
# Ralcorp Holdings, Inc. 2004 Annual Report

**With Notice of Annual Meeting and Proxy Statement**


Ralcorp

## COMPANY PROFILE

Ralcorp Holdings, Inc., through internal growth and strategic acquisitions, has emerged as the leading producer of private label (or store brand) foods, and a major producer of foodservice products. Ralcorp produces a variety of store brands that are sold under the individual labels of various grocery, mass merchandise and drug store retailers, and frozen bakery products that are sold to restaurant and foodservice customers. Its diversified product mix includes: ready-to-eat and hot cereals, crackers and cookies, snack nuts and chocolate candy, salad dressings and mayonnaise, peanut butter, jams and jellies, syrups and sauces, frozen griddle products (including pancakes, waffles and French toast), frozen biscuits and other frozen pre-baked products such as breads and muffins. In addition, Ralcorp holds an interest of approximately 21 percent in Vail Resorts, Inc., the premier mountain resort operator in North America. Headquartered in St. Louis, Missouri, Ralcorp has nearly 6,000 employees and 25 manufacturing facilities across the country.

BAKERY Chef · BREMNER · The CARRIAGE HOUSE Companies, Inc. · Nutcracker · Ralston Foods

## FINANCIAL HIGHLIGHTS

(in millions except per share data)

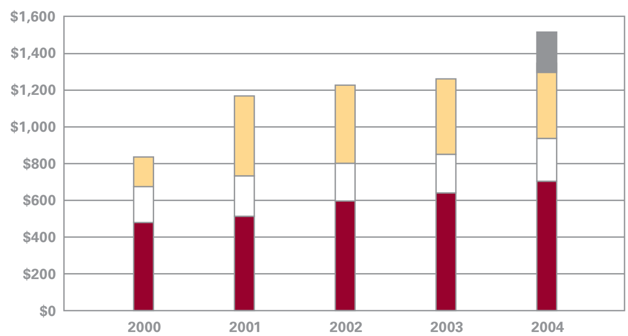
| Year Ended September 30, | 2002 | 2003 | 2004 |
|---|---|---|---|
| **Results for Year** | | | |
| Net Sales | $1,280.3 | $1,303.6 | $1,558.4 |
| Net Cash Flow from Operating Activities | 110.8 | 105.8 | 85.4 |
| Net Earnings* | 53.8 | 7.4 | 65.1 |
| Per Share - Basic* | 1.79 | .25 | 2.22 |
| Per Share - Diluted* | 1.77 | .25 | 2.17 |
| **Year End Position** | | | |
| Working Capital** | $ 85.4 | $ 84.2 | $ 107.3 |
| Total Assets | 832.5 | 794.3 | 1,221.6 |
| Long-Term Debt | 179.0 | 155.9 | 425.7 |
| Total Shareholders' Equity | 436.1 | 412.7 | 444.2 |

** 2003 net earnings and earnings per share were reduced considerably by a non-cash goodwill impairment charge of $59.0 ($45.5 after taxes, or $1.53 per share).*

***Excludes cash and cash equivalents.*

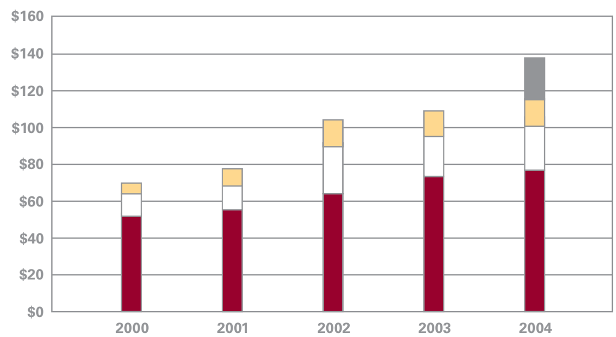
### NET SALES BY SEGMENT

(in millions)




### PROFIT CONTRIBUTION BY SEGMENT

(in millions)




*Cereals, Crackers & Cookies* · *Snack Nuts & Candy* · *Dressings, Syrups, Jellies & Sauces* · *Frozen Pancakes, Biscuits & Breads*


David P. Skarie  Kevin J. Hunt

# Dear Fellow Shareholders:

In last year's letter, we emphasized the deep commitment we share to making decisions that improve shareholder value. Throughout the 2004 fiscal year, our management team made decisions that both drove improvements in the current year and positioned the Company for continued success. Key strategic moves last year included completing two important acquisitions, declaring a special dividend, addressing significant increases in raw material costs, consolidating three bakeries into one new facility, and beginning the transition to an integrated information systems solution. The most notable sign of success was the improvement in the Company's share price, reaching all-time highs during the fiscal year and into the first quarter of fiscal 2005.

As fellow shareholders, we will always make decisions that are designed to improve long-term shareholder value.

### Acquisitions

In view of our strategy of growth through acquisitions, this year was particularly rewarding. In December 2003, we purchased Bakery Chef, Inc. for $289 million – by far our largest acquisition expenditure to date. This transaction was critical to our long-term plans, adding both a platform of value-added frozen bakery and griddle products, and an avenue for expansion into the growing foodservice channel. The acquisition is a great fit for several reasons. First, the Bakery Chef management group shares with Ralcorp the desire and experience to develop businesses that can grow operating profit and reliable cash flow. Second, Bakery Chef's frozen food products are a great adjunct to Ralcorp's existing and growing in-store bakery business. During fiscal 2004, Bakery Chef added $0.24 to Ralcorp's diluted earnings per share.

On the heels of the Bakery Chef transaction, at the end of February 2004 the Company purchased the assets of Concept 2 Bakers, a leading supplier of frozen artisan and premium breads and rolls. The acquisition has been immediately accretive. Further, the frozen bread product line complements Bakery Chef's food service bread and roll offerings and the Company's Lofthouse in-store bakery product line. In fiscal 2005, Bakery Chef, Lofthouse and Concept 2 Bakers will be combined into one reporting segment.

### Operating Results

For the fiscal year ended September 30, 2004, the Company achieved net sales exceeding $1.5 billion and continued to generate strong cash flow.

## UNIFIED DIVERSITY

Our divisions produce a diverse assortment of products, but all share a commitment to provide quality foods and excellent customer service. From these five business platforms, we can continue to improve our business mix through internal growth and strategic acquisitions or alliances.

**RALSTON FOODS** is the industry leader in private label ready-to-eat and hot cereals, currently supplying over 50 varieties comparable to the national brands in terms of taste, appearance and nutrition.


**BREMNER** is the largest supplier of private label crackers and cookies in America, producing a full line of quality emulations of the leading national brands, as well as cookies for sale in the in-store bakery section of food retailers.


The Cereals, Crackers & Cookies segment's profit contribution increased 11 percent ($8.8 million) for the year on sales growth of 11 percent ($75.6 million). At Bremner, sales of crackers and cookies climbed $43.7 million, primarily from the successful Concept 2 Bakers acquisition and assumption of new volume from a competitor's bankruptcy. At Ralston Foods, ready-to-eat cereal volume increased 13 percent, despite an overall decline in the ready-to-eat category.

The Snack Nuts & Candy segment's net sales rose 26 percent ($47.4 million), but operating profit declined $2.6 million on increased cost of ingredients. Known as Nutcracker, this business unit benefited from superior volume growth with existing and new customers.

The Dressings, Syrups, Jellies & Sauces segment's profit contribution jumped 45 percent ($3.6 million) despite lower sales. Known as Carriage House, this segment's progress can be attributed to management's continued focus on segment-wide operational improvements. Although Carriage House results are improving, we continue to face hurdles in our effort to build a business with acceptable profitability levels. In 2005, we will continue our focus on improving Carriage House and positioning it for long-term success.

Bakery Chef, called the Frozen Pancakes, Biscuits & Breads segment in fiscal 2004, delivered $148.8 million in net sales since its acquisition and contributed $21.4 million of operating profit, including $8.2 million during the fourth quarter. The segment performed well despite record prices for key ingredients such as eggs and soybean oil.

### Investment in Existing Business

Throughout the year, we continued to make significant investments in our production and information systems capabilities. For example, in April, we completed the consolidation of our three in-store bakery facilities into a state-of-the-art bakery and frozen food warehouse in Ogden, Utah. While moving or altering a single production line is highly challenging, our Lofthouse consolidation required moving nine production lines from three separate facilities in two states. During each phase of the project, Lofthouse supplied all of its customers with the highest quality in-store bakery cookies without interruption or delay.

In early fiscal 2004, we completed the first step of implementing an integrated information system throughout Ralcorp. Launched initially at our snack nut facilities in October 2003, the new information system

**CARRIAGE HOUSE** is the nation's largest supplier of store brand salad dressings, mayonnaise, table syrup, peanut butter, jams and jellies, and a leading producer of a variety of private label sauces, available in several popular brand emulations.

**NUTCRACKER BRANDS** is the largest private label snack nut supplier in the country and a leader in high-quality peanut butter cups and other fine chocolates, matching or exceeding national brand standards.

**BAKERY CHEF** is a leading manufacturer of frozen griddle products (pancakes, waffles and French toast) and other high-quality frozen bakery products for select accounts in foodservice, retail and industrial channels.


will be implemented at our Ralston Foods and then our Bremner businesses during the third and fourth quarters of fiscal 2005. When the project is completed, Ralcorp will have moved from eight separate computer environments to one fully integrated solution.

### Dividend

In September 2004, the Board of Directors approved a special cash dividend of $1.00 per share that was paid on October 22, 2004. Improved cash flow and favorable borrowing rates enabled Ralcorp to deliver value directly to shareholders at an advantageous tax rate. Though we currently have no plans to pay dividends in the future, we will continue to manage the Company's balance sheet for the benefit of shareholders.

### Outlook

In April, we celebrated the 10th anniversary of our spin-off from Ralston Purina. Over those 10 short years, we witnessed immense change and growth at Ralcorp. We have established five business platforms from which we can continue to grow sales and operating profit and, when possible, make acquisitions. More than ever, Ralcorp is solidly positioned to satisfy the growing demands from retailers and the foodservice channel for superior private label and value brand food products. Further, as the Company grows we will continue to focus on aggressive cost containment.

Darrell Ingram will retire from the Board of Directors when his term expires at the Annual Meeting of Shareholders in February 2005. He joined the Board in 2001, and throughout his tenure the Company benefited greatly from his business acumen. On behalf of all shareholders, we sincerely thank Mr. Ingram for his service as a Director.

Bill Armstrong, former Executive Vice President and Chief Operating Officer of Cargill Animal Nutrition, a part of Cargill, Inc., joined the Board in September. We welcome Mr. Armstrong to the Company and look forward to working with him.

We both extend our deep gratitude for your continued support.

**Kevin J. Hunt**
Co-Chief Executive Officer
and President

**David P. Skarie**
Co-Chief Executive Officer
and President

## BOARD OF DIRECTORS

**Bill G. Armstrong** (1,2)
Former Executive Vice President and Chief Operating Officer, Cargill Animal Nutrition

**David R. Banks** (1,2)
Private Equity Investor

**Jack W. Goodall** (1,2)
Former Chairman of the Board, Jack in the Box Inc. (restaurants)

**Kevin J. Hunt**
Co-Chief Executive Officer and President, Ralcorp Holdings, Inc.

**M. Darrell Ingram** (1,2)
Private Equity Investor

**David W. Kemper** (1,2)
Chairman, President and Chief Executive Officer, Commerce Bancshares, Inc. (bank holding company)

**Richard A. Liddy** (1,2)
Former Chairman of the Board, GenAmerica Financial (financial and insurance products)

**Joe R. Micheletto** (3)
Vice-Chairman of the Board of Directors, Ralcorp Holdings, Inc.

**David P. Skarie**
Co-Chief Executive Officer and President, Ralcorp Holdings, Inc.

**William P. Stiritz** (2,3,4)
Private Equity Investor

1 Member of Audit Committee
2 Member of Corporate Governance and Compensation Committee
3 Member of Executive Committee
4 Chairman of the Board

## CORPORATE OFFICERS

**Kevin J. Hunt**
Co-Chief Executive Officer and President; and Chief Executive Officer of Bremner, Inc. and Nutcracker Brands, Inc.

**David P. Skarie**
Co-Chief Executive Officer and President; and Chief Executive Officer and President, The Carriage House Companies, Inc. and Ralston Foods

**David L. Beré**
Vice President; and President and Chief Executive Officer of Bakery Chef, Inc.

**Thomas G. Granneman**
Vice President and Controller

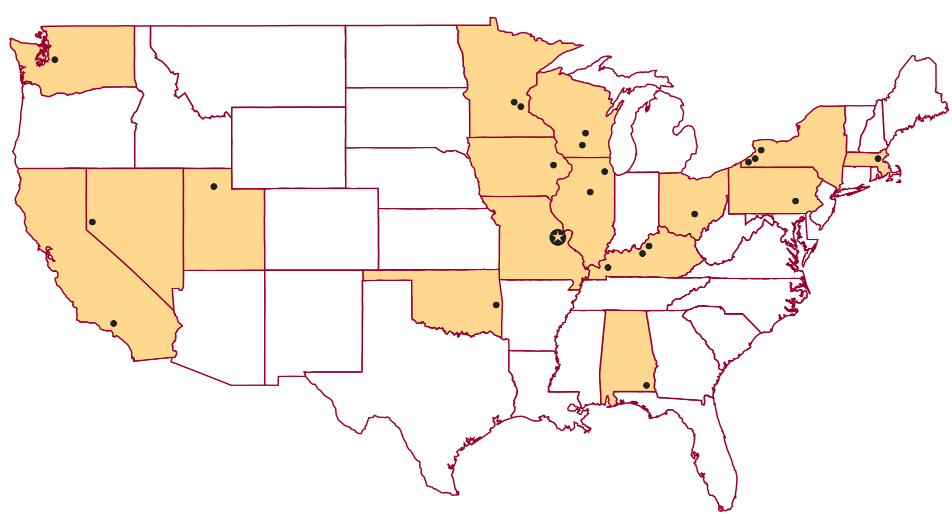
**Charles G. Huber, Jr.**
Vice President, General Counsel and Secretary

**Richard R. Koulouris**
Vice President; and President of Bremner, Inc. and Nutcracker Brands, Inc.

**Scott Monette**
Vice President and Treasurer

**Ronald D. Wilkinson**
Vice President and Director of Product Supply of Ralston Foods and The Carriage House Companies, Inc.

## LOCATIONS



**Corporate Headquarters**
St. Louis, MO

**Ralston Foods**
Battle Creek, MI
Cedar Rapids, IA
Lancaster, OH
Sparks, NV

**Bremner**
Minneapolis, MN
Princeton, KY
Poteau, OK
Ripon, WI *(2 plants)*
Tonawanda, NY

**Nutcracker**
Billerica, MA
Dothan, AL
Womelsdorf, PA

**Carriage House**
Buckner, KY
Dunkirk, NY
Fredonia, NY
Los Angeles, CA
Streator, IL

**Bakery Chef**
Chicago, IL
Fridley, MN
Grand Rapids, MI
Louisville, KY *(2 plants)*
Ogden, UT
Seattle, WA

# SECURITIES AND EXCHANGE COMMISSION
**Washington, D. C. 20549**

# FORM 10-K

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended September 30, 2004**

**OR**

**[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 1-12619**

# RALCORP HOLDINGS, INC.
(Exact name of Registrant as specified in its Articles)

| | |
|---|---|
| **MISSOURI** | **43-1766315** |
| (State of incorporation) | (I.R.S. Employer Identification No.) |

**800 MARKET STREET**
**ST. LOUIS, MISSOURI 63101**
**(314) 877-7000**
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $.01 par value | New York Stock Exchange, Inc. |
| Common Stock Purchase Rights | New York Stock Exchange, Inc. |

**Securities registered pursuant to Section 12(g) of the Act:** None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. YES ✓ NO__.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES ✓ NO__

On March 31, 2004, the aggregate market value of the Common Stock held by non-affiliates of Registrant was $855,514,345. Excluded from this figure is the Common Stock held by Registrant's Directors and Corporate Officers, who are the only persons known to Registrant who may be considered to be its "affiliates" as defined under Rule 12b-2.

Number of shares of Common Stock, $.01 par value, outstanding as of December 3, 2004: 29,451,282.

**DOCUMENTS INCORPORATED BY REFERENCE**

Registrant's Notice of Annual Meeting and Proxy Statement relating to its 2005 Annual Meeting (to be filed), to the extent indicated in Part III.

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## CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

Forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, are made throughout this Report. These forward-looking statements are sometimes identified by their use of terms and phrases such as "believes," "should," "expects," "anticipates," "intends," "plans," "will," or similar expressions elsewhere in this Report. The Company's results of operations and financial condition may differ materially from those in the forward-looking statements. Such statements are based on management's current views and assumptions, and involve risks and uncertainties that could affect expected results. For example, any of the following factors cumulatively or individually may impact expected results:

(i) If the Company is unable to maintain a meaningful price gap between its private label products and the branded products of its competitors, successfully introduce new products or successfully manage costs across all parts of the Company, the Company's private label businesses could incur operating losses;

(ii) Consolidation among members of the grocery trade may lead to increased wholesale price pressure from larger grocery trade customers and could result in significant profit pressure, or in some cases, the loss of key accounts if the surviving entities are not customers of the Company;

(iii) Significant increases in the cost of certain raw materials (e.g., peanuts, wheat, soybean oil, eggs, various tree nuts, corn syrup, cocoa, fruits) or energy used to manufacture the Company's products, to the extent not reflected in the price of the Company's products, could adversely impact the Company's results;

(iv) In light of its significant ownership in Vail Resorts, Inc., the Company's non-cash earnings can be adversely affected by unfavorable results from Vail Resorts;

(v) The Company is currently generating profit from certain co-manufacturing contract arrangements with other manufacturers within its competitive categories. The termination or expiration of these contracts and the inability of the Company to replace this level of business could negatively affect the Company's operating results;

(vi) The Company's businesses compete in mature segments with competitors having large percentages of segment sales;

(vii) The Company has realized increases to sales and earnings through the acquisitions of businesses, but the ability to undertake future acquisitions depends on many factors that the Company does not control, such as identifying available acquisition candidates and negotiating satisfactory terms upon which to purchase such candidates;

(viii) Presently, a significant portion of the interest on the Company's indebtedness is set on a short-term basis. Consequently, increases in interest rates will increase the Company's interest expense;

(ix) If actual or forecasted cash flows of any reporting unit deteriorate such that its fair value falls below its carrying value, goodwill would likely be impaired and an impairment loss would be recorded immediately as a charge against earnings;

(x) In fiscal 2005, the Company will implement new information systems software within its Cereals, Crackers & Cookies segment. Implementation of the new system could cause disruptions to the segment's operations.

(xi) Recently the Company has experienced increases in the cost to transport finished goods to customers. The costs have risen because of the increased cost of fuel and because there is a limited supply of freight carriers. In the event this situation worsens, transportation costs will increase significantly and the Company will experience service problems with its customers.

(xii) Other uncertainties, all of which are difficult to predict and many of which are beyond the control of the Company, may impact its financial position, including those risks detailed from time to time in its publicly filed documents. These and other factors are discussed in the Company's Securities and Exchange Commission filings.

The list of factors above is illustrative, but by no means exhaustive. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

# PART I

## ITEM 1. BUSINESS

Ralcorp Holdings, Inc. is a Missouri corporation incorporated on October 23, 1996. Our principal executive offices are located at 800 Market Street, Suite 2900, St. Louis, Missouri 63101. The terms "we," "our," "Company," "Ralcorp," and "Registrant" as used herein refer to Ralcorp Holdings, Inc. and its consolidated subsidiaries.

We are primarily engaged in the manufacturing, distribution and marketing of store brand (private label) food in the grocery, mass merchandise, drug and foodservice channels. Our products include: ready-to-eat and hot cereal products; store brand and branded crackers and cookies; store brand and value branded snack nuts and chocolate candy; store brand wet-filled products such as salad dressings, mayonnaise, peanut butter, syrups, jams and jellies, and specialty sauces; foodservice and branded frozen griddle products and biscuits; and foodservice and store brand breads, rolls and muffins.

The following sections of this report contain financial and other information concerning our business developments and operations and are incorporated into this Item 1: "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Item 7 of this Report; and "Acquisitions and Goodwill," "Supplemental Earnings Statement and Cash Flow Information," and "Segment Information" in the Notes to the Consolidated Financial Statements filed as part of this document under Item 8.

You can find additional information about Ralcorp including our 10-Ks, 10-Qs, 8-Ks, and other securities filings (and amendments thereto) by visiting our website at http://www.ralcorp.com or the SEC's website at http://www.sec.gov, from which they can be printed free of charge. The Company's Corporate Governance Guidelines; Code of Business Conduct and Ethics for Employees, including executive officers; Code of Business Conduct and Ethics for the Board of Directors; and the Charters of the Board's Audit, Corporate Governance, and Compensation Committees are also available on our website, from which they can be printed free of charge. All of these documents are also available to shareholders at no charge upon request sent to the Company's Secretary (PO Box 618, St. Louis, MO 63188-0618, Telephone: 314-877-7046).

## RECENT BUSINESS DEVELOPMENTS

On November 6, 2003, we announced that Richard R. Koulouris was appointed Corporate Vice President, and President of Bremner, Inc. and Nutcracker Brands, Inc.

On November 12, 2003, we announced the signing of a definitive agreement to purchase Bakery Chef (a producer of frozen griddle products, biscuits, breads, rolls and muffins) for $287.5 million.

On December 3, 2003, we announced the completion of the acquisition of Bakery Chef.

On December 4, 2003, we announced that David L. Beré was appointed Corporate Vice President, and President and Chief Executive Officer of Bakery Chef.

On February 18, 2004, we announced the signing of a definitive agreement to purchase the assets of Concept 2 Bakers (a producer of frozen par-baked artisan breads and rolls).

On March 1, 2004, we announced the completion of the purchase of the assets of Concept 2 Bakers.

On September 24, 2004, we announced the appointment of Bill G. Armstrong and our Co-Chief Executive Officers, Kevin J. Hunt and David P. Skarie, to the Board of Directors.

On September 24, 2004, we announced the declaration of a special cash dividend of $1.00 per share to shareholders of record on October 8, 2004.

On October 5, 2004, we entered into a Termination Agreement by and among Vail Resorts, Inc., the Registrant and Apollo Ski Partners, L.P. terminating the Shareholder Agreement dated January 3, 1997, as amended.

On October 15, 2004, we entered into a $150,000,000 five-year floating rate revolving Credit Agreement with JPMorgan Chase Bank; Wachovia Bank, National Association; U.S. Bank National Association; PNC Bank, N.A.; Suntrust Bank; Co Bank, ACB; Commerce Bank, N.A.; and Harris Trust and Savings Bank.

On October 21, 2004, we renewed our existing agreement to sell accounts receivable for a period of one year.

## OTHER INFORMATION PERTAINING TO THE BUSINESS OF THE COMPANY

### Segments

During fiscal year 2004 our businesses were comprised of four reportable business segments: Cereals, Crackers & Cookies (consisting of Ralston Foods and Bremner, Inc.); Dressings, Syrups, Jellies & Sauces (The Carriage House Companies, Inc.); Snack Nuts & Candy (Nutcracker Brands, Inc.); and Frozen Pancakes, Biscuits & Breads (Bakery Chef). At the beginning of fiscal year 2005, we combined the in-store bakery business unit with the Bakery Chef business unit. Consequently, our Cereals, Crackers & Cookies segment will no longer include our in-store bakery products (primarily cookies and artisan breads). The Frozen Pancakes, Biscuits & Breads segment will be renamed Frozen Bakery Products and will include the Bakery Chef, Lofthouse and Concept 2 Bakers businesses.

We develop, manufacture, and market emulations of various types of branded food products that retailers, mass merchandisers and drug stores sell under their own “store” brands or under value brands. We attempt to manufacture products that are equivalent in quality to branded products. In the event branded producers modify their existing products or successfully introduce new products, we may attempt to emulate the modified or new products. In conjunction with our customers, we develop packaging and graphics that rival the national brands. Our goal is that the only difference consumers perceive when purchasing our store brand products is a notable cost savings when compared to branded counterparts.

Also, we develop, manufacture and market signature frozen value-added bakery products to foodservice, retail and mass merchandising channels. Our frozen products typically are not emulations of branded products. Instead, they are designed to have unique tastes or characteristics that customers desire.

***Cereals, Crackers & Cookies***

The Cereals, Crackers & Cookies segment is composed of two principal product lines: store brand ready-to-eat and hot cereals (the “Cereal Business”), and store brand and branded crackers and cookies (the “Cracker and Cookie Business”). In fiscal 2004, these product lines accounted for approximately 44% and 56%, respectively, of the Company’s Cereals, Crackers & Cookies segment sales.

*Cereal Business*

Store brand ready-to-eat cereals are currently produced at three operating facilities and include 14 extruded cereals, 14 flaked cereals, seven biscuit cereals and two shredded cereals. Our Cracker and Cookie Business produces shredded wheat cereal for the Cereal Business. Three additional cereals are produced for the Cereal Business through certain co-manufacturing arrangements. Store brand and branded hot cereals are produced at one facility and include old-fashioned oatmeal, quick oatmeal, regular instant oatmeal, flavored instant oatmeals, farina, instant *Ralston*® (a branded hot wheat cereal), and *3 Minute Brand*® hot cereals. As expected, we sell far more hot cereals in cooler months. We believe we are the largest manufacturer in the U.S. of store brand ready-to-eat and hot cereals.

