

UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF MISSOURI  
WESTERN DIVISION

IN RE AMERICAN ITALIAN PASTA COMPANY SECURITIES ) Consolidated Civil Action No.  
LITIGATION ) 05-CV-0725-W-ODS

**NOTICE OF PENDENCY AND PROPOSED PARTIAL SETTLEMENT OF CLASS ACTION**

TO: All persons who purchased American Italian Pasta Company (“AIPC”) common stock between January 23, 2002, and August 9, 2005 (the “Class”), or between August 10, 2005, and August 17, 2005 (the “Stub Period Class”).

**YOU ARE HEREBY NOTIFIED, pursuant to Rule 23 of the Federal Rules of Civil Procedure (“Rule 23”) and an Order of the United States District Court for the Western District of Missouri (the “Court”) of the pendency of a class action lawsuit on behalf of the Class and Stub Period Class.**

**YOU ARE ALSO HEREBY NOTIFIED, pursuant to Rule 23 and an Order of the Court, that there is a proposed partial settlement of certain claims in the lawsuit against certain defendants. This partial settlement is on behalf of members of the Class and the Stub Period Class. You could get a payment from the proposed settlement described below.**

*A Federal Court authorized this Notice. This is not a solicitation from a lawyer.*

This Notice explains important rights you may have. Your legal rights are affected whether or not you act. Please read this Notice carefully.

**COVER PAGE REQUIRED BY FEDERAL LAW**

1. **Statement of Class Members’ Recovery:** This Notice of Pendency and Proposed Partial Settlement of Class Action (the “Notice”) has been sent to you pursuant to an Order of the Court in the class action bearing the caption *In re American Italian Pasta Company Securities Litigation*, No. 05-CV-0725-W-ODS (the “Action”). One of the purposes of this Notice is to inform you of the proposed partial settlement of the Action (the “Partial Settlement”) with certain defendants for approximately \$25,000,000 (the “Partial Settlement Amount”), comprised of \$11,000,000 in cash, plus certain interest (the “Settlement Cash”), and \$14,000,000 worth of AIPC common stock (subject to certain potential adjustments described below). This Notice describes the rights you may have in connection with the Partial Settlement, what steps you may take in relation to the Partial Settlement, and provides information about the hearing that will be held by the Court to consider the fairness, reasonableness, and adequacy of the Partial Settlement. In order to receive financial proceeds from the Partial Settlement, you will need to file a Proof of Claim and Release form (“Claim Form”), which is attached hereto.

2. **Reasons for the Partial Settlement with Certain Defendants:** The Partial Settlement resolves claims against AIPC and certain of its current and former officers and directors (the “Settling Defendants”) regarding alleged violations of the federal securities laws. It does not resolve claims against AIPC’s outside auditor, Ernst & Young, LLP (“Ernst”). By entering into the Partial Settlement, the Settling Defendants do not admit any allegations of wrongdoing. In light of the amount of the Partial Settlement and the immediacy of recovery to the members of the Class and Stub Period Class, Lead Plaintiff believes that the proposed Partial Settlement is fair, reasonable and adequate, and in the best interests of the Class and the Stub Period Class. The Partial Settlement provides a substantial benefit, namely \$25,000,000 in cash and common stock, less the various deductions and subject to certain potential adjustments described in this Notice, as compared to the risk that a similar, smaller, or no recovery would be achieved after a trial and appeals, possibly years in the future, in which the Settling Defendants would have the opportunity to assert substantial defenses to the claims brought against them.

3. **Statement of Average Amount of Damage Per Share:** Lead Plaintiff and the Settling Defendants do not agree on the average amount of damages per share that would be recoverable if Lead Plaintiff were to have prevailed on each claim alleged. The issues on which the parties disagree include: (1) the appropriate economic model for determining the amount by which AIPC’s common stock was allegedly artificially inflated (if at all); (2) the amount by which AIPC common stock was allegedly artificially inflated (if at all); (3) the various market forces influencing the trading price of AIPC common stock; (4) the extent to which external factors, such as general market conditions, influenced the trading price of AIPC common stock; and (5) the extent to which the various matters that Lead Plaintiff alleged were false or misleading influenced (if at all) the trading price of AIPC common stock.

4. In the opinion of Lead Plaintiff’s Counsel, the Partial Settlement represents a significant portion of the damages that would likely be awarded by a jury. More importantly, the Partial Settlement represents a very significant portion of the damages that would likely be collected from Settling Defendants, given the Company’s limited resources to satisfy any potential judgment and limited insurance coverage.

5. Lead Plaintiff’s damages expert estimates that approximately 23.4 million shares of AIPC common stock traded, and were damaged, during the Class and Stub Periods. Assuming that the owners of all affected AIPC shares elect to participate in the Partial Settlement, the average recovery per share could be \$1.07, before deduction of any fees, expenses, costs, and awards described herein. The actual amount disbursed to members of the Class and Stub Period Class that participate in the Partial Settlement may be more or less than this figure.

6. **Statement of Attorney Fees and Expenses:** Lead Plaintiff’s Counsel has not received any payment for its services in conducting this litigation on behalf of Lead Plaintiff and the members of the Class and Stub Period Class, nor has it been reimbursed for its out-of-pocket expenditures. If the Partial Settlement is approved by the Court, such counsel will apply to the Court for attorneys’ fees not to exceed 25% of the Partial Settlement Amount (if awarded, such a fee would approximate the aggregate lodestar of plaintiffs’ counsel to date), and reimbursement of expenses not to exceed \$1,250,000. Lead Plaintiff’s Counsel will also request that \$750,000 be set aside to establish a litigation fund to defray deposition and expert related expenses associated with the continued litigation against Ernst on behalf of the Class. Such fees and expenses shall be paid from the Partial Settlement Amount. If the amount requested by counsel is approved by the Court, the average cost would be approximately \$0.35 per damaged share. In addition, a Compensatory Award for the time and expenses incurred by Lead Plaintiff will be sought, not to exceed \$40,000.

7. **Identification of Lead Plaintiff’s Counsel:** For further information regarding this Partial Settlement you may contact Marc I. Gross, Esq., Pomerantz Haudek Block Grossman & Gross LLP, 100 Park Avenue, New York, NY 10017, [pomlaw.com](http://pomlaw.com). **DO NOT CONTACT THE COURT.**

**YOUR LEGAL RIGHTS AND OPTIONS IN THIS PARTIAL SETTLEMENT:**

**SUBMIT A CLAIM FORM POSTMARKED BY MARCH 10, 2008, OR 30 DAYS AFTER ENTRY OF THE COURT’S ORDER APPROVING PARTIAL SETTLEMENT, WHICHEVER IS LATER EXCLUDE YOURSELF BY SENDING A WRITTEN REQUEST FOR EXCLUSION POSTMARKED NO LATER THAN JANUARY 18, 2008**

The only way to get a payment.

**OBJECT IN WRITING SO THAT IS RECEIVED BY THE COURT NO LATER THAN JANUARY 18, 2008**

Get no payment. This is the only option that allows you to ever be part of any other lawsuit against the Defendants with respect to the claims in this case.

**REQUEST NOTICE OF CHANGE OF PLAN OF ALLOCATION POSTMARKED BY JANUARY 18, 2008**

Write to the Court and explain why you do not like the Partial Settlement.

**GO TO A HEARING ON FEBRUARY 8, 2008, BY SENDING A WRITTEN REQUEST THAT IS RECEIVED BY THE COURT NO LATER THAN JANUARY 18, 2008**

You will be notified if the plan of allocation of the Partial Settlement is modified in any manner, including by Court order.

**DO NOTHING**

Ask to speak in Court about the fairness of the Partial Settlement.

Get no payment. Give up your rights. Alternatively, submit a claim.

