

SOLO CUP CO

FORM 10-Q/A (Amended Quarterly Report)

Filed 10/16/2006 For Period Ending 4/2/2006

Address	1700 OLD DEERFIELD ROAD HIGHLAND PARK, Illinois 60035
Telephone	847-831-4800
CIK	0001294608
Industry	Not Assigned
Fiscal Year	01/01

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q/A

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the thirteen weeks ended April 2, 2006

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number: 333-116843

SOLO CUP COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

47-0938234
(I.R.S. Employer
Identification No.)

1700 Old Deerfield Road, Highland Park, Illinois
(Address of principal executive offices)

60035
(Zip Code)

Registrant's telephone number, including area code: 847/831-4800

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the Registrant's common stock as of October 16, 2006:
Common Stock, \$0.01 par value - 100 shares

Solo Cup Company

Explanatory Note – Restatement of Financial Information

On September 19, 2006, Solo Cup Company (the “Company”) filed a Current Report on Form 8-K with the Securities and Exchange Commission (“SEC”) in which it announced that it would be restating certain consolidated financial statements as a result of the findings of an accounting review undertaken when new management was appointed by the Board of Directors in the second and third fiscal quarters of 2006. As more fully described in Note 1 to the consolidated financial statements, the Company has identified errors in the application of certain accounting practices and procedures primarily related to the timely recognition of certain customer credits, accounts payable and accrued expenses, and the valuation of certain assets.

The Company is filing this Form 10-Q/A for the thirteen weeks ended April 2, 2006 to amend and restate its consolidated financial statements for the thirteen weeks ended April 2, 2006 and the quarter ended March 31, 2005 and related disclosures. We have restated the July 3, 2005 consolidated financial statements included in the quarterly report on Form 10-Q for the thirteen weeks ended July 2, 2005, which is being filed concurrently with this Form 10-Q/A. We will restate our October 2, 2005 consolidated financial statements with the filing of our October 1, 2006 Form 10-Q.

Significant events occurring through the date of filing of this Form 10-Q/A are described in Note 15, Subsequent Events, included in the notes to our consolidated financial statements in this Form 10-Q/A. Except for the addition of such significant events to Note 15 to the consolidated financial statements, this Form 10-Q/A only amends and restates the following items in the Form 10-Q for the thirteen weeks ended April 2, 2006, in each case, solely as a result of, and to reflect, the restatement, and no other information in the Form 10-Q is amended hereby:

Part I:

- Item 1. Financial Statements.
- Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
- Item 4. Controls and Procedures.

However, solely for the convenience of the reader, this Form 10-Q/A includes, in their entirety, those items in the Form 10-Q originally filed with the SEC on May 16, 2006 (the “Original Filing”) which are not being amended and restated. Except for the addition of significant events occurring through the date of filing of this Form 10-Q/A in Note 15 to the consolidated financial statements, (i) this Form 10-Q/A does not describe events occurring after the Original Filing, including exhibits (except for those set forth below), or modify or update any disclosures in the Original Filing that may have been affected by subsequent events or the passage of time, and (ii) the information included in the Original Filing and included in this Form 10-Q/A that is not affected by the restatement describes conditions as they existed and were presented in the Original Filing. Such subsequent information or events include, among others:

- the information and events described in our Form 10-Q for the thirteen weeks ended July 2, 2006, which is being filed concurrently with this Form 10-Q/A; and
- the information and events described in our current reports on Form 8-K filed subsequent to the date of the Original Filing.

For a description of such subsequent information and events, please read our Securities Exchange Act of 1934 reports filed subsequent to the date of our Original Filing which update and supersede certain information contained in the Original Filing and this Form 10-Q/A. Also, forward looking statements made and risk factors identified in our Original Filing have not been revised to reflect the passage of time, events, results or developments that occurred or facts that became known to the Company after the date of the Original Filing, and such forward looking statements and risk factors should be read in their historical context.

Accordingly, this Form 10-Q/A should be read in conjunction with our amended Annual Report on Form 10-K/A for the fiscal year ended January 1, 2006, and the Form 10-Q for the thirteen and twenty-six weeks ended July 2, 2006, which are being filed concurrently with this Form 10-Q/A. Finally, pursuant to the rules of the SEC, Item 6 of Part II of the Form 10-Q/A has been amended to contain currently dated certifications of our Chief Executive Officer and interim Chief Financial Officer. These certifications, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, are attached to this Form 10-Q/A as Exhibits 31.1 and 31.2 and 32.1 and 32.2.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

SOLO CUP COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	<u>April 2, 2006</u> (Unaudited) (As restated)	<u>January 1, 2006</u> (As restated)
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,057	\$ 12,087
Cash in escrow	15,000	15,000
Accounts receivable:		
Trade, less allowance for doubtful accounts of \$5,681 and \$5,855	221,659	222,283
Other	20,105	21,989
Inventories	418,362	381,264
Spare parts	37,106	36,712
Deferred income taxes	58,952	59,057
Prepaid expenses	7,175	9,325
Other current assets	4,931	5,875
Total current assets	794,347	763,592
Property, plant and equipment, net	745,774	756,185
Spare parts	12,652	12,389
Goodwill	245,930	245,547
Intangible assets, net	25,764	28,065
Deferred financing fees, net	28,374	26,790
Other assets	12,108	12,105
Total assets	\$1,864,949	\$ 1,844,673
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable	\$ 183,221	\$ 163,599
Accrued payroll and related costs	60,257	58,216
Accrued customer allowances	29,885	29,289
Accrued expenses and other current liabilities	41,410	51,904
Short-term debt	4,574	5,546
Current maturities of long-term debt	8,720	8,726
Income taxes payable	2,333	2,667
Total current liabilities	330,400	319,947
Long-term debt, net of current maturities	1,073,668	1,029,009
Deferred income taxes	11,386	25,829
Pensions and other postretirement benefits	72,995	74,374
Other liabilities	10,373	10,008
Total liabilities	1,498,822	1,459,167
Shareholder's equity:		
Common stock - Par value \$0.01 per share; 1,000 shares authorized; 100 shares issued and outstanding	—	—
Additional paid-in capital	258,109	258,049
Retained earnings	107,364	127,519
Accumulated other comprehensive income (loss)	654	(62)
Total shareholder's equity	366,127	385,506
Total liabilities and shareholder's equity	\$1,864,949	\$ 1,844,673

See accompanying Notes to Consolidated Financial Statements.

SOLO CUP COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands)

	Thirteen weeks ended	Three months ended
	<u>April 2, 2006</u> (As restated)	<u>March 31, 2005</u> (As restated)
Net sales	\$ 567,236	\$ 547,100
Cost of goods sold	513,415	501,000
Gross profit	53,821	46,100
Selling, general and administrative expenses	65,913	61,071
Restructuring expense	1,164	425
Loss on sale of property, plant and equipment	864	388
Operating loss	(14,120)	(15,784)
Interest expense, net of interest income of \$98 and \$89	20,379	17,073
Foreign currency exchange (gain) loss, net	(1,034)	807
Other (income) expense, net	127	(113)
Loss before income taxes and minority interest	(33,592)	(33,551)
Income tax benefit	(13,437)	(13,381)
Minority interest	—	(2)
Net loss	<u>\$ (20,155)</u>	<u>\$ (20,168)</u>

See accompanying Notes to Consolidated Financial Statements.

SOLO CUP COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDER'S EQUITY

(In thousands, except share amounts)

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Retained earnings</u> (As restated)	<u>Accumulated other comprehensive</u>	<u>Total shareholder's</u>
	<u>Shares</u>	<u>Amount</u>			<u>income (loss)</u> (As restated)	<u>equity</u> (As restated)
Balance at January 1, 2006	100	\$ —	\$258,049	\$ 127,519	\$ (62)	\$ 385,506
Net loss (Unaudited)	—	—	—	(20,155)	—	(20,155)
Compensation expense on CPUs (Unaudited)	—	—	60	—	—	60
Foreign currency translation adjustment (Unaudited)	—	—	—	—	516	516
Unrealized investment gain, net of tax of \$30 (Unaudited)	—	—	—	—	43	43
Unrealized gain on cash flow hedge, net of tax of \$98 (Unaudited)	—	—	—	—	157	157
Balance at April 2, 2006 (Unaudited)	<u>100</u>	<u>\$ —</u>	<u>\$258,109</u>	<u>\$ 107,364</u>	<u>\$ 654</u>	<u>\$ 366,127</u>

See accompanying Notes to Consolidated Financial Statements.

SOLO CUP COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Thirteen weeks ended	
	April 2, 2006 (As restated)	Three months ended March 31, 2005 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (20,155)	\$ (20,168)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	25,710	25,587
Deferred finance fee amortization	1,132	1,226
Loss on sale of property, plant and equipment	864	388
Asset impairment	125	—
Minority interest	—	(2)
Deferred income taxes	(14,522)	(13,671)
Foreign currency (gain) loss	(1,034)	807
Changes in operating assets and liabilities (net of business acquisitions):		
Accounts receivable	2,997	(19,239)
Inventories	(36,949)	(24,729)
Prepaid expenses and other current assets	1,372	1,645
Other assets	(8)	4,267
Accounts payable	19,659	29,038
Accrued expenses and other current liabilities	(5,500)	(16,635)
Other liabilities	(3,825)	(2,573)
Other, net	275	135
Net cash used in operating activities	(29,859)	(33,924)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(13,516)	(16,283)
Proceeds from sale of property, plant and equipment	1,334	5,614
Net cash used in investing activities	(12,182)	(10,669)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments) borrowings under revolving credit facilities	(33,114)	49,429
Borrowings under term notes	80,000	—
Contribution of capital from parent	—	100
Repayments of term notes	(2,042)	(2,406)
Repayments of other debt	(1,155)	(2,233)
Debt issuance costs	(2,716)	(1,046)
Increase in restricted cash	—	1,905
Net cash provided by financing activities	40,973	45,749
Effect of exchange rate changes on cash	38	(36)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,030)	1,120
CASH AND CASH EQUIVALENTS, beginning of period	12,087	15,855
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 11,057</u>	<u>\$ 16,975</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest paid	<u>\$ 26,499</u>	<u>\$ 24,633</u>
Income taxes paid	<u>\$ 1,412</u>	<u>\$ 2,989</u>

See accompanying Notes to Consolidated Financial Statements.

SOLO CUP COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) BASIS OF PRESENTATION

As used in these notes, unless the context otherwise requires, the "Company" shall refer to Solo Cup Company, a Delaware corporation ("Solo Delaware") which is the holding company for Solo Cup Operating Corporation, a Delaware corporation ("SCOC"). The Company is a wholly owned subsidiary of Solo Cup Investment Corporation, a Delaware corporation ("SCIC"). SCC Holding Company LLC, a Delaware limited liability company ("SCC Holding") and Vestar Capital Partners ("Vestar") own 67.2% and 32.7% of SCIC, respectively. Company management holds the remaining 0.1% of SCIC.

On June 21, 2005, the Company's Board of Directors approved a change in the Company's fiscal year from the year ended December 31 to the 52- or 53-week period ending on the last Sunday in December. The fiscal quarters for 2006 are the thirteen weeks ending April 2, 2006, July 2, 2006, October 1, 2006 and December 31, 2006.

The information included in the accompanying interim consolidated financial statements of the Company is unaudited but, in the opinion of management, includes all adjustments (consisting only of normal recurring adjustments and accruals) which the Company considers necessary for a fair presentation of the financial position, operating results and cash flows for these periods. Results for the interim periods are not necessarily indicative of results expected for the entire year. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto for the fiscal year ended January 1, 2006 included in its Form 10-K/A and the Company's quarterly filing on Form 10-Q for the thirteen weeks ended July 2, 2006 filed concurrently with the Securities and Exchange Commission on October 16, 2006.

These interim consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, using management's best estimates and judgments where appropriate. These estimates and judgments affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and judgments.

Restatement of Previously Issued Consolidated Financial Statements

On September 19, 2006, the Company filed a Current Report on Form 8-K with the SEC in which it announced that it would be restating certain consolidated financial statements as a result of the findings of an accounting review undertaken when new management was appointed by the Board of Directors in the second and third quarters of 2006. Since that time, the Company has completed its accounting review and has determined that certain of the errors resulted from deficiencies in the Company's internal control over financial reporting. See Item 4. Controls and Procedures in this Form 10-Q/A. The Company is filing this Form 10-Q/A for the thirteen weeks ended April 2, 2006 to amend and restate its consolidated financial statements for the thirteen weeks ended April 2, 2006 and for the quarter ended March 31, 2005 originally filed with the SEC on May 16, 2006.

