

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

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

Internal Controls - Accounting documentation, policy and/or procedures	9
Internal Controls - Material and/or numerous auditor /YE adjustments	7
Internal Controls - Accounting personnel resources, competency/training	5
Internal Controls - Information technology, software, security & access issues	4
Internal Controls - Segregations of duties/ design of controls (personnel)	4
Internal Controls - Untimely or inadequate account reconciliations	4
Internal Controls - Non-routine transaction control issues	3
Internal Controls - Journal entry control issues	2
Internal Controls - Restatement or nonreliance of company filings	2
Internal Controls - Restatement of previous 404 disclosures	2
Internal Controls - Ethical or compliance issues with personnel	1
Internal Controls - Insufficient or non-existent internal audit function	1
Internal Controls - Management/Board/Audit Committee investigation(s)	1
Internal Controls - Senior management competency, tone, reliability issues	1

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

Accounting - Inventory, vendor and cost of sales issues	6
Accounting - Liabilities, payables, reserves and accrual est failures	6
Accounting - Lease, FAS 5, legal, contingency & commit issues	5
Accounting - PPE, intangible or fixed asset (value/diminution) issu	5
Accounting - Lease, leasehold & FAS 13 (98) (subcategory) issues	3
Accounting - Accounts/loans receivable, investments & cash issues	2
Accounting - Acquisition, merger, disposal or reorganization issues	2
Accounting - Consolidation, (Fin46r/Off BS) & foreign curr transl iss	2
Accounting - Fin Stmt, footnote, US GAAP, segment disclosure issues	2
Accounting - Foreign, related party, affiliated and/or subsid issues	2
Accounting - Revenue recognition issues	2
Accounting - Capitalization of expenditures issues	1
Accounting - Debt and/or equity classification issues	1
Accounting - Deferred, stock-based or executive comp issues	1
Accounting - Depreciation, depletion or amortization issues	1
Accounting - Financial derivatives/hedging (FAS 133) acctg issues	1
Accounting - Gain or loss recognition issues	1
Accounting - Tax expense/benefit/deferral/other (FAS 109) issues	1
Accounting - Unspecified/unidentified/inapplicable FASB/GAAP issues	1

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**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

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.

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### 20-F 2006 Management - Internal Control Assessment

) Management's annual report on internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting.

Internal control over financial reporting refers to a process designed by, or under the supervision of, our chief executive officer and chief financial officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

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

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process, and it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2006 using the framework set forth in the report of the Treadway Commission's Committee of Sponsoring Organizations (COSO), "Internal Control—Integrated Framework." The scope of management's evaluation excluded the acquisition of Ochakovo and Manros, two companies that we acquired in November/December 2006, as described in Frequently Asked Question No. 3 (Oct. 6, 2004) regarding Release No. 3447986, "Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports" (June 5, 2003). Accordingly, management's assessment of our internal control over financial reporting does not include internal control over financial reporting of Ochakovo and Manros, which together represented 8.9% of our total assets and 10.7% of our net assets at December 31, 2006, and generated 1.0% of our total revenue and (0.4)% of our net income during the year then ended.

As a result of evaluation of effectiveness of internal control over financial reporting as of December 31, 2006, management concluded that the following two material weaknesses in our internal control existed:

- Our financial statement closing process and the transformation of our statutory financial statements into U.S. GAAP consolidated financial statements has not reduced to an acceptably low level the risk that material errors may occur

and may not be detected on a timely basis by management in the normal course of business; and

· Insufficient accounting resources and expertise in respect of the preparation of consolidated financial statements in accordance with U.S. GAAP.

As a result of the material weaknesses, management has concluded that our internal control over financial reporting was ineffective as of December 31, 2006.

#### Additional Information Regarding the Material Weaknesses

Our financial statement closing process and the transformation of our statutory financial statements into U.S. GAAP consolidated financial statements has not reduced to an acceptably low level the risk that material errors may occur and may not be detected on a timely basis by management in the normal course of business.

The first weakness results from the fact that there is no fully automated process in place to support the transformation of statutory financial statements of our subsidiaries to comply with U.S. GAAP or the preparation of the consolidated balance sheet, consolidated statements of income and cash flows, including the reconciliation and elimination of intragroup balances and transactions. We also lack a sufficiently detailed description of individual procedures, responsible persons and controls for the U.S. GAAP financial statements closing processes and documentation of their completion. Also, some of our processes regarding accumulation and communication of detail information regarding non-routine transactions, commitments and contingencies did not operated effectively as designed.

Insufficient accounting resources and expertise in respect of the preparation of consolidated financial statements in accordance with U.S. GAAP.

The second weakness relates to our insufficient U.S. GAAP accounting resources and expertise. Our business consists of 36 operating subsidiaries, of which the 10 major subsidiaries are located across eight time zones in Russia and the Commonwealth of Independent States, each of which prepares stand-alone financial statements for statutory purposes under Russian accounting standards or other local country accounting standards. The preparation of our U.S. GAAP consolidated financial statements is a partly automated process which involves (1) the transformation of these statutory financial statements into U.S. GAAP consolidated financial statements through accounting adjustments and (2) a consolidation of all these stand-alone statutory financial statements. This process is complicated, time-consuming and requires significant attention and time from our senior accounting personnel at our subsidiaries and corporate headquarters. Moreover, U.S. GAAP accounting adjustments tend to result in large differences between our statutory and U.S. GAAP financial position and results of operations.