We produce cereal products based on our estimates of customer orders and consequently maintain, on average, six to eight weeks’ inventory of finished products. Our ready-to-eat and hot cereals are warehoused in and distributed through four independent distribution facilities and two of our cereal plants, and shipped to customers principally via independent truck lines. The ready-to-eat and hot cereal products are sold through internal sales staff and independent food brokers.

*Cracker and Cookie Business*

We believe our Cracker and Cookie Business is currently the largest manufacturer of store brand crackers and cookies for sale in the United States. The business also produces branded cookies under the *Rippin’ Good*® brand. The Cracker and Cookie Business also produces *Ry Krisp*® branded crackers. Management positions the Cracker and Cookie Business as a low cost, premier quality producer of a wide variety of store brand crackers and cookies. We produce 54 kinds of store brand cookies and 24 kinds of store brand crackers.

Our Cracker and Cookie Business operates six plants: one produces only *Ry Krisp®* crackers, two produce store brand crackers and cookies, and three produce store brand and branded cookies. Cracker and Cookie products are largely produced to order and shipped directly to customers. In the fall and winter as consumer consumption of crackers increases, we have the ability to produce to estimated volumes, thereby building product inventories ranging from four to six weeks. Store brand crackers and cookies are sold through a broker network and internal sales staff. Branded *Ry Krisp®* crackers and many branded cookies are sold through direct store distributor networks.

***Dressings, Syrups, Jellies & Sauces***

Our Dressings, Syrups, Jellies & Sauces segment currently operates five plants. Four plants produce a variety of store brand shelf-stable dressings, syrups, jellies, salsas, sauces, and drink mixes under the *Major Peters'®* brand. One plant produces only peanut butter. We closed the plant in Kansas City, Kansas during the fourth quarter of fiscal 2004. The segment's products are largely produced to order and shipped directly to customers. However, we maintain warehouses at our plants to hold several weeks' supply of key products. The products are sold through an internal sales staff and a broker network.

Many wet-filled products are easier to produce than those of the Cereals, Crackers & Cookies segment. However, due to the varied nature of branded counterparts and customer preferences, this segment produces far more variations of each type of product compared to our other segments. For example, we produce up to 40 varieties of many types of salad dressing. At any one time, we maintain over 8,000 active SKUs in this segment.

***Snack Nuts & Candy***

Our Snack Nuts & Candy segment operates two plants that produce a variety of jarred, canned and bagged snack nuts and one plant that produces chocolate candy. Our snack nut and candy products are largely produced to order and shipped directly to customers; however, we maintain two warehouses where finished snack nut products are stored during peak times of demand. We sell our products through an internal sales staff and a broker network. The segment produces store brand products as well as value branded products under the *Nutcracker®* and *Flavor House®* brands. Snack nut sales are seasonal, and the segment sells approximately 45% of its snack nuts in a four-month period between September and December. Profits from the sale of snack nuts are impacted significantly by the cost of raw materials (peanuts and tree nuts). Our chocolate candy products are positioned as premium chocolate products and not as an emulation of a branded product. Consequently, our chocolate candy products are sold to customers who maintain premium store brand product lines.

***Frozen Bakery Products***

We produce frozen products at seven facilities. One plant produces pancakes and biscuits, one plant produces a variety of griddle products (pancakes, waffles and custom griddle products), one plant produces dry mixes and pancakes, two plants produce breads and rolls, one plant produces cookies and one plant produces muffins. The segment's griddle, biscuit, muffins and some bread products are largely produced to order and shipped frozen directly to customers or third-party frozen warehouses. Cookies and artisan breads are produced to order and in anticipation of customer needs. These products are stored in onsite frozen warehouses and the majority of the products are shipped frozen.

The Frozen Bakery Products segment sells products through a broker network and a internal sales staff. Products are sold to foodservice customers such as large restaurant chains and distributors of foodservice products, retail grocery chains, and mass merchandisers. We utilize the trademark *Krusteaz®* for frozen griddle products sold to retail grocery chains and mass merchandisers. Also, we produce in-store bakery cookies under the *Lofthouse®* and *Cascade®* brands. Sales of cookies increase significantly in anticipation of holidays.

We sell a significant amount of products to a large international chain of restaurants. The loss of that customer would have a material adverse effect on the Frozen Bakery Products segment.

**Ownership of Vail Resorts, Inc.**

We own 7,554,406 shares of Vail Resorts, Inc. (Vail) common stock (approximately 21 percent of the shares outstanding as of September 30, 2004). Additionally, two of our Directors, Messrs. Stiritz and Micheletto, are on the Vail Board of Directors. Currently, we utilize the equity method of accounting to reflect our share of Vail's earnings (or losses) on a non-cash basis.

Vail's results of operations are highly seasonal and are dependent in part on weather conditions and consumers' discretionary spending trends. In light of the significance of our ownership in Vail in comparison to our earnings and assets, changes in Vail's common stock price or earnings can impact our stock price.

**Trademarks**

We own or use under a license a number of trademarks that are substantially important to our businesses, including *Flavor House*®, *Golden Batch*®, *Krusteaz*®, *Lofthouse*®, *Major Peters'*®, *Nutcracker*®, and *Rippin' Good*®.

**Competition**

Our businesses face intense competition from large branded manufacturers and highly competitive store brand and foodservice manufacturers in each of their product lines. Top branded ready-to-eat and hot cereal competitors include Kellogg, General Mills, Kraft Foods' Post division, and Quaker Oats (owned by PepsiCo). Large branded competitors of the Cracker and Cookie Business include Nabisco (owned by Kraft) and Keebler (owned by Kellogg), which possess large portions of the branded cracker and cookie categories. The Snack Nuts & Candy segment faces significant competition from one significant branded snack nut producer, Planters (owned by Kraft). Top branded competitors of the Dressings, Syrups, Jellies & Sauces segment include Kraft Foods, Bestfoods (owned by Unilever), Smucker's, and Heinz. In addition, privately owned store brand manufacturers provide significant competition in all of the Company's segments. The Frozen Bakery Products segment faces intense competition from numerous producers of griddle, bread and cookie products.

The industries in which we compete are highly sensitive to both pricing and promotion. Competition is based upon product quality, price, effective promotional activities, and the ability to identify and satisfy emerging consumer preferences. These industries are expected to remain highly competitive in the foreseeable future. Our customers do not typically commit to buy predetermined amounts of products. Moreover, many food retailers utilize bidding procedures to select vendors. Consequently, in any segment up to 50% of our business can be subject to a bidding process conducted by our customers.

Future growth opportunities are expected to depend on our ability to implement strategies for competing effectively in all of our businesses, including strategies relating to emulating branded products, enhancing the performance of our employees, maintaining effective cost control programs, developing and implementing methods for more efficient manufacturing and distribution operations, and developing successful new products, while at the same time maintaining high product quality and aggressive pricing and promotion of our products.

**Customers**

In fiscal 2004, Wal-Mart Stores, Inc. accounted for approximately 15% of our aggregate net sales. Each of our reporting segments sells products to Wal-Mart. Additionally, we sell our products to retail chains, mass merchandisers, grocery wholesalers, warehouse club stores, drug stores, restaurant chains and foodservice distributors across the country and in Canada.

**Seasonality**

Due to our equity interest in Vail, which typically yields more than the entire year's equity income during our second and third fiscal quarters, our net earnings are seasonal. In addition, certain aspects of our operations, especially in the Snack Nuts & Candy and hot cereal portion of the Cereal, Crackers & Cookies segment and in-store bakery portion of the Frozen Bakery Products segment business, are seasonal, with a higher percentage of sales and operating profits expected to be recorded in the first and fourth fiscal quarters. See Note 19 in Item 8 for historical quarterly data.

**Employees**

We employ approximately 6,000 people in the United States (as of September 30, 2004). Approximately 2,200 of our personnel are covered by sixteen union contracts and, from time to time, the Company has experienced union organizing activities at its non-union plants. The contracts expire at various times from April 1, 2005 to April 12, 2009. During fiscal 2004 certain employees at the Lancaster plant went on strike, but the issues were resolved and a new collective bargaining contract was reached. Notwithstanding the foregoing, we believe relations with our employees, including union employees, are good.

**Raw Materials and Energy**

Our raw materials consist of ingredients and packaging materials. Our principal ingredients are grain and grain products, flour, corn syrup, sugar, soybean oil, eggs, tomatoes and other fruits, various nuts such as peanuts and cashews, and liquid chocolate. Our principal packaging materials are linerboard cartons, corrugated boxes, plastic bottles, plastic containers and composite cans. We purchase raw materials from local, regional, national and international suppliers. The cost of raw materials used in our products may fluctuate widely due to weather conditions, labor disputes, government regulations, industry consolidation, economic climate, energy shortages, transportation delays, or other unforeseen circumstances. Presently, we do not believe any raw materials we use are in short supply. However, the supply of raw materials can be negatively impacted by the same factors that can impact their cost. From time to time we will enter into supply contracts for periods up to three years to secure favorable pricing for ingredients and up to five years for packaging materials. We also purchase natural gas, electricity, and steam for use in our processing facilities. Where possible, and when advantageous to the Company, we enter into purchase or other hedging contracts of up to 18 months to reduce the price volatility of these items and the cost impact upon our operations. In fiscal 2004, ingredients, packaging, and energy represented approximately 44%, 22%, and 2%, respectively, of our total cost of goods sold.

**Governmental Regulation; Environmental Matters**

We are subject to regulation by federal, state and local governmental entities and agencies. As a producer of goods for human consumption, our operations are subject to stringent production and labeling standards. For example, in the early 1990s, new labeling regulations were promulgated and implemented which required us to modify information disclosed on our packaging. Recently, new labeling regulations relating to trans fatty acids have been adopted by regulatory bodies. Management expects that changes in packaging and formulations can be implemented without a material adverse impact on our businesses if existing packaging stock can be used during a transition period while formulas are modified.

Our operations, like those of similar businesses, are subject to various federal, state and local laws and regulations with respect to environmental matters, including air and water quality, underground fuel storage tanks, waste handling and disposal, and other regulations intended to protect public health and the environment. While it is difficult to quantify with certainty the potential financial impact of actions regarding expenditures for environmental matters, particularly remediation, and future capital expenditures for environmental control equipment, in the opinion of management, based upon the information currently available, the ultimate liability arising from such environmental matters, taking into account established accruals for estimated liabilities, should not have a material effect on our consolidated results of operations, financial position, capital expenditures or other cash flows. In fiscal 2005 or 2006 we may be required to spend approximately $4.5 million to fund the building of a waste water treatment facility for use by the Dressings, Syrups, Jellies & Sauces segment.

**Contract Manufacturing**

From time to time, any of our segments may provide products for branded companies. Often such products are new branded products for which branded companies lack capacity. Typically, branded companies retain ownership of the formulas and trademarks related to products we produce for them. Also, the contract manufacturing business tends to be inconsistent in volume. Often, initial orders can be significant and favorably impact a fiscal period but later volume will level off or the branded company will ultimately produce the product internally and cease purchasing product from us.

## ITEM 2. PROPERTIES

Our principal properties are our manufacturing locations. Shown below are our principal owned and leased properties. We also lease our principal executive offices and research and development facilities in St. Louis, Missouri. Management believes its facilities are suitable and adequate for the purposes for which they are used and are adequately maintained. We believe each segment's combination of facilities provides adequate capacity for current and anticipated future customer demand.

| Plant Locations | Size (Sq. Ft.) | Owned/ Leased | Production Lines | Products |
|---|---|---|---|---|
| ***Cereals, Crackers & Cookies*** | | | | |
| Battle Creek, MI | 476,896 | Owned | 7 | Ready-to-Eat Cereal |
| Cedar Rapids, IA | 150,000 | Owned | 5 | Hot Cereal |
| Lancaster, OH | 478,719 | Owned | 11 | Ready-to-Eat Cereal |
| Sparks, NV | 243,000 | Owned | 7 | Ready-to-Eat Cereal |
| Princeton, KY | 700,000 | Owned | 6 | Crackers and Cookies |
| Poteau, OK | 250,000 | Owned | 5 | Crackers and Cookies |
| Minneapolis, MN | 40,000 | Owned | 3 | Crackers |
| Tonawanda, NY | 95,000 | Owned | 3 | Cookies |
| Ripon, WI (two plants) | 350,000 | Owned | 11 | Cookies |
| ***Snack Nuts & Candy*** | | | | |
| Billerica, MA | 80,000 | Owned | 8 | Snack Nuts |
| Dothan, AL | 135,000 | Leased | 13 | Snack Nuts |
| Womelsdorf, PA | 100,000 | Owned | 5 | Candy |
| ***Dressings, Syrups, Jellies & Sauces*** | | | | |
| Buckner, KY | 269,250 | Owned | 6 | Syrups, Jellies and Sauces |
| Dunkirk, NY | 306,000 | Owned | 6 | Dressings, Syrups and Sauces |
| Fredonia, NY | 367,000 | Owned | 10 | Dressings, Syrups, Jellies, Sauces, Peanut Butter and Drink Mixes |
| Los Angeles, CA | 81,000 | Leased | 4 | Dressings and Sauces |
| Streator, IL | 165,000 | Owned | 1 | Peanut Butter |
| ***Frozen Bakery Products*** | | | | |
| Chicago, IL | 72,000 | Owned | 1 | Muffins |
| Fridley, MN | 147,000 | Owned | 4 | Breads, Rolls and Cookies |
| Grand Rapids, MI | 75,000 | Leased | 4 | Breads and Rolls |
| Louisville, KY | 205,000 | Owned | 4 | Biscuits and Pancakes |
| Louisville, KY | 130,000 | Leased | 3 | Dry Mixes and Pancakes |
| Ogden, UT | 325,000 | Leased | 9 | In-Store Bakery Cookies |
| Seattle, WA | 82,000 | Owned | 14 | Pancakes, Waffles, French Toast and Custom Griddle Items |

### ITEM 3. LEGAL PROCEEDINGS

We are a party to a number of legal proceedings in various state and federal jurisdictions. These proceedings are in varying stages and many may proceed for protracted periods of time. Some proceedings involve complex questions of fact and law. Additionally, our operations, like those of similar businesses, are subject to various federal, state, and local laws and regulations intended to protect public health and the environment, including air and water quality and waste handling and disposal.

Pending legal liability, if any, from these proceedings cannot be determined with certainty; however, in the opinion of management based upon the information presently known, the liability of the Company, if any, arising from the pending legal proceedings, as well as from asserted legal claims and known potential legal claims which are likely to be asserted, taking into account established accruals for estimated liabilities (if any), are not expected to be material to our consolidated financial position, results of operations and cash flows. In addition, while it is difficult to quantify with certainty the potential financial impact of actions regarding expenditures for compliance with regulatory matters, in the opinion of management, based upon the information currently available, the ultimate liability arising from such compliance matters should not be material to the Company's consolidated financial position, results of operations or cash flows.

Additionally, we retained certain potential liabilities associated with divested businesses (former branded cereal business and ski resort business). Presently, management believes that taking into account applicable liability caps, sharing arrangements with acquiring entities and the known facts and circumstances regarding the retained liabilities, potential liabilities of the divested businesses should not be material to the Company's consolidated financial position, results of operations or cash flows.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to the security holders during the fourth quarter of fiscal year 2004.

### ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

| | | |
|---|---|---|
| Kevin J. Hunt | 53 | Co-Chief Executive Officer and President of the Company since September 2003; Chief Executive Officer of Bremner, Inc. and Nutcracker Brands, Inc. since November 2003. He served as Corporate Vice President of the Company from October 1995 to September 2003; President of Bremner from October 1995 to November 2003; and President of Nutcracker Brands from January 2003 to November 2003. |
| David P. Skarie | 58 | Co-Chief Executive Officer and President of the Company since September 2003; Chief Executive Officer and President, The Carriage House Companies, Inc. and Ralston Foods since October 2002 and January 2003, respectively. He served as Corporate Vice President of the Company from March 1994 to September 2003; President of Nutcracker Brands, Inc. from April 2002 to January 2003; President of Ralston Foods from June 2000 to September 2002; and Director of Customer Development of Ralston Foods from March 1994 to June 2000. |
| David L. Beré | 51 | Corporate Vice President, and President and Chief Executive Officer of Bakery Chef since the acquisition of Bakery Chef in December 2003. He served as President and Chief Executive Officer of Bakery Chef since December 1998. |
| Thomas G. Granneman | 55 | Corporate Vice President and Controller since January 1999. He served as Vice President and Controller from December 1996 to January 1999. |
| Charles G. Huber, Jr. | 40 | Corporate Vice President, General Counsel and Secretary of the Company since October 2003. He served as Vice President and Assistant General Counsel from September 2001 to October 2003; and Assistant General Counsel from March 1994 to September 2001. |

| | | |
|---|---|---|
| Richard R. Koulouris | 48 | Corporate Vice President, and President, Bremner, Inc. and Nutcracker Brands, Inc. since November 2003. He served as Vice President Operations, Bremner from September 1995 to November 2003. |
| Scott Monette | 43 | Corporate Vice President and Treasurer since September 2001. He joined Ralcorp in January 2001 as Vice President and Treasurer. Prior to joining Ralcorp, Mr. Monette was Chief Investment Officer/Benefit Plans for Hallmark Cards, Inc. from December 1998 to January 2001. |
| Ronald D. Wilkinson | 54 | Corporate Vice President, and Director of Product Supply of Ralston Foods and The Carriage House Companies, Inc. He has held the Corporate Vice President position and the Ralston Foods position since October 1996, and the Carriage House position since January 2003. |

(Ages are as of December 31, 2004)

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the New York Stock Exchange under the symbol "RAH". There were 10,869 shareholders of record on December 3, 2004. The Company paid a special dividend of $1.00 per share on October 22, 2004, but has no plans to pay cash dividends in the foreseeable future. The range of high and low sale prices of Ralcorp common stock as reported on the NYSE Composite Tape is set forth in Note 19 to the financial statements filed as a part of this document under Item 8.

**Issuer Purchases of Equity Securities**

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July 1 - July 31, 2004 | 0 | 0 | 0 | See total |
| August 1 - August 31, 2004 | 0 | 0 | 0 | See total |
| September 1 - September 30, 2004 | 0 | 0 | 0 | See total |
| Total | 0 | 0 | 0 | 1,665,300 |

## ITEM 6. SELECTED FINANCIAL DATA

**FIVE YEAR FINANCIAL SUMMARY**
**(In millions except per share data)**

| | Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| **Statement of Earnings Data** | | | | | |
| Net sales (a) | $1,558.4 | $1,303.6 | $1,280.3 | $1,178.0 | $ 847.0 |
| Cost of products sold | (1,237.2) | (1,045.6) | (1,027.6) | (952.4) | (672.0) |
| Gross profit | 321.2 | 258.0 | 252.7 | 225.6 | 175.0 |
| Selling, general and administrative expenses | (204.7) | (171.3) | (163.1) | (153.2) | (111.1) |
| Interest expense, net | (13.1) | (3.3) | (5.9) | (15.9) | (8.8) |
| Goodwill impairment loss (b) | - | (59.0) | - | - | - |
| Restructuring charges (c) | (2.4) | (14.3) | - | (2.6) | (2.5) |
| Litigation settlement income (d) | .9 | 14.6 | 1.6 | - | - |
| Merger termination fee (e) | - | - | - | 4.2 | - |
| Earnings before income taxes and equity earnings | 101.9 | 24.7 | 85.3 | 58.1 | 52.6 |
| Income taxes | (37.2) | (16.9) | (30.7) | (22.1) | (19.6) |
| Equity in earnings (loss) of Vail Resorts, Inc., net of related deferred income taxes (f) | .4 | (.4) | (.8) | 3.9 | 3.4 |
| Net earnings | $ 65.1 | $ 7.4 | $ 53.8 | $ 39.9 | $ 36.4 |
| Earnings per share: | | | | | |
| Basic | $ 2.22 | $ 0.25 | $ 1.79 | $ 1.34 | $ 1.21 |
| Diluted | $ 2.17 | $ 0.25 | $ 1.77 | $ 1.33 | $ 1.19 |
| Weighted average shares outstanding: | | | | | |
| Basic | 29.2 | 29.3 | 30.0 | 29.9 | 30.2 |
| Diluted | 29.9 | 29.7 | 30.4 | 30.1 | 30.6 |
| **Balance Sheet Data** | | | | | |
| Working capital (excl. cash and cash equivalents) | $ 107.3 | $ 84.2 | $ 85.4 | $ 95.6 | $ 144.8 |
| Total assets | 1,221.6 | 794.3 | 832.5 | 817.9 | 804.7 |
| Long-term debt | 425.7 | 155.9 | 179.0 | 223.1 | 264.4 |
| Shareholders' equity | 444.2 | 412.7 | 436.1 | 389.4 | 350.3 |
| **Other Data** | | | | | |
| Cash provided (used) by: | | | | | |
| Operating activities | $ 85.4 | $ 105.8 | $ 110.8 | $ 131.0 | $ 33.0 |
| Investing activities | (365.5) | (30.7) | (69.0) | (90.2) | (236.0) |
| Financing activities | 274.8 | (49.3) | (42.5) | (41.0) | 205.2 |
| Depreciation and amortization | 47.5 | 38.7 | 35.8 | 41.6 | 34.3 |
| Dividends declared per share | $ 1.00 | $ - | $ - | $ - | $ - |

(a) In 2000, Ralcorp acquired Ripon Foods, Inc., Cascade Cookie Company, Inc., James P. Linette, Inc., and The Red Wing Company, Inc. In 2001, Ralcorp acquired The Torbitt & Castleman Company, LLC. In 2002, Ralcorp acquired Lofthouse Foods Incorporated. In 2004, Ralcorp acquired Value Added Bakery Holding Company (Bakery Chef) and Concept 2 Bakers. For more information about the 2002 and 2004 acquisitions, see Note 2 to the financial statements in Item 8.

(b) In 2003, a non-cash goodwill impairment loss related to the Carriage House reporting unit was recorded in accordance with FAS 142. See Note 2 to the financial statements in Item 8.

(c) In 2004, restructuring charges related to the relocation of in-store bakery production and a plant closure in Kansas City, KS. In 2003, restructuring charges related to the reduction of operations in Streator, IL, the sale of the ketchup and tomato paste businesses, and the relocation of in-store bakery production. In 2001, restructuring charges related to plant closures in San Jose, CA and Baltimore, MD. In 2000, restructuring charges related to the plant closure in Baltimore, MD. For more information about the 2004 and 2003 restructuring charges, see Note 3 to the financial statements in Item 8.

(d) See Note 4 to the financial statements in Item 8.

(e) In 2001, Agribrands International, Inc. terminated a merger agreement with Ralcorp. Ralcorp received a payment of $5.0 as a termination fee, which was recorded net of related expenses.

(f) In 2003 and 2002, Ralcorp adjusted its equity earnings to reflect the cumulative effect of earnings restatements made by Vail Resorts, Inc. See Note 7 to the financial statements in Item 8.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and capital resources of Ralcorp Holdings, Inc. This discussion should be read in conjunction with the financial statements under Item 8, especially Note 18, and the "Cautionary Statement on Forward-Looking Statements" on page 3. The terms "we," "our," "Company," and "Ralcorp" as used herein refer to Ralcorp Holdings, Inc. and its consolidated subsidiaries.

### RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 1 for a discussion regarding recently issued accounting standards, including FAS 132 (revised), EITF 03-6, and FSP 106-2.

### RESULTS OF OPERATIONS

**Consolidated**

***Net Earnings*** Net earnings were $65.1 million in fiscal 2004, $7.4 million in 2003, and $53.8 million in 2002. The decrease in 2003 was due primarily to a goodwill impairment loss of $45.5 million after taxes. Fiscal 2004 results improved primarily as a result of business acquisitions and organic growth. More detailed discussion and analysis of these and other factors follows.

***Net Sales*** Net sales for fiscal 2004 increased $254.8 million (20%) from 2003. Fiscal 2003 net sales were $23.3 million (2%) higher than in 2002. Ralcorp's results included post-acquisition results from the Lofthouse business acquired January 30, 2002, the Bakery Chef business acquired December 3, 2003, and the Concept 2 Bakers (C2B) business acquired February 27, 2004. Excluding sales from the two businesses acquired during fiscal 2004, net sales grew by 6% from 2003. Refer to the segment discussions below for other factors affecting net sales.