Background on the Restatement - The errors identified in the Company's previously issued consolidated financial statements are described below. For more information on the impact of these errors on the Company's consolidated financial statements for prior annual and interim periods, see Note 22 to the consolidated financial statements included in the Form 10-K/A for the fiscal year ended January 1, 2006 filed concurrently with this Form 10-Q/A.

• **Timely Recognition of Certain Credits to Customers**

The Company did not properly account for (i) sales incentives offered to customers; (ii) cash discounts offered to customers; and (iii) credit memoranda issued to customers.

• **Timely Recognition of Certain Credits from Vendors**

The Company failed to timely and properly accrue for certain rebates received from certain vendors.

• **Timely Recognition of Certain Accrued Expenses**

The Company did not recognize certain expenses in the appropriate period.

• **Accrued Payroll and Other Related Costs**

The Company failed to properly account for (i) vacation pay earned by certain employees, and (ii) a reimbursement of a deposit with an insurance provider.

• **Accrued Freight**

The Company determined that an employee, who is no longer with the Company, failed to record a portion of the Company's freight expense despite receiving information that the methodology used to calculate the recorded freight expense was flawed.

• **Inventory Valuation**

The Company failed to properly value certain scrap inventory at the lower of cost or market value in accordance with its accounting policies.

In connection with the restatement of its previously issued consolidated financial statements, the Company made certain additional adjustments and reclassifications that were not previously recorded because in each case, and in the aggregate, the underlying errors were not considered material to the Company's consolidated financial statements.

The following tables set forth the amounts previously reported in the Company's consolidated balance sheet as of April 2, 2006, and the Company's consolidated statements of operations for the thirteen weeks ended April 2, 2006 and the quarter ended March 31, 2005, the effect of the restatement adjustments, and the restated amounts. The notes that follow the tables describe the restatement adjustments. The total amounts reported in the consolidated statement of cash flows for the thirteen weeks ended April 2, 2006 and the quarter ended March 31, 2005, for net cash used in operating activities, net cash used in investing activities and net cash provided by financing activities were not impacted by the restatement.

Condensed Consolidated Balance Sheet			
(Unaudited, in thousands)			
	April 2, 2006	Adjustments	April 2, 2006
	(As reported)		(As restated)
Assets			
Current assets:			
Cash and cash equivalents	\$ 11,057	—	\$ 11,057
Cash in escrow	15,000	—	15,000
Accounts receivable:			
Trade, less allowance for doubtful accounts (a)	247,623	(25,964)	221,659
Other (b)	21,774	(1,669)	20,105
Inventories (b) (f)	418,774	(412)	418,362
Spare parts	37,106	—	37,106
Deferred income taxes (h)	43,951	15,001	58,952
Prepaid expenses (d)	9,275	(2,100)	7,175
Other current assets	4,931	—	4,931
Total current assets	809,491	(15,144)	794,347
Property, plant and equipment, net	745,774	—	745,774
Spare parts	12,652	—	12,652
Goodwill (a) (h)	240,413	5,517	245,930
Intangible assets, net	25,764	—	25,764
Deferred financing fees, net	28,374	—	28,374
Other assets	12,108	—	12,108
Total assets	\$1,874,576	\$ (9,627)	\$1,864,949
Liabilities and Shareholder's Equity			
Current liabilities:			
Accounts payable	\$ 183,221	—	\$ 183,221
Accrued payroll and related costs (d)	55,071	5,186	60,257
Accrued customer allowances	29,885	—	29,885
Accrued expenses and other current liabilities (c) (d) (e)	31,431	9,979	41,410
Short-term debt	4,574	—	4,574
Current maturities of long-term debt	8,720	—	8,720
Income taxes payable	2,333	—	2,333
Total current liabilities	315,235	15,165	330,400
Long-term debt, net of current maturities	1,073,668	—	1,073,668
Deferred income taxes (h)	12,327	(941)	11,386
Pensions and other postretirement benefits	72,995	—	72,995
Other liabilities	10,373	—	10,373
Total liabilities	1,484,598	14,224	1,498,822
Shareholder's equity:			
Common stock - Par value \$0.01 per share; 1,000 shares authorized; 100 shares issued and outstanding	—	—	—
Additional paid-in capital	258,109	—	258,109
Retained earnings	131,215	(23,851)	107,364
Accumulated other comprehensive income	654	—	654
Total shareholder's equity	389,978	(23,851)	366,127
Total liabilities and shareholder's equity	\$1,874,576	\$ (9,627)	\$1,864,949

Consolidated Statement of Operations (Unaudited, in thousands)			
	Thirteen weeks ended April 2, 2006 (As reported)	Adjustments	Thirteen weeks ended April 2, 2006 (As restated)
Net sales (a) (g)	\$ 563,981	\$ 3,255	\$ 567,236
Cost of goods sold (b) (c) (d) (e) (f) (g)	512,719	696	513,415
Gross profit	51,262	2,559	53,821
Selling, general and administrative expenses (c) (g)	66,574	(661)	65,913
Restructuring expense	1,164	—	1,164
Loss on sale of property, plant and equipment	864	—	864
Operating loss	(17,340)	3,220	(14,120)
Interest expense, net of interest income	20,379	—	20,379
Foreign currency exchange gain, net	(1,034)	—	(1,034)
Other expense, net	127	—	127
Loss before income taxes and minority interest	(36,812)	3,220	(33,592)
Income tax benefit (h)	(14,725)	1,288	(13,437)
Minority interest	—	—	—
Net loss	<u>\$ (22,087)</u>	<u>\$ 1,932</u>	<u>\$ (20,155)</u>

Consolidated Statement of Operations (Unaudited, in thousands)			
	Three months ended March 31, 2005 (As reported)	Adjustments	Three months ended March 31, 2005 (As restated)
Net sales (a)	\$ 546,093	\$ 1,007	\$ 547,100
Cost of goods sold (b) (c) (e) (f) (g)	497,598	3,402	501,000
Gross profit	48,495	(2,395)	46,100
Selling, general and administrative expenses (g)	60,036	1,035	61,071
Restructuring expense (g)	868	(443)	425
Loss on sale of property, plant and equipment (g)	774	(386)	388
Operating loss	(13,183)	(2,601)	(15,784)
Interest expense, net of interest income	17,073	—	17,073
Foreign currency exchange loss, net	807	—	807
Other (income), net	(113)	—	(113)
Loss before income taxes and minority interest	(30,950)	(2,601)	(33,551)
Income tax benefit (h)	(12,380)	(1,001)	(13,381)
Minority interest	(2)	—	(2)
Net loss	<u>\$ (18,568)</u>	<u>\$ (1,600)</u>	<u>\$ (20,168)</u>

Explanation of adjustments to the consolidated financial statements as reported:

- (a) Reflects adjustments principally to properly account for (i) sales incentives offered to customers (ii) cash discounts offered to customers; and (iii) credit memoranda issued to customers. These adjustments (decreased)/increased (i) goodwill by \$9.0 million as of April 2, 2006; (ii) accounts receivable by (\$26.0 million) as of April 2, 2006; and (iii) net sales by \$3.5 million and \$1.0 million for the fiscal quarters ended April 2, 2006 and March 31, 2005, respectively.
- (b) Reflects adjustments principally to properly accrue for certain rebates received from certain vendors. These adjustments increased/(decreased) (i) inventories by \$1.8 million as of April 2, 2006; (ii) other accounts receivable by (\$1.7 million); and (iii) cost of goods sold by (\$0.1 million) and (\$1.8 million) for the fiscal quarters ended April 2, 2006 and March 31, 2005, respectively.
- (c) Reflects adjustments principally to properly accrue for certain expenses which were previously recorded in the incorrect period. These adjustments increased/(decreased) (i) accrued expenses and other current liabilities by \$6.1 million as of April 2, 2006; (ii) cost of goods sold by (\$1.5 million) and \$3.4 million for the fiscal quarters ended April 2, 2006 and March 31, 2005, respectively; and (iii) selling, general, and administrative expenses by \$0.1 million for the fiscal quarter ended April 2, 2006.
- (d) Reflects adjustments principally to properly account for (i) vacation pay earned by certain employees; and (ii) a reimbursement of a deposit with an insurance provider. These adjustments increased/(decreased) (i) accrued payroll and related costs by \$5.2 million as of April 2, 2006 (ii) accrued expenses and other current liabilities by (\$0.9 million) as of April 2, 2006; (iii) prepaid expenses by \$2.1 million as of April 2, 2006; and (iv) cost of goods sold by \$1.7 million for the fiscal quarter ended April 2, 2006.
- (e) Reflects adjustments principally to properly accrue for freight costs. These adjustments increased (i) accrued expenses and other current liabilities by \$4.7 million as of April 2, 2006; and (ii) cost of goods sold by \$0.6 million and \$2.1 million for the fiscal quarters ended April 2, 2006 and March 31, 2005, respectively.
- (f) Reflects adjustments principally to properly value certain scrap inventory at the lower of cost or market value in accordance with the Company's accounting policies. These adjustments (decreased)/increased (i) inventories by approximately (\$2.2 million) as of April 2, 2006; and (ii) cost of goods sold by \$0.3 million and \$0.2 million for the fiscal quarters ended April 2, 2006 and March 31, 2005, respectively.
- (g) Reflects adjustments and reclassifications principally to properly account for the impact of certain additional adjustments in the historical consolidated financial statements that were not previously recorded because in each case, and in the aggregate, the underlying errors were not considered material to the Company's consolidated financial statements. These adjustments increased/(decreased) net income by \$0.8 million and \$0.3 million for the fiscal quarters ended April 2, 2006 and March 31, 2005, respectively. Total assets and total liabilities were not affected.
- (h) Reflects adjustments principally to recognize income tax effect of all adjustments described in (a) through (g) above at the estimated income tax rate for the period. These adjustments increased/(decreased) (i) current deferred tax asset by \$15.0 million as of April 2, 2006; (ii) goodwill by (\$3.5 million) as of April 2, 2006; (iii) long-term deferred tax liability by (\$0.9 million) as of April 2, 2006; and (iv) income tax (benefit) provision \$1.3 million and (\$1.0 million) for the fiscal quarters ended April 2, 2006 and March 31, 2005, respectively.

(2) ACQUISITIONS

On February 27, 2004, with an effective date of February 22, 2004, the Company consummated the purchase of 100.0% of the issued and outstanding capital stock of SF Holdings (the "SF Holdings Acquisition"). SF Holdings was one of the largest converters and marketers of plastic and paper disposable foodservice and food packaging products in North America.

The aggregate purchase price was \$917.2 million of which \$15.0 million is being held in an escrow account pending the final working capital adjustment and resolution of claims for indemnification. The \$15.0 million held in escrow is not included in the allocation of the cost of the assets acquired and liabilities assumed as it represents contingent consideration for which the contingency has not been resolved. See Note 15 with regard to a subsequent event in connection with the \$15.0 million held in escrow. The consideration was applied to the purchase of all common stock and common stock equivalents of SF Holdings, as well as the repayment of all outstanding debt of SF Holdings and the repurchase and cancellation of its preferred stock. In addition, the Company purchased from a lessor certain leased manufacturing equipment and other assets that SF Holdings uses in its operations for an aggregate purchase price of \$209.1 million, plus \$8.0 million of accrued rent on the leases and the payment of documentation expenses. These amounts are included in the \$917.2 million of aggregate consideration paid.

The funding of the SF Holdings Acquisition was made through bank financing, bonds and private investment. The SF Holdings Acquisition resulted in goodwill of \$150.0 million that is not tax deductible and \$45.0 million of acquired intangible assets with a weighted average useful life of approximately five years. These intangible assets consisted of trademarks and trade names of \$22.2 million with an estimated useful life of five years, Trophy manufacturing technology valued at \$21.1 million with an estimated useful life of five years, and \$1.7 million of other intangible assets with an estimated useful life of three years.