These difficult tasks require U.S. GAAP-experienced accounting personnel at each of our 10 major subsidiaries and at our Moscow corporate offices. While we have senior accounting personnel who are ACCA-qualified, Russia has available only a small number of accounting personnel with U.S. GAAP expertise. Moreover, there is an increasing demand for such personnel as more Russian companies are beginning to prepare financial statements on the basis of U.S. GAAP or other international standards. Such competition, combined with the locations of our major subsidiaries which such personnel may not find suitable in comparison to other opportunities, makes it difficult for us to hire and retain such personnel. Under these circumstances, we have had difficulty in remedying this material weakness.

Notwithstanding the steps we have taken and continue to take that are designed to remedy each material weakness identified above, we may not be successful in remediating these material weaknesses in the near or long term and we may not be able to prevent other material weaknesses in the future.

## **MGP INGREDIENTS INC**

### **10-K 2006 Management - Internal Control Assessment**

#### **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of MGP Ingredients, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

A "significant deficiency" is defined within the Public Company Accounting Oversight Board's Auditing Standard No. 2 as a control deficiency or combination of control deficiencies, that adversely affect the Company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the Company's annual or interim financial statements that is more than inconsequential will not be prevented or detected. A "material weakness" is defined under Standard No. 2 as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the annual or interim financial statements will not be prevented or detected.

With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management has identified two material weaknesses in our internal control over financial reporting, including one which results from the accumulation of several significant deficiencies. Management has therefore determined that the Company's internal control over financial reporting as of June 30, 2006 was ineffective.

#### **Purchasing/Materials Management**

The significant deficiencies involve controls over the purchase and management of maintenance materials, chemicals and supplies at our Atchison, Kansas and Pekin, Illinois facilities. In fiscal 2006, the Company spent approximately \$21 million on such materials at these two facilities. Although management believes that no material adjustments or restatements have been required in the past or present involving these significant control deficiencies, it has concluded that such deficiencies, in the aggregate, amount to a material weakness because in combination they indicate that there is more than a remote likelihood that a material misstatement of the annual or interim financial

statements will not be prevented or detected.

The significant deficiencies noted are as follows:

1. Management has identified a programming error in the software application (CMMS) formerly utilized for processing purchasing, receiving and materials maintenance transactions at the Atchison, Kansas facility. (The Company ceased using this application commencing July 1, 2006.) The error involves the computation of monthly inventory balances for chemicals and packaging materials inventories. Management cannot determine the length of time that the error has been present. In addition, the existence of software application errors in one module of the system could be indicative of additional programming errors in other modules of the system that have not been detected by management. However, management has evaluated the impact of the error, and on the basis of information known to it believes that the amount involved is immaterial.

2. All modules of the aforementioned computerized purchasing and maintenance system were accessible to various employees with access to the system, which includes purchasing, receiving, and maintenance and administrative employees. Unlimited access to a system of this type could allow an individual to establish fictitious vendors, purchase items for other than business use and cover up errors that occur within the system.

3. Physical security over maintenance materials, electrical materials and chemicals at the Atchison, Kansas facility is not adequate to ensure that items removed from the facilities are documented in accordance with Company policy. This could result in unauthorized or undocumented removal of such materials. As a result, financial statement presentation of such items could be affected, particularly our interim statement in connection with which we do not perform physical inventories at period end. Although management does perform analyses of account balance variances on a monthly basis that it believes should address the risk of misstatements in the financial statements with respect to such materials, and holds monthly financial meetings addressing such issues, these detective controls do not completely mitigate the risk of unauthorized or undocumented removal of items from stockroom facilities.

4. Management has determined that the Pekin, Illinois facility does not maintain consistently applied control activities in regards to the issuance of stockroom materials from its main stockroom facility. Although the stockroom is physically secured through the use of installed card scanners, stockroom requisition forms are not consistently completed by employees when checking items out of the stockroom. There is also inadequate staffing within the facility to ensure that stockroom issues are entered into the system in a timely manner.

5. Our personnel have sometimes failed either to understand or follow procedures for performing monthly/annual physical inventories of maintenance materials, electrical materials and chemicals in our Atchison, Kansas and Pekin, Illinois facilities. An adequate audit trail does not exist that would substantiate any adjustments made to perpetual inventories as a result of performing physical inventories. Although management believes it has identified all entry errors made in the course of internal control testing, errors from such failures could result in the generation of erroneous internal and external reports.

6. Our personnel have sometimes failed to use or maintain required requisition forms in the purchase of maintenance, electrical and chemical type items. These practices could result in unauthorized or undocumented purchases.

Certain of the aforementioned significant deficiencies (Items 2, 3, 5 (to the extent related to annual inventories in Atchison) and 6) were disclosed in our previous fiscal year 10K report dated June 30, 2005. During Fiscal Year 2006, we were able to implement certain corrective measures, set forth below, which led us to conclude in our December 31, 2005 Report on Form 10-Q that the material weakness reported in our prior year's 10-K had been reduced to a significant deficiency.

· Management has performed monthly analyses of the maintenance and electrical materials and chemicals accounts

where significant variances are researched, resolved and documented. The CFO has performed this review throughout the fiscal year. In addition, product managers have held monthly financial meetings starting in April of 2006 in order to accomplish this remediation activity.