***Operating Expenses*** Cost of products sold was 79.4%, 80.2%, and 80.3% of net sales in 2004, 2003, and 2002, respectively, while selling, general and administrative (SG&A) was 13.1%, 13.1%, and 12.7%. The fiscal 2004 cost of products sold percentage declined primarily as a result of changes in business mix. In addition, it was favorably impacted by production efficiencies due to increased volumes and lower accelerated depreciation related to restructuring projects. Although the prices of energy, freight, and several ingredients (notably soybean oil, eggs, rice, wheat flour, and various tree nuts) increased significantly compared to prior year costs, most of the effects were mitigated during fiscal 2004 through hedging, forward purchase contracts, and selling price increases. The increase in the SG&A percentage from 2002 to 2003 was due to the fact that fiscal 2003 SG&A included $2.5 million of incremental expenses associated with a pilot project to upgrade information systems, $1.5 million related to accounts receivable losses caused by the bankruptcy of the Fleming Companies, Inc. (Fleming), and $1.2 million related to the recall of a product produced for a co-manufacturing customer. Fiscal 2004 SG&A included $5.5 million of expenses associated with the implementation of large-scale information systems upgrades and conversions, which will continue through fiscal 2006. Again, refer to the segment discussions below for other factors affecting cost of products sold and SG&A expenses. In addition, refer to our policy regarding cost of products sold in Note 1 because our gross profit percentages may not be comparable to those of other companies who report cost of products sold on a different basis.

***Interest Expense, Net*** Net interest expense increased to $13.1 million in 2004 from $3.3 million in 2003 and $5.9 million in 2002 as a result of changing debt levels and interest rates. We reduced our long-term debt from $223.1 million at the beginning of fiscal 2002 to $155.9 million by September 30, 2003 as cash from operations exceeded cash needs for business acquisitions, capital expenditures, and stock repurchases. Since nearly all of our interest rates were set on a short-term basis during that time, the declining market rates also had a favorable effect on interest expense. In the first quarter of fiscal 2004, we issued $270 million in fixed rate notes, and market rates headed back up throughout the year. The weighted average interest rate on all of the Company's outstanding debt was 3.5% in 2004, compared to 2.4% in 2003 and 3.1% in 2002. For more information about our long-term debt, see Note 13. Refer to Note 10 for information about our agreement to sell our trade accounts receivable on an ongoing basis, including amounts of related discounts.

***Goodwill Impairment Loss*** We recorded a goodwill impairment loss in fiscal 2003. In accordance with FAS 142, "Goodwill and Other Intangible Assets," we completed our annual goodwill impairment test of each of our reporting units during the fourth quarter. In the first step of the test, the fair value of each reporting unit was compared with its carrying amount. Based on that indicator, only the Carriage House reporting unit (i.e., the Dressings, Syrups, Jellies & Sauces segment) had a potential impairment, and the second step of the test was conducted for that unit to determine the amount of impairment loss by comparing the implied fair value of goodwill to its carrying value. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of its identifiable net assets. Estimated fair values were determined based on the best information available, including independent appraisals and the results of valuation techniques such as EBITDA multiples and discounted future cash flows. The implied fair value of goodwill was calculated to be $38.8 million, compared to the carrying value of $97.8 million, so the goodwill impairment loss was determined to be $59.0 million. A portion of Carriage House's goodwill is not deductible for tax purposes, so the deferred tax benefit of the loss was only $13.5 million. Factors leading to the impairment included the bankruptcy of Fleming (formerly a significant customer of Carriage House), the inability to quickly replace lost co-manufacturing business, the increasing competitive pricing pressures in the private label food industry, and the near-term production inefficiencies arising from the Carriage House restructuring initiatives discussed below. For more information about Carriage House operations and our commitment to improving results, refer to the Dressings, Syrups, Jellies & Sauces sections below.

***Restructuring Charges*** In 2004, the Company closed its plant in Kansas City, KS, and moved production to other facilities within the Dressings, Syrups, Jellies & Sauces segment. Annual cost savings from this project, which included termination benefits and other charges totaling $.6 million, are expected to be $1.2 million.

In the second quarter of fiscal 2003, we announced our plans to close our in-store bakery (ISB) facility in Kent, WA, part of the Cereals, Crackers & Cookies segment, and began transferring production from that facility and two other ISB facilities to a new ISB plant located in Utah. This project was completed in fiscal 2004 and is expected to result in annual cost savings of $3.0 to $3.6 million. Restructuring charges for this project totaled $1.8 million in 2004 and $2.9 million in 2003, including operating lease termination costs, costs related to the removal and relocation of equipment, equipment write-offs, and employee termination benefits.

In fiscal 2003, the Company reduced operations at its facility in Streator, IL, and transferred production of all product lines except peanut butter to other Dressings, Syrups, Jellies & Sauces locations to realize annual cost savings of $2.5 to $3.0 million. Related employee termination benefits and equipment write-offs totaled $1.4 million.

In the first quarter of fiscal 2003, we sold our ketchup business, including certain equipment and inventory, and recorded a net loss of $1.4 million. Further, we determined that the resulting reduced cash flows from our tomato paste business, which had supplied the Company's ketchup production, was less than the carrying value of our paste production facility located near Williams, CA, and an impairment charge of $5.0 million was recorded as of December 31, 2002. On February 4, 2003, we sold the tomato paste business, including the Williams facility, and recorded an additional loss of $3.6 million. The ketchup and paste operations were both relatively minor parts of the Dressings, Syrups, Jellies & Sauces segment.

For more information regarding these restructuring charges, see Note 3.

***Litigation Settlement Income*** We received payments in fiscal 2004, 2003, and 2002 in settlement of legal claims, nearly all of which related to vitamin antitrust litigation. The respective amounts recorded were $.9 million, $14.6 million, and $1.6 million, net of related expenses. Additional amounts are not expected at this time.

***Income Taxes*** Income tax provisions generally reflect statutory tax rates, adjusted by the effects of non-deductible goodwill amortization expense or impairment losses. The effective rate was approximately 36.5% in 2004, 68.5% in 2003, and 36% in 2002. The 2003 rate included the effect of the non-deductible portion of the goodwill impairment loss. Excluding that effect, the 2003 rate was about 36%. The effective rate is also affected by changes in our business mix which affect state apportionment. The effective rate is expected to remain at approximately 36.5% for fiscal 2005. See Note 5 for more information about income taxes.

***Equity in Earnings of Vail Resorts, Inc***. In fiscal 2004, we recorded pre-tax income of $.6 million from our investment in Vail Resorts (NYSE ticker: MTN). For fiscal 2003 and 2002, we recorded pre-tax losses of $.7 million and $1.2 million, respectively, from the Vail investment. Those losses included adjustments totaling $.8 million in 2003 and $4.9 million in 2002 to reflect the cumulative effect of Vail's earnings restatements for prior years. See Note 6 for more information about this equity investment.

**Cereals, Crackers & Cookies**

***Fiscal 2004 vs. Fiscal 2003***

For the year ended September 30, 2004, net sales for the Cereals, Crackers & Cookies segment were up $75.6 million (11 percent) from fiscal 2003, with Bremner and Ralston Foods contributing increases of $43.7 million and $31.9 million, respectively. Excluding C2B sales, which were the source of half of Bremner's growth, base cracker and cookie volumes were up 5 percent, and ISB volume was flat. For Ralston Foods, most of the increase was the result of 13 percent growth in RTE cereal sales volume, partially offset by a 3 percent decline in hot cereal volume. In addition, net sales from RTE co-manufacturing were up $5.8 million for the year.

Like net sales, the segment's profit contribution improved 11 percent for the year. Higher costs of rice, corn, wheat, soybean oil, eggs, raisins, freight, and energy were offset by production efficiencies, favorable sales mix, and lower information systems expense.

***Fiscal 2003 vs. Fiscal 2002***

Net sales for the Cereals, Crackers & Cookies segment were up 9 percent in fiscal 2003 from fiscal 2002, with the Ralston Foods cereal division and the Bremner cracker and cookie division contributing increases of $4.2 million and $54.1 million, respectively. About $30 million of the Bremner growth is attributable to an additional four months of sales from Lofthouse, acquired on January 30, 2002, while the remainder came through ongoing expansion with existing customers. Cracker volume was up 14 percent and base cookie volume was down 5 percent. Excluding Lofthouse sales for the first four months, ISB volume was up 4 percent year-over-year. For Ralston Foods, an increase in co-manufactured ready-to-eat (RTE) cereal sales offset a decline in store brand RTE cereal for the year (largely due to the Fleming bankruptcy), so combined RTE volume was flat. Hot cereal volume was up 5 percent (despite losses related to the Fleming bankruptcy), but most of the relative sales dollar improvement at Ralston Foods was due to the amount and timing of promotional discounts.

The segment's profit contribution was up $6.8 million (10 percent) for fiscal 2003. The improvement is primarily attributable to the increased sales, but also to the reduced promotional activity in the current year, reduced expenses related to capital projects, lower freight costs, and favorable product mix. Those benefits were partially offset by rising costs of insurance, employee benefits, and ingredients such as wheat flour, soybean oil, honey, cocoa, and sugar.

**Dressings, Syrups, Jellies & Sauces**

The Company's Dressings, Syrups, Jellies & Sauces segment's net sales decreased from $451.5 million in 2002 to $405.8 in 2003 and $388.8 in 2004. The declines are attributable primarily to the loss of a major co-manufacturing customer at the beginning of fiscal 2003, the exit from the ketchup and industrial tomato paste businesses during 2003, the effects of the Fleming bankruptcy in April 2003, and the loss of a major pourable salad dressing customer in the second half of fiscal 2004. These sales reductions were partially offset by increased business with several customers, as well as by 2004 price increases on some product lines in an attempt to mitigate escalating costs of certain ingredients.

The segment's profit contribution was 3.0% of net sales in fiscal years 2004 and 2002, and 2.0% of net sales in fiscal 2003. The 2003 profit percentage fell as a result of increased production costs due to inefficiencies related to the significant volume decline and restructuring initiatives, pricing pressures, and charges related to the Fleming bankruptcy. In fiscal 2004, we saw production cost improvements from our restructuring and process improvement projects.

**Snack Nuts & Candy**

Net sales for the Snack Nuts & Candy segment increased from $172.8 million in fiscal 2002 to $183.5 million in fiscal 2003 and then jumped 26% to $230.9 million in fiscal 2004. The 2003 growth was generated primarily through increases in volume with several customers, partially offset by continued competitive pricing pressures, an unfavorable product mix, and a significant reduction in first quarter holiday orders from a major customer. The 2004 growth came primarily from further increases in orders from existing top customers for both continuing and new private label items, but also from price increases driven by higher ingredient costs.

The segment's 2004 profit contribution decreased $2.6 million from 2003 as price increases lagged increases in the cost of ingredients – especially tree nuts such as macadamias, almonds, and pecans. The profit comparison was made more difficult by significantly reduced peanut costs in 2003, followed by competitive pricing pressures that reduced peanut margins in 2004. In 2004, the weighted average ingredient costs per pound were approximately 14 percent higher than in the prior year. In addition, fiscal 2004 profit was reduced by higher energy costs and information systems costs. Fiscal 2003 profit contribution was $2.2 million higher than in 2002 as a result of the sales increase and favorable peanut costs, partially offset by increased costs on other ingredients.

**Frozen Pancakes, Biscuits & Breads**

On December 3, 2003, Ralcorp completed the purchase of Bakery Chef, a leading manufacturer of frozen griddle products (pancakes, waffles, and French toast) and pre-baked biscuits and breads. Ralcorp paid a total of approximately $289 million in cash to acquire Bakery Chef, which had net sales of $165 million for the year ended December 31, 2002 and $148.8 million since acquisition. Bakery Chef has contributed $21.4 million of profit since acquisition, net of $3.9 million of amortization expense related to intangibles recorded in purchase accounting. The profit contribution has been reduced by unfavorable ingredient costs (primarily eggs and soybean oil), partially offset by price increases. Net of related financing costs discussed below, this acquisition added approximately $.24 to Ralcorp's diluted earnings per share during fiscal 2004.

## LIQUIDITY AND CAPITAL RESOURCES

Historically, we have funded operating needs by generating positive cash flows through operations. We expect to continue generating operating cash flows through our mix of businesses and expect that short-term and long-term liquidity requirements will be met through a combination of operating cash flows and strategic use of borrowings under committed and uncommitted credit arrangements. Capital resources remained strong at September 30, 2004, with a net worth of $444.2 million and a long-term debt to total capital ratio of 49 percent, compared to corresponding figures for September 30, 2003, of $412.7 million and 27 percent. Working capital, excluding cash and cash equivalents, increased to $107.3 million at September 30, 2004, from $84.2 million at September 30, 2003, primarily as a result of an increase in our investment in Ralcorp Receivables Corporation of $45.6 million and the addition of the Bakery Chef and C2B businesses, offset by $29.4 million of dividends payable recorded in September 2004.

**Operating Activities**

Cash flows from operating activities were $85.4 million, $105.8 million, and $110.8 million in 2004, 2003, and 2002, respectively. Operating cash flows were augmented in fiscal 2001 by $61.0 million of proceeds from the sale of ownership interests in accounts receivable. Each year since then, we have reduced the amount of interests sold, with decreases of $4.4 million, $22.4 million, and $34.2 million in fiscal 2002, 2003, and 2004, respectively. As of September 30, 2004, we did not sell any ownership interests. See "Off-Balance Sheet Financing" below for more information about the sale of receivables. In fiscal 2002 and especially in fiscal 2003, an emphasis on working capital reduction resulted in lower inventory levels, while inventory levels increased in 2004 due to changes in both quantity (to support higher sales volumes) and costs. Accounts payable have fluctuated due to the timing of purchases. In 2003, operating cash flows were reduced by a $10 million contribution to our qualified pension plan, included in "Other, net" on the statement of cash flows. We do not expect to be required to make any significant contributions to this plan in fiscal 2005. See Note 15 for more information about pension plans, including the funded status.

**Investing Activities**

Net cash paid for business acquisitions totaled $313.1 million in fiscal 2004 (Bakery Chef and C2B) and $52.1 million in fiscal 2002 (Lofthouse Foods). See Note 2 for more information about acquisitions.

Capital expenditures were $53.8 million, $36.1 million, and $29.1 million in fiscal years 2004, 2003, and 2002, respectively. The increase was due primarily to the information systems projects, restructuring projects, and projects at the newly acquired businesses. Capital expenditures for fiscal 2005 are expected to be between $50 and $60 million. As discussed below, we have adequate capacity under current borrowing arrangements to meet these cash needs.

In fiscal 2002, Ralcorp received $10.0 million of proceeds from the sale of its Carriage House facility in San Jose, CA, with no material gain or loss.

**Financing Activities**

Strong operating cash flows and reduced acquisition activity allowed Ralcorp to reduce its long-term debt in fiscal 2002 and 2003 by $44.1 million and $23.1 million, respectively. On May 22, 2003, we issued Floating Rate Senior Notes, Series A, in the amount of $150.0, maturing on May 22, 2010. Borrowings under this private placement debt financing incur interest at a rate of 3-month LIBOR plus 0.85%, adjusted quarterly, with interest payable quarterly in arrears. We used the proceeds to repay borrowings under our shorter-term credit arrangements.

Initially, cash for the 2004 Bakery Chef acquisition was borrowed under our revolving credit agreement and uncommitted credit arrangements, but on December 22, 2003, we completed a $270 million private placement of long-term fixed rate senior notes yielding a weighted average interest rate of 4.6%. Details about these notes are included in Note 13.

As of September 30, 2004, total remaining availability under our $275 million revolving credit agreement and our $35 million uncommitted credit arrangements was $309.9 million. Currently, the most restrictive covenant is a maximum Total Debt to Adjusted EBITDA ratio of 3.5:1. As of September 30, 2004, we were in compliance with all covenants, with a Total Debt to Adjusted EBITDA ratio of 2.46:1. The $275 million agreement expired October 16, 2004, and was replaced with a similar $150 million agreement expiring in five years. See Note 13 for details.

Supplementing our available borrowing capacity, our balance sheet included $23.7 million of cash and cash equivalents at September 30, 2004. In addition, under the agreement described under "Off-Balance Sheet Financing" below, we could choose to sell up to $66 million of ownership interests in accounts receivable. Further cash needs could be met through the sale of the Company's investment in Vail Resorts, Inc., which had a market value of $136.5 million at September 30, 2004 (see Note 6).

On September 24, 2004, our Board of Directors declared a special cash dividend of $1.00 per share, payable on October 22, 2004, to shareholders of record as of the close of business on October 8, 2004. The dividend payout totaled approximately $29.4 million. Delivering value to Ralcorp shareholders in the form of a special dividend recognized their continued support of the Company while validating the Company's business plan and reflecting the resulting growth in the Company's net worth. The Company believes that paying the special dividend was a direct and efficient way to distribute surplus capital to Ralcorp's shareholders and manage the Company's balance sheet without adversely affecting its ability to continue to pursue acquisition opportunities, make capital expenditures, or reduce its debt.

In November 2002, the Board approved a tender offer for up to 4,000,000 shares at a single price not in excess of $24.00 and not less than $21.00 per share. The offer was in the form of a modified "Dutch Auction" where the final price is determined based upon the number of shares, and the respective prices, tendered. The offer resulted in the purchase of 1.15 million shares at a purchase price of $24.00 per share. As of September 30, 2004, 1,665,300 shares remained available for repurchase by the Company pursuant to previous authorizations by the Board of Directors.

**Off-Balance Sheet Financing**

As an additional source of liquidity, on September 24, 2001, Ralcorp entered into an agreement to sell, on an ongoing basis, all of its trade accounts receivable to a wholly owned, bankruptcy-remote subsidiary called Ralcorp Receivables Corporation (RRC). RRC can then sell up to $66.0 million of undivided percentage ownership interests in qualifying receivables to a bank commercial paper conduit (the Conduit). RRC's only business activities relate to acquiring and selling interests in Ralcorp's receivables. Upon the agreement's termination, the Conduit would be entitled to all cash collections on RRC's accounts receivable until its purchased interest has been repaid. Unless extended, the agreement will terminate in October 2005.

The trade receivables sale arrangement with RRC represents "off-balance sheet financing" since the sale results in assets being removed from our balance sheet rather than resulting in a liability to the Conduit. The organization documents of RRC and the terms of the agreements governing the receivables sale transactions make RRC a qualifying special purpose entity. As such, it is not to be consolidated in Ralcorp's financial statements under generally accepted accounting principles. Furthermore, the "true sale" nature of the arrangement requires Ralcorp to account for RRC's transactions with the Conduit as a sale of accounts receivable instead of reflecting the Conduit's net investment as debt with a pledge of accounts receivable as collateral. If RRC were not a qualifying special purpose entity and if the arrangement were not considered a "true sale," the outstanding balance of receivables would remain on Ralcorp's balance sheet, proceeds received from the Conduit (none as of September 30, 2004) would be shown as short-term debt, and there would be no investment in RRC. See further discussion in Note 10.

**Contractual Obligations**

In the normal course of business, we enter into contracts and commitments which obligate us to make payments in the future. The table below sets forth our significant future obligations by time period as of September 30, 2004.

| | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| Long-term debt obligations (a) | $ 521.8 | $ 22.6 | $ 61.5 | $ 105.4 | $ 332.3 |
| Operating lease obligations (b) | 51.5 | 7.6 | 12.4 | 8.7 | 22.8 |
| Purchase obligations (c) | 215.3 | 206.2 | 4.5 | .6 | 4.0 |
| Deferred compensation obligations (d) | 15.9 | .8 | 3.5 | 1.9 | 9.7 |
| Total | $ 804.5 | $ 237.2 | $ 81.9 | $ 116.6 | $ 368.8 |

(a) Long-term debt obligations include principal and interest payments based on interest rates at September 30, 2004. See Note 13 for details.
(b) Operating lease obligations consist of minimum rental payments under noncancelable operating leases, as shown in Note 14.
(c) Purchase obligations are legally binding agreements to purchase goods or services that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.
(d) Deferred compensation obligations have been allocated to time periods based on existing payment plans for terminated employees and the estimated timing of distributions to current employees based on age.

## INFLATION

We recognize that inflationary pressures may have an adverse effect on the Company through higher asset replacement costs, related depreciation and higher material costs. We try to minimize these effects through cost reductions and productivity improvements as well as price increases to maintain reasonable profit margins. It is our view that inflation has not had a significant impact on operations in the three years ended September 30, 2004.

## OUTLOOK

We believe the opportunities in the private label, value brand, and food service areas are favorable for long-term growth. In the past few years, we have taken substantial steps to reshape the Company, reducing our reliance on any one business segment while achieving sufficient scale in the categories in which we operate. We expect to continue to improve our business mix through volume and profit growth of existing businesses, as well as through acquisitions or alliances. We will continue to explore those acquisition opportunities that strategically fit with our intention to be the premier provider of value-oriented food products.

Acquisitions are integrated into Ralcorp operations depending upon a number of criteria, including continuation of the current management team, organizational reporting relationships, available synergies to be gained through the consolidation of like operations, as well as other factors. Many past acquisitions have continued to utilize their own stand-alone information systems. In 2003, the Company commenced the systematic conversion of these disparate division and facility information systems to new, integrated company-wide information systems software provided primarily by J.D. Edwards/PeopleSoft. These conversions commenced in September 2003 with two snack nut facilities and are expected to continue well into fiscal 2006.

Food producers have introduced product lines deemed to have "low" or "reduced" carbohydrates to meet the demands of consumers who are following the "Atkins," "South Beach," or other dietary plans. Many of our product lines contain significant amounts of carbohydrates. Changes in consumers' preferences and the potential popularity of new low-carbohydrate products could adversely affect our businesses, but the impact, if any, cannot be determined at this time.

Freight costs have been increasing and are expected to remain at elevated levels at least through the first six months of fiscal 2005, thereby reducing profit margins. These cost increases are primarily the result of rising fuel prices. Further, a shortage of available common carriers in some areas is putting additional upward pressure on freight rates as well as having a negative effect on our customer service. In fiscal 2004, freight costs were approximately 7 percent of our cost of products sold.

In July 2003, the Food and Drug Administration issued a final rule amending its regulations on nutrition labeling to require that trans fat be declared in the nutrition label of conventional foods and dietary supplements on a separate line immediately under the line for the declaration of saturated fat. The new rule will be effective January

1, 2006. Because of this regulatory change, we are incurring additional costs related to packaging modifications. Furthermore, given the increased focus on trans fat content and the related health risks indicated by recently published scientific studies, we may incur additional costs to research and implement formulation changes to certain products. The ultimate impact of this regulation upon our businesses cannot be determined at this time.

On an enterprise-wide basis, we attempt to manage cost increases through forward purchase contracts, hedging, and selling price increases. Although the prices of energy, freight, and several ingredients increased significantly compared to prior year costs. most of the effects were mitigated during fiscal 2004 through those efforts. During long periods of rising commodity costs, such as we have experienced in fiscal 2004 and the beginning of fiscal 2005, these mitigation efforts can become less effective as favorable contracts expire or suppliers are unable to fulfill their obligations. If these costs remain at elevated levels as expected and sales volumes exceed current commodity coverage, fiscal 2005 profit margins could be reduced.

The following sections contain discussions of the specific factors affecting the outlook for each of our reportable segments.

**Cereals, Crackers & Cookies**

The level of competition in the cereal category continues to be intense for our Ralston Foods division. Competition comes from branded box cereal manufacturers, branded bagged cereal producers and other private label cereal providers. For the last several years, category growth in ready-to-eat and hot cereals has been minimal or has declined, which has exacerbated its competitive nature. When branded competitors focus on price/promotion, the environment for private label producers becomes more challenging. We must maintain an effective price gap between our quality private label cereal products and those of branded cereal producers, thereby providing the best value alternative for the consumer.

Pricing and volume agreements with customers are generally determined by the customers' periodic requests for competitive category reviews in each of our divisions. During fiscal 2004, Ralston Foods participated in several of these category reviews and was able to maintain or grow volumes, albeit at reduced margin levels. Ralston Foods anticipates additional category review requests to occur during fiscal 2005. In this environment, it is imperative that volume gains substantially offset the continued pricing pressures.

As noted above, increasing costs are intensifying margin pressures. Further, increases in employee health care, other benefit costs, energy and freight are expected to continue into the foreseeable future. Accordingly, aggressive cost containment remains an important goal of the organization. In addition, increased distribution is required to remain competitive whether through new and improved product emulations or new co-manufacturing opportunities.

Our cracker and cookie operation, Bremner, also conducts business in a highly competitive category and is affected by many of the same cost and pricing challenges. Major branded competitors continue to market and promote their offerings aggressively and many smaller, regional branded and private label manufacturers provide additional competitive pressures. Recently, there has been minimal growth in the cookie and cracker categories, intensifying the competition. Bremner's ability to maintain a sufficient price gap between products of branded producers and Bremner's quality private label emulations will be important to its results of operations. In addition, Bremner will continue to focus on cost containment, new products and volume growth of existing products in order to improve operating results.

On January 12, 2004, Bake-Line Group, LLC, a producer of cookies and crackers, filed a Chapter 7 bankruptcy petition in Delaware and ceased operations. Since then, Bremner has begun supplying products to several of Bake-Line's former customers. We expect sales to continue to increase in the first quarter of fiscal 2005 as additional products are finalized for former Bake-Line customers, but the effects may be partially offset by declining co-manufacturing sales.

