency which represents a material weakness in the Company's internal control over financial reporting as of July 1, 2006.

The Company did not maintain a sufficient number of qualified resources with the required proficiency to apply the Company's accounting policies in accordance with generally accepted accounting principles of the United States of America. This control deficiency resulted in adjustments, including audit adjustments recorded in the quarterly financial statements for the first three quarters of fiscal 2006, affecting revenue, accounts receivable, inventory, other current assets, goodwill, fixed assets, accrued liabilities, restructuring accrual, other current liabilities, income taxes and other comprehensive income. Additionally, this control deficiency could result in misstatements of the Company's financial statement accounts and disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

As a result of this material weakness, management has concluded that as of July 1, 2006, internal controls over financial reporting was not effective based on the criteria in Internal Control - Integrated Framework issued by the COSO.

The Company purchased Acterna Inc. ("Acterna") and Agility Communications, Inc. ("Agility") through business combinations in August and November 2005, respectively. Acterna, and certain elements of Agility were not included in our assessment of internal controls over financial reporting as of July 1, 2006. Acterna's total assets and total revenues represent approximately 11% and 40%, respectively, of the related consolidated financial statement amounts as of and for the year ended July 1, 2006. Subsequent to the acquisition of Agility, certain elements of Agility's internal controls over financial reporting were integrated into the Company's existing systems and internal controls over financial reporting. The excluded elements of Agility represent controls over accounts of approximately less than 1% of consolidated assets and consolidated revenues as of and for the year ended July 1, 2006.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of July 1, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in

their report which appears in this Annual Report on Form 10-K under Item 8. (c) REMEDIATION OF THE MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING

With respect to the material weakness in internal control over financial reporting discussed above regarding the sufficiency of accounting personnel which was disclosed as of June 30, 2005 and continues to exist at July 1, 2006 we have taken or plan to take the following actions: the Company has added several new hires in the last fiscal quarter which include: the Director of Technical Accounting and SEC Reporting, the Manufacturing Operations Controller and the Manufacturing Site Controller. We will continue to recruit additional finance resources to support Acterna and other locations as needed. However as of July 1, 2006 our remediation was not complete in that several of our key hires were not in place or had not been in place for a sufficient period of time to demonstrate that the material weakness had been remediated. With regard to the other material weaknesses that were previously disclosed as of June 30, 2005, they were remediated as of July 1, 2006. Please see "Item 9A. Controls and Procedures -- Management Report on Internal Control over Financial Reporting" contained in our report on Form 10-K for the fiscal year ended June 30, 2005 and "Item 4. Controls and Procedures" contained in our reports on subsequent Form 10-Q's for disclosure of information about material weaknesses that were reported as a result of our annual assessment as of June 30, 2005 and remediation for each item. As disclosed in the Form 10-Q's for the first three quarters of fiscal year 2006, we have implemented and executed our remediation plans, and as of July 1, 2006, all such material weaknesses were successfully tested and deemed remediated, except for the deficiency noted above.

(d) INTERNAL CONTROLS OF RECENTLY ACQUIRED ENTITIES

At the time of acquisition and since, we have acknowledged that Acterna and Agility do not have the internal controls over financial reporting necessary for public company reporting, and we have been taking actions, and will continue to take action, to make the necessary improvements. Acterna and Agility will be included in our assessment of internal controls over financial reporting in fiscal 2007.

As discussed above, while these entities were excluded from the Company's own assessment of internal controls as of July 1, 2006, we identified two control deficiencies that represent material weaknesses in Acterna's internal controls.

- The Company did not maintain effective controls at Acterna's manufacturing sites in Germantown, Maryland and Indianapolis, Indiana over the accounting for the completeness, existence, accuracy and valuation of inventory and cost of goods sold. Specifically, adequate controls were not designed over (1) the existence and accuracy of the perpetual inventory balance, (2) the accuracy of the standard costs and analysis of variances (3) the valuation of excess and obsolete inventory. This material weakness resulted in audit adjustments to our fiscal 2006 consolidated financial statements impacting the inventory balance and cost of good sold. Additionally, this material weakness could result in a misstatement of the Company's inventory and cost of goods sold accounts that would result in a material misstatement to the Company's interim or annual consolidated financial statements that would not be prevented or detected.
- The Company did not maintain effective controls over accounts receivable, deferred revenue, and revenue, specifically, controls relating to the identification of and accounting for contractual sales terms, that impact the amount and timing of revenue recognized. This material weakness resulted in audit adjustments to our fiscal 2006 consolidated financial statements impacting accounts receivable, deferred revenue and revenue. Additionally, this material weakness could result in a misstatement of the Company's accounts receivable, deferred revenue and revenue accounts that would result in a material misstatement to the Company's interim or annual consolidated financial statements that would not be prevented or detected.