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**WHY DID I GET THIS NOTICE?**

8. A class action is a lawsuit in which one of more persons sues on behalf of all other persons who have similar claims.
9. On January 19, 2006, a complaint was filed in the United States District Court for the Western District of Missouri (the “Court ) against defendants American Italian Pasta Company (“AIPC or the “Company ), Timothy S. Webster, Horst W. Schroeder, George D. Shadid, Warren B. Schmidgall, Walter N. George, Jerry H. Dear, James E. Heeter, William R. Patterson, Jonathan E. Baum, and Ernst (all defendants other than Ernst are collectively referred to as the “AIPC Defendants ; all defendants are collectively referred to as “Defendants ). This complaint alleged that Defendants issued false and misleading statements, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934.
10. On March 26, 2007, the Court certified this lawsuit as a class action on behalf of all persons who purchased AIPC common stock on or after January 23, 2002, and who continued to hold such shares on August 9, 2005 (the “Class ).
11. On October 26, 2007, the Lead Plaintiff in this case entered into the proposed Partial Settlement with the AIPC Defendants (the “Settling Defendants ).
12. On November 5, 2007, the Court granted preliminary approval of the proposed Partial Settlement. The Court also expanded the definition of those who may participate in the Partial Settlement to include all members of the Class, as well as those who purchased AIPC stock on or after August 10, 2005, and who continued to hold such shares on August 17, 2005 (the “Stub Period Class ).
13. Although the proposed Partial Settlement seeks to resolve the claims against the Settling Defendants, the claims asserted against defendant Ernst will continue to be litigated on behalf of the Class (but not the Stub Period Class) regardless of whether the proposed Partial Settlement is approved.
14. **YOU RECEIVED THIS NOTICE BECAUSE YOU HAVE A RIGHT TO KNOW THAT A CLASS ACTION HAS BEEN CERTIFIED AND THAT, IF YOU FIT WITHIN THE DEFINITION OF THE CLASS OR THE STUB PERIOD CLASS, YOU WILL BE DEEMED PART OF THE CLASS OR THE STUB PERIOD CLASS UNLESS YOU EXPRESSLY EXCLUDE YOURSELF FROM IT IN WRITING PURSUANT TO THE INSTRUCTIONS BELOW. THIS NOTICE IS ALSO TO INFORM YOU OF THE NATURE OF THE ACTION AND OF YOUR RIGHTS IN CONNECTION WITH IT.**

15. YOU ALSO RECEIVED THIS NOTICE BECAUSE, IF YOU ARE A MEMBER OF THE CLASS OR THE STUB PERIOD CLASS YOU HAVE A RIGHT TO KNOW ABOUT A PROPOSED PARTIAL SETTLEMENT WITH THE SETTLING DEFENDANTS, BEFORE THE COURT DECIDES WHETHER TO APPROVE IT.

16. In that regard, the Notice explains your legal rights as a member of the Class and the Stub Period Class, what benefits are available, who is eligible for them, and how to get them. This Notice also provides information about a hearing to be held by the Court to consider the fairness, reasonableness, and adequacy of the proposed Partial Settlement, to consider the application by Lead Plaintiff's Counsel for attorney fees, reimbursement of litigation expenses, and the establishment of a litigation fund to defray deposition and expert related expenses associated with the continued litigation against Ernst on behalf of the Class, and the application of Lead Plaintiff for a Compensatory Award.

17. If the Court approves the proposed Partial Settlement, and after any objections and appeals are resolved, a Settlement Administrator approved by the Court will make payments from the fund created by the Partial Settlement to eligible claimants pursuant to a plan of allocation ("Plan of Allocation ") detailed below at Paragraphs 82-104.

18. The Settlement Hearing will be held on February 8, 2008, at 2:30 p.m., before the Honorable Ortie D. Smith, United States District Judge, at the United States Courthouse, Charles Evans Whittaker Courthouse, 400 East 9<sup>th</sup> Street, Kansas City, MO 64106 (the "Settlement Hearing "). The purpose of the Settlement Hearing will be to determine:

- a) Whether the Partial Settlement should be approved as fair, reasonable, adequate, and in the best interests of the Class and Stub Period Class;
- b) Whether the Plan of Allocation is fair, reasonable, adequate, and in the best interests of the Class and Stub Period Class;
- c) Whether the application by Lead Plaintiff's Counsel for an award of attorneys' fees and expenses, the establishment of a litigation fund to defray deposition and expert related expenses associated with the continued litigation against Ernst on behalf of the Class, and a Compensatory Award to Lead Plaintiff should be approved; and
- d) Whether the Action should be dismissed with prejudice as against the Settling Defendants.

The Court may adjourn or continue the Settlement Hearing without further notice to members of the Class or Stub Period Class. The issuance of this Notice is not an expression of the Court's opinion on the merits of any claim in the lawsuit, and the Court still has to decide whether to approve the Partial Settlement. If the Court approves the Partial Settlement, payments will be made after appeals are resolved and after the completion of all claims processing. Please be patient.

#### **WHAT IS THIS CASE ABOUT? WHAT HAS HAPPENED SO FAR?**

##### **Background**

19. AIPC, which is headquartered in Kansas City, Missouri, is the largest producer and marketer of dry pasta in North America.

20. On August 9, 2005, AIPC announced it would delay the filing of financial results for its fiscal third quarter and announced that the Company's audit committee was "conducting an internal investigation of certain accounting procedures and practices dating back to fiscal year 2000. AIPC also announced that it intended to record in the third quarter adjustments totaling \$60,700,000, which included \$36,700,000 in asset impairment charges, \$6,600,000 in expenses and write-downs associated with promotional allowances, and approximately \$10,000,000 in reserves and write-downs associated with inventory.

21. On August 10, 2005, the price of AIPC's common stock fell from \$20.94 to \$13.28 per share. Following various reports indicating that certain AIPC representatives had either resigned or been terminated, on August 17, 2005, AIPC's stock price fell again to \$11.16 per share.

22. On October 27, 2005, AIPC announced that it would restate its financial statements for fiscal years 2002-2004, as well as the first two quarters of fiscal year 2005.

23. Beginning in August 2005, putative class and derivative actions were filed against Defendants in the United States District Court for the Western District of Missouri, alleging claims under the federal securities laws and/or derivative claims. These actions included: *Stengle v. American Italian Pasta Co.*, 05-725-CV-W-ODS; *Brody v. American Italian Pasta Co.*, 05-730-CV-W-ODS; *Clark v. American Italian Pasta Co.*, 05-769-CV-W-ODS; *Rothstein v. Webster*, 05-909-CV-W-ODS; *Fasth v. Webster*, 05-928-CV-W-ODS; *Corallo v. Webster*, 05-996-CV-W-ODS; and *Firefighter's Pension System of the City of Kansas City, Missouri Trust v. Patterson*, 05-1139-CV-W-ODS.

24. By order dated December 19, 2005, all of the putative class and derivative actions were consolidated into a single action, and captioned *In re American Italian Pasta Company Securities Litigation*, No. 05-CV-725-W-ODS (the "Action ").

25. On December 19, 2005, the Iron Workers Local 40, 361 and 417 Union Security Funds ("Iron Workers Funds " or "Lead Plaintiff ") was appointed Lead Plaintiff to prosecute all class and derivative claims, and Pomerantz Haudek Block Grossman & Gross LLP was appointed sole Lead Plaintiff's Counsel ("Lead Plaintiff's Counsel ") of all class and derivative claims.

26. Following the appointment, Lead Plaintiff's Counsel began an exhaustive investigation of the facts that gave rise to the August 9, 2005, announcement. This investigation included numerous interviews of former AIPC employees and other witnesses; review of correspondence sent by an anonymous letter writer relating to the facts at issue; review of public filings with the United States Securities and Exchange Commission (the "SEC "); and analysis of publicly available trading information.

27. An Amended Complaint for Class and Derivative Claims was filed on January 19, 2006, alleging both class and derivative claims. With respect to the Class claims, Lead Plaintiff asserted that Defendants issued false and misleading statements starting on January 23, 2002, and continuing through August 17, 2005, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 ("Federal Securities Claims ").