We have completed the consolidation of Lofthouse and Cascade into a single operating facility in Ogden, UT, with expected annual cost savings of approximately \$3.0 to \$3.6 million which commenced in the fourth quarter of fiscal 2004. The February 2004 addition of C2B, a producer of par-baked frozen breads, provides the ISB operations with an expanded product line.

In October 2004, operations of the ISB business began reporting to management of Bakery Chef, who in turn report combined results to Ralcorp's top management. Consequently, in fiscal 2005 the ISB business will be combined with Bakery Chef in a reportable segment known as Frozen Bakery Products rather than with Bremner in Cereals, Crackers & Cookies. Comparative historical data will be restated to conform to the new presentation.

**Dressings, Syrups, Jellies & Sauces**

Carriage House's competitors, both large and small, continue to be aggressive on pricing. In addition, the division continues to be negatively affected by certain ingredient and packaging cost increases (including soybean oil) as well as increased employee health care, benefits, and freight costs. As warranted, we will continue to seek price increases to help offset these rising costs.

The segment's operating performance has improved from prior periods as a result of recent restructuring, including the sales of underperforming operations and related plant rationalizations, and ongoing process improvement and overhead reduction projects. Most recently, in June of 2004, Carriage House finalized a plan to close its plant in Kansas City, Kansas, and move production to other facilities. Annual savings from this plant closure are expected to be $1.2 million beginning in fiscal 2005. In addition, Carriage House recently initiated administrative staffing reductions in a number of facilities, with estimated annual cost savings of $2.0 million. Costs associated with these reductions, including severance pay and outplacement services, are estimated at $.8 million, most of which were recognized during the fourth quarter of fiscal 2004.

In June 2004, a major customer began purchasing pourable salad dressings from one of our competitors in order to achieve lower prices. The resulting loss of profit is expected to be more than offset by the aforementioned actions taken to reduce overhead costs. In addition, management is continuing its effort to replace the lost volume through additional sales to new and existing customers.

**Snack Nuts & Candy**

Snack nuts and candy continue to be very competitive categories. This segment of Ralcorp faces significant competition from branded manufacturers as well as private label and regional producers, and we expect the current margin pressure to continue into the foreseeable future. The majority of the cost of products sold relates to commodities including peanuts, cashews, and tree nuts such as macadamias, pecans, and almonds. The cost of these commodities fluctuate, sometimes drastically, based upon worldwide supply and demand. These commodity fluctuations, when not accompanied by pricing changes due to competition, can result in short-term changes in the profitability of the segment. We currently have committed contracts for a large portion of our commodity needs for the first half of fiscal 2005. During that period, we expect peanut and cashew costs to remain relatively constant while tree nuts are expected to increase slightly from current levels; however, tree nut costs will be considerably higher than in the corresponding period of fiscal 2004. Whenever possible, we will continue to implement price increases to help offset these rising costs.

The segment has recently initiated staffing reductions at several locations, with expected annual cost savings of $.7 million. Costs associated with these reductions, including severance pay and outplacement services, are estimated at $.4 million, most of which was recognized in the fourth quarter of fiscal 2004. In addition, the segment will continue to focus on maintaining its customer base and the high quality of its products and on developing new products.

**Frozen Pancakes, Biscuits & Breads**

Bakery Chef produces frozen pancakes, waffles, French toast, biscuits, and breads, as well as dry mixes, and competes primarily in the foodservice channel. The foodservice channel is comprised of three major categories: national restaurant chains; distributors who provide products to restaurants; and management firms who manage food operations within schools, offices, and other institutions. Bakery Chef's major customers include restaurant chains, foodservice operators, and retailers. Competition consists of other producers of similar products for foodservice customers, as well as branded and store brand suppliers to retailers. It is critical for Bakery Chef to provide high quality products, excellent customer service, superior product innovation, and competitive pricing to its customers. New product offerings, new foodservice and retail customers, and growth of existing customers will all be important to the future success of this segment.

For fiscal 2004, Bakery Chef's profit contribution was reduced by unfavorable ingredient costs (specifically eggs and soybean oil), partially offset by selling price increases. These ingredient cost increases have abated somewhat in the past several months, but costs remain high compared to the prior year putting continued pressure on margins.

Bakery Chef's focus for fiscal 2005 is to capitalize on the previously mentioned coordination of Bakery Chef with the ISB business by offering an expanded product grouping to the combined customer base of the two organizations.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The following discussion is presented pursuant to the United States Securities and Exchange Commission's Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies." The policies below are both important to the representation of the Company's financial condition and results and require management's most difficult, subjective or complex judgments.

Under generally accepted accounting principles in the United States, we make estimates and assumptions that impact the reported amounts of assets, liabilities, revenues, and expenses as well as the disclosure of contingent liabilities. We base estimates on past experience and on various other assumptions that are believed to be reasonable under the circumstances. Those estimates form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue is recognized when title of goods is transferred to the customer, as specified by the shipping terms. Products are generally sold with no right of return except in the case of goods which do not meet product specifications or are damaged. We record estimated reductions to revenue for customer incentive offerings based upon each customer's redemption history. Should a greater proportion of customers redeem incentives than estimated, additional reductions to revenue may be required.

Inventories are valued at the lower of cost (determined on a first-in, first-out basis) or market value and have been reduced by an allowance for obsolete product and packaging materials. The estimated allowance is based on a review of inventories on hand compared to estimated future usage and sales. If market conditions and actual demands are less favorable than projected, additional inventory write-downs may be required.

We review long-lived assets, including leasehold improvements and property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell.

Goodwill represents the excess of the cost of acquired businesses over the fair market value of their identifiable net assets. We conduct a goodwill impairment review during the fourth quarter of each fiscal year. The goodwill impairment tests require us to estimate the fair value of our businesses and certain assets and liabilities, for which we utilize valuation techniques such as EBITDA multiples and discounted cash flows based on projections. In our recent tests, we assumed EBITDA multiples in the range of 5.75 to 6 and discount rates in the range of 9.5% to 10.5%.

Pension assets and liabilities are determined on an actuarial basis and are affected by the estimated market-related value of plan assets; estimates of the expected return on plan assets, discount rates, and future salary increases; and other assumptions inherent in these valuations. We annually review the assumptions underlying the actuarial calculations and makes changes to these assumptions, based on current market conditions, as necessary. Actual changes in the fair market value of plan assets and differences between the actual return on plan assets and the expected return on plan assets will affect the amount of pension expense or income ultimately recognized. The other postretirement benefits liability is also determined on an actuarial basis and is affected by assumptions including the discount rate and expected trends in healthcare costs. Changes in the discount rate and differences between actual and expected healthcare costs will affect the recorded amount of other postretirement benefits expense. See Note 15 for more information about pension and other postretirement benefit assumptions.

Liabilities for workers' compensation claims and accrued health care costs (including a reserve for claims incurred but not yet reported) are estimated based on details of current claims, historical experience, and expected trends determined on an actuarial basis.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

In the ordinary course of business, the Company is exposed to commodity price risks relating to the acquisition of raw materials. The Company utilizes derivative financial instruments, including futures contracts and options, to manage certain of these exposures when it is practical to do so. As of September 30, 2004 and 2003, a hypothetical 10% adverse change in the market price of the Company's principal commodities, including corn, oats, wheat and soybean oil, would have decreased the fair value of the Company's derivatives portfolio by $1.1 million and $2.6 million, respectively. This volatility analysis ignores changes in the exposures inherent in the underlying hedged transactions. Because the Company does not hold or trade derivatives for speculation or profit, all changes in derivative values are effectively offset by corresponding changes in the underlying exposures. For more information, see Note 1 and Note 12 to the financial statements included in Item 8.

The Company has interest rate risk with respect to interest expense on variable rate debt. At September 30, 2004 and 2003, the Company had $155.7 million of variable rate debt outstanding. A hypothetical 10% adverse change in weighted average interest rates during fiscal 2004 and 2003 would have had an unfavorable impact of $.2 million on both the Company's net earnings and cash flows each year. For more information, see Note 13 to the financial statements included in Item 8.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### REPORT OF MANAGEMENT

Management of Ralcorp Holdings, Inc. is responsible for the preparation and integrity of the Company's financial statements. These statements have been prepared in accordance with generally accepted accounting principles and in the opinion of management fairly present the Company's financial position, results of operations and cash flow.

The Company maintains accounting and internal control systems that it believes are adequate to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements. The selection and training of qualified personnel, the establishment and communication of accounting and administrative policies and procedures, and an extensive program of internal audits are important elements of these control systems.

The Board of Directors, through its Audit Committee consisting solely of independent directors, meets periodically with management and the independent registered public accounting firm to discuss audit and financial reporting matters. To ensure independence, PricewaterhouseCoopers LLP has direct access to the Audit Committee.

The report of PricewaterhouseCoopers LLP, independent registered public accounting firm, on their audits of the accompanying financial statements follows. This report states that their audits were performed in accordance with the standards of the Public Company Accounting Oversight Board. These standards include an evaluation of internal control for the purpose of establishing a basis for reliance thereon relative to the scope of their audits of the financial statements.

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Ralcorp Holdings, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Ralcorp Holdings, Inc. and its subsidiaries at September 30, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
St. Louis, Missouri
November 3, 2004

# RALCORP HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF EARNINGS

**(Dollars in millions except per share data, shares in thousands)**

| | Year Ended September 30, | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| **Net Sales** | $ 1,558.4 | $ 1,303.6 | $ 1,280.3 |
| Cost of products sold | (1,237.2) | (1,045.6) | (1,027.6) |
| **Gross Profit** | 321.2 | 258.0 | 252.7 |
| Selling, general and administrative expenses | (204.7) | (171.3) | (163.1) |
| Interest expense, net | (13.1) | (3.3) | (5.9) |
| Goodwill impairment loss | - | (59.0) | - |
| Restructuring charges | (2.4) | (14.3) | - |
| Litigation settlement income | .9 | 14.6 | 1.6 |
| **Earnings before Income Taxes and Equity Earnings** | 101.9 | 24.7 | 85.3 |
| Income Taxes | (37.2) | (16.9) | (30.7) |
| **Earnings before Equity Earnings** | 64.7 | 7.8 | 54.6 |
| Equity in Earnings (Loss) of Vail Resorts, Inc., Net of Related Deferred Income Taxes | .4 | (.4) | (.8) |
| **Net Earnings** | $ 65.1 | $ 7.4 | $ 53.8 |
| **Basic Earnings per Share** | $ 2.22 | $ 0.25 | $ 1.79 |
| **Diluted Earnings per Share** | $ 2.17 | $ 0.25 | $ 1.77 |
| **Weighted Average Shares for Basic Earnings per Share** | 29,228 | 29,258 | 29,961 |
| Dilutive effect of: | | | |
| Stock options | 670 | 486 | 471 |
| Restricted stock awards | 6 | 2 | 1 |
| **Weighted Average Shares for Diluted Earnings per Share** | 29,904 | 29,746 | 30,433 |

See accompanying Notes to Consolidated Financial Statements.

**RALCORP HOLDINGS, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(In millions except share and per share data)**

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 23.7 | $ 29.0 |
| Investment in Ralcorp Receivables Corporation | 98.0 | 52.4 |
| Receivables, net | 23.6 | 10.9 |
| Inventories | 175.1 | 145.7 |
| Deferred income taxes | 6.3 | 2.9 |
| Prepaid expenses and other current assets | 3.6 | 3.0 |
| Total Current Assets | 330.3 | 243.9 |
| Investment in Vail Resorts, Inc. | 80.7 | 80.1 |
| Property, Net | 342.9 | 265.3 |
| Goodwill | 367.1 | 177.6 |
| Other Intangible Assets, Net | 89.0 | 15.7 |
| Other Assets | 11.6 | 11.7 |
| Total Assets | $ 1,221.6 | $ 794.3 |
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities | | |
| Accounts payable | $ 115.0 | $ 85.1 |
| Other current liabilities | 84.3 | 45.6 |
| Total Current Liabilities | 199.3 | 130.7 |
| Long-term Debt | 425.7 | 155.9 |
| Deferred Income Taxes | 58.2 | 20.0 |
| Other Liabilities | 94.2 | 75.0 |
| Total Liabilities | 777.4 | 381.6 |
| Commitments and Contingencies | | |
| Shareholders' Equity | | |
| Common stock, par value $.01 per share | | |
| Authorized: 300,000,000 shares | | |
| Issued: 33,011,317 shares | .3 | .3 |
| Capital in excess of par value | 117.3 | 114.1 |
| Retained earnings | 429.5 | 393.8 |
| Common stock in treasury, at cost (3,622,402 and 4,070,954 shares) | (68.4) | (76.9) |
| Unearned portion of restricted stock | (4.6) | (.1) |
| Accumulated other comprehensive loss | (29.9) | (18.5) |
| Total Shareholders' Equity | 444.2 | 412.7 |
| Total Liabilities and Shareholders' Equity | $ 1,221.6 | $ 794.3 |

See accompanying Notes to Consolidated Financial Statements.

# RALCORP HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**(In millions)**

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| **Cash Flows from Operating Activities** | | | |
| Net earnings | $ 65.1 | $ 7.4 | $ 53.8 |
| Adjustments to reconcile net earnings to net cash flow provided by operating activities: | | | |
| Depreciation and amortization | 47.5 | 38.7 | 35.8 |
| Sale of receivables, net | (34.2) | (22.4) | (4.4) |
| Deferred income taxes | 4.6 | (12.8) | .6 |
| Equity in (earnings) loss of Vail Resorts, Inc. | (.6) | .7 | 1.2 |
| Goodwill impairment loss | - | 59.0 | - |
| Tomato paste asset impairment | - | 5.0 | - |
| Loss on sale of tomato paste business | - | 3.6 | - |
| Changes in current assets and liabilities, net of effects of acquisitions: | | | |
| (Increase) decrease in receivables | (3.9) | (1.8) | 23.0 |
| (Increase) decrease in inventories | (17.6) | 15.9 | 6.2 |
| Decrease (increase) in prepaid expenses and other current assets | .2 | (.8) | .4 |
| Increase (decrease) in accounts payable and other current liabilities | 20.6 | 10.7 | (10.8) |
| Other, net | 3.7 | 2.6 | 5.0 |
| Net Cash Provided by Operating Activities | 85.4 | 105.8 | 110.8 |
| **Cash Flows from Investing Activities** | | | |
| Business acquisitions, net of cash acquired | (313.1) | - | (52.1) |
| Additions to property and intangible assets | (53.8) | (36.1) | (29.1) |
| Proceeds from sale of property | 1.4 | 2.5 | 12.4 |
| Proceeds from sale of tomato paste business | - | 2.9 | - |
| Other, net | - | - | (.2) |
| Net Cash Used by Investing Activities | (365.5) | (30.7) | (69.0) |
| **Cash Flows from Financing Activities** | | | |
| Proceeds from issuance of debt | 270.0 | 150.0 | - |
| Net repayments under credit arrangements | - | (173.1) | (44.1) |
| Purchase of treasury stock | - | (28.6) | - |
| Proceeds from exercise of stock options | 5.0 | 2.4 | 1.6 |
| Other, net | (.2) | - | - |
| Net Cash Provided (Used) by Financing Activities | 274.8 | (49.3) | (42.5) |
| **Net (Decrease) Increase in Cash and Cash Equivalents** | (5.3) | 25.8 | (.7) |
| Cash and Cash Equivalents, Beginning of Year | 29.0 | 3.2 | 3.9 |
| **Cash and Cash Equivalents, End of Year** | $ 23.7 | $ 29.0 | $ 3.2 |

See accompanying Notes to Consolidated Financial Statements.

# RALCORP HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

### (In millions except share and per share data)

| | Common Stock | Capital in Excess of Par Value | Retained Earnings | Common Stock in Treasury | Unearned Portion of Restricted Stock | Accum. Other Compre-hensive Loss | Total |
|---|---|---|---|---|---|---|---|
| **Balance, September 30, 2001** | $ .3 | $109.9 | $332.6 | $(51.9) | $ - | $ (1.5) | $389.4 |
| Net earnings | | | 53.8 | | | | 53.8 |
| Minimum pension liability adjustment, net of $5.7 tax benefit | | | | | | (9.8) | (9.8) |
| Cash flow hedging adjustments, net of $.4 tax expense | | | | | | .7 | .7 |
| Comprehensive income | | | | | | | 44.7 |
| Stock options exercised (approx. 115,000 shares) | | .1 | | 1.9 | | | 2.0 |
| Restricted stock awards granted and related amortization (approx. 2,000 shares) | | | | .1 | (.1) | | - |
| **Balance, September 30, 2002** | $ .3 | $110.0 | $386.4 | $(49.9) | $ (.1) | $(10.6) | $436.1 |
| Net earnings | | | 7.4 | | | | 7.4 |
| Minimum pension liability adjustment, net of $6.1 tax benefit | | | | | | (10.8) | (10.8) |
| Cash flow hedging adjustments, net of $1.6 tax expense | | | | | | 2.9 | 2.9 |
| Comprehensive loss | | | | | | | (.5) |
| Purchases of treasury stock (approx. 1,181,000 shares) | | | | (28.8) | | | (28.8) |
| Activity under deferred compensation plans | | 3.3 | | | | | 3.3 |
| Stock options exercised (approx. 93,000 shares) | | .8 | | 1.8 | | | 2.6 |
| **Balance, September 30, 2003** | $ .3 | $114.1 | $393.8 | $(76.9) | $ (.1) | $(18.5) | $412.7 |
| Net earnings | | | 65.1 | | | | 65.1 |
| Minimum pension liability adjustment, net of $4.4 tax benefit | | | | | | (7.3) | (7.3) |
| Cash flow hedging adjustments, net of $2.4 tax benefit | | | | | | (4.1) | (4.1) |
| Comprehensive income | | | | | | | 53.7 |
| Dividends declared ($1.00 per share) | | | (29.4) | | | | (29.4) |
| Stock options exercised (approx. 295,000 shares) | | 1.2 | | 5.6 | | | 6.8 |
| Restricted stock awards granted and related amortization (approx. 134,000 shares) | | 2.1 | | 2.6 | (4.5) | | .2 |
| Activity under deferred compensation plans (approx. 20,000 shares) | | (.1) | | .3 | | | .2 |
| **Balance, September 30, 2004** | $ .3 | $117.3 | $429.5 | $(68.4) | $ (4.6) | $(29.9) | $444.2 |

See accompanying Notes to Consolidated Financial Statements.

RALCORP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions except per share data)

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Consolidation*** **–** The financial statements are presented on a consolidated basis and include the accounts of Ralcorp and its majority-owned subsidiaries. All significant intercompany transactions have been eliminated. Investments in 20%–50%-owned companies are presented on the equity basis (see Note 6).

***Estimates*** **–** The financial statements have been prepared in conformity with generally accepted accounting principles, which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates and assumptions.

***Cash Equivalents*** include all highly liquid investments with original maturities of three months or less.

***Receivables*** are reported at net realizable value. This value includes an appropriate allowances for doubtful accounts, cash discounts, and other amounts which the company does not ultimately expect to collect. The Company calculates the allowance for doubtful accounts based on historical losses and the economic status of, and its relationship with, its customers, especially those identified as "at risk." A receivable is considered past due if payments have not been received within the agreed upon invoice terms. Receivables are written off against the allowance when the customer files for bankruptcy protection or is otherwise deemed to be uncollectible based upon the Company's evaluation of the customer's solvency. Refer to Note 9, Note 10, Note 11, and Note 12 for more information about receivables and the allowance for doubtful accounts.

***Inventories*** are valued generally at the lower of average cost (determined on a first-in, first-out basis) or market. Reported amounts have been reduced by an allowance for obsolete product and packaging materials based on a review of inventories on hand compared to estimated future usage and sales (see Note 9 and Note 11).

***Derivative Financial Instruments and Hedging*** **–** In the ordinary course of business, the Company is exposed to commodity price risks relating to the acquisition of raw materials and supplies and interest rate risks relating to debt. Authorized individuals within the Company may utilize derivative financial instruments, including (but not limited to) futures contracts, option contracts, forward contracts and swaps, to manage certain of these exposures by hedging when it is practical to do so. The terms of these instruments generally do not exceed twelve months. The Company is not permitted to engage in speculative or leveraged transactions and will not hold or issue financial instruments for trading purposes. Hedge accounting is only applied when the derivative is deemed to be highly effective at offsetting changes in fair values or anticipated cash flows of the hedged item or transaction. Earnings impacts for all designated hedges are recorded in the statement of earnings within the same line item as the gain or loss on the item being hedged. For a fair value hedge of a recognized asset or liability or unrecognized firm commitment, the entire change in fair value of the derivative is recorded in earnings as incurred. For a cash flow hedge of an anticipated transaction, the ineffective portion of the change in fair value of the derivative is recorded in earnings as incurred, whereas the effective portion is deferred in accumulated other comprehensive income in the balance sheet until the transaction is realized, at which time any deferred hedging gains or losses are recorded in earnings. For more information about our hedging activities, see Note 12.

***Property*** is recorded at cost and depreciation expense is generally provided on a straight-line basis over the estimated useful lives of the properties. Estimated useful lives range from 3 to 15 years for machinery and equipment and 10 to 50 years for buildings and leasehold improvements. Total depreciation expense was $41.2, $35.4, and $32.3 in fiscal 2004, 2003, and 2002, respectively. At September 30, property consisted of:

| | 2004 | 2003 |
|---|---|---|
| Land | $ 10.0 | $ 5.0 |
| Buildings and leasehold improvements | 97.1 | 84.3 |
| Machinery and equipment | 457.2 | 378.7 |
| Construction in progress | 29.2 | 16.7 |
| | 593.5 | 484.7 |
| Accumulated depreciation | (250.6) | (219.4) |
| | $ 342.9 | $ 265.3 |

***Other Intangible Assets*** consist of computer software purchased or developed for internal use and customer relationships, trademarks, and computer software acquired in business combinations (see Note 2). Amortization expense related to intangible assets, which is provided on a straight-line basis over the estimated useful lives of the assets, was $6.3, $3.3, and $3.5 in fiscal 2004, 2003, and 2002, respectively. $7.1, $7.3, $7.2, $7.2, and $6.1 of amortization expense is scheduled for fiscal 2005, 2006, 2007, 2008, and 2009, respectively. Other intangible assets consisted of:

| | September 30, 2004 | | | September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Accum. Amort. | Net Amount | Carrying Amount | Accum. Amort. | Net Amount |
| Subject to amortization: | | | | | | |
| Computer software | $ 31.0 | $ (22.4) | $ 8.6 | $ 26.7 | $ (20.0) | $ 6.7 |
| Customer relationships | 69.0 | (3.6) | 65.4 | - | - | - |
| Trademarks | 15.3 | (.3) | 15.0 | - | - | - |
| | 115.3 | (26.3) | 89.0 | 26.7 | (20.0) | 6.7 |
| Not subject to amortization: | | | | | | |
| Trademarks | - | - | - | 9.0 | - | 9.0 |
| | $ 115.3 | $ (26.3) | $ 89.0 | $ 35.7 | $ (20.0) | $ 15.7 |

***Recoverability of Long-lived Assets –*** The Company continually evaluates whether events or circumstances have occurred which might impair the recoverability of the carrying value of its long-lived assets, including identifiable intangibles and goodwill. An asset is deemed impaired and written down to its fair value if estimated related future cash flows are less than its carrying amount.

***Investments –*** The Company funds a portion of its deferred compensation liability by investing in certain mutual funds in the same amounts as selected by the participating employees. Because management's intent is to invest in a manner that matches the deferral options chosen by the participants and those participants can elect to transfer amounts in or out of each of the designated deferral options at any time, these investments have been classified as trading assets and are stated at fair value in "Other Assets". Both realized and unrealized gains and losses on these assets are included in "Selling, general and administrative expenses" and offset the related change in the deferred compensation liability.

***Revenue*** is recognized when title of goods is transferred to the customer, as specified by the shipping terms. Net sales reflect gross sales, including amounts billed to customers for shipping and handling, less sales discounts and allowances. Products are generally sold with no right of return except in the case of goods which do not meet product specifications or are damaged. Estimated reductions to revenue for customer incentive offerings are based upon each customer's redemption history.

***Cost of Products Sold*** includes, among other things, inbound and outbound freight costs and depreciation expense related to assets used in production, while storage and other warehousing costs are included in "Selling, general, and administrative." Storage and other warehousing costs totaled $50.2, $42.0, and $40.1 in fiscal 2004, 2003, and 2002, respectively.

***Advertising, Repair, and Maintenance Costs*** are expensed as incurred.

FORM 10-K

***Stock-based Compensation*** is recognized using the intrinsic value method. Accordingly, no compensation expense has been recognized for the stock options granted since the exercise price was equal to the fair market value of the shares at the grant date, except for $.5 recorded in fiscal 2003 related to the modification of certain awards.

If the Company had accounted for the stock-based compensation using the fair value method, which requires recognition of the fair value of the options as compensation cost ratably over the vesting period of the options, net earnings and earnings per share would have been reduced as shown in the following table. See Note 17 for more information about the Company's stock-based compensation plans.