We plan to remediate these material weaknesses as part of our continuing efforts to evaluate and improve Acterna's internal controls over financial reporting, but acknowledge that we may identify further material weaknesses based on the completion of the assessment of internal controls over financial reporting for Acterna and Agility in fiscal 2007. In order to remediate the aforementioned control deficiencies at Acterna, management plans to take the following

actions:

- For the material weakness in our controls over our manufacturing facilities in Germantown and Indianapolis, in the first quarter of fiscal year 2007, the Company completed the integration of the information technology systems to our current financial reporting system. We plan to recruit a Manufacturing Accounting Manager to support Acterna and implement a formalized structure with increased levels of review and analysis for inventory transactions.
- For the material weakness related to the review of contractual sales terms that impact the amount and timing of revenue recognized, we plan to implement processes to improve documentation of complex arrangements and establish a formalized structure with appropriate controls with increased levels of review and analysis to ensure that revenue is recognized in accordance with generally accepted accounting principles.

Notwithstanding the above-mentioned weaknesses, we believe that the consolidated financial statements included in this report are fairly presented.

## **SIGMATEL INC**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with 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 of internal control over financial reporting 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 our internal control over financial reporting as of December 31, 2006. In making its assessment of internal control over financial reporting, management used the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of December 31, 2006, we did not maintain effective controls over the completeness and accuracy of the income tax provision and related income taxes payable and deferred income tax accounts. Specifically, we did not maintain effective controls to review and monitor the accuracy of the components of the income tax provision calculations and related income taxes payable and deferred income tax accounts. This control deficiency resulted in a reclassification in the income taxes payable accounts in the Company's interim consolidated financial statements for the second quarter of 2006. Additionally, this control deficiency could result in a misstatement to the income tax provision or income taxes payable accounts that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness. Because of this material weakness, management (including our CEO and CFO) has concluded that, as of December 31, 2006, we did not maintain effective internal control over financial reporting, based on the criteria established in Internal Control – Integrated Framework issued by the COSO.

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



## Plan for Remediation of Material Weakness in Internal Control over Financial Reporting

We are taking the following steps to remediate the material weakness in internal control over financial reporting described above:

- implement new processes around the analysis of the income tax provision, primarily related to tax reserves;
- implement additional procedures around the identification, analysis and recording of the tax effects of significant transactions; and
- have the outside experts who assist us with the preparation and review of the consolidated tax provision, balance sheet and footnote disclosures spend additional time in performing their review of the provision and key issues.

We believe these steps will enable us to remediate the material weakness reported at December 31, 2006. As part of our 2007 assessment of internal control over financial reporting, our management will conduct sufficient testing and evaluation of the controls to be implemented as part of this remediation plan to ascertain that they operate effectively.

## Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **MERIX CORP**

Management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of the Company's internal control over financial reporting as of May 27, 2006. As defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), 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 (GAAP).

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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 conducted, with the participation and supervision of our Chief Executive Officer (CEO) (who also serves as our Chief Financial Officer), an evaluation of the effectiveness of our internal control over financial reporting as of

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May 27, 2006. Management's assessment of internal control over financial reporting was conducted using the criteria set forth in the report entitled Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. In connection with management's assessment of our internal control over financial reporting, we identified the following material weaknesses in our internal control over financial reporting as of May 27, 2006:

1. The Company did not maintain a sufficient complement of personnel to maintain an appropriate accounting and financial reporting organizational structure to support the activities of the Company. Specifically, the Company did not maintain personnel with an appropriate level of accounting knowledge, experience and training in the selection, application and implementation of generally accepted accounting principles with respect to: (i) stock-based compensation, (ii) external financial reporting, including income tax disclosures (iii) accrued liabilities, and (iv) classification of assets held-for-sale. This material weakness resulted in audit adjustments to the Company's 2006 annual consolidated financial statements and contributed to the material weakness discussed in 2 below. Additionally, this control deficiency could result in a misstatement of the above mentioned accounts and disclosures that would result in a material misstatement to the interim or annual consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

2. The Company did not maintain effective controls over the completeness, accuracy and disclosure of segment information. Specifically, controls over segment reporting were not effective to ensure that disclosures were determined in accordance with generally accepted accounting principles. This control deficiency resulted in an audit adjustment to the required disclosure included in the notes to the Company's 2006 annual consolidated financial statements. Additionally, this control deficiency could result in a misstatement of segment information that would result in a material misstatement to the interim or annual consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

Based on our assessment and as a result of the material weaknesses described above, management has concluded that the Company's internal control over financial reporting was not effective as of May 27, 2006 based on the criteria established in Internal Control—Integrated Framework issued by the COSO.