The following are the amounts assigned to the acquired assets and liabilities (in millions):

Purchase price	\$ 917.2
Less cash in escrow	(15.0)
Adjusted purchase price	<u>\$ 902.2</u>
Cash	\$ 30.4
Accounts receivable	122.3
Inventories	211.6
Other current assets	51.0
Property, plant and equipment	570.3
Intangible assets	45.0
Other long-term assets	18.6
Total assets	<u>\$1,049.2</u>
Current liabilities	\$ 204.5
Other long-term liabilities	92.5
Total liabilities	<u>\$ 297.0</u>
Excess of purchase price over assets and liabilities acquired	<u>\$ 150.0</u>

The finalization of the purchase price is pending adjustments to working capital and resolution of claims for indemnification. See Note 15.

(3) ASSETS HELD FOR SALE

In the fourth quarter of 2005, management approved a plan to find a buyer for a plant located in Shreveport, Louisiana, which was closed in connection with the integration of SF Holdings. The net book value of approximately \$2.5 million is classified in other current assets in the Company's Consolidated Balance Sheets as of April 2, 2006 and January 1, 2006.

In the first half of 2005, management approved a plan to find a buyer for three plants closed in connection

with the integration of SF Holdings. One of these plants, which was located in Chicago, Illinois (“96th Street”), was sold and leased back in September 2005. The lease expired prior to January 1, 2006. In the fourth quarter of 2005 and the first quarter of 2006, the Company recognized impairment losses of \$1.3 million and \$0.1 million, respectively, to adjust the carrying value of the second plant, located in Williamsburg, Pennsylvania. Impairment losses on assets held for sale are included in selling, general and administrative expenses in the Company’s Consolidated Statements of Operations. The total carrying value of the Williamsburg plant and the third plant, located in Chicago, Illinois (East End), of approximately \$1.5 million is classified in other current assets in the Company’s Consolidated Balance Sheets as of April 2, 2006 and January 1, 2006.

In the third quarter of 2004, management approved a plan to sell the property for a plant located in Augusta, Georgia, which was closed in connection with the integration of SF Holdings. The carrying value of approximately \$1.4 million was classified in other current assets in the Company’s Consolidated Balance Sheet as of January 1, 2006. The property was sold in March 2006.

(4) INVENTORIES

The components of inventories are as follows (in thousands):

	<u>April 2, 2006</u> (As restated)	<u>January 1, 2006</u> (As restated)
Finished goods	\$ 318,579	\$ 276,456
Work in process	17,342	15,490
Raw materials and supplies	82,441	89,318
Total inventories	<u>\$ 418,362</u>	<u>\$ 381,264</u>

(5) PROPERTY, PLANT AND EQUIPMENT, NET

The Company’s major classes of property, plant and equipment are as follows (in thousands):

	<u>April 2,</u> <u>2006</u>	<u>January 1,</u> <u>2006</u>
Land	\$ 49,343	\$ 49,306
Buildings and improvements	299,208	296,903
Machinery and equipment	930,662	918,724
Construction in progress	16,719	20,810
Total property, plant and equipment	1,295,932	1,285,743
Less accumulated depreciation	(550,158)	(529,558)
Property, plant and equipment, net	<u>\$ 745,774</u>	<u>\$ 756,185</u>

Depreciation of property, plant and equipment was \$23.4 million and \$23.3 million for the thirteen weeks ended April 2, 2006 and the three months ended March 31, 2005, respectively. Capitalized interest was \$0.3 million and \$0.1 million for the thirteen weeks ended April 2, 2006 and the three months ended March 31, 2005, respectively.

(6) GOODWILL AND INTANGIBLE ASSETS

The following are the carrying values of goodwill by business segment (in thousands):

	North America (As restated)	Europe	Asia – Pacific	Total (As restated)
Balance at January 1, 2006	\$ 208,428	\$36,922	\$ 197	\$ 245,547
SF Holdings Acquisition	(59)	—	—	(59)
Translation adjustment	2	440	—	442
Balance at April 2, 2006	<u>\$ 208,371</u>	<u>\$37,362</u>	<u>\$ 197</u>	<u>\$ 245,930</u>

The gross carrying amount of nonamortizable intangible assets in the Asia-Pacific business segment as of April 2, 2006 and January 1, 2006 was \$0.1 million. The following are the carrying values of amortizable intangible assets (in thousands):

	April 2, 2006		January 1, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Trademarks and trade names	\$22,200	\$ 9,265	\$22,200	\$ 8,155
Manufacturing technology	21,100	8,792	21,100	7,737
Patents, licenses and other	1,771	1,329	1,771	1,193
	<u>\$45,071</u>	<u>\$ 19,386</u>	<u>\$45,071</u>	<u>\$ 17,085</u>

Amortization expense related to intangible assets was \$2.3 million during both the thirteen weeks ended April 2, 2006 and the three months ended March 31, 2005. The estimated annual amortization expense of intangibles presently owned by the Company is approximately \$6.8 million for the remainder of 2006, \$8.7 million for 2007, \$8.7 million in 2008 and \$1.5 million in 2009.

(7) DEBT

Short-term debt and long-term debt, including amounts payable within one year, are as follows (in thousands):

	April 2, 2006	January 1, 2006
Short-term debt:		
Yen-denominated short-term bank borrowings	<u>\$ 4,574</u>	<u>\$ 5,546</u>
Long-term debt:		
8.5% Senior Subordinated Notes	\$ 325,000	\$ 325,000
First Lien Facility – Term Loan	637,000	638,625
First Lien Facility – Revolver	23,800	61,700
Second Lien Facility	80,000	—
Canadian Credit Facility – Term Loan	9,089	9,514
Canadian Credit Facility – Revolver	5,187	449
Capital lease obligations	2,312	2,447
Total long-term debt	<u>1,082,388</u>	<u>1,037,735</u>
Less - Current maturities of long-term debt	<u>8,720</u>	<u>8,726</u>
Long-term debt, net of current maturities	<u>\$1,073,668</u>	<u>\$ 1,029,009</u>

Second Lien Facility

On March 31, 2006, the Company and SCIC entered into a second lien credit agreement (“Second Lien Facility”). The Second Lien Facility provided a secured term loan facility in the amount of \$80 million (“Second Term Loan”). The Second Term Loan bears interest, at the option of the Company, at a rate equal to LIBOR plus 4.50% per annum; or 3.50% per annum plus the higher of (a) the Bank of America prime rate or (b) the Federal Funds rate plus $\frac{1}{2}$ of one percentage point. The principal amount will be due upon maturity in February 2012. The proceeds of the Second Term Loan were used to reduce amounts outstanding under the Company’s domestic revolving credit facility under its First Lien Facility, described below. As of April 2, 2006, the interest rate on the Second Lien Facility was 11.25%.

First Lien Facility

Effective March 27, 2006, the Company and SCIC entered into an agreement (“Amendment No. 3”) to amend its Credit Agreement dated February 27, 2004, as amended by Amendment No. 1, dated as of March 31, 2005, and by Amendment No. 2, dated as of October 14, 2005, collectively, the “First Lien Facility”. Amendment No. 3 was necessary to permit the Company to enter into the Second Lien Facility. Amendment No. 3 also revised the ratios of the financial covenants that the Company is required to maintain by allowing lower ratios in certain quarters of Consolidated EBITDA to Consolidated Cash Interest Expense, and by allowing higher ratios in certain quarters of Average Total Debt to Consolidated EBITDA.

As of April 2, 2006, the weighted average annual interest rate applicable to Eurodollar rate loans was 6.60% and the weighted average annual interest rate applicable to base rate loans was 9.20%. During the thirteen weeks ended April 2, 2006, the weighted average annual interest rate for the First Lien Facility was 6.71%. As of April 2, 2006, the interest rate on the term loan facility was 6.83% and the interest rate on the revolving credit facility was 9.50%. As of April 2, 2006, \$107.8 million was available under the First Lien Facility.

Canadian Credit Facility

Borrowings under the revolving credit facility bear interest at the Canadian prime rate plus 0.50% or Canadian bankers acceptance rate plus 1.75%, at the Company’s option. Term loan borrowings bear interest at the Canadian prime rate plus 0.75% or Canadian bankers acceptance rate plus 2.00%, at the Company’s option. As of April 2, 2006, borrowings under the revolving credit facility and the term loan carried effective interest rates of 5.62% and 5.87%, respectively. As of April 2, 2006, CAD \$7.3 million (approximately \$6.2 million) was available under the Canadian revolving credit facility.

(8) LEASES

The Company leases certain transportation vehicles, warehouse and office facilities, and machinery and equipment under both cancelable and non-cancelable operating leases, most of which expire within eighteen years and may be renewed by the Company. The full amount of lease rental payments is charged to expense using the straight-line method over the term of the lease. Future minimum rental commitments under non-cancelable operating leases in effect at April 2, 2006 are as follows (in thousands):

Remainder of 2006	\$ 23,988
2007	27,143
2008	23,211
2009	21,701
2010	19,752
Thereafter	<u>185,328</u>
Total minimum lease payments	<u>\$301,123</u>

(9) DERIVATIVES AND HEDGING ACTIVITIES

The First Lien Facility requires the Company to fix the interest rate for a portion of the borrowings. Accordingly, on March 10, 2004, to limit the variability of a portion of the interest payments under the First Lien Facility, the Company entered into receive-variable, pay-fixed interest rate swaps with a total notional amount of \$180.0 million. Under these interest rate swaps, the Company receives variable interest rate payments and makes fixed interest rate payments; thereby fixing the rate on a portion of the outstanding debt. The variable rate of interest received is the Eurodollar rate. The fixed rate of interest paid is 2.375% to 2.376%. The swap agreements extend through March 31, 2007. The fair value of these swap agreements was \$4.9 million and \$5.2 million as of April 2, 2006 and January 1, 2006, respectively. They are accounted for as cash flow hedges and their fair value is included in other assets in the Company's Consolidated Balance Sheets.

On March 31, 2005, the Company entered into an interest rate cap agreement with a notional amount of \$35.0 million. Under this agreement, the Company receives variable interest rate payments when the three-month Eurodollar rate rises above 5.0%. This interest rate cap agreement expired on March 31, 2006.

On June 23, 2005, the Company entered into a forward-starting receive-variable, pay-fixed interest rate swap with a notional amount of \$50.0 million. The variable rate of interest received is the Eurodollar rate. The fixed rate of interest paid is 4.25%. The swap agreement is effective from March 31, 2007 through March 31, 2010. As of April 2, 2006 and January 1, 2006, the fair value of this swap agreement was approximately \$1.2 million and \$0.7 million, respectively. It is accounted for as a cash flow hedge and its fair value is included in other assets in the Company's Consolidated Balance Sheets.

On March 31, 2006, the Company entered into two receive-variable, pay-fixed interest rate swaps with identical terms and a combined notional amount of \$70.0 million. The swap agreements are effective from March 31, 2006 through March 31, 2009. The notional amount varies throughout the term of the agreements. The combined notional amount decreases to \$35.0 million on September 29, 2006, increases to \$150.0 million on March 30, 2007, and decreases to \$75.0 million on December 31, 2007 through maturity. The variable rate of interest received is the Eurodollar rate. The fixed rate of interest paid is 5.15%. As of April 2, 2006, the fair values of these swap agreements were less than \$10,000. They are accounted for as cash flow hedges and their fair values are included in other assets in the Company's Consolidated Balance Sheet.

(10) PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Net periodic benefit cost for the Company's pension and other postretirement benefit plans consists of the following (in thousands):

	Thirteen weeks ended <u>April 2, 2006</u>	Three months ended <u>March 31, 2005</u>
Pension Benefits		
Service cost	\$ 532	\$ 427
Interest cost	1,485	1,461
Expected return on plan assets	(1,635)	(1,421)
Amortization of prior service cost	—	22
Amortization of net loss	17	—
Net periodic benefit cost	<u>\$ 399</u>	<u>\$ 489</u>
Other Postretirement Benefits		
Service cost	\$ 181	\$ 205
Interest cost	473	533
Amortization of prior service cost	(1,032)	(1,032)
Amortization of net loss	207	226
Net periodic income	<u>\$ (171)</u>	<u>\$ (68)</u>

As of April 2, 2006, \$2.7 million of contributions had been made to the Company's pension and other postretirement benefit plans. The Company presently anticipates contributing an additional \$11.3 million to fund its pension and other postretirement benefit plans in 2006 for a total of \$14.0 million.