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net earnings, as reported | $ 65.1 | $ 7.4 | $ 53.8 |
| Add: Stock-based employee compensation expense included in reported net earnings, net of related tax effects | .1 | .5 | - |
| Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects | (3.4) | (2.4) | (2.5) |
| Pro forma net earnings | $ 61.8 | $ 5.5 | $ 51.3 |
| Earnings per share: | | | |
| Basic - as reported | $ 2.22 | $ 0.25 | $ 1.79 |
| Basic - pro forma | $ 2.11 | $ 0.19 | $ 1.71 |
| Diluted - as reported | $ 2.17 | $ 0.25 | $ 1.77 |
| Diluted - pro forma | $ 2.06 | $ 0.19 | $ 1.68 |

***Recently Issued Accounting Standards*** – Significant developments in accounting rules are discussed below.

In March 2004, the Emerging Issues Task Force (EITF) reached a final consensus on Issue 03-6, "Participating Securities and the Two-class Method Under FASB Statement No. 128, Earnings Per Share." EITF 03-6 addresses a number of questions regarding the computation of earnings per share (EPS) by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends. EITF 03-6 requires the use of the two-class method for computing basic EPS when participating convertible securities exist. EITF 03-6 was effective for fiscal periods beginning after March 31, 2004, and was adopted by the Company in the quarter ended June 30, 2004. The Company has relatively few participating securities, so the effects of EITF 03-6 are immaterial. Because applying EITF 03-6 to previously reported EPS calculations results in immaterial changes to basic EPS (no more than $.01 per share for any period) and no changes to diluted EPS, the Company has not restated those EPS amounts.

FASB Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" was issued in May 2004. It provides guidance on accounting for the effects of the new Medicare prescription drug legislation by employers whose prescription drug benefits are actuarially equivalent to the drug benefit under Medicare Part D. It also contains complex rules for transition that permit various alternative prospective and retroactive transition approaches. The Company elected the prospective application as of July 1, 2004, the date of adoption. The effects are described in Note 15.

***Reclassifications*** – Certain prior years' amounts have been reclassified to conform to the current year's presentation.

**NOTE 2 – ACQUISITIONS AND GOODWILL**

Each of the following acquisitions was accounted for using the purchase method of accounting, whereby the results of operations of each of the following acquisitions are included in the consolidated statements of earnings from the date of acquisition. The purchase price, including costs of acquisition, was allocated to acquired assets and liabilities based on their estimated fair values at the date of acquisition, and any excess was allocated to goodwill, as shown in the following table. For the fiscal 2004 acquisitions (Bakery Chef and C2B), the allocation is subject to change pending the completion of a detailed analysis of deferred tax assets and liabilities.

| | Lofthouse | Bakery Chef | C2B |
|---|---|---|---|
| Receivables | $ 4.5 | $ 13.8 | $ 4.3 |
| Inventories | 3.7 | 10.0 | 1.8 |
| Other current assets | .9 | 1.2 | .1 |
| Property | 12.1 | 55.3 | 17.6 |
| Goodwill | 28.4 | 184.8 | 4.7 |
| Other intangible assets | 9.0 | 75.3 | - |
| Other assets | .1 | - | - |
| Total assets acquired | 58.7 | 340.4 | 28.5 |
| Accounts payable | (3.8) | (10.6) | (2.9) |
| Other current liabilities | (2.1) | (5.2) | (1.7) |
| Other liabilities | - | (35.3) | - |
| Total liabilities assumed | (5.9) | (51.1) | (4.6) |
| Net assets acquired | $ 52.8 | $ 289.3 | $ 23.9 |

***Fiscal 2004***

On December 3, 2003, the Company completed the purchase of 100 percent of the stock of Value Added Bakery Holding Company, also known as Bakery Chef. Bakery Chef is a leading manufacturer of frozen griddle products (pancakes, waffles, and French toast) and pre-baked biscuits and breads. The acquisition provides a platform for increasing Ralcorp's existing access to the foodservice channel and allows entry into the frozen food segment. Bakery Chef is reported as the "Frozen Pancakes, Biscuits & Breads" segment. For tax purposes, $20.2 of the assigned goodwill is expected to be deductible. The amount assigned to other intangible assets included $69.0 of customer relationships and $6.3 of trademarks, subject to amortization over a 16-year weighted-average amortization period for each class.

On February 27, 2004, the Company purchased the assets of Concept 2 Bakers (C2B), including a bakery located in Fridley, Minnesota. C2B is reported as part of Bremner's in-store bakery group in the "Cereals, Crackers & Cookies" segment. The assigned goodwill is not deductible for tax purposes.

***Fiscal 2002***

On January 30, 2002, the Company completed the purchase of 100 percent of the stock of Lofthouse Foods Incorporated (Lofthouse). Lofthouse is a producer of high quality cookies sold to the in-store bakeries of major U.S. grocers and mass merchandisers. The combination of Lofthouse with Cascade, acquired in 2000, gave Ralcorp a significant presence in this fast-growth category. The acquired business is reported in the "Cereals, Crackers and Cookies" segment. The assigned goodwill is deductible for tax purposes. The amount assigned to other intangible assets includes only the value of a trademark, which originally was estimated to have an indefinite life. As of September 30, 2004, management changed its estimate of the useful life of the trademark to 15 years based upon its continuing evaluation of the effects of competition and other economic factors.

***Pro Forma Information***

The following unaudited pro forma information shows Ralcorp's results of operations as if the fiscal 2004 business combinations had been completed as of the beginning of each period presented. These pro forma results may not necessarily reflect the actual results of operations that would have been achieved, nor are they necessarily indicative of future results of operations.

| | 2004 | 2003 |
|---|---|---|
| Net sales | $ 1,607.1 | $ 1,510.3 |
| Net earnings | 68.0 | 19.2 |
| Basic earnings per share | 2.31 | 0.66 |
| Diluted earnings per share | 2.27 | 0.65 |

***Goodwill***

The changes in the carrying amount of goodwill by reportable segment (see Note 18) were as follows:

| | Cereals, Crackers & Cookies | Dressings, Syrups, Jellies & Sauces | Snack Nuts & Candy | Frozen Pancakes, Biscuits & Breads | Total |
|---|---|---|---|---|---|
| Balance, September 30, 2002 | $ 84.4 | $ 99.2 | $ 54.4 | $ - | $ 238.0 |
| Goodwill written off related to sale of industrial tomato paste business | - | (1.4) | - | - | (1.4) |
| Goodwill impairment loss | - | (59.0) | - | - | (59.0) |
| Balance, September 30, 2003 | $ 84.4 | $ 38.8 | $ 54.4 | $ - | $ 177.6 |
| Goodwill acquired | 4.7 | - | - | 184.8 | 189.5 |
| Balance, September 30, 2004 | $ 89.1 | $ 38.8 | $ 54.4 | $ 184.8 | $ 367.1 |

The Company's reporting units are tested for impairment in the fourth fiscal quarter, after the annual forecasting process. In September 2003, a goodwill impairment loss of $59.0 was recognized in the Dressings, Syrups, Jellies & Sauces reporting unit ($45.5 after taxes, or $1.53 per diluted share). Factors leading to the impairment included lost sales and additional charges related to the bankruptcy of Fleming Companies, Inc. (filed April 1, 2003), the inability to quickly replace co-manufacturing business lost at the beginning of fiscal 2003, increasing competitive pricing pressures, and the near-term production inefficiencies arising from restructuring initiatives. Those factors resulted in lower than expected operating profits and cash flows in fiscal 2003, prompting management to revise earnings forecasts for coming years. Estimated fair values of the reporting unit and its identifiable net assets were determined based on the best information available, including independent appraisals and the results of valuation techniques such as EBITDA multiples and expected present value of future cash flows. The fiscal 2004 goodwill impairment tests resulted in no impairment.

## NOTE 3 – RESTRUCTURING CHARGES

In 2004, the Company closed its plant in Kansas City, KS, and moved production to other facilities within the Dressings, Syrups, Jellies & Sauces segment. Annual cost savings from this project, which included the termination of 42 employees, are expected to be $1.2.

In the second quarter of fiscal 2003, Ralcorp announced its plans to close its in-store bakery (ISB) facility in Kent, WA, part of the Cereals, Crackers & Cookies segment, and transfer production from that facility and two other ISB facilities to a new ISB plant located in Utah. This project, which included the termination of 68 employees, was completed in fiscal 2004. Restructuring costs included $1.2 of Kent operating lease termination costs recorded as a liability when the facility was vacated in 2003 and an adjustment of $.2 in 2004. The $1.4 total represented the present value of the remaining lease rentals (July 2003 through February 2007), reduced by estimated sublease rentals that could be reasonably obtained for the property. As of September 30, 2004, "Other current liabilities" included $.5 and "Other liabilities" included $.2 related to the remaining net lease obligation ($.5 and $.5, respectively, as of September 30, 2003).

In fiscal 2003, the Company reduced operations at its facility in Streator, IL, and transferred production of all product lines except peanut butter to other Dressings, Syrups, Jellies & Sauces locations. This project included the termination of 145 employees.

In the first quarter of fiscal 2003, the Company sold its ketchup business, including certain equipment and inventory, and recorded a net loss on the sale. Further, management determined that the resulting reduced cash flows from its tomato paste business, which had supplied the Company's ketchup production, were less than the carrying value of its paste production facility located near Williams, CA. Accordingly, the fair value of the related fixed assets as of December 31, 2002, was assessed based on a preliminary market quote, resulting in an impairment charge. On February 4, 2003, the Company sold its tomato paste business, including the Williams facility, resulting in an additional loss. The ketchup and paste operations were both relatively minor parts of the Dressings, Syrups, Jellies & Sauces segment.

Other than the Kent lease obligation recorded as described above, there were no restructuring reserves at September 30, 2004 or 2003. The following table details the amounts included in "Restructuring charges" for fiscal 2004 and 2003, along with the corresponding cumulative charges for these restructuring projects through September 30, 2004.

| | 2004 | 2003 | Cumulative |
|---|---|---|---|
| Kansas City - Employee termination benefits | $ .4 | $ - | $ .4 |
| Kansas City - Other associated charges | .2 | - | .2 |
| ISB - Removal and relocation of equipment | .7 | 1.3 | 2.0 |
| ISB - Operating lease termination costs | .2 | 1.2 | 1.4 |
| ISB - Write-off of abandoned property | .9 | .2 | 1.1 |
| ISB - Employee termination benefits | - | .2 | .2 |
| Streator - Employee termination benefits | - | 1.2 | 1.2 |
| Streator - Write-off of abandoned property | - | .2 | .2 |
| Ketchup - Loss on sale of business | - | 1.4 | 1.4 |
| Tomato Paste - Asset impairment | - | 5.0 | 5.0 |
| Tomato Paste - Loss on sale of business | - | 3.6 | 3.6 |
| | $ 2.4 | $ 14.3 | $ 16.7 |

## NOTE 4 – LITIGATION SETTLEMENT INCOME

The Company received payments in settlement of legal claims. Most of these claims related to vitamin antitrust litigation. These payments are shown net of related expenses as "Litigation settlement income" on the statements of earnings.

## NOTE 5 – INCOME TAXES

The provision for income taxes consisted of the following:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 29.8 | $ 26.8 | $ 27.6 |
| State | 3.0 | 2.6 | 2.1 |
| | 32.8 | 29.4 | 29.7 |
| Deferred: | | | |
| Federal | 4.1 | (12.3) | .8 |
| State | .3 | (.2) | .2 |
| | 4.4 | (12.5) | 1.0 |
| Income taxes | 37.2 | 16.9 | 30.7 |
| Deferred income taxes on equity earnings (federal) | .2 | (.3) | (.4) |
| Total provision for income taxes | $ 37.4 | $ 16.6 | $ 30.3 |

A reconciliation of income taxes with amounts computed at the statutory federal rate follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Computed tax at federal statutory rate (35%) | $ 35.9 | $ 8.4 | $ 29.4 |
| State income taxes, net of federal tax benefit | 2.1 | 1.6 | 1.5 |
| Non-deductible goodwill impairment/amortization | - | 7.6 | - |
| Other, net | (.6) | (1.0) | (.6) |
| | $ 37.4 | $ 16.6 | $ 30.3 |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets (liabilities) at September 30 were as follows:

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Current: | | | | | | |
| Accrued liabilities | $ 4.4 | $ - | $ 4.4 | $ 4.0 | $ - | $ 4.0 |
| Inventories | 1.3 | - | 1.3 | - | (1.5) | (1.5) |
| Other items | .6 | - | .6 | .4 | - | .4 |
| | 6.3 | - | 6.3 | 4.4 | (1.5) | 2.9 |
| Noncurrent: | | | | | | |
| Property | - | (43.7) | (43.7) | - | (33.5) | (33.5) |
| Intangible assets | - | (28.8) | (28.8) | 4.9 | - | 4.9 |
| Equity investment in Vail | - | (21.6) | (21.6) | - | (21.5) | (21.5) |
| Pension | 16.3 | - | 16.3 | 11.8 | - | 11.8 |
| Other postretirement benefits | 6.4 | - | 6.4 | 5.8 | - | 5.8 |
| Deferred compensation | 6.2 | - | 6.2 | 7.4 | - | 7.4 |
| Insurance reserves | 6.5 | - | 6.5 | 4.7 | - | 4.7 |
| Other items | .5 | - | .5 | .4 | - | .4 |
| | 35.9 | (94.1) | (58.2) | 35.0 | (55.0) | (20.0) |
| Total deferred taxes | $ 42.2 | $ (94.1) | $ (51.9) | $ 39.4 | $ (56.5) | $ (17.1) |

## NOTE 6 – EQUITY INVESTMENT IN VAIL RESORTS, INC.

On January 3, 1997, the Company sold its ski resorts holdings (Resort Operations) to Vail Resorts, Inc. (Vail) in exchange for 7,554,406 shares of Vail common stock (NYSE:MTN). At the date of the exchange, the Company's equity interest in the underlying net assets of Vail exceeded the net book value of the net assets contributed by the Company to Vail by $37.5. This excess is being amortized ratably to the investment in Vail over 20 years. The unamortized excess was $22.9 and $24.8 as of September 30, 2004 and 2003, respectively. The amount of retained earnings that represents undistributed earnings of Vail was $14.6 and $14.2 as of September 30, 2004 and 2003, respectively.

The following table summarizes information about the Company's equity investment in Vail at September 30:

| | 2004 | 2003 |
|---|---|---|
| Ownership percentage | 21.4% | 21.5% |
| Carrying value | $ 80.7 | $ 80.1 |
| Market value | 136.5 | 108.0 |

On October 5, 2004, the Company entered into a Termination Agreement by and among Vail Resorts, Inc., the Company, and Apollo Ski Partners, L.P. In accordance with the Termination Agreement, the parties agreed to terminate the Shareholder Agreement dated as of January 3, 1997, as amended, by and among Vail, the Company, and Apollo, prior to its anticipated termination at the end of October or early November of 2004. Pursuant to the Termination Agreement, the Company's registration rights under the Shareholder Agreement will survive for eighteen months from the date of the Termination Agreement. Under the Company's registration rights portion of the Shareholder Agreement, the Company can elect to have Vail file a registration statement to effect the sale of some (at least 6% of Vail's outstanding shares) or all of the Company's shares of common stock in Vail. Further, the Company is free to sell some or all of its shares in one or more private sales or through Rule 144 of the 1933 Securities Act. Presently, two of the Company's directors (Messrs. Stiritz and Micheletto) serve as directors of Vail; however, the Company is not guaranteed representation on Vail's board of directors. Last, the Company can now vote its shares in Vail as it deems appropriate.

Vail's fiscal year ends July 31, so the Company reports equity earnings on a two-month time lag. In October 2002, Vail filed an amended Annual Report on Form 10-K for July 31, 2001, which included restatements and reclassifications of previously issued financial information. Because the effects on Ralcorp's earnings were immaterial for any single period and in total, the Company chose to reflect the full $4.9 impact ($3.2 after taxes, or $.10 per diluted share) in fiscal 2002 rather than restate its previously reported financial statements. In November 2003, Vail again restated its financial statements for prior years. Because the effects on Ralcorp's earnings were immaterial for any single period and in total, the Company chose to reflect the full $.8 impact ($.5 after taxes, or $.02 per diluted share) in fiscal 2003 rather than restate its previously reported financial statements. Vail's summarized financial information, as restated, follows.

| | Year Ended July 31, 2004 | Year Ended July 31, 2003 | Year Ended July 31, 2002 |
|---|---|---|---|
| Net revenues | $ 721.9 | $ 710.4 | $ 615.3 |
| Total operating expenses | 640.1 | 675.9 | 566.2 |
| Income from operations | $ 81.8 | $ 34.5 | $ 49.1 |
| (Loss) income before cumulative effect of change in accounting principle | $ (6.0) | $ (8.5) | $ 8.8 |
| Net (loss) income | $ (6.0) | $ (8.5) | $ 7.1 |

| | July 31, 2004 | July 31, 2003 |
|---|---|---|
| Current assets | $ 155.8 | $ 117.0 |
| Noncurrent assets | 1,378.2 | 1,338.4 |
| Total assets | $ 1,534.0 | $ 1,455.4 |
| Current liabilities | $ 202.0 | $ 180.0 |
| Noncurrent liabilities | 803.7 | 750.0 |
| Minority interest | 37.1 | 29.2 |
| Stockholders' equity | 491.2 | 496.2 |
| Total liabilities and stockholders' equity | $ 1,534.0 | $ 1,455.4 |

## NOTE 7 – EARNINGS PER SHARE

The following schedule shows common stock options and deferred compensation awards which were outstanding and could potentially dilute basic earnings per share in the future but which were not included in the computation of diluted earnings per share for the periods indicated because to do so would have been antidilutive. See Note 17 for more information about outstanding options and deferred compensation plans.

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **Fiscal 2004** | | | | |
| Stock options at $29.85 per share | 22,500 | - | - | - |
| Stock options at $32.30 per share | - | 394,000 | - | - |
| **Fiscal 2003** | | | | |
| Stock options at $25.09 per share | 461,500 | - | - | - |
| Stock options at $25.23 per share | 4,500 | - | - | - |
| Stock options at $28.15 per share | 4,000 | 4,000 | 4,000 | 4,000 |
| Stock options at $29.85 per share | - | - | - | 22,500 |
| **Fiscal 2002** | | | | |
| Stock options at $25.09 per share | - | - | - | 461,500 |
| Stock options at $25.23 per share | - | - | - | 4,500 |
| Stock options at $28.15 per share | - | - | - | 4,000 |
| Deferred compensation awards | 113,263 | 99,856 | 93,301 | - |

## NOTE 8 – SUPPLEMENTAL EARNINGS STATEMENT AND CASH FLOW INFORMATION

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Repair and maintenance expenses | $ 46.1 | $ 41.1 | $ 41.8 |
| Advertising and promotion expenses | 11.3 | 8.7 | 8.7 |
| Research and development expenses | 7.2 | 6.2 | 5.0 |
| Interest paid | 9.7 | 3.6 | 6.1 |
| Income taxes paid, net of refunds | 25.9 | 32.3 | 29.9 |
| Income tax benefit of stock options exercised | 1.8 | .4 | .6 |

## NOTE 9 – SUPPLEMENTAL BALANCE SHEET INFORMATION

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| **Receivables, net** | | |
| Trade | $ 17.0 | $ - |
| Other | 6.9 | 10.9 |
| | 23.9 | 10.9 |
| Allowance for doubtful accounts | (.3) | - |
| | $ 23.6 | $ 10.9 |
| **Inventories** | | |
| Raw materials and supplies | $ 75.9 | $ 62.2 |
| Finished products | 101.2 | 85.4 |
| | 177.1 | 147.6 |
| Allowance for obsolete inventory | (2.0) | (1.9) |
| | $ 175.1 | $ 145.7 |
| **Other Current Liabilities** | | |
| Compensation | $ 16.1 | $ 16.0 |
| Advertising and promotion | 16.2 | 14.6 |
| Dividends payable | 29.4 | - |
| Other items | 22.6 | 15.0 |
| | $ 84.3 | $ 45.6 |
| **Other Liabilities** | | |
| Pension | $ 43.9 | $ 32.0 |
| Other postretirement benefits | 17.2 | 15.9 |
| Other items | 33.1 | 27.1 |
| | $ 94.2 | $ 75.0 |

## NOTE 10 – SALE OF RECEIVABLES

To reduce its long-term debt, on September 24, 2001 the Company entered into an agreement to sell, on an ongoing basis, all of its trade accounts receivable to a wholly owned, bankruptcy-remote subsidiary named Ralcorp Receivables Corporation (RRC). RRC can then sell up to $66.0 of ownership interests in qualifying receivables to a bank commercial paper conduit, which issues commercial paper to investors. Ralcorp continues to service the receivables as agent for RRC and the bank conduit. RRC is a qualifying special purpose entity under FAS 140 and the sale of Ralcorp receivables to RRC is considered a true sale for accounting, tax, and legal purposes. Therefore, the trade receivables sold and the related commercial paper borrowings are not recorded on Ralcorp's consolidated balance sheets. However, the Company's consolidated balance sheets do reflect an investment in RRC that in substance represents a subordinated retained interest in the trade receivables sold. The accounts receivable of the newly acquired Bakery Chef and C2B businesses have not been incorporated into the sale agreement and are not currently being sold to RRC. As of September 30, 2004, the outstanding balance of receivables (net of an allowance for doubtful accounts) sold to RRC was $98.0 and the Company elected not to sell any to the conduit, resulting in a retained interest of $98.0 reflected on the Company's consolidated balance sheet as an "Investment in Ralcorp Receivables Corporation." As of September 30, 2003, net receivables sold to RRC were $86.6 and proceeds received from the conduit were $34.2, resulting in a subordinated retained interest of $52.4. Discounts related to the sale of receivables to the conduit totaled $.3 and $.7 for the years ended September 30, 2004 and September 30, 2003, respectively, and are included on the statements of earnings in selling, general and administrative expenses. Unless extended, the agreement will terminate in October 2005.

## NOTE 11 – ALLOWANCES FOR DOUBTFUL ACCOUNTS AND OBSOLETE INVENTORY

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| **Allowance for Doubtful Accounts** | | | |
| Balance, beginning of year | $ - | $ - | $ - |
| Provision charged to expense | 1.5 | 1.7 | .1 |
| Write-offs, less recoveries | (1.0) | (2.2) | (.3) |
| Acquisitions | .2 | - | - |
| Transfers to Ralcorp Receivables Corporation | (.4) | .5 | .2 |
| Balance, end of year | $ .3 | $ - | $ - |
| **Allowance for Obsolete Inventory** | | | |
| Balance, beginning of year | $ 1.9 | $ 2.9 | $ 2.5 |
| Provision charged to expense | 3.7 | 4.7 | 5.5 |
| Write-offs of inventory | (3.7) | (5.7) | (5.2) |
| Acquisitions | .1 | - | .1 |
| Balance, end of year | $ 2.0 | $ 1.9 | $ 2.9 |

## NOTE 12 – DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

### *Fair Values*

The carrying amounts reported on the consolidated balance sheets for cash and cash equivalents, receivables and accounts payable approximate fair value because of the short maturities of these financial instruments. The carrying amount of the Company's long-term debt (see Note 13) approximates fair value because the interest rates on much of the outstanding borrowings are adjusted frequently and rates have not changed significantly since the fixed rate debt was issued during fiscal 2004.

### *Concentration of Credit Risk*

The Company's primary concentration of credit risk is related to certain trade accounts receivable due from several highly leveraged or "at risk" customers. At September 30, 2004 and 2003, the amount of such receivables was immaterial. Consideration was given to the economic status of these customers when determining the appropriate allowance for doubtful accounts and the fair value of the Company's subordinated retained interest in accounts receivable (see Note 10).

### *Hedging Activities*

During fiscal 2004, 2003, and 2002, hedging activities consisted only of cash flow hedges on ingredient and packaging purchases. During fiscal 2004, hedge gains (net of hedge losses) totaling $4.8 were deferred into accumulated other comprehensive income, $11.3 was reclassified into earnings, and $.1 of ineffectiveness was recorded in earnings as incurred. During fiscal 2003, hedge gains totaling $5.3 were deferred into accumulated other comprehensive income, $.8 was reclassified into earnings, and $.1 of ineffectiveness was recorded in earnings as incurred. During fiscal 2002, hedge gains totaling $2.0 were deferred into accumulated other comprehensive income, $.9 was reclassified into earnings, and $.1 of ineffectiveness was recorded in earnings as incurred. Nearly all of the gains and losses on the Company's derivatives are settled through a commodities broker on a daily basis, so there are no material assets or liabilities related to derivative contracts at September 30, 2004 or 2003.

## NOTE 13 – LONG-TERM DEBT

Long-term debt consisted of the following at September 30:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Balance Outstanding | Interest Rate | Balance Outstanding | Interest Rate |
| Floating Rate Senior Notes, Series A | $ 150.0 | 2.59% | $ 150.0 | 1.98% |
| Fixed Rate Senior Notes, Series B | 145.0 | 4.24% | - | n/a |
| Fixed Rate Senior Notes, Series C | 50.0 | 5.43% | - | n/a |
| Fixed Rate Senior Notes, Series D | 75.0 | 4.76% | - | n/a |
| Industrial Development Revenue Bond | 5.6 | 1.39% | 5.6 | 0.99% |
| Uncommited credit arrangements | .1 | 2.75% | .1 | 2.00% |
| Other | - | n/a | .2 | Various |
| | $ 425.7 | | $ 155.9 | |

On May 22, 2003, the Company issued Floating Rate Senior Notes, Series A, in the amount of $150.0. Borrowings under this private placement debt financing incur interest at a rate of 3-month LIBOR plus 0.85%, adjusted quarterly, with interest payable quarterly in arrears. These borrowings are unsecured and mature on May 22, 2010.