- Each month during the fiscal year the Atchison plant manager has performed a review of all purchase order activity to ensure that the purchases are for legitimate business purposes and are properly authorized.

However, certain remediation activities previously discussed remain unimplemented to varying degrees.

- Management had proposed to document procedures that persons taking inventory should follow and require verification by a person not involved in the inventory activity to ensure that inventory adjustments are properly reflected in reports relating to inventory. Management was unable to fully implement this remediation activity for Fiscal Year 2006.

- In our fiscal year 2005 10K report, we disclosed that in order to adequately safeguard our maintenance, electrical and packaging materials, we would construct a consolidated stockroom facility at the Atchison, Kansas location. We are still in the process of evaluating this process, which involves multiple steps including the sale of an existing off-site facility and the acquisition and construction of a new on-site central stockroom facility. If we conclude that the other corrective actions outlined in "Remedies" below satisfactorily address the issues involved with the safeguarding and security of our stockroom inventories in Atchison, we may not take this step at this time.

The delay in implementation of ERP has had a significant impact on our ability to fully remediate other significant deficiencies noted in our Fiscal Year 2005 10K report. Further, the additional control deficiencies noted in items 1, 4 and 5 (to the extent it involves monthly inventories and our Pekin facility) as a result of this year's assessment of internal control and the failure to implement the program to document inventory procedures has led us to conclude that our prior interim control activities did not fully mitigate the material weakness previously disclosed.

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## **INTERSTATE BAKERIES CORP/DE/**

### **10-K 2006 Management - Internal Control Assessment**

Management's Annual Report on Internal Control Over Financial Reporting Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. 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 States ("GAAP") and includes those policies and procedures that: • pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; • provide reasonable assurance that the transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and • provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Management recognizes that there are inherent limitations in the effectiveness of any system of internal control, and accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect misstatements. In addition, effective internal control at a point in time may become ineffective in future periods because of changes in conditions or due to deterioration in the degree of compliance with our established policies and procedures. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management assessed

the effectiveness of the company's internal control over financial reporting as of June 3, 2006, the end of the fiscal period covered by this report. Management's assessment efforts undertaken in fiscal 2006 were conducted using the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management concluded that the company's internal control over financial reporting was not effective as of June 3, 2006. As a result of its continuing efforts during the Chapter 11 proceedings, including the associated additional accounting and financial reporting requirements and the PC review and consolidation process, which required the time of personnel that would otherwise have been available for the remediation efforts, management was unable to take necessary corrective actions to remediate the following identified material weaknesses, which in some cases are made up of multiple deficiencies as of June 3, 2006: Ineffective Control Environment – Insufficient Resources: We did not have an adequate number of personnel with the requisite expertise in the key areas of finance and accounting and benefits. Financial Statement Closing Process: The controls over the financial statement closing process did not operate effectively. Due to the personnel shortage and the additional requirements associated with the Chapter 11 proceedings, the Company has not been able to file required reports with the SEC on a timely basis, nor have we been able to perform related internal control activities including reconciliations and financial statement reviews on a timely basis. Accrued Compensated Absences: We did not maintain effective controls over the tracking, recording and valuation of the accrued compensated absences liabilities related to our employees. Specifically, effective controls were not designed and in place to ensure that appropriate tracking mechanisms were adequately functioning, employee eligibility data was accurate and all applicable rules were accurately and consistently applied to each employee. Recording Purchases and Processing Expenditures: We did not maintain effective controls over the complete, accurate and timely processing of purchase and expenditure transactions. Specifically, our ineffective controls included those necessary to ensure all vendors invoices were being received, reviewed, approved, processed and recorded accurately and in the proper accounting period. Information Technology Access Controls: We did not maintain effective controls over access to information technology programs and systems. Specifically, we did not have adequate policies and procedures to control security and access, there were inadequate controls restricting access to such programs and systems by information technology personnel and there was a lack of periodic, independent review and monitoring of such access. Use of Third Party Specialists: We did not maintain effective controls over data provided to third party specialists or the services of the third party specialists themselves. Specifically, our ineffective controls included the failure to review and evaluate all data to be provided to third party specialists. Third Party Service Providers: Our ineffective controls included the failure to review and evaluate the potential impact of the third party service providers' work on our financial statements and the internal controls over their processes. Review and Approval of Contracts: We did not maintain effective controls to ensure compliance with established policies by personnel entering into contracts and other commitments. Specifically, effective controls were not designed and activities of personnel were not monitored to ensure compliance with review and approval requirements for contracts. Recording Restructuring and Reorganization Expenses and Liabilities: We did not maintain effective controls over the accurate and timely recognition of restructuring and reorganization costs. Specifically, we did not have adequate policies or procedures to properly identify adjustments to costs and related liabilities for restructuring and lease rejection activities undertaken in conjunction with the bankruptcy and to accurately and timely reflect such activities in the proper accounting period. Management has discussed the material weaknesses noted above with the Audit Committee of the Board of Directors and our independent registered public accounting firm. Due to the nature of these material weaknesses, there is a more than remote likelihood that misstatements which could be material to the annual or interim financial statements could occur that would not be prevented or detected. Our independent registered public accountant, Deloitte & Touche LLP ("Deloitte"), audited management's assessment of the effectiveness of the company's internal control over financial reporting as of June 3, 2006 and they have issued their report which appears on pages 110-112, which expressed an unqualified opinion on management's assessment and an adverse opinion on the effectiveness of our internal control over financial reporting as of June 3, 2006 due to the material weaknesses as noted above.