28. With respect to the derivative claims, Lead Plaintiff asserted, among other things, that the Individual Defendants breached fiduciary duties owed to the Company.

29. The named defendants to the Federal Securities Claims were AIPC, certain of its current and former senior officers and directors (Timothy S. Webster, Horst W. Schroeder, George D. Shadid, Warren B. Schmidgall, Walter N. George, Jerry H. Dear and David B. Potter); members of its audit committee (James A. Heeter, William R. Patterson, and Jonathan E. Baum); and Ernst, the Company's outside auditor.

30. With respect to the Federal Securities Claims asserted against the AIPC Defendants, Lead Plaintiff alleged that these defendants made false statements with scienter on various dates beginning on January 23, 2002, and continuing through May 11, 2005. With respect to the Federal Securities Claims asserted against Defendant Ernst, the Amended Complaint for Class and Derivative Claims alleged that Ernst issued false audit opinion letters, with scienter, on December 20, 2002, December 30, 2003, and December 15, 2004.

31. On June 19, 2006, the Court denied motions by certain Defendants to dismiss the Federal Securities Claims (except against David B. Potter), but dismissed the derivative claims for failure to make a pre-suit demand. Other derivative lawsuits not consolidated with the Action are currently pending.

32. On March 26, 2007, the Court certified the Federal Securities Claims as a class action on behalf of all persons who purchased AIPC stock on or after January 23, 2002, and who continued to hold such shares on August 9, 2005.

33. Discovery was underway at the time that certain parties entered into settlement negotiations. A trial date is set for September 2008. Proceedings with respect to Ernst remain pending.

#### **Settlement Negotiations and Mediation**

34. In early 2007, Lead Plaintiff's Counsel and counsel for AIPC engaged in numerous telephone calls concerning the possibility of a partial settlement.

35. Thereafter, Lead Plaintiff and AIPC agreed to mediation. Gary V. McGowan (the "Mediator"), who is widely recognized to be one of the Nation's leading mediators, was selected to facilitate the negotiations.

36. Prior to the first mediation conference, Lead Plaintiff's Counsel and counsel for AIPC prepared and submitted comprehensive mediation statements to the Mediator. These statements provided comprehensive overviews of the factual and legal issues implicated by the litigation, presented the parties' respective views about the strengths and weaknesses of the claims alleged, and highlighted the critical issues that would determine whether a settlement was possible.

37. At the first mediation conference, Lead Plaintiff's Counsel and counsel for AIPC made oral presentations. Thereafter, the Mediator facilitated arm's-length negotiations. Additional conferences, and two more mediation sessions, were necessary before an agreement in principal on certain economic terms of a potential partial settlement was reached on July 2, 2007. Settlement negotiations continued after that date until the signing of the Stipulation of Settlement on October 26, 2007 (the "Stipulation"). Pursuant to the Stipulation, all Federal Securities Claims asserted against the AIPC Defendants will be resolved in exchange for the consideration discussed below.

#### **Discovery, Investigation, and Research Conducted by Lead Plaintiff's Counsel**

38. Prior to commencement of the mediation, Lead Plaintiff's Counsel conducted significant discovery and investigation during the prosecution of the Action. This discovery and investigation included: (1) review and analysis of over 1,200,000 pages of documents produced in this Action; (2) review and analysis of anonymous letters sent to Ernst during the Class Period; (3) interviews with various individuals, including former AIPC employees; (4) consultations with accounting experts knowledgeable about the type of accounting and financial statement issues alleged; (5) consultations with damages experts; (6) review of AIPC's public filings, annual reports, and other public statements; (7) research of the applicable law with respect to the claims asserted in the Action and the potential defenses thereto; (8) responding to and propounding interrogatories; (9) a deposition pursuant to Federal Rule of Civil Procedure 30(b)(6) on the Company's document collection and retention processes; and (10) depositions of Lead Plaintiff and related parties in connection with the class certification motion.

39. The litigation against Ernst is continuing. A trial is presently scheduled for September 2008.

#### **HOW DO I KNOW IF I AM PART OF THE CLASS OR STUB PERIOD CLASS OR IF I CAN PARTICIPATE IN THE PARTIAL SETTLEMENT?**

#### **RECEIPT OF THIS NOTICE DOES NOT NECESSARILY MEAN THAT YOU ARE A MEMBER OF THE CLASS OR STUB PERIOD CLASS OR THAT YOU CAN PARTICIPATE IN THE PARTIAL SETTLEMENT.**

40. Lead Plaintiff originally sought certification of the Federal Securities Claims as a class action on behalf of all persons who purchased AIPC stock on or after January 23, 2002, and who continued to hold such shares on August 17, 2005. However, by order of the Court dated March 26, 2007, the Court determined that persons who purchased shares of AIPC from August 10, 2005, through August 17, 2005 (the "Stub Period Class"), were on a different footing than those who purchased on or after January 23, 2002, and who continued to hold such shares on August 9, 2005 (the "Class").

41. Thus, the Court did not include the Stub Period in the definition of the Class, which was limited to those who purchased common stock of AIPC on or after January 23, 2002, and held shares of the common stock of AIPC on August 9, 2005.

42. As part of the Partial Settlement, Lead Plaintiff and the Settling Defendants agreed that the Partial Settlement would include members of the Class and the Stub Period Class. This is because: (1) members of the Stub Period Class have the right to challenge, on appeal, the Court's original decision to exclude them from the Class and the right to initiate individual securities fraud actions against the Settling Defendants; (2) members of the Class and Stub Period Class share in common the issue of whether the August 9, 2005, disclosure was a partial or full disclosure of the Settling Defendants' alleged wrongdoing.

43. By order of the Court dated November 5, 2007, the Court agreed to expand the group of people who may participate in the Partial Settlement and certified the Stub Period Class. Thus, you may participate in the Partial Settlement if you purchased common stock of AIPC on or after January 23, 2002, and held shares of the common stock of American Italian Pasta Company on August 9, 2005 (i.e., you are a member of the Class); or purchased AIPC common stock on or after August 10, 2005, and continued to hold such shares as of August 17, 2005 (i.e., you are a member of the Stub Period Class). Excluded from the Class and Stub Period Class are the Defendants and their corporate affiliates; any current or former officers or directors of AIPC; or successors, heirs, assigns, executors, personal representatives, marital communities and immediate family members.

44. You are not a member of the Class or Stub Period Class, if both your purchase and sale of AIPC common stock occurred before August 9, 2005, with respect to the Class, or August 17, 2005, with respect to the Stub Period Class.

45. All members of the Class and the Stub Period Class are eligible to participate in the Partial Settlement. However, the continuing class action against Ernst will **not** be pursued on behalf of the Stub Period Class, but only on behalf of the Class. Members of the Stub Period Class are free to bring individual actions against Ernst, if they see fit.

**WHAT RIGHTS DO I HAVE AS A MEMBER OF THE CLASS OR THE STUB PERIOD CLASS? MAY I EXCLUDE MYSELF IF I DO NOT WISH TO PARTICIPATE?**

46. **YOU NEED NOT TAKE ANY ACTION TO BE A MEMBER OF THE CLASS OR THE STUB PERIOD CLASS.** If you take no action in response to this Notice, you will automatically be considered to be a member of the Class and/or the Stub Period Class, to the extent you fit within the definitions outlined above. **IF YOU WISH TO PARTICIPATE IN THE PARTIAL SETTLEMENT,** you must complete and return the attached Claim Form (for more details see Paragraphs 105-108).

47. It is important to note, however, that your legal rights will be affected by remaining in the Class and/or the Stub Period Class. Specifically, you will not be able to sue, continue to sue, or be part of any other lawsuit against the Defendants relating to the issues arising in the Action. It also means that any judgment that is subsequently entered in the Action, or orders of the Court, will be applicable to you and will, therefore, be legally binding.