Management excluded Eastern Pacific Circuits Holding Limited (renamed Merix Asia, Inc. and referred to as Merix Asia) from its assessment of internal control over financial reporting as of May 27, 2006 because it was acquired by the Company in a purchase business combination during fiscal 2006. Merix Asia is a majority-owned subsidiary for which total assets and total revenues represent 44% and 27%, respectively, of the related consolidated financial statement amounts as of and for the year ended May 27, 2006.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of May 27, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

## **COMPOSITE TECHNOLOGY CORP**

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined under Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in Internal Control -- Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 is a control deficiency (within the meaning of 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 on a timely basis by employees in the normal course of their assigned functions.

#### Fiscal 2004 Restatement

As of September 30, 2004, the Company did not maintain effective controls over the application of generally accepted accounting principles related to the financial reporting process for complex, non-routine transactions. Our internal accounting personnel did not have sufficient depth, skills and experience in accounting for complex, non-routine transactions in the financial reporting process and there was a lack of review by internal accounting personnel or accounting contractors with appropriate financial reporting expertise of complex, non-routine transactions to ensure they are accounted for in accordance with generally accepted accounting principles. Additionally we did not consistently use outside technical accounting contractors to supplement our internal accounting personnel, and we had insufficient formalized procedures to assure that complex, non-routine transactions received adequate review by internal accounting personnel or outside contractors with technical accounting expertise.

This control deficiency resulted in the adjustments of our financial statements described in Note 2. During fiscal 2004 the Company improperly recorded transactions with employees and settlements of former employee non-qualifying stock options that were exercised on a "cashless" basis. For these transactions, both the exercise price and any payroll taxes owed by the employee or former employees were allowed to be paid for in shares of the stock exercised. Under FIN 44, such changes are considered to be modifications of the option grant and the transactions are required to be accounted for at the fair value of the stock issued on the date of the cashless exercise. These errors were first discovered and brought to the attention of management in May, 2005. The Company restated its consolidated financial statements for the year ended September 30, 2004 in by filing a Form 10-KSB/A on August 8, 2005.

The ineffective control over the application of generally accepted accounting principles in relation to complex, non-routine transactions in the financial reporting process could result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. As a result, management has determined that this control deficiency constituted a material weakness as of September 30, 2004. Because of the material weakness described above, management has concluded that the Company did not maintain effective internal control over financial reporting as of September 30, 2004, based on criteria in Internal Control -- Integrated Framework issued by the COSO. Management communicated its conclusions to the Company's Board of Directors. Management's Consideration of the Restatement

With respect to the restatement adjustment related to the stock option modification disclosed in Note 2 to the consolidated financial statement related to our incorrect accounting for equity compensation expense in 2004, management has concluded that the restatement for this item does not constitute a material weakness over the accounting for equity compensation expense as of September 30, 2005. In the preparation of the Annual Report on Form 10-KSB/A for the year ended September 30, 2004, filed on August 8, 2005, and the Annual Reports on Form 10-K for the years ended September 30, 2005 and 2006 in light of the discovery of the error discovered during a review of the 10-KSB, and as discussed in the Explanatory Note and in Note 2 to the consolidated financial statements, the Company undertook a review of all of its equity accounting transactions. We also conducted a review of additional significant, complex, non-routine transactions recorded from September, 2001 through the period ended March 31, 2005. The accounts reviewed as part of this remediation process were in addition to those reviewed in connection with the Company's preparation of its Form 10-KSB/A for the year ended September 30, 2004 filed on August 8, 2005. The Company utilized individuals with technical accounting expertise to supplement its internal review. The Company believes that these corrective actions, taken as a whole, have mitigated the control deficiencies with respect to our

preparation of the 2004 Annual Report on Form 10-KSB/A and 2005 Annual Report on Form 10-K and that these measures have been effective to ensure that information required to be disclosed in this 2006 Annual Report on Form 10-K have been recorded, processed, summarized and reported correctly. In particular, the Company's management believes that the measures implemented to date provided reasonable assurance that the Company's audited financial statements included in this 2006 Annual Report on Form 10-K are prepared in accordance with generally accepted accounting principles.