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## **PEETS COFFEE & TEA INC**

### **10-K 2006 Management - Internal Control Assessment**

#### **Management Report on Internal Control Over Financial Reporting**

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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). The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, as directed by our board of directors, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006 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.

The following is a summary of the material weaknesses identified by management as of December 31, 2006:

- We did not design and implement controls necessary to provide reasonable assurance that the measurement date for stock option grants was appropriately determined. In particular, the procedures used to approve and process stock option grants were insufficient to ensure that all option grants complied with our stock option plans and the selection of measurement dates conformed to the requirements of applicable accounting rules. As a result, the measurement date used for certain option grants was not appropriate and such grants were not accounted for in accordance with GAAP; and
- We failed to properly examine and test our methodology for allocating procurement and production costs to inventory. As a result, we understated inventory balances and misstated cost of goods sold.

Because of the existence of the material weaknesses, management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2006 based on the criteria described in the COSO Integrated Framework.

The registered independent public accounting firm of Deloitte & Touche LLP, as auditors of the Company's consolidated financial statements, has issued a report on management's assessment of the Company's internal control over financial reporting.

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## **GENERAL MILLS INC**

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

#### **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING (AS RESTATED)**

The management of General Mills, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control system was designed to provide reasonable assurance to our management and the Board of Directors regarding the preparation and fair presentation of published financial statements. Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of May 28, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework.

Based on our assessment using the criteria set forth by COSO in Internal Control—Integrated Framework,



management originally included a report in our Annual Report on Form 10-K for the fiscal year ended May 28, 2006, that concluded that our internal control over financial reporting was effective as of May 28, 2006. We subsequently have determined that our policies and procedures requiring an annual impairment assessment of goodwill and other indefinite-lived intangible assets on a combined basis were ineffective for the separate annual impairment assessment of our brand intangibles, as required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. Accordingly, we concluded that we had a material weakness in our internal control over financial reporting as of May 28, 2006. As a result of the material weakness, there is more than a remote likelihood that a material misstatement in our annual or interim financial statements would not be prevented or detected. However, the material weakness did not result in a restatement of our consolidated financial statements presented in this Annual Report on Form 10-K/A.

Solely because of the material weakness in our internal control over financial reporting described above, management has, as of the date of this report, restated its assessment and has now concluded that our internal control over financial reporting was not effective as of May 28, 2006.

KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements included in the Annual Report on Form 10-K/A for the fiscal year ended May 28, 2006, has issued an audit report on management's restated assessment of the effectiveness of our internal control over financial reporting as of May 28, 2006. S. W. Sanger Chairman of the Board and Chief Executive Officer J. A. Lawrence Vice Chairman and Chief Financial Officer

January 5, 2007

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## **KRISPY KREME DOUGHNUTS INC**

### **10-K 2006 Management - Internal Control Assessment**

Management's Report on Internal Control over Financial Reporting Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures which pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP; provide reasonable assurance that receipts and expenditures are being made only in accordance with our and/or our Board of Directors' authorization; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of our 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 assessed the effectiveness of our internal control over financial reporting as of January 29, 2006, using the criteria in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. As of January 29, 2006, management concluded that our internal control over financial reporting was not effective because of the material weaknesses described below.

We did not maintain an effective control environment based on the criteria established in the COSO framework. The

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following material weaknesses were identified related to our control environment: • We did not establish a formal enterprise risk assessment process. • We did not formalize lines of communication among legal, finance and operations personnel. Specifically, there was inadequate sharing of financial information within and across our corporate and divisional offices and other operating facilities to adequately raise issues to the appropriate level of accounting and financial reporting personnel. • We did not establish an effective program to ensure that our code of conduct and ethics guidelines are fully communicated and distributed appropriately to our employees. • We did not maintain written accounting policies and procedures nor did we maintain adequate controls with respect to the review, supervision and monitoring of our accounting operations. • We did not have an adequate process for monitoring the appropriateness of user access and segregation of duties related to financial applications.

These control environment material weaknesses contributed to the material weaknesses described below. We did not maintain effective control over our financial closing and reporting processes. Specifically, the following material weaknesses were identified: • We did not maintain effective controls to ensure that journal entries were reviewed and approved. Specifically, effective controls were not designed and in place to ensure that journal entries, including journal entries related to intercompany eliminations, were prepared with sufficient supporting documentation and that those entries were reviewed and approved to ensure the completeness, accuracy and validity of the entries recorded. This material weakness resulted in an audit adjustment to accounts receivable and revenue in the fiscal 2006 consolidated financial statements. • We did not maintain effective controls to ensure that account reconciliations were performed accurately, or that reconciliations were reviewed for accuracy and completeness and approved. • We did not maintain effective controls over the accounting for acquisitions and divestitures. Specifically, effective controls were not designed and in place to ensure that such transactions were completely and accurately accounted for in accordance with GAAP. • We did not maintain effective controls over our accounting for consolidated franchisees and equity method franchisees. Specifically, we did not maintain effective controls to ensure the completeness and accuracy of our accounting for our franchisees either consolidated or accounted for under the equity method in accordance with GAAP. • We did not design and maintain effective controls to ensure that accrued expenses, including accruals for vacation benefits and legal and professional fees, were complete and accurate in accordance with GAAP. • We did not design and maintain effective controls to ensure the completeness and accuracy of our translation of financial statement accounts denominated in foreign currencies and translation of foreign currency transaction gains or losses recorded in accordance with GAAP. • We did not design and maintain effective controls to ensure that our financial statement accounts related to derivative instruments embedded in exchange-traded futures contracts for certain raw materials were completely and accurately recorded in accordance with GAAP.