(11) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive loss consisted of the following (in thousands):

	Thirteen weeks ended <u>April 2, 2006</u> (As restated)	Three months ended <u>March 31, 2005</u> (As restated)
Net loss	\$ (20,155)	\$ (20,168)
Foreign currency translation adjustment	516	(1,723)
Unrealized investment gain, net of income taxes	43	100
Unrealized gain on cash flow hedge, net of income taxes	157	1,192
Comprehensive loss	<u>\$ (19,439)</u>	<u>\$ (20,599)</u>

Accumulated other comprehensive income (loss) consisted of the following (in thousands):

	<u>April 2, 2006</u> (As restated)	<u>January 1, 2006</u> (As restated)
Foreign currency translation adjustments	\$ 5,002	\$ 4,486
Minimum pension liability adjustments, net of income taxes	(8,867)	(8,867)
Unrealized investment gain, net of income taxes	721	678
Unrealized gain on cash flow hedge, net of income taxes	3,798	3,641
Accumulated other comprehensive income (loss)	<u>\$ 654</u>	<u>\$ (62)</u>

(12) SHARE-BASED PAYMENT

SCIC, the Company's parent, has a management investment and incentive compensation plan for certain key employees of the Company. Under this plan, SCIC has reserved 1,450,000 shares of SCIC common stock, and 5,000 shares of convertible participating preferred stock ("CPPS") for issuance. The accounting impact of this plan is recorded in the consolidated financial statements of the Company as the plan relates to employees of the Company.

During the second quarter of 2004, SCIC issued 3,283 Convertible Preferred Units ("CPUs") to certain Company employees in settlement of \$3.3 million of deferred compensation liabilities. The fair value of the CPUs granted by SCIC was linked to the fair market value of one share of CPPS. For CPUs, compensation expense is recognized periodically based on changes in the fair value of the CPU relative to the grant-date fair value of the CPU. During the thirteen weeks ended April 2, 2006 and the three months ended March 31, 2005, the Company recorded compensation expense and additional paid-in capital of \$60 thousand and \$89 thousand, respectively, reflecting dividends declared by SCIC on those instruments. CPUs do not have voting rights and are in certain circumstances convertible to SCIC common stock or CPPS. The issuance of CPUs by SCIC in settlement of deferred compensation liabilities of the Company totaling \$3.3 million was recorded as additional paid-in capital in 2004. In the second quarter of 2005, as the result of an employee's separation from the company, 1,267 of CPUs were canceled.

During 2004, SCIC granted to employees 1,249,257 options to purchase shares of SCIC common stock with an exercise price equal to the fair market value of the common stock at the date of grant of \$47.32. Included in these grants were 499,698 options that are conditional upon the Company achieving certain defined performance targets. The time-based options vest over a period of four years and the performance-based options vest over a period of five years. All options expire 10 years after the grant date. During 2005, SCIC granted to employees of the Company 157,060 options to purchase shares of SCIC common stock with an exercise price of \$47.32. These options have the same terms and conditions as the options granted in 2004. No options have been exercised to date. As of April 2, 2006, 226,988 time-based options were exercisable and none of the performance-based options were exercisable.

The following shows stock option activity for the two years ended April 2, 2006:

	Shares under option <u>Time-based</u>	Shares under option <u>Performance-based</u>	Total shares under option
December 31, 2004	749,558	499,699	1,249,257
Granted with exercise price less than or equal to the grant date fair value	94,240	62,820	157,060
Forfeited	<u>(48,931)</u>	<u>(32,620)</u>	<u>(81,551)</u>
January 1, 2006	794,867	529,899	1,324,766
Forfeited	<u>(113,086)</u>	<u>(75,390)</u>	<u>(188,476)</u>
April 2, 2006	<u>681,781</u>	<u>454,509</u>	<u>1,136,290</u>

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 123 (Revised 2004), “Share-Based Payment” (“SFAS 123R”). SFAS 123R is a revision of SFAS No. 123, “Accounting for Stock-Based Compensation,” and supersedes Accounting Principles Board Opinion No. 25 (“APB 25”). The Company adopted SFAS 123R on January 2, 2006 under the “prospective” method. Under the provisions of SFAS 123, the Company calculated its pro forma disclosure using the minimum value method, which excludes any effect of volatility on value; therefore, the prospective method of adopting SFAS 123R is required. Under the “prospective” method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted, modified, repurchased or cancelled after that date. Since the adoption of SFAS 123R, the Company has not granted, modified, repurchased or cancelled any options; therefore, no expense was recognized for stock options in the Company’s Statement of Operations during the thirteen weeks ended April 2, 2006.

(13) RELATED PARTY TRANSACTIONS

Robert L. Hulseman, who is John F. Hulseman’s brother and the husband of Sheila M. Hulseman, and who is the Chairman and Chief Executive Officer of the Company, received salary and benefits of \$276,400 and \$276,184 for the thirteen weeks ended April 2, 2006 and the three months ended March 31, 2005, respectively. John F. Hulseman, who is Robert L. Hulseman’s brother and the husband of Georgia S. Hulseman, and who is the Vice Chairman of the Company, received salary and benefits of \$276,400 and \$276,184 for the thirteen weeks ended April 2, 2006 and the three months ended March 31, 2005, respectively. Robert L. and John F. Hulseman each hold 50.0% of the voting membership interests of SCC Holding, which owns 67.2% of the voting stock of SCIC. In addition, Robert L., Sheila M., John F., and Georgia S. Hulseman and Robert M. Korzenski, the Company’s President and Chief Operating Officer, are directors of the Company. The Company does not pay any directors fees.

Pursuant to the Stockholders Agreement dated February 27, 2004 by and among the Company, SCIC, Vestar Capital Partners (“Vestar”) and other parties (see exhibit 10.18 to the Company’s Registration Statement on Form S-4, File No. 333-116843), Vestar may designate two directors of the Company. In 2004, Daniel S. O’Connell and Norman W. Alpert were elected to the board. John R. Woodard replaced Norman W. Alpert in February 2006. Mr. O’Connell and Mr. Woodard are both employees and equity owners of Vestar Capital Partners (“Vestar”). Vestar owns CPPS representing 32.7% of the voting stock of SCIC.

In the first quarter of 2004, the Company and SCIC entered into a management agreement with SCC Holding providing for, among other things, the payment by SCIC of an annual advisory fee of \$2.5 million. At the same time, SCIC entered into a management agreement with Vestar pursuant to which SCIC will pay Vestar an \$800,000 annual advisory fee, plus reimbursement of its expenses. Pursuant to these management agreements, the Company incurred \$0.8 million of advisory fees to SCIC for the thirteen weeks ended April 2, 2006 and the three months ended March 31, 2005, respectively.

(14) SEGMENTS

The Company manages and evaluates its operations in three reportable segments: North America, Europe and Asia-Pacific. All of these segments produce a broad array of disposable food service products, which are available in paper, plastic and foam. The operating segments are managed separately based on the products and requirements of the different markets. North America includes all U.S. entities, Canada, Mexico, Corporate and Puerto Rico; Europe includes all U.K. entities; and Asia-Pacific includes all Japanese entities and Australia; Other includes Panama.

The accounting policies of the operating segments are the same as those described in Note 2 to the consolidated financial statements in the Company's 2005 Annual Report on Form 10-K/A. Segment operating results are measured based on operating income (loss). Intersegment net sales are accounted for on an arm's length pricing basis.

No individual customer accounted for greater than 10% of consolidated net sales in fiscal years 2005 or 2004. It is not practical for the Company to report revenues from external customers for each product and service or each group of similar products.

(in thousands)	<u>North America</u> (As restated)	<u>Europe</u>	<u>Asia- Pacific</u> (As restated)	<u>Other</u> (As restated)	<u>Total Segments</u> (As restated)	<u>Elimina- tions</u>	<u>Total</u> (As restated)
For the thirteen weeks ended April 2, 2006							
Net sales from external customers	\$ 528,230	\$19,275	\$20,682	\$3,116	\$ 571,303	\$ (4,067)	\$ 567,236
Intersegment net sales	4,039	—	28	—	4,067	(4,067)	—
Operating (loss) income	(12,965)	(9)	(1,197)	280	(13,891)	(229)	(14,120)
Depreciation and amortization	24,793	824	1,067	158	26,842	—	26,842
Capital expenditures	13,069	145	255	47	13,516	—	13,516
For the three months ended March 31, 2005							
Net sales from external customers	\$ 507,206	\$19,922	\$22,759	\$2,825	\$ 552,712	\$ (5,612)	\$ 547,100
Intersegment net sales	5,298	—	—	314	5,612	(5,612)	—
Operating (loss) income	(16,021)	891	(940)	240	(15,830)	46	(15,784)
Depreciation and amortization	24,401	947	1,307	158	26,813	—	26,813
Capital expenditures	14,750	386	931	216	16,283	—	16,283
At April 2, 2006							
Total assets	\$1,762,286	\$81,207	\$57,892	\$8,508	\$1,909,893	\$(44,944)	\$1,864,949
At January 1, 2006							
Total assets	\$1,737,411	\$81,072	\$61,980	\$8,925	\$1,889,388	\$(44,715)	\$1,844,673

(Continued)

(14) SEGMENTS (Continued)

(in thousands)	<u>Thirteen weeks ended</u> <u>April 2, 2006</u> (As restated)
Revenues:	
Total segments and other net sales	\$ 571,303
Eliminations of intersegment net sales	(4,067)
Total consolidated net sales	<u>\$ 567,236</u>
Operating loss:	
Total segment operating loss	\$ (13,891)
Elimination of intersegment operating income	(229)
Interest expense, net of interest income of \$98	(20,379)
Foreign currency exchange gain, net	1,034
Other expense, net	(127)
Total consolidated loss before income taxes	<u>\$ (33,592)</u>

(in thousands)	<u>At April 2, 2006</u> (As restated)
Assets:	
Total segments	\$ 1,909,893
Eliminations of intersegment receivables	(44,944)
Total consolidated assets	<u>\$ 1,864,949</u>

(15) SUBSEQUENT EVENTS

In April 2006, the Company announced a restructuring program, which eliminated positions representing approximately 3% of its total workforce. The Company expects to complete these activities by the end of the fiscal year.

In May 2006, the Company received a neutral auditor's final ruling on the SF Holdings Acquisition working capital adjustment that awarded \$7.7 million (including interest) to the Company. In July 2006, the Company received a neutral arbitrator's final ruling on the Company's claims for indemnification arising from the SF Holdings Acquisition that awarded \$5.5 million (including interest) to the Company. The remaining \$1.8 million in escrow will be disbursed to the stockholder representative for the seller in the SF Holdings Acquisition.

In June 2006, the Company recognized \$22.1 million in curtailment gains as a result of a significant reduction in postretirement benefits for certain active plan participants.

On July 2, 2006, the Company recorded goodwill impairment charges of approximately \$228.5 million, as a result of a goodwill impairment test of its North America and Europe reporting units.

On July 2, 2006, the Company recorded approximately \$105.0 million charge to establish a valuation allowance for deferred tax assets including federal and state net operating loss carryforwards and other deferred assets.

In July 2006, Executive Vice President and Chief Financial Officer Susan H. Marks decided to leave the Company to pursue other interests. Subsequently, Eric A. Simonsen was appointed interim Chief Financial Officer of the Company.

In August 2006, Robert M. Korzenski was appointed Chief Executive Officer of the Company. In addition to assuming the Chief Executive Officer role, Mr. Korzenski retained his responsibilities as the Company's President and Chief Operating Officer, positions to which he was appointed on April 17, 2006.

In August 2006, the Company announced that it would delay filing its Quarterly Report on Form 10-Q for the thirteen weeks ended July 2, 2006 as a result of an accounting review undertaken when new management was appointed by the Board of Directors in the second and third quarters of 2006. As a result of the delay, the Company received notice on August 17, 2006 from the trustee under the indenture for its 8.5 % Senior Subordinated Notes due 2014 that the Company failed to comply with the provisions of the indenture requiring that it provide quarterly financial information for the thirteen weeks ended July 2, 2006 to the holders of the notes issued thereunder. Under the terms of the indenture, the Company had until October 16, 2006, the date of this filing, to comply with this requirement. By providing the required quarterly information, the Company has satisfied this obligation.

In September 2006, the Company terminated its existing interest rate swaps which are described in Note 9 and received approximately \$5.1 million. The Company also entered into three interest rate cap agreements with a total notional amount of \$245.0 million. Under these agreements, the Company receives variable interest rate payments when the 3-month LIBOR rises above 6.0%. These agreements are in effect through September 14, 2007.