48. Thus, by remaining in the Class and/or the Stub Period Class, you will be subject to the Judgment contemplated by the Partial Settlement and you will be bound by the release of Released Claims contained therein. Similarly, by remaining in the Class, you will be bound by any judgment or order that is entered with respect to the ongoing claims against Ernst (as discussed above, the claims against Ernst are **not** being pursued on behalf of the Stub Period Class).

49. As a member of the Class and/or Stub Period Class, however, you are entitled to share in any recovery obtained in this Action, whether from a final judgment after trial or a settlement between the parties, based upon a plan of allocation that will be approved by the Court. Thus, by remaining in the Class and/or Stub Period Class, you are entitled to share in the recovery from the Partial Settlement as described in this Notice upon submission of a properly completed Claim Form and all necessary documentation. Similarly, by remaining in the Class, you will be entitled to share in a recovery if one is obtained with respect to the ongoing claims against Ernst (as discussed above, the claims against Ernst are **not** being pursued on behalf of the Stub Period Class).

50. As a member of the Class and/or Stub Period you are also entitled to notice and the opportunity to file an objection with the Court if you do not agree with all or part of the proposed Partial Settlement. Thus, this Notice describes the way in which you can object to the proposed Partial Settlement. Similarly, you will be entitled to receive notice if there is a settlement of the claims against Ernst (as discussed above, the claims against Ernst are **not** being pursued on behalf of the Stub Period Class).

**Excluding Yourself from the Class and the Stub Period**

51. **IF YOU DO NOT WISH TO PARTICIPATE IN THE CLASS AND/OR THE STUB PERIOD CLASS, THEN YOU MUST IMMEDIATELY TAKE SPECIFIC STEPS TO EXCLUDE YOURSELF.** In addition, if you are currently prosecuting your own action arising out of the claims asserted herein and you wish to continue to do so, or if you have not yet filed an individual action but intend to do so, then you must also take specific steps to exclude yourself from the Class and/or the Stub Period Class. This process is also commonly referred to as "opting out." If you ask to be excluded, you will not receive any payment that may arise from this Action, whether by judgment or settlement, and you cannot file objections. However, you will not be legally bound by anything that happens in this Action, and you may be able to sue (or continue to sue) the Defendants at your own expense at a future time.

52. For example, if the Partial Settlement is approved, members of the Class and Stub Period Class who have not requested exclusion will be allowed to participate in the Partial Settlement but they will have to release all Released Claims, even if they bring, or have a pending, litigation, arbitration or other proceeding against the Released Parties relating to the Released Claims.

53. **YOU CANNOT REMAIN IN THE CLASS WITH RESPECT TO THE PARTIAL SETTLEMENT, BUT EXCLUDE YOURSELF WITH RESPECT TO THE ONGOING CLAIMS AGAINST ERNST, OR VICE VERSA.** A request for exclusion from the Class will apply to all claims brought on behalf of the Class against all Defendants.

54. **YOU MAY, HOWEVER, REMAIN IN THE CLASS BUT EXCLUDE YOURSELF FROM THE STUB PERIOD CLASS, OR VICE VERSA, IF YOU ARE A MEMBER OF BOTH CLASSES.** Thus, if you are a member of the Class and the Stub Period Class, but do not wish to participate in one or the other; you must specify which class you seek to exclude yourself from.

55. In order to be excluded from the Class and/or the Stub Period Class, you must mail a written request to the Settlement Administrator. The request for exclusion must: (1) state your name, address, and telephone number; (2) **provide documentation** reflecting all purchases and sales of AIPC common stock during the Class Period and Stub Period, including the dates, the number of shares of AIPC common stock, and price paid or received per share for each such purchase or sale; and (3) state whether you wish to be excluded from the Class, the Stub Period Class, or both. Send requests postmarked by **January 18, 2008**, to:

**American Italian Pasta Company Securities Litigation**  
**EXCLUSIONS**  
**Settlement Administrator**  
**c/o A.B. Data, Ltd.**  
**Post Office Box 170500**  
**Milwaukee, WI 53217**

56. **TO BE VALID, A REQUEST FOR EXCLUSION MUST STATE ALL OF THE FOREGOING INFORMATION. YOUR EXCLUSION REQUEST MUST BE POSTMARKED ON OR BEFORE JANUARY 18, 2008.**

## **ARE THE CLAIMS AGAINST ERNST, BROUGHT ON BEHALF OF THE CLASS, AFFECTED BY THE PROPOSED PARTIAL SETTLEMENT?**

57. The claims asserted against defendant Ernst will continue to be litigated on behalf of the Class (but not the Stub Period Class) regardless of whether the proposed Partial Settlement is approved or rejected.
58. As previously indicated, the Court denied Ernst's motion to dismiss the claims asserted against it and certified those claims as a class action. Discovery is ongoing and a trial date on the claims against Ernst is scheduled for September 2008.
59. **Please Note:** the claims against Ernst are only being brought on behalf of those Class Members who purchased shares of AIPC stock after December 20, 2002. This is because December 20, 2002, was the date that Ernst issued its first audit opinion during the Class Period, which Lead Plaintiff alleges to have been false. Since that is the first alleged false statement Ernst made during the Class Period, Federal securities law precludes those who purchased prior to that date from recovering on the claims alleged against Ernst.

## **WHAT RECOVERY DOES THE PARTIAL SETTLEMENT PROVIDE?**

60. The Partial Settlement requires the Settling Defendants to provide the Class and Stub Period Class with approximately \$25,000,000 ("Partial Settlement Amount"), comprised of \$11,000,000 in cash, plus interest accrued, as well as \$14,000,000 worth of AIPC common stock, subject to certain Downside Protection, Upside Allocation and Buy Out Protection provisions set forth below to settle the Federal Securities Claims brought against them. Attorneys' fees and expenses, notification costs, expenses related to the ongoing litigation of claims against defendant Ernst, a compensatory award to the Lead Plaintiff, and settlement administration costs will be deducted from the Partial Settlement Amount. The Partial Settlement Amount minus these fees, costs, expenses and awards shall be distributed to the Class and Stub Period Class (the "Distribution Amount").
61. When calculating the number of shares to be issued by AIPC to Plaintiff's Counsel as part of an attorneys' fee award, or to Class or Stub Period Class Members as part of the Distribution Amount, such number shall be determined based upon a share price of \$9.60 per share. This calculation, however, is subject to the Downside Protection, Upside Allocation and Buy Out Protection provisions set forth in the Stipulation as described below.

### **Downside Protection**

62. Pursuant to the "Downside Protection" provisions, if the average closing price of AIPC shares on the ten (10) trading days prior to the Distribution Date is less than \$9.60 per share, but greater than \$6.50 per share ("Downside Protection Price"), this loss in value shall be borne by AIPC, and the number of shares to be issued shall be increased accordingly. In the event that the actual average closing price is less than \$6.50 per share, however, the number of shares to be issued shall, nonetheless, be based on a \$6.50 per share price. For further information on this provision, please see Paragraph 17 of the Stipulation.
63. If at any point following entry of the Judgment, but prior to entry of the Order of Distribution, the average closing price of AIPC shares on four (4) consecutive trading days is less than \$7.00 per share, Lead Plaintiff may inform AIPC that it wishes immediately to take possession of the Settlement Securities.
64. Upon receipt of such shares, and upon the advice, consent and supervision of Lead Plaintiff and Lead Plaintiff's Counsel, and to the extent practicable, the Settlement Administrator may sell portions of, or the entirety of, the Settlement Securities. The proceeds of such sales shall be deposited with the balance of the Settlement Cash.
65. Lead Plaintiff's Counsel may retain an investment advisor to assist its determination of whether and when to sell such shares. The reasonable costs of such an advisor shall be paid out of the Settlement Cash. Such an investment advisor shall have no role in the sale of such shares.
66. No Person, including any Class and Stub Period Class Member, shall have any claim against anyone (including but not limited to the Settlement Administrator, Settling Defendants, AIPC's Insurance Carriers, Lead Plaintiff, or Lead Plaintiff's Counsel) arising out of or relating to the sale of, or failure to sell, any of the Settlement Securities.