We did not maintain effective controls over the completeness and accuracy of certain franchisee revenue and receivables. Specifically, effective controls were not designed and in place to ensure that revenue was recognized in the proper period for sales of equipment to franchisees in connection with new store openings. In addition, effective controls were not designed and in place to ensure that an appropriate analysis of receivables from franchisees was conducted, reviewed and approved in order to identify and estimate required allowances for uncollectible accounts in accordance with GAAP. We did not maintain effective controls over the completeness and accuracy of our accounting for lease related assets, liabilities and expenses. Specifically, our controls over the application and monitoring of accounting policies related to lease renewal options, rent escalations, amortization periods for leasehold improvements and lease classification principally affecting property and equipment, deferred rent, capital lease obligations, rent expense and depreciation were ineffective to ensure that such transactions were completely and accurately accounted for in conformity with GAAP. We did not maintain effective controls over the accuracy and completeness of our property and equipment accounts, including the related depreciation. Specifically, effective controls were not designed and in place to ensure that retired assets were written off in the appropriate period, that appropriate depreciable lives were assigned to capital additions and assets were capitalized in accordance with GAAP. These control deficiencies contributed to the previously reported restatement of our consolidated financial statements for fiscal 2003 and fiscal 2004 and all quarterly periods in fiscal 2004 and the first three quarters of fiscal 2005. Management has concluded that each of the control deficiencies above could result in a misstatement to the financial statements accounts and disclosures that would result in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has concluded that each of the control deficiencies listed above constitutes material weaknesses as of January 29, 2006. Because of

these material weaknesses, management has concluded that we did not maintain effective internal control over financial reporting as of January 29, 2006, based on the COSO criteria. Remediation of Material Weaknesses We have begun remediation efforts with respect to the material weaknesses we have identified. We plan to continue to review and make necessary changes to the design of our internal control environment, including the roles and responsibilities of each functional group within the organization and reporting structure, and to enhance and document policies and procedures to improve the effectiveness of our internal control over financial reporting. During fiscal 2006, our attention was focused primarily on the restatement of our annual consolidated financial statements for fiscal 2003 and 2004 and certain earlier years, as well as our consolidated financial statements for the first three quarters of fiscal 2005, and we did not file our fiscal 2005 annual report until April 28, 2006. This focus, and the effects of substantial personnel turnover in our accounting and finance function, prevented us from making significant improvements to our control environment during fiscal 2006. We have hired a Chief Accounting Officer and Controller during the second and third quarters of fiscal 2006 respectively, and filled other vacant positions in our accounting organization throughout fiscal 2006. As discussed below, we devoted significantly more time to remediation efforts subsequent to January 29, 2006 and prior to the issuance of this report. We previously reported in our fiscal 2005 Annual Report on Form 10-K the existence of a material weakness pertaining to the effectiveness of our controls over accounting for goodwill and intangible assets. As of January 29, 2006 we had designed effective controls to ensure the accuracy, completeness and valuation of our goodwill and intangible asset accounts and those controls were operating effectively. We expect our remediation efforts, as more specifically described below, for our material weaknesses to continue for the remainder of fiscal 2007 and beyond. While these efforts are underway, we are relying on extensive manual procedures to help ensure the proper collection, evaluation, and disclosure of the information included in the consolidated financial statements. However, there remains a risk that the transitional procedures on which we currently rely will fail to prevent or detect a material misstatement of the annual or interim consolidated financial statements

Subsequent Changes in Internal Control over Financial Reporting Subsequent to January 29, 2006, but prior to issuance of this Annual Report on Form 10-K, we implemented several measures described below to remediate the material weaknesses we have identified, and we intend to implement additional measures during the remainder of fiscal 2007 and thereafter. We completed our assessment of the effectiveness of our internal control over financial reporting as of January 29, 2006 in October 2006. Because we must not only design new controls to remediate these material weaknesses, but also implement and test them in order to ensure that the weaknesses have been remediated, we expect that a number of these material weaknesses will not be remediated by January 28, 2007, the next date as of which we must assess our internal control over financial reporting. While unremediated, these material weaknesses have the potential to result in our failure to prevent or detect misstatements in our consolidated financial statements. We intend to design, implement and maintain an effective control environment over financial reporting. We have taken, or will take, the following actions: • With the strong encouragement of the Special Committee, the Company's independent directors determined that new leadership of the Company was required. On January 18, 2005, the Company's former chief executive officer retired, and a turnaround management firm was engaged to manage the business on an interim basis. Effective March 6, 2006, the board of directors appointed Daryl G. Brewster, a seasoned executive with over 20 years' experience in the food industry, as President and Chief Executive Officer and a member of the board. • We have hired a Vice President of Internal Audit during the second quarter of fiscal 2007 and intend to continue to devote resources to our internal audit function and our assessment and evaluation of our internal control over financial reporting and disclosure controls and procedures; • We have formed a Risk Management Committee comprised of senior management from our legal, finance and operations organizations during the third quarter of fiscal 2007. This committee will oversee implementation of our remediation activities and will be responsible for enterprise risk management. • We are enhancing the education process and redistributing to all of our employees our Code of Business Conduct and Ethics which, among other things, reiterates to our employees the availability of our previously implemented ethics hotline, through which employees at all levels can submit anonymously information regarding any unethical behavior or other irregularities of which they become aware; • We are implementing enhanced controls to ensure effective communication among our legal, finance and operations organizations to ensure that important information about our business, including the effects, if any, of all material agreements, is addressed appropriately and on a timely basis in our financial reporting; and, • We have begun creating policies and procedures manuals, including documentation of our accounting policies and methods of applying those policies, and intend to