On December 22, 2003, the Company issued Fixed Rate Senior Notes, Series B, Series C and Series D, totaling $270.0. Series B comprises $145.0 of 4.24% notes due December 2010 with annual amortization of principal beginning December 2006. Series C comprises $50.0 of 5.43% notes with bullet maturity in December 2013. Series D comprises $75.0 of 4.76% notes due December 2013 with annual amortization of principal beginning in December 2007. The proceeds from these debt issuances were used to reduce borrowings under the Company's existing financing arrangements (which had been used to fund the acquisition of Bakery Chef) and for general corporate purposes.

The above note agreements contain certain representations, warranties, covenants, and conditions customary to agreements of this nature. The covenants include requirements that "Total Debt" not exceed 3.5 times "Adjusted EBITDA" and that "Consolidated Adjusted Net Worth" remain above a certain minimum amount (each term as defined in the note agreements). If these covenants are violated and cannot be remedied within the 30 days allowed, the noteholders may choose to declare any outstanding notes to be immediately due and payable.

Through the acquisition of The Red Wing Company, Inc. in 2000, the Company acquired an Industrial Development Revenue Bond in the amount of $5.6, which bears interest at a variable rate and matures on April 1, 2005. Based upon management's intent and ability to refinance this amount on a long-term basis, it was classified as long-term.

The Company has entered into uncommitted credit arrangements with banks that totaled $35.0 as of September 30, 2004. Borrowings under these arrangements typically have terms of less than a week. The amounts outstanding under these arrangements at September 30, 2004 matured October 1, 2004. Based upon management's intent and ability to refinance these amounts on a long-term basis, they were classified as long-term.

As of September 30, 2004, aggregate maturities of long-term debt are as follows: $5.7 in fiscal 2005, $29.0 in fiscal 2007, $39.7 in fiscal 2008, $39.7 in fiscal 2009, and $311.6 thereafter. Also as of September 30, 2004, $12.6 in letters of credit and surety bonds were outstanding with various financial institutions, principally related to self-insurance requirements.

On October 16, 2001, the Company entered into a $275 revolving credit agreement which expired in October 2004. There were no outstanding borrowings under this agreement as of September 30, 2004 and 2003. On October 15, 2004, the Company entered into a similar $150 revolving credit agreement. Borrowings under the credit agreement incur interest at the Company's choice of either (1) LIBOR plus the applicable margin rate (currently 0.75%) or (2) the higher of the federal funds rate plus 0.50% or the prime rate. Such borrowings are unsecured and mature on October 15, 2009 unless such date is extended. The credit agreement calls for a commitment fee calculated as a percentage (currently 0.15%) of the unused portion, payable quarterly in arrears, and contains certain representations, warranties, covenants, and conditions customary to credit facilities of this nature. The covenants include requirements that "Total Debt" not exceed 3.5 times "Adjusted EBITDA", and "EBIT" be at least three times "Consolidated Interest Expense" (each term as defined in the agreement).

## NOTE 14 – COMMITMENTS AND CONTINGENCIES

### *Legal Proceedings*

The Company is a party to a number of legal proceedings in various state and federal jurisdictions. These proceedings are in varying stages and many may proceed for protracted periods of time. Some proceedings involve complex questions of fact and law. Additionally, the operations of the Company, like those of similar businesses, are subject to various federal, state, and local laws and regulations intended to protect public health and the environment, including air and water quality and waste handling and disposal.

Pending legal liability, if any, from these proceedings cannot be determined with certainty; however, in the opinion of Company management, based upon the information presently known, the ultimate liability of the Company, if any, arising from the pending legal proceedings, as well as from asserted legal claims and known potential legal claims which are probable of assertion, taking into account established accruals for estimated liabilities (if any), are not expected to be material to the Company's consolidated financial position, results of operations and cash flows. In addition, while it is difficult to quantify with certainty the potential financial impact of actions regarding expenditures for compliance with regulatory matters, in the opinion of management, based upon the information currently available, the ultimate liability arising from such compliance matters should not be material to the Company's consolidated financial position, results of operations and cash flows.

Additionally, the Company has retained certain potential liabilities associated with divested businesses (its former branded cereal business and ski resort business). Presently, management believes that taking into account applicable liability caps, sharing arrangements with acquiring entities and the known facts and circumstances regarding the retained liabilities, potential liabilities of the divested businesses should not be material to the Company's consolidated financial position, results of operations and cash flows.

### *Lease Commitments*

Future minimum rental payments (receipts) under noncancelable operating leases and subleases in effect as of September 30, 2004 were:

| | 2005 | 2006 | 2007 | 2008 | 2009 | Later | Total |
|---|---|---|---|---|---|---|---|
| Leases | $ 7.6 | $ 6.7 | $ 5.7 | $ 4.7 | $ 4.0 | $ 22.8 | $ 51.5 |
| Subleases | (.7) | (.1) | - | - | - | - | (.8) |

Rent expense for all operating leases was $11.9, $7.9, and $7.6 in fiscal 2004, 2003, and 2002, respectively, net of sublease income of $.6 in each year.

### *Container Supply Agreement*

During fiscal 2002, the Company entered into a ten-year agreement to purchase certain containers from a single supplier. It is believed that the agreement was related to the supplier's financing arrangements regarding the container facility. The Company's total purchases under the agreement were $14.6 in fiscal 2004, $7.7 in fiscal 2003, and $2.6 in fiscal 2002. Generally, to avoid a shortfall payment requirement, the Company must purchase approximately 560 million additional containers by the end of the ten-year term. The minimum future payment obligation cannot be determined at this time, but is currently estimated at $4.0.

### *Other Contingencies*

In connection with the sale of the Company's Resort Operations in 1997, Vail assumed the obligation to repay, when due, certain indebtedness of Resort Operations consisting of the following: Series 1990 Sports Facilities Refunding Revenue Bonds in the aggregate principal amount of $19.0, bearing interest at rates ranging from 7.75% to 7.875% and maturing in installments in 2006 and 2008; and Series 1991 Sports Facilities Refunding Revenue Bonds in the aggregate principal amount of $1.5, bearing interest at 7.375% and maturing in 2010 (collectively, "Resort Operations Debt"). The Resort Operations Debt is guaranteed by Ralston Purina Company (Ralston). Pursuant to an Agreement and Plan of Reorganization signed when the Company was spun-off from Ralston in 1994, the Company agreed to indemnify Ralston for any liabilities associated with the guarantees. To facilitate the sale of the Company's branded cereal business to General Mills in 1997, General Mills acquired the legal entity originally obligated to so indemnify Ralston. Pursuant to the Reorganization Agreement with General Mills, however, the Company has agreed to indemnify General Mills for any liabilities it may incur with respect to indemnifying Ralston relating to aforementioned guarantees. Presently, management believes there is not a significant likelihood that Vail will default on its repayment obligations with respect to the Resort Operations Debt.

## NOTE 15 – PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company sponsors qualified and supplemental noncontributory defined benefit pension plans and other postretirement benefit plans for certain of its employees. The Company uses the fiscal year end as the measurement date for the plans. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending September 30, 2004, and a statement of the funded status as of September 30 of both years.

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| **Change in benefit obligation** | | | | |
| Benefit obligation at beginning of year | $ 151.5 | $ 138.2 | $ 29.8 | $ 27.7 |
| Service cost | 3.3 | 5.4 | .1 | .1 |
| Interest cost | 8.8 | 9.1 | 1.7 | 1.8 |
| Actuarial loss (gain) | 13.5 | 20.7 | (6.0) | 1.6 |
| Curtailment gain | - | (15.8) | - | - |
| Benefit payments | (7.1) | (6.1) | (1.3) | (1.4) |
| Benefit obligation at end of year | $ 170.0 | $ 151.5 | $ 24.3 | $ 29.8 |
| **Change in fair value of plan assets** | | | | |
| Fair value of plan assets at beginning of year | $ 114.9 | $ 99.6 | $ - | $ - |
| Actual return on plan assets | 12.9 | 11.3 | - | - |
| Employer contributions | .5 | 10.1 | 1.3 | 1.4 |
| Benefit payments | (7.1) | (6.1) | (1.3) | (1.4) |
| Fair value of plan assets at end of year | $ 121.2 | $ 114.9 | $ - | $ - |
| **Funded status** | $ (48.8) | $ (36.6) | $ (24.3) | $ (29.8) |
| Unrecognized net actuarial loss | 52.1 | 40.1 | 7.2 | 14.0 |
| Unrecognized prior service cost | - | - | (.1) | (.1) |
| Unrecognized transition asset | (.1) | (.1) | - | - |
| Net amount recognized | $ 3.2 | $ 3.4 | $ (17.2) | $ (15.9) |
| **Amounts recognized** | | | | |
| Accrued benefit liability | $ (43.9) | $ (32.0) | $ (17.2) | $ (15.9) |
| Accumulated other comprehensive income | 47.1 | 35.4 | - | - |
| Net amount recognized | $ 3.2 | $ 3.4 | $ (17.2) | $ (15.9) |
| **Weighted-average assumptions used to determine benefit obligation** | | | | |
| Discount rate | 5.75% | 6.00% | 5.75% | 6.00% |
| Rate of compensation increase | 3.50% | 4.75% | n/a | n/a |

For September 30, 2004 measurement purposes, the assumed annual rate of increase in the future per capita cost of covered health care benefits was 10% for 2005, declining gradually to an ultimate rate of 5% for 2010 and beyond. For September 30, 2003 measurement purposes, the assumed annual rate of increase in the future per capita cost of covered health care benefits was 11% for 2004, declining gradually to an ultimate rate of 5% for 2010 and beyond. A 1% change in assumed health care cost trend rates would result in a corresponding change in the accumulated postretirement benefit obligation at September 30, 2004 of approximately $2.1 and in the total service and interest cost components for fiscal 2004 of approximately $.1.

In December 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 was signed into law. The Act introduced a prescription drug benefit under Medicare Part D and a federal subsidy to sponsors of retirement health care plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The expected subsidy resulted in a $3.4 reduction in the accumulated postretirement benefit obligation at July 1, 2004. That reduction is reflected in the 2004 actuarial gain in the above table. The fiscal 2004 net periodic benefit cost for the postretirement benefit plan was reduced by $.2 as a result of the recognition of a portion of the gain.

In September 2003, Ralcorp's Board of Directors approved management's recommendation to modify the pension benefits to be provided under the Ralcorp Retirement Plan. Accordingly, no additional pension benefits are earned by administrative employees as the result of additional service or pay increases after December 31, 2003. The resulting curtailment gain is shown above as a change in benefit obligation during 2003.

All plans had an accumulated benefit obligation in excess of plan assets. The aggregate accumulated benefit obligation for pension plans was $165.1 at September 30, 2004, and $146.9 at September 30, 2003.

Expected future benefit payments in the next ten years are as follows:

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010-2014 |
|---|---|---|---|---|---|---|
| Pension benefits | $ 6.4 | $ 6.1 | $ 7.1 | $ 7.4 | $ 8.0 | $51.1 |
| Other benefits | 1.2 | 1.3 | 1.2 | 1.3 | 1.4 | 7.7 |

Other than those made as benefit payments in unfunded plans, no contributions are expected to be paid to the plans during fiscal 2005.

The following table provides the components of net periodic benefit cost for the plans.

| | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Service cost | $ 3.3 | $ 5.4 | $ 4.8 | $ .1 | $ .1 | $ .1 |
| Interest cost | 8.8 | 9.1 | 8.8 | 1.7 | 1.8 | 1.4 |
| Expected return on plan assets | (11.9) | (11.6) | (12.1) | - | - | - |
| Amortization of: | | | | | | |
| Net loss | .4 | .2 | .1 | .8 | .8 | .3 |
| Prior service cost | - | - | .2 | - | - | - |
| Transition asset | - | (.1) | - | - | - | - |
| Net periodic benefit cost | $ .6 | $ 3.0 | $ 1.8 | $ 2.6 | $ 2.7 | $ 1.8 |
| **Weighted-average assumptions used to determine net benefit cost** | | | | | | |
| Discount rate | 6.00% | 6.75% | 7.25% | 6.00% | 6.75% | 7.25% |
| Rate of compensation increase | 4.75% | 4.75% | 5.25% | n/a | n/a | n/a |
| Expected return on plan assets | 9.00% | 9.50% | 9.50% | n/a | n/a | n/a |

The expected return on pension plan assets was determined based on historical and expected future returns of the various asset classes, using the target allocation. The broad target allocations are 70% equity securities (comprised of 56% U.S. equities and 14% foreign equities) and 30% debt securities. At September 30, 2004, equity securities were 69.9% and debt securities were 30.1% of the fair value of total plan assets, over 99% of which was invested in passive index funds. At September 30, 2003, equity securities were 70.2% and debt securities were 29.8%. The allocation guidelines were established based on the Company's determination of the appropriate risk posture and long-term objectives.

In addition to the defined benefit plans described above, Ralcorp sponsors defined contribution [401(k)] plans under which it makes matching contributions. The costs of these plans were $5.3, $3.5, and $3.0 for the years ended September 30, 2004, 2003, and 2002, respectively. The Company contributed $1.0 and $.9 to multiemployer pension plans in fiscal 2004 and 2003.

**NOTE 16 – SHAREHOLDERS' EQUITY**

At September 30, 2004, 3,623,886 shares of the Company's common stock were reserved under various employee incentive compensation and benefit plans.

The Company has not issued any shares of preferred stock. The terms of any series of preferred stock (including but not limited to the dividend rate, voting rights, convertibility into other Company securities, and redemption) may be set by the Company's Board of Directors.

At September 30, 2004, accumulated other comprehensive loss included $29.8 in net minimum pension liability adjustments after taxes and a $.1 net loss on cash flow hedging instruments after taxes. At September 30, 2003, the respective amounts were $22.5 and a $4.0 net gain.

On September 23, 2004, the Company's Board of Directors declared a special cash dividend of $1.00 per share payable on October 22, 2004 to shareholders of record as of the close of business on October 8, 2004.

In November 2002, the Company's Board of Directors approved a tender offer for up to 4,000,000 shares of the Company's common stock at between $21.00 and $24.00 per share. The offer was in the form of a modified "Dutch Auction" where the final price is determined based upon the number of shares, and the respective prices, tendered. The offer resulted in the purchase of 1.15 million shares at a purchase price of $24.00 per share on December 11, 2002.

On December 18, 1996, the Company's Board of Directors declared a dividend distribution of one share purchase right (Right) for each outstanding share of the Company's common stock. Each Right entitles a shareholder to purchase from the Company one common share at an exercise price of $30 per share subject to antidilution adjustments. The Rights, however, become exercisable only at the time a person or group acquires, or commences a public tender offer for, 20% or more of the Company's common stock. If an acquiring person or group acquires 20% or more of the Company's common stock, the price will be further adjusted so that each Right (other than those held by the acquiring person or group) would entitle the holder to acquire for the exercise price a number of shares of the Company's common stock found by dividing the then current exercise price by the number of shares of the Company's common stock for which a Right is then exercisable and dividing that amount by 50% of the then current per share market price of the Company's common stock. In the event that the Company merges with, or transfers 50% or more of its assets or earning power to, any person or group after the Rights become exercisable, holders of the Rights may purchase, at the exercise price, common stock of the acquiring entity having a value equal to twice the exercise price. The Rights can be redeemed by the Board of Directors at $.01 per Right only up to the tenth business day after a person or group acquires 20% or more of the Company's common stock. Also, following the acquisition by a person or group of beneficial ownership of at least 20% but less than 50% of the Company's common stock, the Board may exchange the Rights for common stock at a ratio of one share of common stock per Right. The Rights expire on January 31, 2007.

## NOTE 17 – STOCK-BASED COMPENSATION PLANS

On January 31, 2002, the Company's shareholders adopted the 2002 Incentive Stock Plan (Plan), which reserves shares to be used for various stock-based compensation awards and replaces the 1997 Incentive Stock Plan. The Plan provides that eligible employees may receive stock option awards and other stock awards payable in whole or part by the issuance of stock. At September 30, 2004, 933,683 shares were available for future awards under the Plan.

### *Stock Options*

Changes in nonqualified stock options outstanding are summarized in the following table.

| | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | Shares Under Option | Weighted Average Exercise Price | Shares Under Option | Weighted Average Exercise Price | Shares Under Option | Weighted Average Exercise Price |
| Outstanding, beginning of year | 2,596,700 | $18.31 | 2,387,800 | $17.35 | 2,038,000 | $15.22 |
| Granted | 419,000 | 32.50 | 322,500 | 24.43 | 492,500 | 24.98 |
| Exercised | (299,850) | 16.89 | (98,100) | 14.57 | (122,800) | 13.02 |
| Forfeited or expired | (10,875) | 23.60 | (15,500) | 20.30 | (19,900) | 15.53 |
| Outstanding, end of year | 2,704,975 | 20.65 | 2,596,700 | 18.31 | 2,387,800 | 17.35 |
| Exercisable, end of year | 933,700 | 16.58 | 724,575 | 14.39 | 407,475 | 14.36 |

Generally, options are exercisable beginning from three to nine years after date of grant and have a maximum term of ten years. The following table provides more information about options outstanding at September 30, 2004.

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Shares Under Option | Weighted Average Remaining Life | Weighted Average Exercise Price | Shares Under Option | Weighted Average Exercise Price |
| $12.00 - $15.00 | 760,350 | 3.6 years | $12.88 | 419,950 | $13.60 |
| $15.01 - $20.00 | 769,625 | 4.8 years | 17.86 | 421,750 | 17.70 |
| $20.01 - $30.00 | 758,000 | 7.1 years | 24.75 | 92,000 | 25.09 |
| $30.01 - $35.70 | 417,000 | 9.2 years | 32.50 | - | - |
| $12.00 - $35.70 | 2,704,975 | 5.8 years | 20.65 | 933,700 | 16.58 |

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average assumptions and fair values for options granted each year were as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Expected stock price volatility | 34.75% | 36.21% | 37.16% |
| Risk-free interest rate | 3.72% | 3.52% | 4.70% |
| Expected option life | 7.17 yrs | 7.09 yrs | 7.15 yrs |
| Fair value (per share) | $14.41 | $10.94 | $12.14 |

On September 23, 2004, in connection with the authorization of the special dividend payable to shareholders of record as of the close of business on October 8, 2004 (see Note 16), the Board amended the Incentive Stock Plans to require a related adjustment of all outstanding stock options. Logically, once shares trade without the right to receive the special dividend (which occurs two days before the date of record), the stock price will decline by an amount equal to the special dividend. The closing stock price on October 5, 2004 was $36.58, so the $1.00 dividend had the effect of reducing the stock price to approximately 97.27 percent of its value. So that option holders did not experience a reduction in the intrinsic value of their options, outstanding stock option exercise prices were reduced proportionately, and the number of shares of each award was increased inversely proportionally to approximately 102.81 percent of the original number of shares. As a result of the adjustments, the intrinsic value of each award was substantially the same before and after the dividend.

***Restricted Stock Awards***

Restricted stock awards (nonvested stock) were granted as shown in the following table. Nearly all of the shares granted in fiscal 2004 are scheduled to vest in 2011, 2012, and 2013, but would vest immediately in the event of retirement or involuntary termination (other than for cause). The grant date market value of each award is recorded as a reduction of shareholders' equity and amortized on a straight-line basis over the expected vesting period. The related compensation expense was approximately $.2 in fiscal 2004 and less than $.1 in fiscal 2003 and 2002.

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Number of shares granted | 133,926 | 2,000 | 2,155 |
| Weighted average grant date fair value per share | $ 35.45 | $ 25.00 | $ 23.20 |

***Deferred Compensation***

The Incentive Stock Plan provides for deferred compensation plans for non-management directors and key employees, as well as an Executive Savings Investment Plan.

Under the Deferred Compensation Plan for Non-Management Directors, any non-management director may elect to defer, within certain limitations, their retainer and fees until retirement or other termination of their directorship. Deferrals may be made in Ralcorp common stock equivalents (Equity Option) or in cash under a number of funds operated by The Vanguard Group Inc. with a variety of investment strategies and objectives (Vanguard Funds). Deferrals in the Equity Option receive a 33 1/3% Company matching contribution that is fully vested.

Under the Deferred Compensation Plan for Key Employees, eligible employees may elect to defer payment of all or a portion of their bonus until some later date. Deferrals may be made in the Equity Option or in the Vanguard Funds.

The Executive Savings Investment Plan allows eligible employees to defer up to 44% of their cash compensation. Once they have reached the legislated maximum annual pre-tax contribution to the Company's Savings Investment Plan [401(k)] or their compensation exceeds the legislated maximum compensation that can be recognized under that plan, they are eligible to defer an additional 2% to 6% of their cash compensation, a portion of which receives a Company matching contribution that vests at a rate of 25% for each year of Company service. Deferrals may be made in the Equity Option or in the Vanguard Funds.

Matching contributions related to these three deferred compensation plans resulted in additional annual compensation expense of approximately $.2 for fiscal 2004, and $.1 for fiscal 2003 and 2002. Market adjustments to the liability and investment related to these plans resulted in pretax expense of $.8, $.9, and $.6 for fiscal 2004, 2003, and 2002, respectively.

## NOTE 18 – SEGMENT INFORMATION

The Company's operating segments offer different products and services and are managed separately. These operating segments have been aggregated to present the Company's reportable segments – Cereals, Crackers & Cookies; Dressings, Syrups, Jellies & Sauces; Snack Nuts & Candy; and Frozen Pancakes, Biscuits & Breads. The Company evaluates segment performance based on profit or loss from operations before income taxes, interest, restructuring charges, and other unallocated corporate expenses.

The accounting policies of the segments are the same as those described in Note 1. The Company's revenues were primarily generated by sales within the United States; foreign sales were immaterial. There were no material intersegment revenues. In fiscal 2004, one customer accounted for $232.9, or approximately 15%, of total net sales. Each of the segments sells products to this major customer.

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The table below presents information about reportable segments as of and for the years ended September 30. Note that "Additions to property and intangibles" excludes additions through business acquisitions (see Note 2).

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| **Net sales** | | | |
| Cereals | $ 348.6 | $ 316.7 | $ 312.5 |
| Crackers & Cookies | 441.3 | 397.6 | 343.5 |
| Dressings, Syrups, Jellies & Sauces | 388.8 | 405.8 | 451.5 |
| Snack Nuts & Candy | 230.9 | 183.5 | 172.8 |
| Frozen Pancakes, Biscuits & Breads | 148.8 | - | - |
| Total | $ 1,558.4 | $1,303.6 | $1,280.3 |
| **Profit contribution** | | | |
| Cereals, Crackers & Cookies | $ 85.7 | $ 76.9 | $ 70.1 |
| Dressings, Syrups, Jellies & Sauces | 11.6 | 8.0 | 13.5 |
| Snack Nuts & Candy | 20.2 | 22.8 | 20.6 |
| Frozen Pancakes, Biscuits & Breads | 21.4 | - | - |
| Total segment profit contribution | 138.9 | 107.7 | 104.2 |
| Interest expense, net | (13.1) | (3.3) | (5.9) |
| Goodwill impairment loss | - | (59.0) | - |
| Restructuring charges | (2.4) | (14.3) | - |
| Accelerated depreciation related to restructuring | (1.4) | (3.0) | - |
| Litigation settlement income | .9 | 14.6 | 1.6 |
| Systems upgrades and conversions | (5.5) | (2.5) | - |
| Other unallocated corporate expenses | (15.5) | (15.5) | (14.6) |
| Earnings before income taxes and equity earnings | $ 101.9 | $ 24.7 | $ 85.3 |
| **Additions to property and intangibles** | | | |
| Cereals, Crackers & Cookies | $ 32.8 | $ 19.2 | $ 13.5 |
| Dressings, Syrups, Jellies & Sauces | 5.0 | 10.2 | 13.9 |
| Snack Nuts & Candy | 2.7 | 1.3 | 1.3 |
| Frozen Pancakes, Biscuits & Breads | 6.3 | - | - |
| Corporate | 7.0 | 5.4 | .4 |
| Total | $ 53.8 | $ 36.1 | $ 29.1 |
| **Depreciation and amortization** | | | |
| Cereals, Crackers & Cookies | $ 24.8 | $ 24.3 | $ 24.0 |
| Dressings, Syrups, Jellies & Sauces | 8.8 | 8.5 | 8.7 |
| Snack Nuts & Candy | 2.4 | 2.3 | 2.3 |
| Frozen Pancakes, Biscuits & Breads | 8.4 | - | - |
| Corporate | 3.1 | 3.6 | .8 |
| Total | $ 47.5 | $ 38.7 | $ 35.8 |
| **Assets, end of year** | | | |
| Cereals, Crackers & Cookies | $ 373.9 | $ 331.9 | $ 337.1 |
| Dressings, Syrups, Jellies & Sauces | 162.9 | 168.8 | 261.2 |
| Snack Nuts & Candy | 107.0 | 101.2 | 98.1 |
| Frozen Pancakes, Biscuits & Breads | 337.5 | - | - |
| Total segment assets | 981.3 | 601.9 | 696.4 |
| Investment in Ralcorp Receivables Corporation | 98.0 | 52.4 | 29.7 |
| Investment in Vail Resorts, Inc. | 80.7 | 80.1 | 80.8 |
| Other unallocated corporate assets | 61.6 | 59.9 | 25.6 |
| Total | $ 1,221.6 | $ 794.3 | $ 832.5 |

**NOTE 19 – QUARTERLY FINANCIAL DATA (UNAUDITED)**

The results for any single quarter are not necessarily indicative of the Company's results for any other quarter or the full year. Due to the Company's equity interest in Vail (see Note 6), which typically yields more than the entire year's equity income during the Company's second and third fiscal quarters, net earnings of the Company are seasonal. In addition certain aspects of the Company's operations, especially in the Snack Nuts & Candy segment, are somewhat seasonal with a higher percentage of sales and operating profits expected to be recorded in the first and fourth fiscal quarters. Selected quarterly financial data is shown below. The goodwill impairment loss, restructuring charges, and litigation settlement income are unusual or infrequently occurring items and are described in Note 2, Note 3, and Note 4, respectively.

