IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF MISSOURI
WESTERN DIVISION

Securities and Exchange Commission, Plaintiff, v. Stephanie S. Ruskey, Defendant.	)))))))))	Case No. 4:08-cv-00676-DW

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission"), for its complaint, alleges as follows:

RELATED ENTITY AND DEFENDANT

1. American Italian Pasta Company ("AIPC") is a Delaware corporation with its principal place of business in Kansas City, Missouri. The company produces and markets dry pasta. At all relevant times, AIPC's common stock was registered pursuant to Section 12(b) of the Securities Exchange Act of 1934 ("Exchange Act"), and the company filed annual, quarterly, and current reports with the Commission on Forms 10-K, 10-Q, and 8-K, respectively. The company's fiscal year end is the last Friday of September or the first Friday of October, resulting in either a 52 or 53-week fiscal year. AIPC's common stock was traded on the New York Stock Exchange until December 20, 2006, when the NYSE suspended trading based on AIPC's failure to keep current its Commission filings. AIPC's stock is currently quoted on www.pinksheets.com, which is operated by Pink OTC Markets, Inc.

2. Stephanie S. Ruskey ("Ruskey" or "Defendant"), age 43, of Odessa, Missouri, was AIPC's controller and director of SEC reporting from April 1998 to April 2004. Ruskey served as director of regulatory affairs and external reporting from May 2004 to April 2005, and director of accounting from May 2005 until June 2006, when she resigned. At all relevant times, Ruskey reported to AIPC's vice president of accounting and finance but also worked directly with AIPC's chief financial officer. Ruskey was licensed as a Certified Public Accountant in Missouri and in Kansas, but her licenses lapsed in 1992. At all relevant times, Ruskey was involved in significant corporate accounting functions at AIPC which, among other things, included assisting in the preparation of AIPC's financial statements and filings with the Commission on Forms 10-K and 10-Q, signing representation letters to AIPC's auditor, and responsibilities with respect to AIPC's internal controls.

JURISDICTION AND VENUE

3. This Court has jurisdiction over this action pursuant to Sections 21(d) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d) and 78aa]. Venue lies in this Court pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa].

4. Certain of the transactions, acts, practices and courses of business constituting the violations of law alleged herein occurred within this judicial district.

5. In connection with the transactions, acts, practices, and courses of business described in this Complaint, Defendant, directly or indirectly, has made use of the means or instrumentalities of interstate commerce, of the mails, of the facilities of a national securities exchange, and/or of the means and instruments of transportation or communication in interstate commerce.

SUMMARY

6. During its fiscal years ended September 27, 2002 and October 3, 2003, and the first and second quarters of its fiscal year ended October 1, 2004, AIPC inflated its reported income and earnings per share ("EPS") through a scheme orchestrated by senior executives above Ruskey's level in AIPC's corporate hierarchy. Ruskey failed to take actions to ensure that AIPC's accounting complied with generally accepted accounting principles ("GAAP"), and she knew or was reckless in not knowing that AIPC's quarterly and annual financial statements for fiscal years 2002 through fiscal 2004 were misleading. In addition, the representation letters to AIPC's auditor that Ruskey signed in connection with the auditor's audits and reviews of AIPC's financial statements falsely stated that the financial statements were prepared in accordance with GAAP.

7. On June 16, 2008, AIPC filed restated consolidated financials statements. The restatement corrected both fraudulent errors and errors arising from inadequate internal controls and reduced AIPC's pre-tax income for fiscal year 2002 through the second quarter of fiscal year 2004 by approximately $59 million or 66 percent. AIPC admitted in the June 16, 2008 filing that the restatement "corrects errors arising from poor record keeping, recording transactions without economic substance, recording unsupported journal entries to the general ledger, not maintaining a proper tone as to internal controls and failure to adjust accounts for required amounts."

8. As a result of her conduct, Ruskey, directly and indirectly, has engaged in, and unless restrained and enjoined by this Court, will in the future engage in, transactions, acts, practices, and courses of business that violate Rules 13b2-1 and 13b2-2 under the Exchange Act [17 C.F.R. §§ 240.13b2-1 and 240.13b2-2] and that aid and abet violations of Sections 13(a) and 13(b)(2) of the Exchange Act [15 U.S.C. §§ 78m(a) and 78m(b)(2)] and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder [17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11, and 240.13a-13].