continue to increase the resources devoted to our accounting and finance function.

In addition to the foregoing actions relating to our control environment material weaknesses, we have implemented or will implement internal controls to remediate the material weaknesses associated with the specific accounting processes described above. Additional Control Deficiencies Not Constituting Material Weaknesses In addition to the material weaknesses described above, we have identified other deficiencies, including significant deficiencies, in internal control over our financial reporting that did not constitute material weaknesses as of January 29, 2006. We have implemented or intend to implement measures designed to remediate the significant control deficiencies and have undertaken other interim measures to mitigate the potential effects of these significant control deficiencies. However, if we are not successful in implementing our plans, these other deficiencies in our internal control over financial reporting may rise to the level of material weaknesses in future periods. Management's Conclusions on the Remediation Plan We believe the remediation measures described above will strengthen our internal control over financial reporting and remediate the material weaknesses we have identified. However, we have not yet implemented all of these measures and/or tested them. We are committed to continuing to improve our internal control processes and will continue to diligently review our financial reporting controls and procedures in order to ensure compliance with the requirements of the Sarbanes-Oxley Act and the related rules promulgated by the SEC. However, any control system, regardless of how well designed, operated and evaluated, can provide only reasonable, not absolute, assurance that the control objectives will be met. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies and/or determine not to complete certain of the remediation measures described above. As a result of the material weaknesses identified in our evaluation of internal control over financial reporting, we extended the fiscal 2006 reporting process, thereby allowing us to conduct additional analyses and take such additional steps as we considered necessary to ensure the accuracy and completeness of our financial reporting. Our management has concluded that the consolidated financial statements included in this Annual Report on Form 10-K fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP. Changes in Internal Control Over Financial Reporting As discussed above, there were certain changes in our internal control over financial reporting during the quarter ended January 29, 2006 that have materially effected or are reasonably likely to materially effect our internal control over financial reporting.

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## **SANFILIPPO JOHN B & SON 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 Rule 13a-15(f) under the Securities Exchange Act of 1934. Management assessed the effectiveness of the Company's internal control over financial reporting as of June 29, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. 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 included the following material weaknesses in the Company's internal control over financial reporting as of June 29, 2006: (1) The Company did not maintain effective controls to ensure the completeness and accuracy of information communicated within the organization on a timely basis. Specifically, there was inadequate sharing of information impacting the financial statements between the accounting, sales, and operating departments for consideration by the appropriate accounting personnel in the Company's financial forecast. This control deficiency resulted in the restatement of the 2006 consolidated financial statements, affecting the classification of long-term debt, valuation allowance associated with state tax net operating loss carryforwards and disclosures relating to the Company's ability to continue as a going concern. (2) The Company did not maintain effective controls over the completeness and accuracy of the periodic goodwill impairment assessment. Specifically, effective controls were not maintained to ensure that a complete and accurate periodic impairment analysis was prepared, reviewed, and approved in order to identify and record impairments, as required under generally accepted accounting principles. This control deficiency resulted in the

restatement of the Company's 2006 consolidated financial statements, affecting goodwill, goodwill impairment loss and disclosures. (3) The Company did not maintain effective controls to ensure the accuracy of accounting for lease transactions. Specifically, effective controls were not maintained to ensure that an accurate analysis was prepared, reviewed and approved in order to properly evaluate the accounting for certain sale-leaseback transactions, as required under generally accepted accounting principles, affecting plant, property and equipment, current and long-term liabilities, gains relating to real estate sales, lease expense, interest expense and sale-leaseback transaction disclosures. (4) The Company did not maintain a sufficient complement of accounting and finance personnel with an appropriate level of accounting knowledge, experience and training in the selection and application of generally accepted accounting principles commensurate with the Company's financial reporting requirements. This control deficiency contributed to the material weaknesses discussed in items 1, 2 and 3 above and the restatement of the Company's 2006 consolidated financial statements. These control deficiencies could result in a misstatement of the aforementioned account balances and disclosures that would result in a material misstatement of the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that each of these control deficiencies constitutes a material weakness at June 29, 2006.