### **Upside Protection**

67. Pursuant to the "Upside Protection" provisions, if the average closing price of AIPC shares on the ten (10) trading days prior to the Distribution Date is greater than \$9.60 per share, this appreciation in share value shall be allocated between AIPC and members of the Class and Stub Period Class, for purposes of calculating the number of shares to be issued, as follows:
- Between \$9.60 and \$10.75 per share – the Class and Stub Period Class will receive 100% of the increase;
  - Between \$10.76 and \$13.50 per share – the Class and Stub Period Class shall be entitled to 50% of the increase;
  - Greater than \$13.50 per share – the Class and Stub Period Class will receive no further benefit of the increase.
68. For further information on this provision, please see Paragraphs 13-15 of the Stipulation.

### **Buyout Protection**

69. Pursuant to the "Buy Out Protection" provisions, in the event that a public offer to purchase a majority of outstanding AIPC shares is made, the number of shares to be issued to the Class and Stub Period Class shall be based upon the price at which such public offer is consummated. If AIPC cannot issue such shares, the Company will substitute cash in lieu of such securities at the value of such public offer to purchase shares. For further information on this provision, please see Paragraph 24 of the Stipulation.

## **WHY IS THERE A PARTIAL SETTLEMENT?**

70. Under the proposed Partial Settlement, the Court will not decide in favor of either the Lead Plaintiff or the Settling Defendants. By agreeing to a Partial Settlement, both the Lead Plaintiff and the Settling Defendants avoid the costs and risk of a trial, and the Class and Stub Period Class Members are compensated.
71. In light of the amount of the Partial Settlement and the immediacy of recovery to the Class and Stub Period Class, Lead Plaintiff believes that the proposed Partial Settlement is fair, reasonable and adequate, and in the best interests of Class and Stub Period Class Members. The Partial Settlement provides a substantial benefit, namely at least \$25,000,000 in cash and securities, as compared to the risk that a similar, smaller, or no recovery would be achieved after a trial and appeals, possibly years in the future, in which the Settling Defendants would have the opportunity to assert substantial defenses to the claims asserted against them.

## **WHAT MIGHT HAPPEN IF THERE WAS NO PARTIAL SETTLEMENT?**

72. If there were no Partial Settlement and Lead Plaintiff failed to establish any essential legal or factual element of its claims, neither Lead Plaintiff nor the Class or Stub Period Class would recover anything. Also, if the Settling Defendants were successful in proving any of their defenses, the Class and Stub Period Class likely would recover substantially less than the amount provided in the Partial Settlement, or nothing at all.

### **Lead Plaintiff's Assessment of the Settlement**

73. Lead Plaintiff believes that the claims against the Settling Defendants have merit and that the evidence developed to date supports those claims. Lead Plaintiff believes it could demonstrate at trial that the Settling Defendants caused the price of AIPC common stock to be artificially inflated during the Class Period and the Stub Class Period by the issuance of materially false statements and by omitting to state material information concerning AIPC. Lead Plaintiff's Counsel also believes that it could prove that, as a result of this misconduct, members of the Class and Stub Period Class were injured.

74. However, Lead Plaintiff recognizes and acknowledges the expense and length of continued proceedings, trial, and appeals. Lead Plaintiff also has taken into account the uncertain outcome and the risk of any litigation, especially in complex actions such as this one. Lead Plaintiff is also mindful of the inherent problems of proof under, and possible defenses to, the federal securities law violations asserted, including the defenses asserted by the Settling Defendants during the litigation, in motions on the pleadings, in settlement negotiations, and in the mediation proceedings.

75. Perhaps most importantly, Lead Plaintiff understands that AIPC has limited resources to satisfy any potential judgment; has limited insurance coverage, which has been and will continue to be significantly diminished by continuation of this Action; and has had its common stock de-listed from the New York Stock Exchange.

76. In light of the foregoing, Lead Plaintiff believes that the Partial Settlement confers substantial benefits upon the Class and Stub Period Class. Based on its evaluation, Lead Plaintiff and Lead Plaintiff's Counsel have determined that the Partial Settlement is in the best interests of the Lead Plaintiff and the Class and Stub Period Class.

### **Settling Defendants' Assessment of the Claims and Settlement**

77. The Settling Defendants vigorously dispute that Lead Plaintiff would prevail at trial in this Action on the claims it asserted. The Settling Defendants vigorously dispute, among other things, that Lead Plaintiff would succeed in proving the allegations in the Amended Complaint for Class and Derivative Claims that the prices of AIPC stock were artificially inflated by reasons of alleged misrepresentations, non-disclosures or otherwise, and that the Lead Plaintiff or the Class and Stub Period Class were harmed by the conduct alleged.

78. Nonetheless, the Settling Defendants have concluded that further defense of this Action would be protracted and expensive, and that it is desirable that the Action be fully and finally settled in the manner and upon the terms and conditions set forth in this Stipulation in order to limit further expense, inconvenience and distraction, to dispose of the burden of protracted litigation, and to permit the operation of the Company's business without further distraction and diversion of the Company's executive personnel with respect to matters at issue in the Action. The Settling Defendants also have taken into account the uncertainty and risks inherent in any litigation, especially in complex cases like this litigation.

79. The Settling Defendants have, therefore, determined that it is desirable and beneficial to them that the Action be settled in the manner and upon the terms and conditions set forth in the Stipulation. The Settling Defendants enter into this Stipulation and Settlement without in any way acknowledging any fault, liability, or wrongdoing of any kind. There has been no adverse determination by any court against any of the Settling Defendants on the merits of the claims asserted by the Lead Plaintiff.

80. Neither this Partial Settlement nor Stipulation, nor any of its terms or provisions, nor any of the negotiations or proceedings connected with it, shall be construed as an admission or concession by any of the Settling Defendants of the merit or truth of any of the allegations or wrongdoing of any kind on the part of any of the Settling Defendants, or of any infirmity in the defenses that the Settling Defendants have or could have asserted in this Action.

## **THE MEDIATOR'S STATEMENT REGARDING THE PARTIAL SETTLEMENT**

81. In a statement dated October 25, 2007, submitted in support of the Partial Settlement and available at [pomlaw.com](http://pomlaw.com), the Mediator stated:  
The proposed Settlement is the result of vigorous arm's-length negotiation by both sides. Based on my extensive discussions with the mediating parties, and the information made available to me, it is my opinion that the settlement was negotiated in good faith and that it is a fair and reasonable resolution of the Action.

## **HOW MUCH WILL MY PAYMENT BE? - WHAT IS THE PLAN OF ALLOCATION?**

82. Your share of the recovery (if any) will depend on the number of valid Claim Forms that Class and Stub Period Class Members send in ("Authorized Claimants"), when and for what price Authorized Claimants purchased and/or sold their shares of AIPC common stock, how many shares of AIPC common you bought, and when you bought and sold your shares.

83. To receive cash and stock from the Distribution Amount, Class and Stub Period Class Members must complete the attached Claim Form and mail it and all required documentation to the Settlement Administrator **postmarked on or before March 10, 2008**, or 30 days after entry of the Court's Order approving Partial Settlement, whichever is later. Class and Stub Period Class Members who do not submit acceptable Claim Forms will not share in the Distribution Amount. Class and Stub Period Class Members who do not submit either a request for exclusion or an acceptable Claim Form will nevertheless be bound by the Partial Settlement and the Judgment of the Court dismissing the claims against the Settling Defendants.