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total Year |
|---|---|---|---|---|---|
| **Fiscal 2004** | | | | | |
| Net sales | $ 362.5 | $ 383.4 | $ 386.3 | $ 426.2 | $ 1,558.4 |
| Gross profit | 70.6 | 80.3 | 80.7 | 89.6 | 321.2 |
| Restructuring charges | (.3) | (.3) | (.4) | (1.4) | (2.4) |
| Litigation settlement income | - | .8 | .1 | - | .9 |
| Net earnings | 11.7 | 16.3 | 24.6 | 12.5 | 65.1 |
| Diluted earnings per share | .39 | .54 | .82 | .41 | 2.17 |
| Market price per share - high | 32.50 | 35.19 | 35.20 | 37.60 | 37.60 |
| Market price per share - low | 26.88 | 29.49 | 29.62 | 33.95 | 26.88 |
| **Fiscal 2003** | | | | | |
| Net sales | $ 348.3 | $ 314.4 | $ 311.5 | $ 329.4 | $ 1,303.6 |
| Gross profit | 68.5 | 60.5 | 62.5 | 66.5 | 258.0 |
| Goodwill impairment loss | - | - | - | (59.0) | (59.0) |
| Restructuring charges | (7.2) | (4.0) | (2.2) | (.9) | (14.3) |
| Litigation settlement income | 5.7 | 8.9 | - | - | 14.6 |
| Net earnings | 13.3 | 16.8 | 16.0 | (38.7) | 7.4 |
| Diluted earnings per share | .44 | .57 | .54 | (1.34) | .25 |
| Market price per share - high | 25.40 | 27.79 | 27.55 | 29.85 | 29.85 |
| Market price per share - low | 19.43 | 24.00 | 24.43 | 24.81 | 19.43 |

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

(a) The Company maintains systems of internal controls with respect to gathering, analyzing and disclosing all information required to be disclosed in this report. Within the ninety days preceding the filing of this report, the Company completed an evaluation, under the supervision and with the participation of the Co-Chief Executive Officers and Presidents and the Corporate Vice President and Controller, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon the review, such officers concluded that the design and operation of disclosure controls effectively alerted management to material information regarding the Company and required to be filed in this report.

(b) There have been no significant changes in the Company's internal controls or other factors that could significantly affect those controls since their review was completed.

**ITEM 9B. OTHER INFORMATION**

Not applicable.

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding directors under the headings “ELECTION OF DIRECTORS,” “INFORMATION ABOUT RALCORP’S BOARD OF DIRECTORS,” “BOARD GOVERNANCE,” and “OTHER MATTERS – Section 16(a) Beneficial Ownership Reporting Compliance” in the Company's Notice of Annual Meeting and Proxy Statement (to be filed) is hereby incorporated by reference. Information regarding Executive Officers of the Company is included under Item 4A of Part I.

### ITEM 11. EXECUTIVE COMPENSATION

Information appearing under the heading “EXECUTIVE COMPENSATION” and the remuneration information under the heading “DIRECTOR COMPENSATION” in the Company's Notice of Annual Meeting and Proxy Statement (to be filed) are hereby incorporated by reference.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The discussion of the security ownership of certain beneficial owners and management appearing under the heading “STOCK OWNERSHIP INFORMATION” and “EQUITY COMPENSATION PLAN INFORMATION” in the Company's Notice of Annual Meeting and Proxy Statement (to be filed) is hereby incorporated by reference.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information appearing under the headings “COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION” and “OTHER RELATIONSHIPS INVOLVING DIRECTORS, OFFICERS, OR THEIR ASSOCIATES” of the Company's Notice of Annual Meeting and Proxy Statement (to be filed) is hereby incorporated by reference.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information under the heading “OTHER MATTERS – Independent Registered Public Accounting Firm” and “OTHER MATTERS – Fees Paid To PricewaterhouseCoopers LLC” in the Company's Notice of Annual Meeting and Proxy Statement (to be filed) is hereby incorporated by reference.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed with this report:

1. Financial Statements. The following financial statements are filed as a part of this document under Item 8.

   -Report of Independent Registered Public Accounting Firm
   -Consolidated Statements of Earnings for years ended September 30, 2004, 2003 and 2002
   -Consolidated Balance Sheets at September 30, 2004 and 2003
   -Consolidated Statements of Cash Flows for years ended September 30, 2004, 2003 and 2002
   -Consolidated Statements of Shareholders’ Equity for the three years ended September 30, 2004
   -Notes to Consolidated Financial Statements

2. Financial Statement Schedules. None. Schedules not included have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto. Financial statements of the Registrant's 50% or less owned companies have been omitted because, in the aggregate, they are not significant.

3. Exhibits. See the Exhibit Index that appears at the end of this document and which is incorporated herein. Exhibits 10.10 through 10.45 are management compensation plans or arrangements.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, Ralcorp Holdings, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**RALCORP HOLDINGS, INC.**

| | |
|---|---|
| By: /s/ KEVIN J. HUNT | /s/ DAVID P. SKARIE |
| Kevin J. Hunt<br>Co-Chief Executive Officer<br>and President | David P. Skarie<br>Co-Chief Executive Officer<br>and President |

December 6, 2004

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints C. G. Huber, Jr. and T. G. Granneman and each of them, his true and lawful attorney-in-fact and agent, with full power of substitution and resolution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ KEVIN J. HUNT<br>Kevin J. Hunt | Director and Co-Chief Executive Officer and President (Principal Executive Officer) | December 6, 2004 |
| /s/ DAVID P. SKARIE<br>David P. Skarie | Director and Co-Chief Executive Officer and President (Principal Executive Officer) | December 6, 2004 |
| /s/ THOMAS G. GRANNEMAN<br>Thomas G. Granneman | Corporate Vice President and Controller (Principal Accounting Officer) | December 6, 2004 |
| /s/ DAVID R. BANKS<br>David R. Banks | Director | December 6, 2004 |
| /s/ JACK W. GOODALL<br>Jack W. Goodall | Director | December 6, 2004 |
| /s/ M. DARRELL INGRAM<br>M. Darrell Ingram | Director | December 6, 2004 |
| /s/ DAVID W. KEMPER<br>David W. Kemper | Director | December 6, 2004 |
| /s/ RICHARD A. LIDDY<br>Richard A. Liddy | Director | December 6, 2004 |
| /s/ JOE R. MICHELETTO<br>Joe R. Micheletto | Director | December 6, 2004 |
| /s/ WILLIAM P. STIRITZ<br>William P. Stiritz | Director | December 6, 2004 |

## EXHIBIT INDEX

| Exhibit Number | Description of Exhibit |
|---|---|
| *2.1 | Purchase Agreement among Value Added Bakery Holding Company, the persons set forth on Exhibits A and B thereto, RH Financial Corporation and solely with respect to Section 13.15, Ralcorp Holdings, Inc. dated as of November 12, 2003 (Filed as Exhibit 2.1 to the Company's Form 8-K dated as of December 8, 2003). |
| *2.2 | Purchase Agreement Amendment dated December 2, 2003 relating to Purchase Agreement among Value Added Bakery Holding Company, the persons set forth on Exhibit A and B thereto, RH Financial Corporation and solely with respect to Section 13.15, Ralcorp Holdings, Inc. dated as of November 12, 2003 (Filed as Exhibit 2.3 to the Company's Form 8-K dated as of December 8, 2003). |
| *3.1 | Restated Articles of Incorporation of Ralcorp Holdings, Inc. (Filed as Exhibit 3.1 to the Company's Form 10-Q for the period ending December 31, 1996). |
| *3.2 | Bylaws of Ralcorp Holdings, Inc. (Filed as Exhibit 3.2 to the Company's Form 10-K for the year ending September 30, 2002). |
| *4.1 | Shareholder Protection Rights Agreement (Filed as Exhibit 4.1 to the Company's Registration Statement on Form 10 dated December 27, 1996). |
| *4.2 | First Amendment to Shareholder Rights Protection Plan (Filed as Exhibit 4 to the Company's Form 10-Q for the period ending June 30, 1997). |
| *10.1 | $150,000,000 Credit Agreement among Ralcorp Holdings, Inc., the lenders named therein, and JP Morgan Bank, as Agent, dated as of October 5, 2004 (Filed as Exhibit 99.1 to the Company's Form 8-K dated as of October 21, 2004). |
| *10.2 | Reorganization Agreement dated as of January 31, 1997 by and among Ralcorp Holdings, Inc., New Ralcorp Holdings, Inc., Ralston Foods, Inc., Chex, Inc. and General Mills, Inc. (Filed as Exhibit 10.2 to the Company's Form 10-Q for the period ending December 31, 1997). |
| *10.3 | Receivables Purchase Agreement dated as of September 25, 2001 among Ralcorp Receivables Corporation, Ralcorp Holdings, Inc., Falcon Asset Securitization Corporation and Bank One, N.A. (Filed as Exhibit 10.4 to the Company's Form 10-K for the year ending September 30, 2001). |
| *10.4 | Amendment No. 4 to Receivables Purchase Agreement dated as of September 25, 2001 among Ralcorp Receivables Corporation, Ralcorp Holdings, Inc., Falcon Asset Securitization Corporation and Bank One, N.A. (Filed as Exhibit 99.1 to the Company's Form 8-K dated October 27, 2004). |
| *10.5 | Agreement and Plan of Merger dated as of August 13, 1996 by and among Ralcorp Holdings, Inc., General Mills, Inc. and General Mills Missouri, Inc. (Filed as Exhibit 2.6 to the Company's Form 10-Q for the period ending December 31, 1996). |
| *10.6 | Stock Purchase Agreement by and among Vail Resorts, Inc., Ralston Foods, Inc. and Ralston Resorts, Inc. dated July 22, 1996 (Filed as Exhibit 10.10 to the Company's Registration Statement on Form 10, dated December 27, 1996). |
| *10.7 | Shareholder Agreement dated as of January 3, 1997 among Vail Resorts, Inc., Ralston Foods, Inc. and Apollo Ski Partners L.P. (Filed as Exhibit 10.9 to the Company's Form 10-Q for the period ending December 31, 1996). |
| *10.8 | First Amendment to Shareholder Agreement dated as of November 1, 1999 among Vail Resorts, Inc., Ralcorp Holdings, Inc. and Apollo Ski Partners LP. (Filed as Exhibit 10.9(a) to the Company's Form 10-K for the year ending September 30, 2000). |
| *10.9 | Termination Agreement by and among Vail Resorts, Inc., Ralcorp Holdings, Inc. and Apollo Ski Partners dated as of October 5, 2004 (Filed as Exhibit 99.1 to the Company's Form 8-K dated October 6, 2004). |

| Exhibit Number | Description of Exhibit |
|---|---|
| *10.10 | Incentive Stock Plan (Filed as Exhibit 10.01 to the Company's Registration Statement on Form 10 dated December 27, 1996). |
| *10.11 | Form of 1997 Non-Qualified Stock Option Agreement (Filed as Exhibit 10.01 to the Company's Form 10-Q for the period ending June 30, 1997). |
| *10.12 | Form of 1997 Non-Qualified Stock Option Agreement for Non-Management Directors (Filed as Exhibit 10.01 to the Company's Form 10-Q for the period ending June 30, 1997). |
| *10.13 | Form of Amended and Restated Management Continuity Agreement for Corporate Officers (Filed as Exhibit 10.2 to the Company’s Form 10-Q for the period ending December 31, 2003). |
| *10.14 | Form of Management Continuity Agreement for Co-Chief Executive Officers (Filed as Exhibit 10.1 to the Company’s Form 10-Q for the period ending December 31, 2003). |
| *10.15 | Form of Management Continuity Agreement for David L. Beré (Filed as Exhibit 10.3 to the Company’s Form 10-Q for the period ending December 31, 2003). |
| *10.16 | Summary of Terms for 1998 Non-Qualified Stock Options (Filed as Exhibit 10.23 to the Company’s Form 10-K for the year ending September 30, 1998). |
| *10.17 | Split Dollar Second to Die Life Insurance Arrangement (Filed as Exhibit 10.07 to the Company's Registration Statement on Form 10 dated December 27, 1996). |
| *10.18 | Change in Control Severance Compensation Plan (Filed as Exhibit 10.06 to the Company’s Registration Statement on Form 10 dated December 27, 1996). |
| *10.19 | Deferred Compensation Plan for Non-Management Directors (Filed as Exhibit 10.22 to the Company’s Form 10-K for the year ending September 30, 2002). |
| *10.20 | Deferred Compensation Plan for Key Employees (Filed as Exhibit 10.23 to the Company’s Form 10-K for the year ending September 30, 2002). |
| *10.21 | Executive Life Insurance Plan (Filed as Exhibit 10.10 to the Company's Registration Statement on Form 10 dated December 27, 1996). |
| *10.22 | Executive Health Plan (Filed as Exhibit 10.11 to the Company's Registration Statement on Form 10 dated December 27, 1996). |
| *10.23 | Executive Long Term Disability Plan (Filed as Exhibit 10.12 to the Company's Registration Statement on Form 10 dated December 27, 1996). |
| *10.24 | Supplemental Retirement Plan (Filed as Exhibit 10.14 to the Company's Registration Statement on Form 10 dated December 27, 1996). |
| *10.25 | Executive Savings Investment Plan (Filed as Exhibit 10.28 to the Company’s Form 10-K for the year ending September 30, 2002). |
| *10.26 | Form of Indemnification Agreement for all Non-Management Directors of the Company (Filed as Exhibit 10.35 to the Company’s Form 10-K for the year ending September 30, 1999). |
| *10.27 | Form of Indemnification Agreement for all Management Directors of the Company (Filed as Exhibit 10.36 to the Company’s Form 10-K for the year ending September 30, 1999). |
| *10.28 | Form of Indemnification Agreement for all Corporate Officers who are not Directors of the Company (Filed as Exhibit 10.37 to the Company’s Form 10-K for the year ending September 30, 1999). |

| Exhibit Number | Description of Exhibit |
|---|---|
| *10.29 | Summary of Terms of 1999 Non-Qualified Stock Options (Filed as Exhibit 10.38 to the Company's Form 10-K for the year ending September 30, 1999). |
| *10.30 | Summary of Terms of 2001 Non-Qualified Stock Options (Filed as Exhibit 10.33 to the Company's Form 10-K for the year ending September 30, 2001). |
| *10.31 | Form of Non-Qualified Stock Option Agreement dated May 24, 2001 for each non-management Director (Filed as Exhibit 10.34 to the Company's Form 10-K for the year ending September 30, 2001). |
| *10.32 | Form of Non-Qualified Stock Option Agreement dated September 27, 2001 for each non-management Director (Filed as Exhibit 10.35 to the Company's Form 10-K for the year ending September 30, 2001). |
| *10.33 | Restricted Stock Award Agreement dated May 24, 2001 with William P. Stiritz (Filed as Exhibit 10.36 to the Company's Form 10-K for the period ending September 30, 2001). |
| *10.34 | Ralcorp Holdings, Inc. 2002 Incentive Stock Plan (Filed as Exhibit 10.38 to the Company's Form 10-K for the period ending September 30, 2002). |
| *10.35 | Form of 2004 Long-Term Restricted Stock Award for Corporate Officers (Filed as Exhibit 99.1 to the Company's Form 8-K dated as of September 29, 2004). |
| *10.36 | 2002 Restricted Stock Award Agreement with William P. Stiritz granted January 2, 2002 (Filed as Exhibit 10.1 to the Company's Form 10-Q for the period ending March 31, 2002). |
| *10.37 | Form of 2002 Non-Qualified Stock Option Agreement (Filed as Exhibit 10.2 to the Company's Form 10-Q for the period ending March 31, 2002). |
| *10.38 | Form of 2002 Non-Qualified Stock Option Agreement for non-management Directors (Filed as Exhibit 10.41 to the Company's Form 10-K for the period ending September 30, 2002). |
| *10.39 | 2003 Restricted Stock Award Agreement with William P. Stiritz (Filed as Exhibit 10.42 to the Company's Form 10-K for the period ending September 30, 2003). |
| *10.40 | Form of 2003 Non-Qualified Stock Option Agreement (Filed as Exhibit 10.42 to the Company's Form 10-K for the period ending September 30, 2003). |
| *10.41 | Form of 2003 Non-Qualified Stock Option Agreement for non-management Directors (Filed as Exhibit 10.42 to the Company's Form 10-K for the period ending September 30, 2003). |
| 10.42 | Restricted Stock Award Agreement dated January 2, 2004 with William P. Stiritz. |
| 10.43 | Restricted Stock Award Agreement dated January 2, 2004 with Joe R. Micheletto. |
| 10.44 | Form of Non-Qualified Stock Option Agreement dated February 5, 2004. |
| *10.45 | Form of Director Non-Qualified Stock Option Agreement dated September 23, 2004 (Filed as Exhibit 99.1 to the Company's Form 8-K dated September 29, 2004). |
| *10.46 | Floating Rate Senior Notes, Series A, due May 22, 2010 Note Purchase Agreement (Filed as Exhibit 10.1 to the Company's Form 10-Q for the period ending June 30, 2003). |
| *10.47 | $145,000,000 4.24% Series B Senior Notes due December 22, 2010, First Supplement to Note Purchase Agreements dated as of December 22, 2003 (Filed as Exhibit 10.4 to the Company's Form 10-Q for the period ending December 31, 2003). |
| *10.48 | $50,000,000 5.43% Series C Senior Notes due December 22, 2013, Second Supplement to Note Purchase Agreements dated as of December 22, 2003 (Filed as Exhibit 10.5 to the Company's Form 10-Q for the period ending December 31, 2003). |
| *10.49 | $75,000,000 4.76% Series D Senior Notes due December 22, 2013, Third Supplement to Note Purchase Agreements dated as of December 22, 2003 (Filed as Exhibit 10.6 to the Company's Form 10-Q for the period ending December 31, 2003). |

| Exhibit Number | Description of Exhibit |
|---|---|
| 21 | Subsidiaries of the Company. |
| 23 | Consent of PricewaterhouseCoopers LLP. |
| *24 | Power of Attorney (Included under Signatures). |
| 31.1 | Certification of Kevin J. Hunt. |
| 31.2 | Certification of David P. Skarie. |
| 31.3 | Certification of Thomas G. Granneman. |
| 32 | Certification pursuant to 18 U.S.C. Section 1350 of Kevin J. Hunt, David P. Skarie, and Thomas G. Granneman. |

* Incorporated by reference

# RALCORP HOLDINGS, INC.

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

DEAR SHAREHOLDERS:

The 2005 Annual Meeting of Shareholders of Ralcorp Holdings, Inc. will be held at 8:30 a.m. local time, on Wednesday, February 2, 2005, at the Bank of America Plaza, 800 Market St., 30th floor, St. Louis, Missouri, for the following purposes:

- To elect five directors;
- To amend the 2002 Incentive Stock Plan; and
- To transact any other business that may properly be presented at the Annual Meeting.

If you were a shareholder of record at the close of business on November 26, 2004, then you may vote on these matters.

It is important that your shares be represented and voted at the Annual Meeting. Whether you plan to attend the Annual Meeting or not, we encourage you to vote in one of these ways:

- USE THE INTERNET WEBSITE shown on the Proxy Card;
- USE THE TOLL-FREE TELEPHONE NUMBER shown on the Proxy Card; or
- MARK, SIGN, DATE, and PROMPTLY RETURN the Proxy Card in the postage-paid envelope provided.

By Order of the Board of Directors,

Charles G. Huber, Jr.
*Secretary*

December 14, 2004

# RALCORP HOLDINGS, INC.

**800 Market Street**
**St. Louis, MO 63101**

## PROXY STATEMENT

PROXY STATEMENT

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# RALCORP HOLDINGS, INC.

## PROXY STATEMENT FOR THE 2005 ANNUAL MEETING OF SHAREHOLDERS

### QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS

**Why Am I Receiving These Materials?**

The Board of Directors of Ralcorp Holdings, Inc. (''Ralcorp'' or ''Company'') is soliciting proxies to be used at the 2005 Annual Meeting. This Proxy Statement and Proxy Card are being mailed to shareholders on or about December 20, 2004. A copy of Ralcorp's Annual Report containing financial statements for the fiscal year ended September 30, 2004 has been mailed with this Proxy Statement.

**YOUR VOTE IS VERY IMPORTANT AND YOU ARE ENCOURAGED TO VOTE WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING.**

**Where And When Is The Annual Meeting?**

The Annual Meeting will take place at 8:30 a.m. local time, on Wednesday, February 2, 2005, at the Bank of America Plaza, 800 Market St., 30th floor, St. Louis, Missouri.

**Who Can Vote?**

Record holders of Ralcorp Common Stock on November 26, 2004 may vote at the Annual Meeting. On that date, there were 29,451,282 shares of Ralcorp Common Stock outstanding.

**How Do I Vote?**

Shares Registered In Your Name:

- Vote by Internet. Go to http://www.eproxyvote.com/rah and follow the instructions provided.
- Vote by Telephone. Using a touch-tone telephone, call 1-877-779-8683 toll-free and follow the instructions provided.
- Vote by Mail. Mark your Proxy Card, sign, date, and return it in the postage-paid envelope provided.
- Attend the Annual Meeting and cast your vote there.

To vote by Internet or telephone, you will need your Voter Control Number located above your name on your Proxy Card. Internet and telephone voting are available twenty-four hours a day until midnight on Tuesday, February 1, 2005, the day before the Annual Meeting. **If you vote by Internet or telephone, then please do not return your Proxy Card.**

Shares Held By Your Bank Or Broker:

If your Ralcorp Common Stock is held in the name of a bank or broker, then follow the voting instructions you receive from your bank or broker. If you wish to attend the Annual Meeting and vote your shares, then you will need to bring an account statement or letter from your bank or broker indicating that you were the record holder of your shares as of November 26, 2004.

Shares Held In The Savings Investment Plan:

If you participate in the Company's Savings Investment Plan (SIP) and are the record holder of Ralcorp Common Stock in exactly the same name as you are identified by in the SIP, then you will receive a single

Proxy Card to vote all of your shares. If your plan account is not in exactly the same name as your shares of record, then you will receive one Proxy Card for your SIP shares and one for your record shares.

If you own shares through the plan and we have not received your vote by February 1, 2005, then the trustee will vote your shares in the same proportion as the shares that are voted on behalf of the other participants in the plan. The trustee will also vote unallocated shares of Ralcorp Common Stock held in the plan in direct proportion to the voting of allocated shares in the plan as to which voting instructions have been received, unless doing so would be inconsistent with the trustee's duties.

**How Many Votes Are Needed?**

If a quorum is represented at the Annual Meeting, then the following votes are required:

- **Election of Directors**

A majority of shares entitled to vote and present (in person or by proxy) at the Annual Meeting must be voted **"FOR"** a nominee.

- **Amendment of 2002 Incentive Stock Plan**

A majority of shares entitled to vote and present (in person or by proxy) at the Annual Meeting must be voted **"FOR"** the amendment.

- **Other Matters**

Generally, a majority of the shares entitled to vote and present (in person or by proxy) at the Annual Meeting must be voted **"FOR"** such other matter. However, the Company does not know of any other matter that will be presented at this Annual Meeting.

**How Can I Change My Vote?**

You can change your vote in one of three ways:

- Send in another proxy or vote again electronically after your original vote;
- Notify Ralcorp's Corporate Secretary in writing before the Annual Meeting that you have revoked your proxy; or
- Vote in person at the Annual Meeting.

**How Many Votes Do I Have?**

You are entitled to cast one vote for each share of Ralcorp Common Stock you own on the record date. A majority of the outstanding shares entitled to vote must be present (in person or by proxy) in order to conduct the election of directors and other matters in this Proxy Statement.