In September 2006, the Company announced that it had determined to restate certain of its previously issued consolidated financial statements and that the Company's consolidated financial data for previous annual and interim periods contained errors and should therefore not be relied upon. See Note 1 for further discussion regarding the restatement. As a result of management's determination to restate certain of its consolidated financial statements, the Company informed the administrative agents under its First and Second Lien Facilities that it was in default under such facilities. On October 13, 2006, the Company entered into a Waiver and Fourth Amendment to its First Lien Facility and a Waiver and First Amendment to its Second Lien Facility (collectively "Waiver"). The Waiver with respect to financial covenant ratios is effective until January 2, 2007. The Waiver generally waives the Company's noncompliance with the First and Second Facilities for events of default resulting from the restatement for the periods restated. The Waiver also provides that if the Company does not meet the financial covenant ratios for the first fiscal quarter of 2006 (or prior fiscal periods) to the extent resulting from the restatement, or for any reason does not meet the financial covenant ratios for the second, third and fourth fiscal quarters of 2006 as set forth in the First and Second Lien Credit Facilities, it will not constitute an event of default under such facilities. By entering into the Waiver, the Company re-established its ability to borrow additional amounts (up to the maximum permitted) under the terms of its \$150.0 million revolving credit facility.

In recent periods, the Company's net losses, adjusted for non-cash operating costs such as depreciation and amortization, have not provided sufficient cash flow to offset the Company's working capital needs. This has resulted in an overall use of cash from operating activities. Additionally, investing activities have been a net use of cash. This has been the result primarily of the Company's capital expenditure programs, including the ongoing implementation of a new order management system. As a result, the Company increased its borrowing availability through existing or new lending agreements such as the Second Lien Facility that was originated during the first quarter of 2006. These credit facilities, however, as well as the indenture governing the notes described above, impose certain restrictions upon the Company's operations in the form of financial covenants and other terms and conditions that could limit our access to additional funding and impair our ability to meet our obligations as they mature.

However, the Company has taken, and continues to take, a number of steps to maximize its near-term liquidity to meet its expected working capital needs, fund its capital expenditure requirements and fulfill its lease and debt service obligations over the longer term. For example, the Company has cured the default under the indenture governing the notes, entered into the Waiver, and commenced negotiations with its lenders regarding amendments to its current financing structure. In addition, the Company is evaluating additional opportunities such as sales of non-strategic assets and alternative financing strategies. The Company has also engaged an independent consulting firm to perform a thorough diagnostic review of its supply chain/operations designed to reduce costs and improve manufacturing efficiencies.

At July 2, 2006, the Company's outstanding borrowings under the First and Second Lien Facilities, the 8.5% Senior Subordinated Notes and foreign borrowings in Canada and Japan in the aggregate is approximately \$1,152 million. Waivers have been obtained though January 2, 2007 with respect to covenant violations that occurred in August and September 2006 under the First and Second Lien facilities. Prior to that date, the Company must complete negotiations and close on a new amendment to the existing facilities that would amend the covenants to achievable levels. Alternatively, the Company could replace the First and/or Second Lien facilities with new borrowings. Management believes it is probable that one of those alternatives will be accomplished by January 2, 2007. Accordingly, it has classified the outstanding balance of the First and Second Lien facilities on its consolidated balance sheets based on their stated maturities.

(16) GUARANTOR NOTE

On February 27, 2004, with an effective date of February 22, 2004, the Company acquired SF Holdings. The Company partially funded this acquisition through the issuance of the 8.5% Senior Subordinated Notes. The 8.5% Senior Subordinated Notes are fully and unconditionally guaranteed, on a joint and several basis, by certain of the Company's subsidiaries. The consolidated guarantors include: Solo Cup Company, Solo Management Company, P.R. Solo Cup, Inc., SF Holdings Group, Inc., Solo Cup Operating Corporation (formerly known as Sweetheart Cup Company Inc.), Lily-Canada Holding Corporation, Solo Cup (UK) Limited, Insulpak Holdings Limited and Solo Cup Europe Limited. The following financial information presents the guarantors and non-guarantors of the 8.5% Senior Subordinated Notes, in accordance with Rule 3-10 of Regulation S-X:

Condensed Consolidated Balance Sheet				
April 2, 2006				
(In thousands) (Unaudited) (As restated)				
	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 5,761	\$ 5,296	\$ —	\$ 11,057
Cash in escrow	15,000	—	—	15,000
Accounts receivable:				
Trade	185,324	36,335	—	221,659
Other	26,410	—	(6,305)	20,105
Inventories	390,170	29,001	(809)	418,362
Deferred income taxes	57,193	1,759	—	58,952
Prepaid expenses and other current assets	44,014	5,198	—	49,212
Total current assets	723,872	77,589	(7,114)	794,347
Property, plant and equipment, net	678,514	67,260	—	745,774
Goodwill and intangible assets, net	271,201	493	—	271,694
Other assets	99,093	4,319	(50,278)	53,134
Total assets	\$1,772,680	\$149,661	\$ (57,392)	\$1,864,949
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable	\$ 160,927	\$ 28,568	\$ (6,274)	\$ 183,221
Accrued expenses and other current liabilities	118,240	15,645	—	133,885
Short-term debt	—	4,574	—	4,574
Current maturities of long-term debt	6,500	2,220	—	8,720
Total current liabilities	285,667	51,007	(6,274)	330,400
Long-term debt, net of current maturities	1,059,300	14,368	—	1,073,668
Deferred income taxes	7,617	3,769	—	11,386
Other liabilities	63,330	20,038	—	83,368
Total liabilities	1,415,914	89,182	(6,274)	1,498,822
Shareholder's equity:				
Common stock	—	2,114	(2,114)	—
Additional paid-in capital	258,109	39,168	(39,168)	258,109
Retained earnings	101,661	15,539	(9,836)	107,364
Accumulated other comprehensive income (loss)	(3,004)	3,658	—	654
Total shareholder's equity	356,766	60,479	(51,118)	366,127
Total liabilities and shareholder's equity	\$1,772,680	\$149,661	\$ (57,392)	\$1,864,949

(Continued)

(16) GUARANTOR NOTE (Continued)

Condensed Consolidated Balance Sheet				
January 1, 2006				
(In thousands) (As restated)				
	<u>Guarantor</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 7,038	\$ 5,049	\$ —	\$ 12,087
Cash in escrow	15,000	—	—	15,000
Accounts receivable:				
Trade	182,995	39,288	—	222,283
Other	34,264	—	(12,275)	21,989
Inventories	355,864	25,996	(596)	381,264
Deferred income taxes	57,193	1,864	—	59,057
Other current assets	46,646	5,266	—	51,912
Total current assets	699,000	77,463	(12,871)	763,592
Property, plant and equipment, net	686,968	69,217	—	756,185
Goodwill and intangible assets	273,121	491	—	273,612
Other assets	97,602	3,960	(50,278)	51,284
Total assets	\$1,756,691	\$151,131	\$ (63,149)	\$1,844,673
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable	\$ 141,277	\$ 34,637	\$ (12,315)	\$ 163,599
Accrued expenses and other current liabilities	128,555	13,521	—	142,076
Short-term debt	—	5,546	—	5,546
Current maturities of long-term debt	6,500	2,226	—	8,726
Total current liabilities	276,332	55,930	(12,315)	319,947
Long-term debt, less current maturities	1,018,825	10,184	—	1,029,009
Deferred income taxes	22,028	3,801	—	25,829
Other liabilities	62,052	22,330	—	84,382
Total liabilities	1,379,237	92,245	(12,315)	1,459,167
Shareholder's equity:				
Common stock	—	2,114	(2,114)	—
Additional paid-in capital	258,049	39,168	(39,168)	258,049
Retained earnings	122,878	14,193	(9,552)	127,519
Accumulated other comprehensive income (loss)	(3,473)	3,411	—	(62)
Total shareholder's equity	377,454	58,886	(50,834)	385,506
Total liabilities and shareholder's equity	\$1,756,691	\$151,131	\$ (63,149)	\$1,844,673

(Continued)

(16) GUARANTOR NOTE (Continued)

Consolidated Statement of Operations
Thirteen weeks ended April 2, 2006
(In thousands) (Unaudited) (As restated)

	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	\$523,700	\$ 63,592	\$ (20,056)	\$ 567,236
Cost of goods sold	477,581	55,586	(19,752)	513,415
Gross profit	46,119	8,006	(304)	53,821
Selling, general and administrative expenses	60,766	5,167	(20)	65,913
Restructuring expense	1,164	—	—	1,164
Loss on sale of property, plant and equipment	723	141	—	864
Operating income (loss)	(16,534)	2,698	(284)	(14,120)
Interest expense, net	19,883	496	—	20,379
Foreign currency exchange (gain), net	(698)	(336)	—	(1,034)
Other (income) expense, net	125	2	—	127
Income (loss) before income taxes	(35,844)	2,536	(284)	(33,592)
Income tax (benefit) provision	(14,627)	1,190	—	(13,437)
Net income (loss)	<u>\$ (21,217)</u>	<u>\$ 1,346</u>	<u>\$ (284)</u>	<u>\$ (20,155)</u>

Consolidated Statement of Operations
Three months ended March 31, 2005
(In thousands) (Unaudited) (As restated)

	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	\$502,664	\$ 57,546	\$ (13,110)	\$ 547,100
Cost of goods sold	463,600	50,112	(12,712)	501,000
Gross profit	39,064	7,434	(398)	46,100
Selling, general and administrative expenses	55,378	5,719	(26)	61,071
Restructuring expense	425	—	—	425
Loss on sale of property, plant and equipment	382	6	—	388
Operating income (loss)	(17,121)	1,709	(372)	(15,784)
Interest expense, net	16,754	319	—	17,073
Foreign currency exchange loss (gain), net	1,236	(429)	—	807
Other income, net	(1)	(112)	—	(113)
Income (loss) before income taxes and minority interest	(35,110)	1,931	(372)	(33,551)
Income tax (benefit) provision	(13,625)	244	—	(13,381)
Minority interest	—	(2)	—	(2)
Net income (loss)	<u>\$ (21,485)</u>	<u>\$ 1,689</u>	<u>\$ (372)</u>	<u>\$ (20,168)</u>

(Continued)

(16) GUARANTOR NOTE (Continued)

	Condensed Consolidated Statement of Cash Flows		
	Thirteen weeks ended April 2, 2006		
	(In thousands) (Unaudited) (As restated)		
	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Consolidated</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash used in operating activities	\$ (27,377)	\$ (2,482)	\$ (29,859)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(13,003)	(513)	(13,516)
Proceeds from sale of property, plant and equipment	1,334	—	1,334
Net cash used in investing activities	(11,669)	(513)	(12,182)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net repayments under revolving credit facilities	(37,900)	4,786	(33,114)
Borrowings under term notes	80,000	—	80,000
Repayments of term notes	(1,625)	(417)	(2,042)
Repayments of other debt	—	(1,155)	(1,155)
Debt issuance costs	(2,694)	(22)	(2,716)
Net cash provided by financing activities	37,781	3,192	40,973
Effect of exchange rate changes on cash	(12)	50	38
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,277)	247	(1,030)
Cash and cash equivalents, beginning of period	7,038	5,049	12,087
Cash and cash equivalents, end of period	<u>\$ 5,761</u>	<u>\$ 5,296</u>	<u>\$ 11,057</u>

	Condensed Consolidated Statement of Cash Flows		
	Three months ended March 31, 2005		
	(In thousands) (Unaudited) (As restated)		
	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Consolidated</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash (used in) provided by operating activities	\$ (41,672)	\$ 7,748	\$ (33,924)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(13,950)	(2,333)	(16,283)
Proceeds from sale of property, plant and equipment	5,614	—	5,614
Net cash used in investing activities	(8,336)	(2,333)	(10,669)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net borrowings under revolving credit facilities	49,773	(344)	49,429
Contribution of capital from parent	100	—	100
Repayments of term notes	(1,619)	(787)	(2,406)
Repayments of other debt	—	(2,233)	(2,233)
Debt issuance costs	(1,044)	(2)	(1,046)
Decrease in restricted cash	1,905	—	1,905
Net cash provided by (used in) financing activities	49,115	(3,366)	45,749
Effect of exchange rate changes on cash	41	(77)	(36)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(852)	1,972	1,120
Cash and cash equivalents, beginning of period	9,541	6,314	15,855
Cash and cash equivalents, end of period	<u>\$ 8,689</u>	<u>\$ 8,286</u>	<u>\$ 16,975</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report, as well as consolidated financial statements and notes thereto and related management discussion and analysis of financial conditions and results of operations included in our 2005 Annual Report on Form 10-K/A and Quarterly Report on Form 10-Q for the thirteen and twenty-six weeks ended July 2, 2006, which are being filed concurrently with this Form 10-Q/A for the thirteen weeks ended April 2, 2006.