### **Allocation to Class and Stub Period Class Members**

84. The Settlement Administrator shall determine each Authorized Claimant's *pro rata* share of the Distribution Amount based upon each Authorized Claimant's Recognized Loss. The Recognized Loss formula set forth below is not intended to be an estimate of the amount that a Class Member or Stub Period Class Member might have been able to recover after a trial; nor is it an estimate of the amount that will be paid to Authorized Claimants pursuant to the Partial Settlement. The Recognized Loss formula is simply the basis upon which the Distribution Amount will be proportionately distributed to Authorized Claimants.

85. Lead Plaintiff's damages expert analyzed the market price reaction to certain disclosures that occurred during the Class Period and Stub Period, which corrected for Defendants' alleged misrepresentations. Recognized Losses are based on the price declines following those disclosures.

86. Lead Plaintiff's damages expert believes that Defendants' allegedly false statements artificially inflated the price of AIPC's stock by at least \$8.45 per share. The Plan of Allocation assumes that this is a cap on Recognized Losses.

87. Based upon work performed by Lead Plaintiff's damages expert, Lead Plaintiff's Counsel believes that, at trial, it could likely prove that Defendants' alleged misconduct caused at least \$8.45 in recoverable damages. These damages include: (a) a \$7.70 stock price decline that occurred on August 10, 2005, the first trading day after the August 9, 2005, announcement; and (b) a \$0.75 stock price decline that occurred on August 17, 2005.

88. Class Members (who by definition purchased AIPC common stock prior to August 9, 2005) are in a different position than Stub Period Class Members (who by definition purchased stock after August 9, 2005). The Court held that "investors (and the market) knew on August 9, 2005, that financial information previously disseminated by Defendants was suspect and should not be relied upon. Order and Opinion Granting in Part and Denying in Part Plaintiff's Motion for Class Certification, dated March 26, 2007, at Paragraph 7. In light of this holding, Lead Plaintiff's Counsel believes that members of the Stub Period Class would have a much more difficult time proving their claims than members of the Class. They would have to prevail on appeal to reverse the Court's decision not to include their claims as part of the certified Class or otherwise obtain class certification of such claims. Moreover, proof of reliance, loss causation and damages would be more difficult. As a result, under the Plan of Allocation, damages for members of the Stub Period Class will be discounted by 90%, resulting in a Recognized Loss of \$0.075 per share for shares sold or retained, on or after, August 17, 2005.

#### **Formula for Calculating Recognized Losses**

89. Recognized Losses cannot be greater than the difference (the "Actual Loss ") between the price paid for any given share of AIPC common stock and the closing price of such AIPC common stock on August 10, 2005 (with respect to the Class), and August 17, 2005 (with respect to the Stub Period Class).

#### **90. For shares of common stock purchased from January 23, 2002, through August 9, 2005:**

- a) And sold on or before August 9, 2005, the Recognized Loss is \$0.00 per share (because persons who purchased and sold prior to August 9, 2005, are not members of the Class);
- b) And sold from August 10, 2005, through August 16, 2005, the Recognized Loss is \$7.70 per share, so long as the Actual Loss with respect to such shares is equal to or greater than this amount;
- c) And retained or sold, on or after, August 17, 2005, the Recognized Loss is \$8.45 per share, so long as the Actual Loss with respect to such shares is equal to or greater than this amount.

#### **91. For shares of common stock purchased from August 10, 2005, through August 16, 2005:**

- a) And sold on or before August 16, 2005, the Recognized Loss is \$0.00 per share (because persons who purchased and sold between August 10, 2005, and prior to August 17, 2005, are not members of the Stub Period Class);
- b) And retained or sold, on or after, August 17, 2005, the Recognized Loss is \$0.075 per share (for the reasons explained above), so long as the Actual Loss with respect to such shares is equal to or greater than this amount.

92. To the extent that the Distribution Amount is sufficient, each Authorized Claimant will receive an amount equal to the Authorized Claimant's Recognized Loss, as defined above. If, however, the Distribution Amount is not sufficient to permit such payment, then each Authorized Claimant shall be paid their *pro rata* share of the Distribution Amount based on the percentage that each Authorized Claimant's Recognized Loss bears to the Recognized Losses of the entire Class and Sub Period Class. Payment in this manner shall be deemed conclusive against all Authorized Claimants.

93. No distribution will be made on a claim where the Authorized Claimant's *pro rata* share of the Distribution Amount is less than \$15.00.

94. Class and Stub Period Class Members will receive cash and stock if they file a timely and valid claim. The proportion of cash and stock received pursuant to this Partial Settlement will be the same as the proportion of cash and stock included in the Partial Settlement Amount. Thus, because cash constitutes 44% of the Partial Settlement Amount, and common stock constitutes 56% of Partial Settlement Amount, distributions to Authorized Claimants will be made on the basis of a 44% cash and 56% common stock allocation (unless the stock is sold pursuant to the Downside Protection provisions described above at Paragraphs 62-66).

95. The AIPC common stock that will be distributed will be exempt from registration. If for some reason at the time of distribution, AIPC common stock is not exempt from registration or qualification under applicable "Blue Sky laws of particular states, Lead Plaintiff's Counsel, with Court approval, may make adjustments to the Plan of Allocation (through reallocation of cash) in order to equalize the value of the amounts distributed to residents of those particular states.

#### **General Provisions for Plan of Allocation:**

96. In processing claims, the First-In, First-Out ("FIFO ") basis will be applied to acquisitions, purchases, and sales starting with the opening position (if any) at the outset of the relevant Class Period.

97. The date of purchase or sale is the "contract or "trade date, and not the "settlement date.

98. Brokerage commissions, fees and taxes should be excluded from the purchase or sale price of AIPC common stock.

99. Members of the Class and Stub Period Class who do not file acceptable Claim Forms will not share in the Distribution Amount, yet will nevertheless be bound by the Court's Judgment and the Partial Settlement.

100. Shares of AIPC common stock acquired during the Class Period or Stub Class Period by means of a gift, inheritance or operation of law, do not qualify as the purchase of such shares on the date of such acquisition. If, however, such stock was purchased during the Class Period or Stub Period by the donor, decedent or transferor, then, as long as the original purchaser **does not** submit a Claim Form with respect to the shares, the recipient will be allowed to participate in the Settlement and their claim will be computed by using the price of such stock on the original date of purchase.

101. Payments pursuant to the Plan of Allocation, as approved by the Court, will be conclusive against all Authorized Claimants. No person shall have any claim against Lead Plaintiff, Lead Plaintiff's Counsel, the Settlement Administrator, or any other agent designated by Lead Plaintiff's Counsel, based on a distribution made substantially in accordance with the Stipulation and the Plan of Allocation or further Orders of the Court. Settling Defendants, and their counsel, shall have no responsibility for, interest in, or liability whatsoever with respect to any allocation, management, disposition, computation, or distribution of the Partial Settlement Amount.

102. The Court has reserved jurisdiction to allow, disallow or adjust the claim of any Class Member or Stub Period Class Member on equitable grounds.

#### **Alteration of the Plan of Allocation**

103. Lead Plaintiff may alter the Plan of Allocation (subject to Court approval) without any further notice to Class or Stub Period Class Members, unless such Class Members expressly request notice of alteration of the Plan of Allocation. Therefore, in order to receive such notice, you must send a request no later than **January 18, 2008**, to the Settlement Administrator at:

**American Italian Pasta Company Securities Litigation  
NOTICE OF CHANGES TO PLAN OF ALLOCATION  
Settlement Administrator  
c/o A.B. Data, Ltd.  
Post Office Box 170500  
Milwaukee, WI 53217**

104. The Court also may modify the Plan of Allocation without further notice to the Class or Stub Period Class.

#### **HOW DO I PARTICIPATE IN THE PARTIAL SETTLEMENT? WHAT DO I NEED TO DO?**

105. If you fall within the definition of the Class or Stub Period Class as defined above, you will remain a Class Member or Stub Period Class Member unless you elect to be excluded. If you do not request to be excluded, you will be bound by any judgment entered in the Action whether or not you file a Claim Form, including the dismissal with prejudice of any Released Claims against the Settling Defendants you may possess under Federal law, or the law of any state.