In Management's Report on Internal Control Over Financial Reporting included in the Company's original Annual Report on Form 10-K for the year ended June 29, 2006, management concluded that the Company's internal control over financial reporting was effective as of June 29, 2006 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Based on management's revised assessment and because of the material weaknesses described above, management has subsequently concluded that the Company did not maintain effective internal control over financial reporting as of June 29, 2006, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Accordingly, management has restated its report on internal control over financial reporting. PricewaterhouseCoopers LLP, an independent registered public accounting firm, audited management's assessment of the effectiveness of the Company's internal control over financial reporting as of June 29, 2006 as stated in their report contained in this Annual Report on Form 10-K/A. Remediation Plan for Material Weaknesses The Company did not maintain effective controls to ensure the completeness and accuracy of information communicated within the organization on a timely basis. To remediate this matter, the Company plans to: 1. Conduct month end surveys or meetings of significant functional areas such as operations, purchasing, accounts payable, sales, marketing and payroll in order to ensure that all relevant information is communicated to the accounting department in a complete and timely manner and considered in the financial statement closing process. 2. Implement a process to ensure that information gathered in the financial statement closing process that requires further action or consideration is tracked and resolved on a timely basis. 3. Perform monthly cutoffs of all transactional activity on a company-wide basis to the same extent that it performs cutoffs at the end of quarters to improve the accuracy of monthly interim periodic financial information. This effort will primarily focus on inventory and related reserves and accounts. 4. Implement new forecasting methods, considering the survey and monthly close information on a more frequent basis, with the objective of improving the accuracy and usefulness of such information. 5. Direct the internal audit department to focus on the process changes and on effective operation of the newly implemented information and communication processes discussed above. 6. Implement a revised lease assessment process to ensure proper lease accounting determinations are made on an interim and annual basis.

The Company did not maintain a sufficient complement of accounting and finance personnel with an appropriate level of accounting knowledge, experience and training in the selection and application of generally accepted accounting principles commensurate with the Company's financial reporting requirements. To remediate this matter, the Company plans to: 1. Hire an additional senior level accounting professional, with public company experience, to enhance the technical accounting resources of the department. 2. Hire two experienced degreed accountants to improve the timeliness of periodic closings and to allow more senior accounting executives to perform higher level review duties. 3. Engage a consultant to review its monthly closing process to further improve the timeliness and accuracy of both the interim and quarterly closing processes. This effort will focus on improving the timing related to preparation of SEC filings as well.

The impairment charge for goodwill reflected in the restatement has eliminated the entire goodwill balance from the Company's balance sheet. Remedial actions planned with respect to sufficiency of accounting personnel will ensure that appropriate controls are in place if future acquisitions result in generating goodwill when applying purchase accounting. In this case, the Company will design a control to ensure a proper impairment test is performed. These measures (as well as the focus on remediation of other control deficiencies not considered material weaknesses) will take some time to implement effectively and it is expected that during fiscal 2007, the Company will report material weaknesses in these same areas until such weaknesses have been remediated and operating effectively for a sufficient period of time. The adequacy and effectiveness of the remediation plans are subject to continued management review and Audit Committee oversight and, accordingly, the Company may make additional changes to its internal control over financial reporting to address the material weaknesses. Changes in Internal Control over Financial Reporting Further, management determined that there were no changes in internal control over financial reporting that occurred during the fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Limitations on the Effectiveness of Controls The Company's management, including the Company's CEO and CFO, does not expect that the Disclosure Controls or the Company's Internal Control over Financial Reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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## **JAVO BEVERAGE CO 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. The Company's internal control over financial reporting is a process designed under the supervision of its Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Management evaluates the effectiveness of the Company's internal control over financial reporting using criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. During this evaluation, the Company identified certain significant deficiencies in its internal control over financial reporting.

These significant deficiencies, some of which rose to the level of material weaknesses, included:

**Receivables:** The Company's internal accounting software allowed the same person to input and post receivable transactions. In addition, the software did not allow timely identification of customer discounts and allowances to be reflected in the reporting of accounts receivable.

**Payables:** The Company's controls over the approval and the requirement to have supporting documentation



accompanying all disbursements were not operating effectively.

**Inventory:** The Company installed a new component to its inventory software system and was developing the processes to test and monitor proper tracking of inventory quantities and values as of December 31, 2006.

**Adjusting journal entries:** The Company had an informal process for fully documenting and retaining evidence of approval and support for adjusting journal entries.

**IT environment:** The Company's information technology control systems were informal in nature. This environment is lacking segregation of duties, formal security policies and the Company had not yet tested recovery of critical financial data.

**Account analyses, account summaries and account reconciliations:** Certain controls designed to ensure timely performance, review and approval of certain account analyses did not operate effectively.

**Controls at the entity level:** As evidenced by the significant deficiencies some of which rose to the level of material weaknesses described above, the Company determined that entity-level controls related to the control environment, risk assessment, monitoring function and dissemination of information and communication activities did not operate effectively. Such entity level controls, and a comprehensive process of monitoring of internal controls, are part of the framework to ensure that the designed system of internal control is operating effectively to ensure that significant transactions are adequately identified, recorded and disclosed.

While the Company identified certain other deficiencies in its internal control over financial reporting, it does not believe they constitute significant deficiencies or material weaknesses.

The Company has taken steps and continues to make changes in its internal control and procedures to correct and remediate the deficiencies it identified during its assessment.

#### Changes in Internal Control over Financial Reporting

The Company made several changes in its internal control over financial reporting in the fourth quarter of 2006 and into the first quarter of 2007 to remediate and correct identified significant deficiencies and material weaknesses in its internal control and procedures. These changes primarily involved further separation of duties in the control processes, adding additional review steps in certain processes, formalization and retention of written documentation of control, review and approval processes, and additional training of personnel involved in the financial processes and realignment of certain access rights by position within its accounting and information systems.