The information below has been adjusted solely to reflect the impact of the restatement on the Company's financial results which is more fully described in Note 1 to the consolidated financial statements contained in this report and under "Restatement of Previously Issued Consolidated Financial Statements" below and does not reflect any subsequent information or events occurring after the date of the Original Filing or update any disclosure herein to reflect the passage of time since the date of the Original Filing.

Restatement of Previously Issued Consolidated Financial Statements

On September 19, 2006, we filed a Current Report on Form 8-K with the SEC in which we announced that we would be restating certain financial statements as a result of our findings of an accounting review undertaken when new management was appointed by the Board of Directors in the second and third quarters of 2006. Since that time, we have completed our accounting review and determined that certain of the errors resulted from deficiencies in our internal control over financial reporting. We have not filed this Form 10-Q/A for the thirteen weeks ended April 2, 2006 originally filed with the SEC on May 16, 2006 to amend and restate its consolidated financial statements for the thirteen weeks ended April 2, 2006 and the quarter ended March 31, 2005 and related disclosures. We have restated the July 3, 2005, consolidated financial statements included in the quarterly report on Form 10-Q for the thirteen weeks ended July 2, 2005 which is being filed concurrently with this Form 10-Q/A. We will restate our October 2, 2005 consolidated financial statements with the filing of our October 1, 2006 Form 10-Q. See Item 4. Controls and Procedures in this Form 10-Q/A.

Background on the Restatement - The errors identified in our issued consolidated financial statements are described below. For more information on the impact of these errors, See Note 1 to the consolidated financial statements included in this Form 10-Q/A.

- **Timely Recognition of Certain Credits to Customers**

We did not properly account for (i) sales incentives offered to customers; (ii) cash discounts offered to customers; and (iii) credit memoranda issued to customers.

- **Timely Recognition of Certain Credits from Vendors**

We failed to timely and properly accrue for certain rebates received from certain vendors.

- **Timely Recognition of Certain Accrued Expenses**

We did not recognize certain expenses in the appropriate period.

- **Accrued Payroll and Other Related Costs**

We failed to properly account for (i) vacation pay earned by certain employees, and (ii) a reimbursement of a deposit with an insurance provider.

- **Accrued Freight**

We determined that an employee, who is no longer with the Company, failed to record a portion of our freight expense despite receiving information that the methodology used to calculate the recorded freight expense was flawed.

- **Inventory Valuation**

We failed to properly value certain scrap inventory at the lower of cost or market value in accordance with its accounting policies.

General

We are a leading global producer and marketer of disposable foodservice products and have served our industry for 70 years. We manufacture one of the broadest product lines of cups, lids, food containers, plates, bowls, portion cups, stirrers, straws, cutlery, napkins, placemats, tablecovers and food packaging containers in the industry, with products available in plastic, paper and foam. We are recognized for product innovation and customer service, and our products are known for their quality, reliability and consistency. Our products are marketed primarily under the Solo[®] and Sweetheart[®] brands, as well as Jack Frost[®], Trophy[®], Hoffmaster[®], Sensations[®] and Creative Expressions[®]. We are one of the leading suppliers of branded disposable cups and plastic plates and bowls to consumer customers in the United States. We also provide a line of products to our customers under private label. We currently operate manufacturing facilities and distribution centers in North America, Japan, the United Kingdom and Panama, and we sell our products worldwide.

Thirteen Weeks Ended April 2, 2006 Compared to the Three Months Ended March 31, 2005

(in thousands)	Thirteen weeks	Three months	Favorable /	(Unfavorable)
	ended April 2, 2006 (As restated)	ended March 31, 2005 (As restated)	\$	%
Net sales	\$ 567,236	\$ 547,100	\$ 20,136	3.7%
Cost of goods sold	513,415	501,000	(12,415)	(2.5)
Gross profit	53,821	46,100	7,721	16.7
Selling, general and administrative expenses	65,913	61,071	(4,842)	(7.9)
Restructuring expense	1,164	425	(739)	*
Loss on sale of property, plant and equipment	864	388	(476)	*
Operating loss	(14,120)	(15,784)	1,664	10.5
Interest expense, net	20,379	17,073	(3,306)	(19.4)
Foreign currency exchange (gain) loss, net	(1,034)	807	1,841	*
Other (income) expense, net	127	(113)	(240)	*
Loss before income taxes and minority interest	(33,592)	(33,551)	(41)	(0.1)
Income tax benefit	(13,437)	(13,381)	(56)	(0.4)
Minority interest	—	(2)	(2)	*
Net loss	\$ (20,155)	\$ (20,168)	\$ 13	0.1%

* Not meaningful

Net sales increased \$20.1 million, or 3.7%, for the thirteen weeks ended April 2, 2006 compared to the prior year period. The increase in net sales reflected a 3.0% increase in average realized sales price and a 0.7% increase in sales volume as compared to the three months ended March 31, 2005. The increase in average realized sales price reflects the impact of pricing increases implemented during the second half of 2005 in response to higher raw material costs.

For the thirteen weeks ended April 2, 2006, gross profit increased \$7.7 million compared to the prior year period. As a percentage of net sales, gross profit was 9.5% in the first quarter of 2006 versus 8.4% in the first quarter of 2005.

Restructuring expense for the thirteen weeks ended April 2, 2006 was \$1.2 million representing severance costs incurred during the period. Restructuring expense for the three months ended March 31, 2005 was \$0.4 million representing severance costs related to manufacturing plants, which were closed in conjunction with the integration of SF Holdings. We expect that severance costs relating to our restructuring announced in April 2006 will be approximately \$7 million for the full 2006 fiscal year.

Selling, general and administrative expenses increased \$4.8 million for the thirteen weeks ended April 2, 2006 compared to the three months ended March 31, 2005. The increase was primarily driven by costs associated with the expansion and upgrade of our order management and enterprise resource planning systems. As a percentage of net sales, selling, general and administrative expenses were 11.6% in the first quarter of 2006 versus 11.2% in the first quarter of 2005. Integration costs totaled \$3.5 million and \$7.9 million for the thirteen weeks ended April 2, 2006 and the three months ended March 31, 2005, respectively.

For the thirteen weeks ended April 2, 2006, interest expense, net increased \$3.3 million compared to the prior year period. This increase is primarily attributable to higher outstanding balances under our domestic revolving credit facility in addition to higher interest rates compared to the prior year period.

For the thirteen weeks ended April 2, 2006, foreign currency exchange (gain) loss, net was a gain of \$1.0 million compared to a loss of \$0.8 million for the three months ended March 31, 2005. This change is primarily attributed to currency fluctuations in the United Kingdom pound sterling denominated inter-company debt.

Liquidity and Capital Resources

Historically, the Company has relied on cash flows from operations and revolving credit borrowings to finance its working capital requirements and capital expenditures.

Net cash used in operating activities during the thirteen weeks ended April 2, 2006 was \$29.9 million compared to \$33.9 million during the three months ended March 31, 2005. Working capital increased \$20.3 million to \$463.9 million at April 2, 2006 from \$443.6 million at January 1, 2006. The increase primarily reflects higher inventory balances partially offset by higher accounts payable. Both increases were primarily driven by a planned inventory build as we prepare for higher sales during the warmer seasons.

Net cash used in investing activities during the thirteen weeks ended April 2, 2006 was \$12.2 million compared to \$10.7 million during the three months ended March 31, 2005. The decrease was primarily driven by lower proceeds from the sale of property, plant and equipment.

Capital expenditures during the thirteen weeks ended April 2, 2006 were \$13.5 million compared to \$16.3 million during the three months ended March 31, 2005. Capital expenditures during the thirteen weeks ended April 2, 2006 included \$10.9 million for new production equipment, \$1.3 million for integration-related projects, \$0.3 million for routine capital improvements, and \$1.0 million for renovations and equipment conversions. Capital expenditures were primarily funded by borrowings under our revolving credit facilities. For the remainder of 2006, the Company intends to rely on cash provided by operations and the revolving credit facilities for its capital expenditures.

Net cash provided by financing activities during the thirteen weeks ended April 2, 2006 was \$41.0 million compared to \$45.7 million during the three months ended March 31, 2005. The net cash provided by financing activities during the thirteen weeks ended April 2, 2006 includes \$80.0 million of borrowings under the Second Lien Facility offset by total net repayments of \$33.1 million on the domestic revolving credit facility and the Canadian Credit Facility.

Short-term debt

At April 2, 2006, we had approximately 537.3 million Yen (approximately \$4.6 million) of short-term borrowings with Japanese banks. These borrowings have various termination dates and have no restrictive covenants. The interest rate on these borrowings ranges between 0.71% and 1.375% per annum.

Long-term debt

The following is a summary of our long-term debt at April 2, 2006 (in thousands):

	<u>April 2, 2006</u>
Long-term debt:	
8.5% Senior Subordinated Notes	\$ 325,000
First Lien Facility – Term Loan	637,000
First Lien Facility – Revolver	23,800
Second Lien Facility	80,000
Canadian Credit Facility – Term Loan	9,089
Canadian Credit Facility – Revolver	5,187
Capital lease obligations	2,312
Total long-term debt	<u>1,082,388</u>
Less - Current maturities of long-term debt	<u>8,720</u>
Long-term debt, net of current maturities	<u>\$1,073,668</u>

The following is a summary of our committed revolving credit facilities at April 2, 2006 (in thousands):

	Commitment	Amounts	Letters of	Unused
	Amount	Outstanding	Credit (1)	Capacity
First Lien Facility:				
Revolving facility	\$ 150,000	\$ 23,800	\$18,367	\$107,833
Canadian Credit Facility:				
Revolving facility	11,438	5,187	–	6,251
	<u>\$ 161,438</u>	<u>\$ 28,987</u>	<u>\$18,367</u>	<u>\$114,084</u>

(1) Availability of the credit facilities is reduced by letters of credit issued under the facilities.

Second Lien Facility

On March 31, 2006, the Company and SCIC entered into a second lien credit agreement (“Second Lien Facility”). The Second Lien Facility provided a secured term loan facility in the amount of \$80 million (“Second Term Loan”). The Second Term Loan bears interest, at the option of the Company, at a rate equal to LIBOR plus 4.50% per annum; or 3.50% per annum plus the higher of (a) the Bank of America prime rate or (b) the Federal Funds rate plus $\frac{1}{2}$ of one percentage point. The principal amount will be due upon maturity in February 2012. The proceeds of the Second Term Loan were used to reduce amounts outstanding under the Company’s domestic revolving credit facility under its First Lien Facility, described below.

The Second Lien Facility contains customary affirmative and negative covenants substantially similar to those contained in the First Lien Facility and financial covenants less restrictive than those in the First Lien Facility. During the term of the Second Lien Facility, the negative covenants restrict the Company’s ability to do certain things, including but not limited to:

- incur additional indebtedness, including guarantees;
- create, incur, assume or permit to exist liens on property and assets;
- make loans and investments and enter into acquisitions and joint ventures;
- engage in sales, transfers and other dispositions of our property or assets;
- prepay, redeem or repurchase our debt, or amend or modify the terms of certain material debt or certain other agreements;
- declare or pay dividends to, make distributions to, or make redemptions and repurchases from, equity holders; and
- restrict the ability of our subsidiaries to pay dividends and make distributions.

The Second Lien Facility includes the following financial covenants:

- maximum consolidated leverage ratio;
- maximum capital expenditures; and
- minimum consolidated interest coverage ratio.

The Second Lien Facility borrowings are secured by substantially all the assets of the Company subject however to an Intercreditor Agreement between lenders under the First Lien Facility and lenders under the Second Lien Facility. The Second Lien Facility borrowings are guaranteed by SCIC and the Company’s domestic subsidiaries and the Company may prepay the borrowings under certain conditions. Customary events of default are also included in the loan documentation including, but not limited to, cross defaults to the Company’s other material debt and certain change of control events.

