

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, and the findings contained in Section III.3. below, which are admitted, Respondent consents to the entry of this Order Instituting Administrative Proceedings Pursuant to Rule 102(e) of the Commission’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds that:

1. Watson, age 55, a resident of Kansas City, Missouri, was hired by American Italian Pasta Company (“AIPC”) as its chief financial officer in 1994. From approximately October 2000 through March 2003, Watson served as AIPC’s executive vice president of operations and corporate development. From approximately April 2003 through December 2003, when he left AIPC, Watson served as AIPC’s executive vice president of corporate development and strategy. From approximately January 2004 through December 2005, Watson agreed to consult with AIPC on an as-needed basis. Watson was licensed as a certified public accountant in Missouri and Kansas, but allowed his licenses to expire in 1994.

2. At all relevant times, AIPC was a Delaware corporation with its principal place of business in Kansas City, Missouri. AIPC is a producer and marketer of 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”). The company filed annual, quarterly, and current reports with the Commission on Forms 10-K, 10-Q, and 8-K, respectively. At all relevant times, AIPC stock was traded on the New York Stock Exchange (“NYSE”). In July 2010, Ralcorp Holdings, Inc. acquired AIPC.

3. On October 22, 2008, the Commission filed its amended complaint against Watson in the United States District Court for the Western District of Missouri (Civil Action No. 4:08-cv-0067). On January 28, 2011, the court entered an order permanently enjoining Watson, by consent, from future violations of Sections 10(b) and 13(b)(5) of the Exchange Act and Rules 10b-5, 13b2-1, and 13b2-2 thereunder, and from aiding and abetting violations of Sections 13(a) and 13(b)(2)(A) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder. By consent, the court further ordered that Watson pay \$397,113 in disgorgement; \$189,464 in prejudgment interest; and a \$75,000 civil money penalty. The court further ordered by consent that Watson be prohibited, for five (5) years following the date of the court’s order, from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act or that is required to file reports pursuant to Section 15(d) of the Exchange Act.

4. The Commission's amended complaint alleged, among other things, that Watson and others at AIPC engaged in a fraudulent scheme that hid from the investing public the true financial state of the company by filing materially false and misleading statements in the company's annual reports on Forms 10-K, quarterly reports on Forms 10-Q, and current reports on Forms 8-K for AIPC's fiscal years 2002, 2003, and 2004. The complaint alleged that to meet aggressive external targets, Watson and others engaged in numerous fraudulent accounting practices that departed from generally accepted accounting principles, including, among other things, capitalizing improperly millions of dollars of normal operating costs; overstating improperly by millions of dollars the company's spare parts inventory; and structuring round-trip cash transactions.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanction agreed to in Respondent Watson's Offer.

Accordingly, it is hereby ORDERED, effective immediately, that:

A. Respondent is suspended from appearing or practicing before the Commission as an accountant.

B. After five (5) years from the date of this order, Respondent may request that the Commission consider his reinstatement by submitting an application (attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission. Such an application must satisfy the Commission that Respondent's work in his practice before the Commission will be reviewed either by the independent audit committee of the public company for which he works or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or

2. an independent accountant. Such an application must satisfy the Commission that:

(a) Respondent, or the public accounting firm with which he is associated, is registered with the Public Company Accounting Oversight Board ("Board") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

(b) Respondent, or the registered public accounting firm with which he is associated, has been inspected by the Board and that inspection did not identify any criticisms of or potential defects in the Respondent's or the firm's quality control system that would indicate that the Respondent will not receive appropriate supervision;

(c) Respondent has resolved all disciplinary issues with the Board, and has complied with all terms and conditions of any sanctions imposed by the Board (other than reinstatement by the Commission); and

(d) Respondent acknowledges his responsibility, as long as Respondent appears or practices before the Commission as an independent accountant, to comply with all requirements of the Commission and the Board, including, but not limited to, all requirements relating to registration, inspections, concurring partner reviews and quality control standards.

C. The Commission will consider an application by Respondent to resume appearing or practicing before the Commission provided that his state CPA license is current and he has resolved all other disciplinary issues with the applicable state boards of accountancy. However, if state licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Respondent's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

By the Commission.

Elizabeth M. Murphy
Secretary

Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of the Order Instituting Administrative Proceedings Pursuant to Rule 102(e) of the Commission's Rules of Practice, Making Findings, and Imposing Remedial Sanctions ("Order"), on the Respondent and his legal agent.

The attached Order has been sent to the following parties and other persons entitled to notice:

Honorable Brenda P. Murray
Chief Administrative Law Judge
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