106. If you wish to remain a member of the Class or Stub Period Class you need do nothing (other than timely file a Claim Form if you wish to participate in the distribution of funds from the Partial Settlement). Your interests will be represented by Lead Plaintiff's Counsel. If you choose, you may enter an appearance individually or through your own counsel at your own expense.

**107. TO PARTICIPATE IN THE DISTRIBUTION FROM THE PARTIAL SETTLEMENT YOU MUST COMPLETE AND RETURN THE ATTACHED CLAIM FORM SO THAT IT IS POSTMARKED BY MARCH 10, 2008, OR 30 DAYS AFTER ENTRY OF THE COURT'S ORDER APPROVING PARTIAL SETTLEMENT, WHICHEVER IS LATER.**

108. If you need an additional copy of the Claim Form, it may be obtained by either downloading a copy from the Settlement Administrator's website at [abdatalawserve.com/cases.php](http://abdatalawserve.com/cases.php); by calling the Settlement Administrator at (866) 778-9469; or by sending a letter requesting a copy to the Settlement Administrator at the following address: **American Italian Pasta Company Securities Litigation, Settlement Administrator, c/o A.B. Data, Ltd., Post Office Box 170500, Milwaukee, WI 53217.**

Unless the Court orders otherwise, if you do not timely submit a valid Claim Form, you will be barred from receiving any payments from the Partial Settlement, but will in all other respects be bound by the provisions of the Stipulation and the Judgment.

#### **WHAT RIGHTS AM I GIVING UP BY AGREEING TO THE PARTIAL SETTLEMENT?**

109. If the Partial Settlement is approved, the Court will enter a Judgment. The Judgment will dismiss the claims against the Settling Defendants with prejudice and provide that Lead Plaintiff and all other Class and Stub Class Period Members, except those who validly and timely request to be excluded, shall upon the entry of the Judgment be deemed to have, and by operation of the Judgment shall have fully, finally, and forever released, relinquished, and discharged the Released Claims.

110. It is expressly understood, however, that the Release shall not include derivative claims and/or causes of action asserted against any of the Settling Defendants in the various derivative actions now pending. It will also not release claims against Ernst, which Lead Plaintiff will continue to litigate on behalf of the Class.

111. The definitions relevant to the Release are as follows:

**"Defendants"** shall mean AIPC, Timothy S. Webster, Horst W. Schroeder, George D. Shadid, Warren B. Schmidgall, Walter N. George, Jerry H. Dear, James A. Heeter, William R. Patterson, Jonathan E. Baum, and Ernst;

**"Final"** shall mean that an order or judgment is no longer subject to further appeal or review, whether by exhaustion of any possible appeal, lapse of time, or otherwise;

**"Judgment"** shall mean a judgment and order approving the Settlement and dismissing the Released Claims as against the Settling Defendants with prejudice;

**"Legal Proceeding"** means any action pending as of the date of execution of the Stipulation against Defendants in any federal court, state court or arbitration;

**"Released Parties"** shall mean each and every one of the following: Settling Defendants and all entities owned, affiliated or controlled by them, all current and former AIPC directors and officers and each of their respective agents, employees, consultants, insurers, attorneys, advisors, successors, heirs, assigns, executors, personal representatives, marital communities and immediate families. However, Released Parties does not include Ernst;

**"Released Claims"** shall collectively mean all claims (including Unknown Claims) demands, rights, liabilities and causes of action of every nature and description whatsoever, known or unknown, including violations of any local, state, federal, or foreign statutes, rules, regulations, common law, or other law, by or on behalf of the Lead Plaintiff, the Class, the Stub Period Class, or any member of the Class or Stub Period Class against the Released

Parties which are in any way based upon or related to: (a) the purchase or acquisition of AIPC common stock by any member of the Class during the Class Period (whether on the open market or otherwise), or by any member of the Stub Period Class during the Stub Period (whether on the open market or otherwise); (b) the facts, transactions, events, occurrences, acts, disclosures, statements, omissions or failures to act and/or to supervise AIPC officers or employees which were or could have been alleged in the Action; (c) the facts which were alleged in any papers filed in the Action; and/or (d) the administration of the Net Settlement Fund or Plan of Allocation. Released Claims shall not include claims alleged in the Pending Shareholder Derivative Actions;

**“Settling Defendants”** shall mean all Defendants other than Ernst;

**“Unknown Claims”** shall mean any Released Claims which the Lead Plaintiff or any member of the Class or Stub Period Class does not know or suspect to exist in his, her or its favor at the time of the release of the Released Parties which, if known by him, her or it, might have affected his, her or its settlement with and release of the Released Parties, or might have affected his, her or its decision not to object to, or opt out of, this Settlement. With respect to any and all Released Claims, the Settling Parties have stipulated and agreed that, upon the Effective Date, the Lead Plaintiff expressly waives and relinquishes, and the members of the Class and Stub Period Class shall be deemed to have, and by operation of the Judgment shall have expressly waived and relinquished, to the fullest extent permitted by law, the provisions, rights, and benefits of §1542 of the California Civil Code, which provides:

**A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.**

The Lead Plaintiff expressly waives and the members of the Class or Stub Period Class shall be deemed to have waived, and upon the Effective Date and by operation of the Judgment shall have waived any and all provisions, rights and benefits conferred by any law of the United States or of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to §1542 of the California Civil Code. The Lead Plaintiff and the members of the Class or Stub Period Class may hereafter discover facts in addition to or different from those which he, she or it now knows or believes to be true with respect to the subject matter of the Released Claims, but each of them hereby stipulates and agree that the Lead Plaintiff does settle and release, and each member of the Class or Stub Period Class shall be deemed to have, and upon the Effective Date and by operation of the Judgment shall have fully, finally, and forever settled and released any and all Released Claims, known or unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist, or heretofore have existed upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, all Released Claims that are in any way based on or related to conduct which is negligent, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts. The Settling Parties acknowledge that the foregoing waiver was bargained for and a key element of the Settlement of which this release is a part.

112. All other capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Stipulation. In order to obtain a copy of the Stipulation, please see Paragraphs 125-126.

#### **WHAT PAYMENTS ARE THE ATTORNEYS FOR THE CLASS AND THE LEAD PLAINTIFF SEEKING FOR THEIR WORK IN THIS CASE?**

113. Lead Plaintiff’s Counsel has not received any payment for its services in pursuing this lawsuit on behalf of the Class and Stub Period Class, nor have they been reimbursed for their considerable out-of-pocket expenses. Lead Plaintiff’s Counsel intends to apply to the Court for an award of attorney fees on behalf of all plaintiffs’ counsel not to exceed 25% of the Partial Settlement Amount (if awarded, such a fee would approximate the aggregate lodestar of plaintiffs’ counsel to date). Any fees awarded by the Court will be paid to Lead Plaintiff’s Counsel in the same form as the consideration received by the Class and Stub Period Class, i.e., 44% cash and 56% stock. Any award of stock will be subject to the same provisions governing Downside Protection, Buyout Protection and Upside Allocation described above.

114. In addition, Lead Plaintiff’s Counsel intends to apply for reimbursement of litigation expenses advanced in connection with the Action in an amount not to exceed \$1,250,000. Lead Plaintiff’s Counsel will also request that the Court authorize that \$750,000 be used to establish a litigation fund to defray deposition and expert related expenses associated with the continued litigation against Ernst on behalf of the Class. Any expenses awarded to Lead Plaintiff’s Counsel shall be paid in cash from the Partial Settlement Amount. If the application for attorney fees and reimbursement of litigation expenses is approved by the Court, the average cost would be approximately \$0.35 per share.