As of April 2, 2006, the interest rate on the Second Lien Facility was 11.25%.

First Lien Facility

On February 27, 2004, we entered into credit facilities comprised of a \$150.0 million revolving credit facility maturing in 2010 and a \$650.0 million term loan facility maturing in 2011. The revolver is principally used for working capital purposes, and the term loan was used to finance the SF Holdings acquisition and related transactions.

Effective March 27, 2006, the Company and SCIC entered into an agreement (“Amendment No. 3”) to amend its Credit Agreement dated February 27, 2004, as amended by Amendment No. 1, dated as of March 31, 2005, and by Amendment No. 2, dated as of October 14, 2005, collectively, the “First Lien Facility”. Amendment No. 3 was necessary to permit the Company to enter into the Second Lien Facility. Amendment No. 3 also revised the ratios of the financial covenants that the Company is required to maintain by allowing lower ratios in certain quarters of Consolidated EBITDA to Consolidated Cash Interest Expense, and by allowing higher ratios in certain quarters of Average Total Debt to Consolidated EBITDA.

As of April 2, 2006, the weighted average annual interest rate applicable to Eurodollar rate loans was 6.60% and the weighted average annual interest rate applicable to base rate loans was 9.20%. During the thirteen weeks ended April 2, 2006, the weighted average annual interest rate for the First Lien Facility was 6.71%. As of April 2, 2006, the interest rate on the term loan facility was 6.83% and the interest rate on the revolving credit facility was 9.50%.

All mandatory quarterly prepayments have been made to date.

A commitment fee of 0.50% on the unused portion of the credit facilities is payable on a quarterly basis.

We may make optional prepayments to either the revolver or the term loan in million dollar increments with a minimum prepayment of \$10.0 million.

We are required to make a mandatory annual prepayment of the term loan facility and the revolving credit facility in an amount equal to 50.0% of excess cash flow, as defined, when the consolidated leverage ratio, as defined, is 3.5x or greater, or 25.0% of excess cash flow when the Company’s consolidated leverage ratio is less than 3.5x. In addition, we are required to make a mandatory prepayment of the term loan facility and the revolving credit facility with, among other things: (i) 100.0% of the net cash proceeds of any property or asset sale, subject to certain exceptions and reinvestment requirements; (ii) 100.0% of the net cash proceeds of any extraordinary receipts, as defined, subject to certain exceptions and reinvestment requirements; (iii) 100.0% of the net cash proceeds of certain debt issuances, subject to certain exceptions; and (iv) 50.0% of the net cash proceeds from the issuance of additional equity interests when the consolidated leverage ratio is 3.5x or greater, or 25.0% of such proceeds when the consolidated leverage ratio is less than 3.5x.

During the thirteen weeks ended April 2, 2006, we were not required to make a mandatory annual prepayment or any prepayments based on excess cash flow, dispositions of assets or extraordinary receipts.

The First Lien Facility requires us to fix the interest rate for a portion of the borrowings. Accordingly, on March 10, 2004, the Company entered into interest rate swap agreements to hedge the cash flows associated with the interest payments on \$180.0 million of the Eurodollar rate based borrowings for three years. In June 2005, we entered into a forward-starting receive-variable, pay-fixed interest rate swap with a notional amount of \$50.0 million. The variable rate of interest received is the Eurodollar rate. The fixed rate of interest paid is 4.25%. The swap agreement is effective from March 31, 2007 through March 31, 2010.

On March 31, 2006, we entered into two receive-variable, pay-fixed interest rate swaps with identical terms and a combined notional amount of \$70.0 million. The swap agreements are effective March 31, 2006 through March 31, 2009. The notional amount varies throughout the term of the agreements. The combined notional amount decreases to \$35.0 million on September 29, 2006, increases to \$150.0 million on March 30, 2007, and decreases to \$75.0 million on December 31, 2007 through maturity. The variable rate of interest received is the Eurodollar rate. The fixed rate of interest paid is 5.15%. As of April 2, 2006, the fair values of these swap agreements were less than \$10,000.

Canadian Credit Facility

Borrowings under the revolving credit facility bear interest at the Canadian prime rate plus 0.50% or Canadian bankers acceptance rate plus 1.75%, at our option. Term loan borrowings bear interest at the Canadian prime rate plus 0.75% or Canadian bankers acceptance rate plus 2.00%, at our option. As of April 2, 2006, borrowings under the revolving credit facility and the term loan carried effective interest rates of 5.62% and 5.87%, respectively. As of April 2, 2006, CAD \$7.3 million (approximately \$6.2 million) was available under the revolving facility and the term loan balance was CAD \$10.6 million (approximately \$9.1 million).

Outlook

Management believes that cash generated by operations and amounts available under our credit facilities should be sufficient to meet our expected operating needs, planned capital expenditures, payments in conjunction with our lease commitments and debt service requirements over the next twelve months.

Net Operating Loss Carryforwards

As of April 2, 2006, we had approximately \$243.9 million of U.S. federal tax net operating loss carry-forwards that expire between 2016 and 2025. Approximately \$103.5 million of such carry-forwards are subject to the provisions of Internal Revenue Code Section 382. Although future earnings cannot be predicted with certainty, management currently believes that realization of the net deferred tax assets is more likely than not.

Critical Accounting Estimates

The Company's critical accounting estimates are described in its 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2006. There have been no changes to the critical accounting estimates since that filing.

Forward-Looking Statements

The information contained in “Forward Looking Statements” in the Original Filing has not been updated for information or events occurring after the date of the Original Filing and has not been updated to reflect the passage of time since the date of the Original Filing.

This report contains forward-looking statements. The words “anticipate,” “intend,” “plan,” “estimate,” “believe,” “expect,” “predict,” “potential,” “project,” “could,” “will,” “should,” “may,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All statements in this report other than statements of historical fact, including statements regarding our business strategy, future operations, financial position, estimated net sales, projected costs, projected cost savings, projected synergies, prospects, plans and objectives, as well as information concerning industry trends and expected actions of third parties, are forward-looking statements. All forward-looking statements speak only as of the date on which they are made. They rely on a number of assumptions concerning future events and are subject to a number of risks and uncertainties, many of which are outside our control, that could cause actual results to differ materially from such statements.

A description of the risk factors associated with our business is contained in Item 1A, “Risk Factors,” of our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2006 and incorporated herein by reference and in our other filings made from time to time with the Securities and Exchange Commission. These cautionary statements are to be used as a reference in connection with any forward-looking statements. These risks and uncertainties include, but are not limited to:

- the effect of general economic and competitive business conditions in the disposable food service products industry;
- realization of cost savings, synergies or revenue enhancement that we anticipated when we acquired SF Holdings;
- impact of competitive products and pricing;
- interest rate fluctuations and continuing debt obligations;
- impact on our ability to manage and grow our business if we are unable to adequately manage, integrate and implement our order management and enterprise resource planning systems;
- further consolidation in the food service and retail industries;
- availability of and increases in raw material costs;
- increases in energy and other manufacturing costs;
- fluctuations in demand for the Company’s products;
- effect of changing federal, state, foreign and local environmental and occupational health and safety laws and regulations;
- risks related to conducting business in multiple foreign jurisdictions, including foreign currency exchange rate fluctuations;
- our ability to improve existing products and develop new products;
- loss of key management and personnel;
- impact of any prolonged work stoppage;
- loss of one or more of our principal customers;
- ability to enforce our intellectual property and other proprietary rights;
- diversion of management attention from other business activities in the event we pursue additional acquisition(s) in the future; and
- potential conflicts of interest between our note holders and the stockholders of SCIC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The information in Item 3 included in the Original Filing has not been updated for information or events occurring after the date of the Original Filing and has not been updated to reflect the passage of time since the date of the Original Filing.

In the ordinary course of business, the Company is exposed to market risk-sensitive instruments in the ordinary course of business, which consists primarily of interest rate risk associated with its variable rate debt. The First Lien Facility and the Canadian Credit Facility both include a revolving and term credit facility, which bear interest at a variable rate. The Second Lien Facility consists of a term loan facility, which also bears interest at a variable rate.

The interest rate on the First Lien Facility is either Eurodollar rate based (1, 2, 3 or 6 months) plus a margin or the bank's base rate plus a margin, whichever the Company selects. For the term loan, the margin varies from 2.25% to 2.50% on the Eurodollar rate borrowing and from 1.25% to 1.50% on the base rate borrowings depending on the Company's public debt ratings. At April 2, 2006, the variable rate on borrowings excluding the effect of the interest rate swaps was 6.18% and the interest rate on borrowings under the revolving credit facility was 9.50%.

The Canadian revolving facility bears interest at the Canadian prime rate plus 0.50% or Canadian bankers acceptance rate plus 1.75%, at the Company's option, and the term loan bears interest at the Canadian prime rate plus 0.75% or Canadian bankers acceptance rate plus 2.00%, at the Company's option. As of April 2, 2006, borrowings under the revolving credit facility and the term loan carried effective interest rates of 5.62% and 5.87%, respectively.

The term loan under the Second Lien Facility bears interest, at the option of the Company, at a rate equal to LIBOR plus 4.50% per annum; or 3.50% per annum plus the higher of (a) the Bank of America prime rate or (b) the Federal Funds rate plus $\frac{1}{2}$ of one percentage point. As of April 2, 2006, the interest rate on the Second Lien Facility was 11.25%.

The First Lien Facility requires us to hedge a portion of the borrowings. On March 10, 2004, with an effective date of March 31, 2004, we entered into interest rate swap agreements to hedge \$180.0 million of Eurodollar rate loans at an average rate of 2.375% plus applicable margin for three years. In June 2005, the Company entered into a forward-starting receive-variable, pay-fixed interest rate swap with a notional amount of \$50.0 million. The variable rate of interest received is the Eurodollar rate. The fixed rate of interest paid is 4.25%. The swap agreement is effective March 31, 2007 through March 31, 2010.

On March 31, 2006, we entered into two receive-variable, pay-fixed interest rate swaps with identical terms and a combined notional amount of \$70.0 million. The swap agreements are effective March 31, 2006 through March 31, 2009. The notional amount varies throughout the term of the agreements. The combined notional amount decreases to \$35.0 million on September 29, 2006, increases to \$150.0 million on March 30, 2007, and decreases to \$75.0 million on December 31, 2007 through maturity. The variable rate of interest received is the Eurodollar rate. The fixed rate of interest paid is 5.15%. As of April 2, 2006, the fair values of these swap agreements were less than \$10,000.

As of April 2, 2006, the outstanding indebtedness under the First Lien Facility was \$660.8 million and \$107.8 million was available under the First Lien Facility. As of April 2, 2006, the outstanding indebtedness under the Second Lien Facility was \$80.0 million. As of April 2, 2006, the outstanding indebtedness under the Canadian Credit facility was CAD \$16.7 million (approximately \$14.3 million) and CAD \$7.3 million (approximately \$6.2 million) was available under the Canadian Credit Facility. Based upon the information above, the Company's annual pre-tax income would change by approximately \$5.0 million for each one-percentage point change in the interest rates applicable to the variable rate debt after giving effect to the interest rate swap agreements. The level of the exposure to interest rate movements may fluctuate significantly as a result of changes in the amount of indebtedness outstanding under the revolving credit facilities.

Item 4. Controls and Procedures.

(a) Disclosure Controls and Procedures

Our management, including our then current chief executive officer, chief operating officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by the Original Filing. Based on that evaluation, our management initially concluded and disclosed in our Original Filing that, as of the end of such period, our disclosure controls and procedures were effective. In April 2006, with the change in our management, an internal review of our business and operations was initiated which revealed that certain of our accounting practices and procedures may not have been as well-developed and/or as rigorously and consistently applied as they should have been. As soon as the issues were identified, an extensive review of our financial accounting and reporting was conducted in order to assess the full extent and impact of the identified accounting issues. The review included a focus on our accounting policies and practices, accounting records, and supporting documents. As a result of this review and in connection with the restatement of our consolidated financial statements, our management, including our chief executive officer and interim chief financial officer, has re-evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act of 1934) as of the end of the period covered by the Original Filing. Based on such re-evaluation, our chief executive officer and our interim chief financial officer have concluded that, as of April 2, 2006, our disclosure controls and procedures were not effective because of certain material weaknesses described below.