These changes in internal control over financial reporting to improve internal controls and remediate the identified significant deficiencies and material weaknesses included:

**Receivables:** The Company has added personnel and reassigned inputting and posting responsibilities and instituted a better system to more accurately and timely reflect receivables with known discounts at the time of customer invoice for more timely and accurate reporting.

**Payables:** The Company revised its buying and receiving processes to insure that written documentation was maintained with document approval processes for all purchases and expenses.

**Inventory:** The Company tightened internal control over its inventory counts and improved verification and valuation

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processes. In addition it began and continues additional testing and monitoring of its inventory software system.

Adjusting journal entries: The Company implemented a formal process to retain and document the approval and support for adjusting journal entries.

IT environment: The Company is in the process of formalizing its information technology systems to insure that proper separation of duties has been provided and is maintained, and that formal security policies are established and maintained. In addition, the Company is currently planning to do a formal test of the recovery of critical financial data in the second quarter of 2007.

Account analyses, account summaries and account reconciliations: The Company has and continues to formalize its processes to insure that account analyses, account summaries and account reconciliations are performed and reviewed and approved in a timely manner.

Controls at the Entity Level: The Company has taken additional actions to remediate the issues previously identified with respect to our ineffective controls at the entity level. The Company has engaged a consultant to help it improve system controls and to insure that they will meet the requirements under COSO. Consultants from the IT Systems provider will be engaged to perform further review of our current usage of our system, and the cost benefits of any proposed upgrades that are available.

The Company management has and continues to take action to correct the known deficiencies and it plans to remain vigilant and to add additional staff and system improvements, as needed, to ensure that its internal control over financial reporting is effective. These efforts include formalizing the assessment process by identifying and scheduling periodic internal testing of the various systems and process involved in its internal control over financial reporting.

The Company's assessment of the effectiveness of internal control over financial reporting and the Company's financial statements have been audited by Farber Hass Hurley & McEwen LLP, independent registered public accounting firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders and members of the Board of Directors. The independent registered public accounting firm's report is presented on page 35.

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## **COTT CORP /CN/**

### **10-K 2006 Management - Internal Control Assessment**

#### **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

We are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets;
- provide reasonable assurance our transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being

made only in accordance with authorizations of our management and directors; and

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

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

We assessed the effectiveness of our internal control over financial reporting as of December 30, 2006. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework.

Based on this assessment, we determined that, as of December 30, 2006, our internal control over financial reporting was not effective due to the existence of material weaknesses. 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.

We did not maintain effective controls over the completeness, accuracy, valuation and existence of inventory held by a supplier to our U.K. business and the valuation of credit notes due from that supplier. In addition, we did not maintain appropriate segregation of duties because an employee of our U.K. business negotiated and entered into purchase contracts while maintaining overall responsibility for the accounting for these transactions without appropriate review or monitoring. These control deficiencies could result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. As a result of the receivership of our U.K. supplier of which we were advised subsequent to year-end, we identified an adjustment of \$9 million that was recorded in the financial statements for the year ended December 30, 2006.

We did not maintain effective internal controls over our procurement process, specifically the authorization and approval of contracts and timely communication of contracts to appropriate accounting personnel to evaluate their accounting treatment. These control deficiencies could affect financial statement balances of inventory, prepaids, property, plant and equipment and related depreciation, accounts payable and capital lease obligations and could result in a material misstatement to the annual or interim financial statements that would not be prevented or detected.

Our assessment of the effectiveness of our internal control over financial reporting as of December 30, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report which appears on pages 35 and 36.

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## **CEC ENTERTAINMENT INC**

### **10-K 2006 Management - Internal Control Assessment**

#### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting

principles and 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.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2006. Under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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 internal control over financial reporting in connection with this revised assessment.

Specifically, we did not design and implement controls necessary to provide reasonable assurance that the measurement date for stock option grants was appropriately determined. As a result, the measurement date used for certain option grants was not appropriate and such grants were not accounted for in accordance with GAAP. We previously reported the material weakness in our 2005 Form 10-K/A, filed on April 23, 2007. This material weakness continued to exist, as it was not remediated as of December 31 2006.

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 December 31, 2006, which is included in this Item 9A under the caption "Report of Independent Registered Public Accounting Firm".

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## **O CHARLEYS INC**

### **10-K 2006 Management - Internal Control Assessment**

#### Management's Annual Report On Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-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 U.S. generally accepted accounting principles. 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. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

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 by the entity's internal control over financial reporting. As of December 31, 2006, the Company identified the following material weakness:

The Company had insufficient personnel with appropriate qualifications and training in accounting for income taxes to allow for the timely preparation of an accurate income tax provision. In addition, management's oversight and review related to certain income tax accounts and analyses was not effective. These deficiencies in internal control over financial reporting resulted in misstatements in the Company's 2006 income tax accounts, and resulted in more than a remote likelihood that a material misstatement of the Company's income tax accounts would not be detected or prevented. The misstatements were corrected prior to issuance of the Company's 2006 consolidated financial statements, included elsewhere in this Form 10-K.

As a result of the aforementioned material weakness, management concluded that the Company's internal control over financial reporting as of December 31, 2006 was not effective.

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

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