9. The Commission brings this action pursuant to the authority conferred upon it by Section 21 of the Exchange Act [15 U.S.C. § 78u] for an order permanently restraining and enjoining Defendant, imposing on Defendant a civil money penalty, and granting other equitable relief.

FACTS

10. From AIPC's fiscal year 2002 through the second quarter of its fiscal year 2004, senior AIPC executives above Ruskey emphasized that the company had consistently met EPS targets and predicted AIPC would continue to generate exceptional income and EPS growth. During this time period, however, AIPC failed to achieve its income and EPS growth targets. In response, the senior executives engaged in a variety of fraudulent accounting to increase AIPC's reported income and EPS.

11. As a result, in its quarterly and annual financial statements for its 2002 and 2003 fiscal years, and for the first and second quarters of its 2004 fiscal year, AIPC reported materially misstated income and EPS. AIPC included these misleading financial results in Forms 10-K and 10-Q filed with the Commission, and in earnings releases attached to Forms 8-K filed with the Commission. In October 2005, AIPC announced that it would restate financial results for these periods, and in June 2008 AIPC filed the restated results with the Commission.

12. Ruskey knew or was reckless in not knowing that certain of AIPC's accounting was contrary to GAAP including in the following areas: (a) the capitalization of internal pasta manufacturing costs to manufacturing assets; (b) the capitalization of internal management information systems ("MIS") labor costs; (c) the improper recognition of revenue; (d) the failure to write-off a receivable; (e) the failure to write down overstated inventory; and (f) the improper elimination of a liability.

13. During its 2002 and 2003 fiscal years, and the first and second quarters of its 2004 fiscal year, AIPC capitalized more than $10 million of internal pasta manufacturing costs to manufacturing assets contrary to GAAP. AIPC recorded capitalization of internal costs to manufacturing assets based on monthly instructions from AIPC's operations department. Ruskey knew or was reckless in not knowing (a) that booking additional capitalization was part of an effort by senior AIPC executives to ensure that the company would meet EPS targets, and (b) that the operations department generally instructed that additional capitalization should be booked even if it could not be adequately justified. Ruskey failed to implement accounting controls designed to prevent and failed to otherwise prevent AIPC from booking capitalization based on such instructions.

14. During its 2002 and 2003 fiscal years, and the first and second quarters of its 2004 fiscal year, AIPC improperly capitalized approximately $1.4 million of internal MIS labor costs. AIPC did not calculate capitalized internal MIS labor based on specific tasks, time, and compensation rates. Rather, AIPC's budgeted capitalized internal MIS labor was, in general, simply a percentage of total budgeted MIS department labor, and the company generally booked capitalization based on its budget. Ruskey knew or was reckless in not knowing that capitalized internal MIS labor was not being computed based on employee time and that the amounts being capitalized were excessive, but she failed to implement accounting controls designed to prevent and failed to otherwise prevent AIPC from capitalizing excessive amounts of internal MIS labor.

15. During the third and fourth quarters of its 2002 fiscal year, AIPC executives determined that one of the company's customers might fail to purchase the minimum amount of pasta required under its supply agreement with AIPC. Under the supply agreement, if such a shortfall materialized, the customer would have had to pay AIPC, as a penalty, a higher price for its pasta

purchases during fiscal 2003. Ruskey allowed the posting of journal entries booking a total of approximately $383,000 of additional revenue for the third and fourth quarters of fiscal 2002 based on the estimated price increase, although she knew or was reckless in not knowing that this accounting was contrary to GAAP. During fiscal 2003, another AIPC customer failed to purchase the minimum amount of pasta set forth in its supply agreement with AIPC and, as a result, agreed to pay AIPC a price increase of up to $320,000 on future purchases of pasta beginning in fiscal 2004. Ruskey knew that AIPC booked the $320,000 as fiscal 2003 revenue, and knew or was reckless in not knowing that this accounting treatment was contrary to GAAP.