Management previously concluded that the Company did maintain effective internal control over financial reporting as of September 30, 2004. In connection with the restatement of the Company's consolidated financial statements relating to the Stock option modification adjustment described in Note 2 to the consolidated financial statements in this Annual Report on Form 10-KSB/A, management has determined that the material weakness described above resulted in the errors requiring this restatement. Accordingly, this restatement does affect the previous conclusion stated in this report on internal control over financial reporting.

#### Fiscal 2006 Assessment.

We have excluded the internal control structure of our acquired subsidiary DeWind, Ltd. from the scope of our fiscal 2006 assessment since the acquisition was made on July 3, 2006, less than 90 days prior to our fiscal year end.

During management's review of our internal control structure under Sarbanes-Oxley section 404, for the fiscal year ending September 30, 2006, we determined the following to be material weaknesses:

Entity level Processes and weaknesses. As of September 30, 2006, the following material weaknesses existed related to general processes and weaknesses for the entity taken as a whole:

- o Proper segregation of duties and inadequate training did not exist as well as an inadequate number of accounting and finance personnel staff at fiscal year end.
- o The Company had one member Audit Committee, a one member Compensation Committee, and had a designated financial expert on the Board of Directors since January of 2006. Until December, 2005 we only had a two person non-independent Board of Directors and from January, 2006 through November, 2006 we had one independent director and two non-independent directors comprising our Board of Directors.
- o The Company did not have an independent internal audit function due to the small size of the organization.

These material weaknesses related to the entity as a whole affect all of our significant accounts and could result in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected.

Information Technology Controls (ITCs) . ITCs are policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. ITGCs include four basic information technology (IT) areas relevant to internal control over financial reporting: program development, program changes, computer operations, and access to programs and data. As of September 30, 2006, a material weakness existed relating to our information technology general controls, including ineffective controls relating to:

- o Access to programs and data including (1) user administration, (2) application and system configurations, and (3) periodic user access validation

Inventory Processes. As of September 30, 2006, the following material weaknesses existed related to ineffective

controls over our inventory processes:

o Perpetual Inventory records: Ineffective controls to (a) accurately record the raw materials inventory moved out of inventory stores and into manufacturing production and later into finished goods and, (b) accurately record manufacturing variances.

Procure to Pay process. During our fiscal 2006 assessment of the Company's procure to pay (cash payments and disbursements) cycle, we determined that there were numerous significant control deficiencies relating primarily to inventory purchasing and related purchasing and payable system control deficiencies. If assessed on an individual basis, none of these deficiencies were determined to be material weaknesses. However, taken in the aggregate we believe the following constitute a material weakness:

- i) An effective purchasing function did not exist during the entire fiscal year.
- ii) There were inadequate system driven matching controls over the receiving function for inventory parts and supplies. Receiving tolerances for inventory related pricing and quantities received are not established systematically.
- iii) There was a lack of segregation of duties between the purchasing and payable processing functions.
- iv) There were inadequate vendor management duties and responsibilities during the year
- v) There was a lack of sufficient purchasing reports for management review. Fiscal 2005 Assessment.

During management's review of our internal control structure under Sarbanes Oxley section 404, for the fiscal year ending September 30, 2005, we determined the following to be material weaknesses:

Entity level Processes and weaknesses . As of September 30, 2005, the following material weaknesses existed related to general processes and weaknesses for the entity taken as a whole:

- o Proper segregation of duties and inadequate training did not exist as well as an inadequate number of accounting and finance personnel staff at fiscal year end.
- o The Company did not have an Audit Committee, a Compensation Committee, and did not designate a financial expert on the Board of Directors since we only had a two person non-independent Board of Directors during the year.
- o The Company did not have an independent internal audit function due to the small size of the organization.

These material weaknesses related to the entity as a whole affect all of our significant accounts and could result in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected.

Information Technology Controls (ITCs) . ITCs are policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. ITGCs include four basic information technology (IT) areas relevant to internal control over financial reporting: program development, program changes, computer operations, and access to programs and data. As of September 30, 2005, a material weakness existed relating to our information technology general controls, including ineffective controls relating to:

- o Access to programs and data including (1) user administration, (2) application and system configurations, and (3)



periodic user access validation

Inventory Processes. As of September 30, 2005, the following material weaknesses existed related to ineffective controls over our inventory processes:

o Perpetual Inventory records: Ineffective controls to (a) accurately record the raw materials inventory moved out of inventory stores and into manufacturing production and later into finished goods, (b) accurately record manufacturing variances, (c) accurately track inventory movement and manage inventory held in offsite locations.

As a result of these material weaknesses, management recorded material adjustments to the inventory, Cost of Sales, and expensed materials accounts during the fiscal year ended September 30, 2005.

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