115. Representatives of Lead Plaintiff and its investment advisors have incurred costs and expenses associated with their service as Class Representative including the provision of deposition testimony, production of documents and attendance at mediation sessions. Lead Plaintiff has not received any compensation for such services which benefited the Class and Stub Period Class, nor has it been reimbursed for its out-of-pocket expenses. As a result, Lead Plaintiff’s Counsel intends to apply to the Court for a Compensatory Award for Lead Plaintiff not to exceed \$40,000. If this application is approved by the Court, the average cost per share would be less than \$0.01 per share. Such a Compensatory Award for Lead Plaintiff will be paid out of the Partial Settlement Amount.

116. You may review the briefs and motions related to these requests at [pomlaw.com](http://pomlaw.com), as soon as such documents have been filed with the Court.

#### **ARE THERE OTHER CONDITIONS THAT MAY AFFECT THE PARTIAL SETTLEMENT OR AN AWARD THEREFROM?**

117. The Partial Settlement is conditioned upon the occurrence of certain events. Those events include, among other things: (1) entry of the Judgment by the Court, as provided for in the Stipulation; (2) expiration of the time to appeal from the Judgment, or if an appeal is taken, a final resolution of the appeal in favor of the Judgment; (3) the lack of requests for exclusions from the Settlement by a certain number of eligible Class or Stub Class Members, or alternatively, Settling Defendants lack of exercise of their right to terminate the Settlement in the event that number is reached. In addition, if the price of AIPC common stock falls below \$6.50 per share over ten (10) consecutive trading days prior to approval of the Partial Settlement, AIPC must make up any shortfall or Lead Plaintiff may terminate the Partial Settlement. If, for any reason, any one of the conditions described in the Stipulation is not met, that Stipulation might be terminated and, if terminated, will become null and void, and the parties to that Stipulation will be restored to their respective positions as of July 2, 2007.

**WHEN AND WHERE WILL THE COURT DECIDE WHETHER TO APPROVE THE PARTIAL SETTLEMENT AND RELATED MATTERS? DO I HAVE TO COME TO THE HEARING? MAY I SPEAK AT THE HEARING IF I DO NOT LIKE THE PARTIAL SETTLEMENT OR OTHER MATTERS REFERENCED IN THIS NOTICE?**

**If you do not wish to object to the proposed Partial Settlement, the Plan of Allocation, or the application for attorney fees and reimbursement of litigation expenses, or the proposed Compensatory Award to the Lead Plaintiff, you need NOT attend the Settlement Hearing scheduled for February 8, 2008.**

118. Any Class or Stub Period Class Member who has not validly and timely requested to be excluded, and who objects to any aspect of the proposed Partial Settlement, the application for attorneys' fees and reimbursement of litigation expenses, the establishment of a litigation fund to defray deposition and expert related expenses associated with the ongoing litigation against Ernst, the proposed Plan of Allocation, or the Compensatory Award to Lead Plaintiff, may appear and be heard at the Settlement Hearing.

119. Any such Person must submit a written notice of objection, which must be received on or before **January 18, 2008**, to each of the following:

To the Court:	To Lead Plaintiff's Counsel:	To Counsel for AIPC:
CLERK OF THE COURT	POMERANTZ HAUDEK BLOCK	DAVIS POLK & WARDWELL
Western District of Missouri	GROSSMAN & GROSS LLP	Attn. James H.R. Windels, Esq.
Charles Evans Whittaker Courthouse	Attn. Marc Gross, Esq.	450 Lexington Avenue
400 East 9 <sup>th</sup> Street	100 Park Avenue	New York, NY 10017
Kansas City, MO 64106	New York, NY 10017	

120. The notice of objection must demonstrate the objecting Person's membership in the Class or Stub Period Class, including **documentation reflecting the number of AIPC shares purchased and sold during the relevant period**, and contain a statement of the reasons for objection. Only Class Members who have submitted written notices of objection and **related documentation** in this manner will be entitled to be heard at the Settlement Hearing, unless the Court orders otherwise. By filing an objection, the objector consents to being deposed in his or her district of residence prior to the Settlement Hearing.

121. The Settlement Hearing may be delayed from time to time by the Court without further written notice to the Class or Stub Period Class. If you intend to attend the Partial Settlement Hearing, you should confirm the date and time with Lead Plaintiff's Counsel.

122. Unless otherwise ordered by the Court, any Class or Stub Period Class Member who does not object in the manner described herein will be deemed to have waived any objection and shall be forever foreclosed from making any objection to any of those items listed in Paragraph 118 above. Class and Stub Period Class Members do not need to appear at the Hearing or take any other action to indicate their approval.

**WHAT IF I AM A BROKER, BANK OR OTHER NOMINEE THAT BOUGHT SHARES ON SOMEONE ELSE'S BEHALF?**

123. If you held any AIPC common stock purchased during the Class Period or Stub Period as nominee for a beneficial owner, then, within ten (10) days after you receive this Notice, you must either: (1) provide a list of the names and addresses of such beneficial owners to the Settlement Administrator using the contact information below, preferably on computer-generated mailing labels or, electronically in MS Word or WordPerfect files (label size Avery 5162), or in an MS Excel data table, setting forth: (a) title/registration; (b) street address; (c) city/state/zip; or (2) send a copy of this Notice and the Claim Form by First-Class Mail to all such beneficial owners, providing written confirmation to the Settlement Administrator of having done so. If you choose to mail the Notice yourself, you may obtain (without cost to you) as many additional copies of these documents as you will need to complete the mailing by either downloading a copy from the Settlement Administrator's website at [abdatalawserve.com/cases.php](http://abdatalawserve.com/cases.php); by calling the Settlement Administrator toll-free at (866) 778-9469; or by sending a letter requesting a copy to the Settlement Administrator at the following address: **American Italian Pasta Company Securities Litigation, Settlement Administrator, Attention: Fulfillment Department, c/o A.B. Data, Ltd., 4070 North Wilson Drive, Post Office Box 170500, Milwaukee, WI 53217, (414) 963-7950 fax, [fulfillment@abdatalawserve.com](mailto:fulfillment@abdatalawserve.com).**

124. Regardless of whether you choose to complete the mailing yourself or elect to have the mailing performed for you, you may obtain reimbursement of reasonable administrative costs actually incurred in connection with forwarding the Notice and which would not have been incurred but for the obligation to forward the Notice, after submission of appropriate documentation to the Settlement Administrator.

**MAY I SEE THE COURT FILE? WHO SHOULD I CONTACT IF I HAVE QUESTIONS?**

125. This Notice is a summary and does not describe all of the details of the Action or the proposed Partial Settlement. For full details of the matters discussed in this Notice, you may desire to review all of the documents that have been filed with the Court, the Consolidated Amended Class Action Complaint, the Stipulation, the Notice, the Claim Form, and Preliminary Order of Approval, the papers filed in support of the Partial Settlement, the applications for an award of attorneys' fees and expenses for Lead Plaintiff's Counsel, and the application for a compensatory award for Lead Plaintiff. These documents may be inspected during business hours, at the office of the Clerk of the Court, United States Courthouse, Western District of Missouri, Charles Evans Whittaker Courthouse, 400 East 9<sup>th</sup> Street, Kansas City, MO 64106.

126. You may also review many of these documents at [pomlaw.com](http://pomlaw.com) or [abdatalawserve.com/cases.php](http://abdatalawserve.com/cases.php), on or after November 15, 2007.

127. If you have any questions about the Partial Settlement or claims procedure, you may contact Lead Plaintiff's Counsel by writing: POMERANTZ HAUDEK BLOCK GROSSMAN & GROSS LLP, Attn: Carolyn Moskowitz, 100 Park Avenue, New York, NY 10017.

128. If you need additional copies of this Notice, or if you have a question about filing a claim, you may contact the Settlement Administrator, as set forth in Paragraph 108 above.

**DO NOT TELEPHONE THE COURT REGARDING THIS NOTICE.**

DATED: NOVEMBER 5, 2007

BY ORDER OF THE UNITED STATES DISTRICT COURT WESTERN DISTRICT OF MISSOURI, WESTERN DIVISION