16. During its 2003 fiscal year, AIPC had a $632,000 receivable on its books that was based on a lawsuit it had filed against one of its suppliers that had allegedly sold defective packaging materials to AIPC. During the third quarter of fiscal 2003, the parties reached a settlement under which the supplier paid $300,000 in cash to AIPC and provided AIPC the right to make future purchases of packaging materials from the supplier at a discount. At the direction of senior AIPC executives, Ruskey improperly maintained $332,000 of the receivable on AIPC's books based on the right to make discounted purchases. During the closing process for the first quarter of its 2004 fiscal year, Ruskey knew or was reckless in not knowing that AIPC had determined not to purchase any additional packaging materials from the supplier. AIPC amortized the receivable, but Ruskey knew or was reckless in not knowing that the company was required by GAAP to write-off the receivable immediately.

17. In fiscal 2003, AIPC paid less for durum wheat than was budgeted in its standard manufacturing costs, such that the company's fiscal 2003 year-end inventory balance (which was valued at standard costs) was overstated by more than $1 million. Contrary to GAAP, AIPC failed to reduce the value of its fiscal year-end inventory to the lower actual cost, and thereby

overstated pretax income. Ruskey failed to prevent this improper accounting although she knew or was reckless in not knowing that it was contrary to GAAP.

18. For fiscal year 2004, AIPC budgeted the elimination of its $670,000 compensated absences liability based on a plan to adopt a "use-or-lose" compensated absence policy that did not permit employees to carry over unused time-off from one year to the next. Instead of implementing the use-or-lose policy, AIPC adopted a policy that allowed employees to carry over up to 40 hours of unused compensated absences into fiscal 2005. Despite this change, in the first quarter of 2004, AIPC eliminated, contrary to GAAP, the full amount of the liability and thereby reduced expenses by $670,000. Ruskey knew or was reckless in not knowing that the "use-or-lose" policy was not implemented and failed to prevent this improper entry. Further, AIPC's Form 10-Q for the first quarter of fiscal year 2004, which Ruskey prepared, improperly failed to disclose the one-time $670,000 benefit to AIPC's quarterly earnings from the liability elimination.

FIRST CLAIM FOR RELIEF
(Rules 13b2-1 and 13b2-2 under the Exchange Act)
17 C.F.R. §§ 240.13b2-1 and 240.13b2-2

19. Plaintiff repeats and realleges paragraphs 1 through 18 above.

20. By engaging in the conduct described herein, Ruskey violated and unless restrained and enjoined will violate Rules 13b2-1 and 13b2-2 under the Exchange Act.

SECOND CLAIM FOR RELIEF
(Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13)
15 U.S.C. § 78m(a) and 17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11 and 240.13a-13

21. Plaintiff repeats and realleges paragraphs 1 through 18 above.

22. By engaging in the conduct described herein, Ruskey aided and abetted AIPC's violations of, and unless restrained and enjoined will in the future aid and abet violations of, Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11 and 13a-13 thereunder.

THIRD CLAIM FOR RELIEF
(Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act)
15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)

23. Plaintiff repeats and realleges paragraphs 1 through 18 above.

24. By engaging in the conduct described herein, Ruskey aided and abetted AIPC's violations of, and unless restrained and enjoined will in the future aid and abet violations of, Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

I. Find that the Defendant committed the violations alleged;

II. Enter an Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, permanently restraining and enjoining Defendant, her agents, servants, employees, and attorneys, and all persons in active concert or participation with them, from violating, directly or indirectly, the provisions of law and rules alleged in this complaint;

III. Order Defendant Ruskey to pay civil money penalties under Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)];

IV. Grant such other relief and this Court may deem just or appropriate; and

V. Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to enforce the terms of any orders or judgments that may be entered.

Dated: September 15, 2008

Respectfully submitted,

/s/ Mary S. Brady

Mary S. Brady
Ian S. Karpel
Attorneys for Plaintiff
Securities and Exchange Commission
1801 California Street, Suite 1500
Denver, CO 80202
Phone: (303) 844-1000
Fax: (303) 844-1010

Designated for Purposes of Receiving Service:
John F. Wood, United States Attorney
Charles M. Thomas, Assistant United States Attorney
U.S. Attorney's Office
400 E. 9th Street
Kansas City, MO
Telephone: (816) 426-3122
Facsimile: (816) 426-4210