A material weakness in internal control over financial reporting (as defined in paragraph 140 of Auditing Standard No. 2 of the Public Company Accounting Oversight Board) 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 consolidated financial statements will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects a company’s ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles (GAAP) such that there is more than a remote likelihood that a misstatement of the company’s annual or interim consolidated financial statements that is more than inconsequential will not be prevented or detected.

In assessing the effectiveness of our disclosure controls and procedures, management identified the following material weaknesses in our internal control over financial reporting as of April 2, 2006:

- *Control environment:* We did not maintain an effective control environment. The control environment is the atmosphere in which a company’s internal control procedures operate. Specifically, at our Company, the culture in the finance and accounting group did not promote open dialogue or the sharing of knowledge and information among colleagues, nor did it encourage team members to challenge or question the assumptions and rationale of the accounting leadership. In addition, certain corporate governance practices were not adequately established or consistently followed, such as insufficient independence in certain key reporting lines, excessive amounts of unilateral decision making authority in the accounting department and minimal visibility to financial decision making across the senior management team. Additional deficiencies in our control environment included the failure to: (i) formally document and distribute accounting policies, practices and procedures to ensure accounting methods and assumptions were adequately documented and consistently applied across the Company; (ii) establish adequate controls over the selection, application and documentation of our accounting policies to ensure all accounting policies were in accordance with GAAP; and (iii) adequately train our personnel in the application of GAAP commensurate with our financial reporting requirements. This material weakness contributed to the additional material weaknesses noted below.

- *Controls over review and reconciliation of period end balances:* We did not have effective policies and procedures to review and reconcile certain accrued liabilities and valuation reserves. This deficiency resulted in errors in the (i) accrued vacation balances; (ii) accrued freight charges; (iii) prepaid expenses; and (iv) valuation of scrap inventory.
- *Controls over accounts payable cutoff:* After the acquisition of SF Holdings, we consolidated the accounts payable function and implemented a new accounts payable system; however, we did not implement effective policies and procedures to appropriately transition relevant information and knowledge of existing staff to the remaining and new staff. This deficiency resulted in errors in cost of goods sold and selling, general and administrative expenses.
- *Controls over timely recognition of credits to customers:* We did not establish appropriate policies and procedures and did not take steps to ensure accounting personnel possessed the necessary level of technical competence or training to properly account for sales credits issued to customers. Specifically, we determined that we did not have adequate policies and procedures to appropriately evaluate and review (i) sales incentives offered to customers; (ii) cash discounts taken by customers; and (iii) credit memoranda issued to customers. This deficiency resulted in errors in net sales.
- *Controls over the spare parts inventory valuation:* We did not establish appropriate policies and procedures to ensure the accounting for the reserve for obsolete spare parts inventory was consistent among all accounting entities at the time of the SF Holdings acquisition. In addition, we did not establish appropriate policies and procedures to ensure that the required entries were recorded or that the existing reserve balances were reconciled to the appropriate amount. This deficiency resulted in adjustments to our cost of goods sold.

These material weaknesses resulted in management's failure to prevent or detect errors in the Company's consolidated financial statements. As a result, the Company has restated its consolidated financial statements for the thirteen weeks ended April 2, 2006, the fiscal years ended January 1, 2006 and December 31, 2004 and 2003, and interim periods within the fiscal years ended January 1, 2006 and December 31, 2004.

In light of the material weaknesses in our internal control over financial reporting described above, we performed additional analysis and other post-closing procedures to ensure our consolidated financial statements are prepared in accordance with GAAP. We implemented certain changes in internal control over financial reporting and will continue to implement remediation efforts, as described below under sections (b) and (c). Accordingly, we believe that the consolidated financial statements included in this Form 10-Q/A fairly present in all material respects our financial position, results of operations and cash flows for the periods presented.

As part of our accounting review, certain information came to management's attention that indicated certain errors may have been the result of intentional actions. We have concluded our investigation of these matters and determined that an employee, who is no longer with the Company, failed to record a portion of the Company's freight expense for fiscal year 2005 despite receiving information that the methodology used to calculate the freight expense was flawed. This employee was not a member of executive management but was a key employee involved in the performance of the Company's disclosure controls and procedures. As a result, our cost of goods sold was understated by approximately \$4.1 million for the fiscal year ended January 1, 2006.

(b) Changes in Internal Control Over Financial Reporting

In the Original Filing, our management concluded that there had not been any changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the thirteen weeks ended April 2, 2006, that had materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

Subsequently, in connection with the identification of the material weaknesses described in section (a) above and the remediation of such material weaknesses described in section (c) below, we have made significant improvements and changes to our internal control over financial reporting through October 16, 2006 (the filing date of this document), including:

- We have hired or promoted critical new senior personnel in the finance and accounting department, including a new interim chief financial officer, a corporate controller and two vice presidents of finance, to provide new leadership and to set the appropriate tone at the top, and realigned certain key reporting relationships.
- We have established procedures for senior management to review financial information in a timely fashion to allow for visibility and to proactively comment thereon prior to issuance of our consolidated financial statements.
- We have established procedures that require the accounting leadership team to formally review and reconcile all material balance sheet accounts as part of the monthly close process and formally document their review.
- We reorganized our department responsible for reviewing credit memos. The reorganization included the implementation of procedures to research customer claims and operate more efficiently. In addition, we have hired additional personnel to timely reconcile credit memos to outstanding accounts receivable balances and resolve discrepancies between our records and customer claims.
- We have established accounting procedures related to recognition of sales incentives provided to our customers. We also reviewed the accounting treatment for these transactions with the appropriate accounting and management personnel to ensure sales incentives are identified and accounted for appropriately.
- We restructured the accounts payable department by hiring a new manager, realigning responsibilities within the department, hiring additional personnel and implementing new procedures.
- We have initiated a periodic process through which the accounting, legal and human resources departments conduct a coordinated review of the calculation of the liability for accrued vacation pay in order to ensure the liability complies with the Company's policies as well as requirements legally mandated by certain jurisdictions in which the Company operates.

(c) Remediation Plan

Management is committed to improving the overall disclosure controls and procedures within our organization to remediate the material weaknesses identified in section (a) above, and ensure mitigating controls are in place where necessary. Therefore, in response to the foregoing and as part of our remediation efforts, our Board of Directors has approved and adopted the following remediation plan:

1. We will reinforce our Code of Conduct and Ethics Helpline, which we formally adopted and implemented in January 2006 among all employees, emphasizing that questionable actions must be reported and that alleged violations of the code are unacceptable and will not be tolerated. In that regard, we will re-emphasize our expectation that all business activities are conducted in compliance with our internal controls and Code of Conduct. In addition, we will review and revise our corporate governance practices including establishing appropriate reporting relationships among key employees, senior management and the Board of Directors.
2. We will revise and formally document our accounting policies and procedures by implementing a policies and procedures manual which we expect to complete by fiscal year end 2006 and fully implement during the first quarter 2007. These policies and procedures will be designed to ensure appropriate internal controls are in place and effective and to ensure a consistent approach for accounting and financial reporting. These policies will address all key financial reporting risk

areas in our business, including the areas in which we have noted errors above. Among others, the policies will:

- require accounting management to formally review and reconcile all material balance sheet accounts as part of the monthly close process and to formally document their review;
- revise and refine our disclosure controls and procedures to ensure that the process is conducted in an open environment and that our resulting disclosures are subject to adequate outside review and a rigorous vetting process prior to finalizing and releasing our financial statements;
- establish formal policies and procedures to account for sales discounts and related incentives offered to the Company's customers;
- document standard procedures to research customer claims;
- establish a liability for freight charges that have been incurred through the use of a standardized report that monitors this activity and initiate a regular review of the activity by appropriate supply chain and operations personnel;
- require the accounting department to conduct a coordinated review of the accounting entries that require support and information from other departments, including legal, human resources, supply chain, operations and sales, in order to ensure the balances recorded comply with the Company's policies, actual experience and legal requirements, and properly account for the related transactions;
- establish a formal methodology and calculation of the reserve for obsolete spare parts inventory that will apply consistently among all operating units; and
- establish a formal methodology and calculation to reserve for excess and obsolete finished goods inventory that the Company will apply consistently among all operating units.

In addition, the Company will provide training on the application of the new policies on a company-wide basis, as needed.

3. As noted above, during 2006, we hired and/or promoted key senior personnel within the accounting and finance department, including a new interim chief financial officer, a corporate controller and two vice presidents of finance. We intend to continue to identify strong talent both within the organization and externally in order to promote and recruit individuals with the critical skills necessary to enrich the department. Part of that effort includes the ongoing search for a permanent chief financial officer. We have also restructured the accounts payable department by hiring a new manager, realigning responsibilities within the department, hiring additional personnel and implementing new procedures. Specifically, the department has initiated several activities designed to help ensure accuracy in accounting and reporting, including: (i) developing new reports and a tracking matrix to improve communication within the Company; (ii) identifying key performance indicators and processes to track various statistics to allow for the recognition of developing issues in a rapid manner; (iii) working as part of a cross-functional team to develop a standardized receiving process manual; (iv) realigning work assignments so that individuals are assigned to certain categories of accounts payable; and (v) developing a process to estimate and track accounts payable for non-purchase order related invoices.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The information in Item 1 included in the Original Filing has not been updated for information or events occurring after the date of the Original Filing and has not been updated to reflect the passage of time since the date of the Original Filing.

We are involved in various claims and legal actions arising from time to time in the ordinary course of business. While the outcome of these claims and actions cannot be predicted with certainty, management believes that we are not party to any pending legal proceedings, the ultimate disposition of which would have a material adverse effect on the Company's business, consolidated financial position, results of operations, or liquidity.

Item 1A. Risk Factors.

The information in Item 1A included in the Original Filing has not been updated for information or events occurring after the date of the Original Filing and has not been updated to reflect the passage of time since the date of the Original Filing.

We do not believe there have been any material changes in our risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended January 1, 2006 filed with the Securities and Exchange Commission on March 30, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The information in Item 2 included in the Original Filing has not been updated for information or events occurring after the date of the Original Filing and has not been updated to reflect the passage of time since the date of the Original Filing.

Not applicable.

Item 3. Defaults Upon Senior Securities.

The information in Item 3 included in the Original Filing has not been updated for information or events occurring after the date of the Original Filing and has not been updated to reflect the passage of time since the date of the Original Filing.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

The information in Item 4 included in the Original Filing has not been updated for information or events occurring after the date of the Original Filing and has not been updated to reflect the passage of time since the date of the Original Filing.

Not applicable.

Item 5. Other Information.

The information in Item 5 included in the Original Filing has not been updated for information or events occurring after the date of the Original Filing and has not been updated to reflect the passage of time since the date of the Original Filing.

Not applicable.

Item 6. Exhibits.

Pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain currently dated certifications of our Chief Executive Officer and interim Chief Financial Officer. These certifications, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, are attached to this Form 10-Q/A as Exhibits 31.1 and 31.2 and 32.1 and 32.2.

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOLO CUP COMPANY

Date: October 16, 2006

By: /s/ Eric A. Simonsen

Eric A. Simonsen

Interim Chief Financial Officer

(Principal Financial and Accounting Officer and Duly Authorized Officer)

**INDEX OF EXHIBITS FILED WITH OR
INCORPORATED BY REFERENCE INTO
FORM 10-Q/A OF SOLO CUP COMPANY
FOR THE THIRTEEN WEEKS ENDED APRIL 2, 2006**

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

CERTIFICATIONS

I, Robert M. Korzenski, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Solo Cup Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 16, 2006

By: /s/ Robert M. Korzenski
Robert M. Korzenski
Chief Executive Officer

CERTIFICATIONS

I, Eric A. Simonsen, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Solo Cup Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 16, 2006

By: /s/ Eric A. Simonsen
Eric A. Simonsen
Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Solo Cup Company (the "Company") on Form 10-Q/A for the thirteen weeks ended April 2, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert M. Korzenski, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert M. Korzenski

Robert M. Korzenski
Chief Executive Officer

October 16, 2006

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Solo Cup Company (the "Company") on Form 10-Q/A for the thirteen weeks ended April 2, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric A. Simonsen, as Interim Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Eric A. Simonsen

Eric A. Simonsen
Interim Chief Financial Officer

October 16, 2006