**What Constitutes A Quorum?**

A majority of the outstanding shares entitled to vote at the Annual Meeting represented in person or by proxy constitutes a quorum.

**How Are Votes Counted?**

We treat a Proxy Card marked "withhold" for a nominee or nominees as a vote against such nominee or nominees. A Proxy Card marked "abstain" on a matter will be considered to be represented at the Annual Meeting, but not voted, for these purposes. Shares registered in the name of a bank, broker, or other "street name" agent, for which proxies are voted on some, but not all matters, will be considered to be represented at the Annual Meeting and voted only as to those matters marked on the Proxy Card.

All shares that are properly voted—whether by Internet, telephone, or mail—will be voted at the Annual Meeting in accordance with your instructions. If you sign the Proxy Card but do not give voting instructions, then the shares represented by your Proxy Card will be voted as recommended by the Board of Directors.

If any other matters are properly presented at the Annual Meeting, then the people named on the Proxy Card will use their discretion to vote on your behalf.

**What Does The Board Recommend?**

The Board recommends you vote **"FOR"** the five nominees for director and **"FOR"** the amendment to 2002 Incentive Stock Plan.

## ELECTION OF DIRECTORS
## Item 1 on Proxy Card

Ten members serve on the Board of Directors. The Board is currently divided into three classes, with one class consisting of four members and two classes consisting of three members. Directors for each class are elected at the Annual Meeting held in the year in which the term for their class expires. Messrs. Banks, Hunt, Ingram and Kemper constitute the class whose term expires at the 2005 Annual Meeting. Under the Company's current Bylaws, Mr. Ingram can no longer stand for re-election due to his age. In September the Board elected Bill G. Armstrong and the Company's Co-Chief Executive Officers, Kevin J. Hunt and David P. Skarie, as directors.

In order to equalize the class sizes resulting from the retirement of Mr. Ingram and election of three new directors, the Board has organized directors into three classes each consisting of three directors. The Board recommends that three directors be elected at the 2005 Annual Meeting to serve for a three-year term ending in 2008 at our Annual Meeting; that one director be elected to a two-year term expiring in 2007 at our Annual Meeting; and that one director be elected to a one-year term ending in 2006 at our Annual Meeting.

The Board has nominated Messrs. Banks, Hunt and Kemper for election as directors at the Annual Meeting, to serve until the 2008 Annual Meeting. Also, the Board has nominated Mr. Armstrong for election as a director at the Annual Meeting, to serve until the 2007 Annual Meeting. Further, the Board has nominated Mr. Skarie for election as a director at the Annual Meeting, to serve until the 2006 Annual Meeting.

Mr. Goodall, Chairman of the Corporate Governance and Compensation Committee, and Mr. Stiritz, Chairman of the Board, discussed the desirability of replacing Mr. Ingram who will retire in early 2005. Messrs. Goodall and Stiritz discussed the need to fill Mr. Ingram's position with a candidate who was familiar with the Company and had experience as an operations executive. Mr. Armstrong's name surfaced as a candidate familiar with Ralcorp and who had a strong background in operations. Mr. Stiritz contacted Mr. Armstrong to initiate a discussion about joining the Board. At the September 23, 2004 board meeting the Committee reviewed Mr. Armstrong's qualifications and his responses to a director's questionnaire. Each member of the Committee was afforded the opportunity to contact Mr. Armstrong prior to the meeting. At the same meeting the Committee and entire Board reviewed Messrs. Hunt's and Skarie's performance during their first year as Co-Chief Executive Officers and concluded their performance warranted election to the Board. The Company has never paid a fee to a third party for assisting in a search for director candidates.

Each nominee has agreed to serve and the Board does not contemplate that any of the nominees will be unable to stand for election. However, if any nominee becomes unable to serve before the Annual Meeting, then your Proxy Card will be voted for a person that the Board nominates in such nominee's place, unless you have withheld authority to vote for all nominees. There are no family relationships among our directors and corporate officers.

Other directors not up for election this year will continue in office for the remainder of their terms or until their death, resignation or removal. Proxies may not be voted for a greater number of persons than the nominees listed below.

## INFORMATION ABOUT RALCORP'S BOARD OF DIRECTORS

Biographical information on Messrs. Armstrong, Banks, Hunt, Kemper and Skarie, and all other directors, is set forth below. Directors' ages are as of December 31, 2004.



---

**BILL G. ARMSTRONG**—*Standing for election at this meeting for a term expiring 2007*

| | |
|---|---|
| Age: | 56 |
| Director Since: | October 2004 |
| Principal Occupation/ Recent Business Experience: | Mr. Armstrong served as Executive Vice President and Chief Operating Officer of Cargill Animal Nutrition from May 2001 to September 2004 and as Chief Operating Officer of Agribrands International, Inc. from April 1998 to April 2001. |
| Other Directorships: | Energizer Holdings, Inc. |

---

**DAVID R. BANKS**—*Standing for election at this meeting for a term expiring 2008*

| | |
|---|---|
| Age: | 67 |
| Director Since: | May 2001 |
| Principal Occupation/ Recent Business Experience: | Private equity investor. Mr. Banks served as Chairman of the Board of Beverly Enterprises, Inc. (health care) from May 1989 to December 2001 and as Chief Executive Officer from May 1989 to February 2001. |
| Other Directorships: | Nationwide Health Properties, Inc. |

---

**JACK W. GOODALL**—*Continuing in office—Term expiring 2006*

| | |
|---|---|
| Age: | 66 |
| Director Since: | March 1994 |
| Principal Occupation/ Recent Business Experience: | Mr. Goodall served as Chairman of the Board of Jack in the Box Inc. (restaurants) from April 1996 to February 2001. |
| Other Directorships: | Rubio's Restaurants, Inc. |

---

**KEVIN J. HUNT**—*Standing for election at this meeting for a term expiring 2008*

| | |
|---|---|
| Age: | 53 |
| Director Since: | October 2004 |
| Principal Occupation/ Recent Business Experience: | Mr. Hunt has been Co-Chief Executive Officer and President of Ralcorp Holdings, Inc. since September 2003 and Chief Executive Officer of Bremner, Inc. since 1995 and Nutcracker Brands, Inc. since September 2003. Mr. Hunt has been employed with the Company since 1985. |

---

**M. DARRELL INGRAM**—*Term expires at the 2005 Annual Meeting*

| | |
|---|---|
| Age: | 72 |
| Director Since: | May 2001 |
| Principal Occupation/ Recent Business Experience: | Mr. Ingram has been a private equity investor since July 1998. |

---

**DAVID W. KEMPER**—*Standing for election at this meeting for a term expiring 2008*

| | |
|---|---|
| Age: | 54 |
| Director Since: | October 1994 |
| Principal Occupation/ Recent Business Experience: | Mr. Kemper has been Chairman, President and Chief Executive Officer of Commerce Bancshares, Inc. (bank holding company) since October 1991. |
| Other Directorships: | Tower Properties Company |

**RICHARD A. LIDDY**—*Continuing in office—Term expiring 2007*

| | |
|---|---|
| Age: | 69 |
| Director Since: | February 2001 |
| Principal Occupation/ Recent Business Experience: | Mr. Liddy served as Chairman of the Board of GenAmerica Financial (financial and insurance products) from September 2000 to April 2002. He also served as Chairman of the Board of Reinsurance Group of America from May 1993 to April 2002. Mr. Liddy was President of General American Life Insurance Company from May 1988 to September 2000 and Chief Executive Officer of General American Life Insurance Company from May 1992 to September 2000. In January 2000, while Mr. Liddy served as President of GenAmerica Financial Corporation, GenAmerica sold its mutual holding company to Metropolitan Life Insurance Company. At the request of the Missouri State Insurance Department, a receiver was appointed in order to oversee the equitable distribution of proceeds to policyholders. |
| Other Directorships: | Ameren Corporation, Brown Shoe Company, Inc. and Energizer Holdings, Inc. |

**JOE R. MICHELETTO**—*Continuing in office—Term expiring 2006*

| | |
|---|---|
| Age: | 68 |
| Director Since: | January 1994 |
| Principal Occupation/ Recent Business Experience: | Mr. Micheletto has been Vice-Chairman of the Board of Directors of Ralcorp Holdings, Inc. since September 2003. Mr. Micheletto served as Chief Executive Officer and President of Ralcorp Holdings, Inc. from September 1996 to September 2003. |
| Other Directorships: | Energizer Holdings, Inc. and Vail Resorts, Inc. |

**DAVID P. SKARIE**—*Standing for election at this meeting for a term expiring 2006*

| | |
|---|---|
| Age: | 58 |
| Director Since: | October 2004 |
| Principal Occupation/ Recent Business Experience: | Mr. Skarie has been Co-Chief Executive Officer and President of Ralcorp Holdings, Inc. since September 2003 and Chief Executive Officer and President of The Carriage House Companies, Inc. and Ralston Foods since January 2002. Mr. Skarie has been employed with the Company since 1986. |

**WILLIAM P. STIRITZ, Chairman of the Board**—*Continuing in office—Term expiring 2007*

| | |
|---|---|
| Age: | 70 |
| Director Since: | January 1994 |
| Principal Occupation/ Recent Business Experience: | Private equity investor. Mr. Stiritz is Chairman of the Board of Energizer Holdings, Inc. (batteries) and Chairman of the Energizer Holdings, Inc. Management Strategy and Finance Committee since April 2000. Mr. Stiritz served as Chairman of the Board of Ralston Purina Company from January 1982 to December 2001. He also served as Chairman of the Board, Chief Executive Officer and President of Agribrands International, Inc. from April 1998 to May 2001. |
| Other Directorships: | Ball Corporation, Energizer Holdings, Inc., The May Department Stores Company, and Vail Resorts, Inc. |



**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" MESSRS. ARMSTRONG, BANKS, HUNT, KEMPER AND SKARIE.**

## STOCK OWNERSHIP INFORMATION

### Beneficial Ownership of More than 5% of Ralcorp Common Stock

| Name and Address of Beneficial Owner | Number of Shares Beneficially Owned | % of Shares Outstanding | Explanatory Notes |
|---|---|---|---|
| Barclays Global Investors, NA<br>45 Fremont Street<br>San Francisco, California 94105 | 2,721,359 | 9.4 | (a) (b) |

(a) Based on its filings with the Securities and Exchange Commission, Barclays Global Investors, N.A. possessed sole voting and dispositive power over 1,931,068 shares; Barclays Global Fund Advisors possessed sole voting and dispositive power over 516,376 shares; and Barclays Bank PLC possessed sole voting and dispositive power over 49,000 shares.

(b) As reported by the beneficial owner in a filing dated February 13, 2004 with the Securities and Exchange Commission.

PROXY STATEMENT

**Directors and Executive Officers**

The following table shows, as of November 26, 2004, the shares of Ralcorp Common Stock beneficially owned by Ralcorp directors and executive officers. Except as noted, all such persons possess sole voting and investment powers with respect to the shares listed. An asterisk in the column listing the percentage of shares outstanding indicates the person owns less than 1% of the Common Stock outstanding.

| Directors & Executive Officers | Number of Shares(a) | Exercisable Options(b) | Total | % of Shares Outstanding |
|---|---|---|---|---|
| Bill G. Armstrong | — | 10,281 | 10,281 | * |
| David R. Banks | 1,000 | 23,131 | 24,131 | * |
| Jack W. Goodall | 30,900 | 23,131 | 54,031 | * |
| M. Darrell Ingram | 5,000 | 23,131 | 28,131 | * |
| David W. Kemper | 9,000 | 23,131 | 32,131 | * |
| Richard A. Liddy | 10,000(c) | 23,131 | 33,131 | * |
| Joe R. Micheletto | 48,431 | 430,262 | 478,693 | 1.6 |
| William P. Stiritz | 883,994(d) | 205,621 | 1,089,615 | 3.6 |
| Kevin J. Hunt | 33,047 | 55,101 | 88,148 | * |
| David P. Skarie | 40,173 | 36,207 | 76,380 | * |
| David L. Beré | — | — | — | * |
| Richard R. Koulouris | 21,078 | 10,979 | 32,057 | * |
| Ronald D. Wilkinson | 16,963 | 23,645 | 40,608 | * |
| All Directors and Executive Officers as a Group (16 people) | 1,140,179 | 916,078 | 2,056,257 | 6.5 |

(a) Includes the following:

- Shares held directly and Restricted Stock subject to forfeiture, a vesting schedule and other restrictions described in footnote 4 to the Summary Compensation Table on page 16;
- Shares (or share equivalents) held indirectly in the Company's Saving Investment Plan (SIP), Executive Savings Investment Plan (Executive SIP) and Deferred Compensation Plan for Key Employees. Shares in the SIP and Executive SIP are held in a separate fund in which participants acquire units. The fund also holds cash and short-term investments. The shares reported for a participant approximate the number of shares in the fund allocable to that participant and fluctuate due to the cash in the fund and the Common Stock's price.

(b) Shares that could be acquired by exercising stock options through January 25, 2005. Options granted to a director become exercisable upon that director's termination, retirement, disability or death.

(c) Shares of Common Stock owned by Mr. Liddy's wife.

(d) Includes 18,333 shares of Common Stock owned by Mr. Stiritz's wife.

## BOARD GOVERNANCE

The Board of Directors has adopted independence standards, which are described in the Company's Corporate Governance Guidelines and are available on the Company's website, www.ralcorp.com/corporategovernance.htm. The Board has determined, in its judgment, that Messrs. Armstrong, Banks, Goodall, Ingram, Kemper, Liddy, and Stiritz are independent directors as defined in the NYSE listing standards and the SEC rules and regulations. The Guidelines also address qualifications for directors. Generally, the Guidelines provide that directors should have the skills, expertise, integrity and knowledge of the industries in which the Company competes necessary to enhance the long-term interest of shareholders. The Guidelines do not contain any specific limitations on a director's ability to serve on boards or committees, including audit committees, of other organizations. The Board has determined, in its judgment, that Mr. Banks qualifies as an "audit committee financial expert" as defined by the SEC and that Mr. Banks has accounting and related financial management expertise within the meaning of the NYSE listing standards.

Generally, at each regularly scheduled meeting, the non-management directors meet without the presence of management. The independent directors meet without the presence of management and any non-independent director twice each year. When the Board meets without management, Mr. Stiritz, or the Chairman of the Board Committee then in session, act as the presiding director.

Information concerning the standing Committees of the Board is provided below.



**Audit Committee**

The Committee's primary responsibilities are to monitor and oversee (a) the quality and integrity of the Company's financial statements and financial reporting, (b) the independence and qualifications of the Company's independent auditors, (c) the performance of the Company's independent audit, (d) the Company's systems of internal accounting, financial controls and disclosure controls, and (e) the Company's compliance with legal and regulatory requirements, codes of conduct and ethics programs.

The Audit Committee currently consists of six directors. The Board has determined, in its judgement, that the Audit Committee is comprised solely of independent directors as defined in the NYSE listing standards and Rule 10A-3 of the Securities Exchange Act of 1934. The Committee operates under a written charter, adopted by the entire board, which is available on the Company's website at www.ralcorp.com/corporategovernance.htm. The Audit Committee's report is on page 22 of this Proxy Statement.

**Corporate Governance and Compensation Committee**

The Corporate Governance and Compensation Committee reviews and revises, as necessary, the Company's Corporate Governance Guidelines. The Committee also recommends to the Board nominees for directors and executive officers of the Company. The Committee will consider suggestions from shareholders regarding possible director nominees. Such suggestions, together with appropriate biographical information, should be submitted in writing to the Secretary of the Company. The Committee relies primarily on the recommendations from management and members of the Board to identify director nominee candidates. However, the Committee will consider timely written suggestions from shareholders. Shareholders wishing to suggest a candidate for director nomination for the 2006 Annual Meeting should mail their suggestions to Ralcorp Holdings, Inc., P.O. Box 618, St. Louis, MO 63188-0618, Attn: Corporate Secretary. Suggestions must be received by the Secretary of the Company no later than August 22, 2005. The Committee also makes recommendations to the Board regarding CEO and other executive compensation. The Committee also administers the Company's Deferred Compensation and Incentive Stock Plans.

The Committee currently consists of seven directors. The Board has determined, in its judgement, that the Corporate Governance and Compensation Committee is comprised solely of independent directors as defined in the NYSE listing standards. The Committee operates under a written charter, adopted by the entire Board, which is available on the Company's website at www.ralcorp.com/corporategovernance.htm. The Corporate Governance and Compensation Committee's report on fiscal year 2004 executive compensation is on pages 20 & 21 of this Proxy Statement.

**Executive Committee**

The Executive Committee consists of two directors and may exercise all Board authority in the intervals between Board meetings, to the extent such authority is in compliance with the Corporate Governance Guidelines and does not infringe upon the duties and responsibilities of other Board committees.

**Communication with the Board**

Shareholders and other parties interested in communicating directly with an individual director or with the non-management directors as a group, may do so by writing to the individual director or group, c/o Ralcorp Holdings, P. O. Box 618, St. Louis, Missouri 63188-0618, Attn: Corporate Secretary. The Board has directed that the Company's Secretary forward shareholder communications to the Chairman of the Board and any other director to whom the communications are directed. In order to facilitate an efficient and reliable means for directors to receive all legitimate communications directed to them regarding the governance or operation of the Company, the Secretary will use his discretion to refrain from forwarding the following: sales literature; defamatory material regarding the Company and/or its directors; incoherent or inflammatory correspondence, particularly when such correspondence is repetitive and was addressed previously in some manner; and other correspondence unrelated to the Board's corporate governance and oversight responsibilities.

### Director Attendance at Annual Meeting

The Board has directed that the Company schedule, whenever practicable, a Board meeting and any Committee meetings on the same day as the Company's Annual Meeting of Shareholders. The Board's meetings on that day will be convened or adjourned to allow all directors who are physically present for the meetings to attend the Company's Annual Meeting of Shareholders. The Company's Corporate Governance Guidelines do not require the directors to attend the Annual Meeting. Typically the Company's Annual Meeting is sparsely attended. Consequently, no director attended the 2004 Annual Meeting.

### Code of Ethics

Our Standards of Business Conduct, applicable to all corporate officers and employees, set forth the Company's expectations for the conduct of business by officers and employees. The directors have adopted and abide by the Directors Code of Ethics. Both documents are available on the Company's website, www.ralcorp.com/corporategovernance.htm. In the event the Company modifies either document or waivers of compliance are granted to officers or directors, the Company will post such modifications or waivers on its website.

**BOARD AND COMMITTEE SERVICE SUMMARY**

| Director | Board | Audit | Corporate Governance & Compensation | Executive | Attended 75% or More of Board & Applicable Committee Meetings(a) |
|---|---|---|---|---|---|
| Bill G. Armstrong | X | X | X | | (a) |
| David R. Banks | X | X* | X | | X |
| Jack W. Goodall | X | X | X* | | X |
| Kevin J. Hunt | X | | | | (a) |
| M. Darrell Ingram | X | X | X | | X |
| David W. Kemper | X | X | X | | X |
| Richard A. Liddy | X | X | X | | X |
| Joe R. Micheletto | X | | | X | X |
| David P. Skarie | X | | | | (a) |
| William P. Stiritz | X* | | X | X* | X |
| Meetings Held in FY 2004 | 8 | 6 | 3 | 6 | |

* Chair

(a) Messrs. Armstrong, Hunt and Skarie were not elected to the Board until October 2004.

## DIRECTOR COMPENSATION

All non-employee directors receive an annual retainer of $30,000. The Company's Chairman receives a retainer of $60,000. The Chairmen of the Audit Committee and Corporate Governance and Compensation Committee receive Chairman retainers of $10,000. Directors are paid $1,500 for each regular or special Board meeting, Committee meeting, telephonic meeting and consent to action without a meeting. The Company also pays the premiums on directors' and officers' liability and travel accident insurance policies insuring directors. On occasion, the Company provides directors with ski resort accommodations that the Company owns in Colorado. Non-employee directors also receive annual stock-based compensation. All awards vest at the director's termination, retirement, disability or death.



In addition, certain members of the Board receive the following:

Chairman of the Board

- Restricted stock grant with a fair market value of $50,000 each January.
- Stock option grant of 10,000 shares each September.

Vice-Chairman of the Board

- Through December 31, 2003, Mr. Micheletto received salary and benefits as an employee of Ralcorp, serving as a consultant to the Company's current Co-CEOs.
- Restricted stock grant with a fair market value of $200,000 on January 1, 2004, which vested on October 30, 2004.
- On January 1, 2004, Mr. Micheletto began receiving non-management director compensation.
- Mr. Micheletto used Company aircraft for personal use. The cost to the Company of such use was $42,872. Mr. Micheletto no longer uses the Company plane for personal use.
- Reimbursement of reasonable office expenses.
- Stock option grant of 2,500 shares each September.

Other Non-Employee Directors

- Initial stock option grant of 10,000 shares for newly elected directors.
- Stock option grant of 2,500 shares each September.

Ralcorp has a Deferred Compensation Plan for Non-Management Directors. Under this plan, any non-management director may elect to defer, with certain limitations, their retainer and fees until retirement or other termination of his directorship. Deferrals may be made in Common Stock equivalents in an Equity Option or may be made in cash under a number of funds operated by The Vanguard Group Inc. with a variety of investment strategies and objectives. Deferrals in the Equity Option receive a 33⅓% Company matching contribution. All directors have elected to defer their retainers and fees into the Equity Option.

## APPROVAL OF AMENDMENT TO 2002 INCENTIVE STOCK PLAN
### Item 2 on Proxy Card

Proposal 2 seeks shareholder approval to change Section VI. F. of the 2002 Incentive Stock Plan to provide that, when the Board authorizes, in good faith, adjustments to awards impacted by distributions to shareholders other than for regular cash dividends, the number of shares available for future awards can be increased to reflect the adjustment to outstanding awards. The effect of the amendment will be to reduce the usage of existing shares available for awards. No other changes to the Plan are proposed.

When the Company paid the $1.00 special dividend in October, 2004, the share price declined approximately 2.8%. Thus, outstanding stock options declined in value by the same amount. The Board authorized anti-dilution adjustments to outstanding options. The adjustments used 76,281 shares available for awards. Since the shares available for awards cannot be increased without shareholder approval, the

Company now has fewer shares available for stock-based compensation awards. Stock-based compensation links compensation to share performance. In the event fewer shares are available for awards, management compensation may not be tied as directly to the Common Stock share price. The following sets forth significant features of the Plan.

**What is the purpose of the Plan?**

The purpose of the Plan is to enhance the profitability and value of the Company for the benefit of its shareholders by providing stock awards to attract, retain, compensate and motivate directors, officers and other key employees who make important contributions to the success of the Company. The Plan provides for the granting of stock options, restricted stock awards and other awards payable in Common Stock to Company directors and employees, including the Named Executive Officers set forth in the compensation table on page 16.

**Where can I get a copy of the Plan?**

A copy of the Plan as proposed to be amended is contained in Appendix A to this Proxy Statement. For your convenience we have underlined the proposed changes to the Plan.

**Who administers the Plan?**

The Plan is administered by the Corporate Governance and Compensation Committee of the Board of Directors although the Board also has the authority to perform certain administrative functions and to grant awards. Terms and conditions of awards will be set forth in written agreements approved by the Committee.

**How many shares of stock can be granted?**

The Plan authorized that 1,500,000 shares of Common Stock are available for the granting of awards under the Plan. Also, shares remaining for granting awards under the previous plan were available for awards under the new Plan. Currently, 773,402 shares are available for future awards. The closing per share price of the Common Stock on December 3, 2004 was $41.99.

**Who is eligible to receive awards under the Plan?**

Any director or employee of the Company or any of its subsidiaries is eligible for an award under the Plan if selected by the Board or the Committee. There are approximately 6,000 persons employed by the Company and its subsidiaries. Subject to the provisions of the Plan, the Committee has full authority and discretion to determine the individuals to whom awards are granted and the amount and form of such awards. No determination has been made by the Board or the Committee with respect to the specific recipients or the amount or nature of any future awards under the Plan. Shares that may be granted to a single individual by the Committee are limited to 1,000,000.

**What type of Stock Options can be awarded?**

Under the Plan, the Committee is authorized (i) to grant stock options that qualify as ''Incentive Stock Options'' (''ISOs'') under Section 422 of the Code and (ii) to grant stock options that do not so qualify. Stock options cannot be granted at an option price less than the fair market value of the Common Stock at the time of grant. The Plan allows for options granted to new employees or employees who are promoted to have an exercise price equal to the fair market value of the stock on the date of hire or promotion. No stock option can be exercised more than ten years after the date such option is granted. In the case of ISOs, the aggregate fair market value of the Common Stock with respect to which options are exercisable for the first time by any recipient during any calendar year cannot, under present tax rules, exceed $100,000.

**Can the Committee grant other stock awards?**

The Committee is also authorized to grant other stock awards including, but not limited to, restricted stock awards and deferrals of an employee's cash bonus or other compensation in the form of stock equivalents under such terms and conditions as the Committee may prescribe. The shares of Common Stock that may be granted pursuant to a restricted stock award are restricted and may not be sold, pledged, transferred or otherwise disposed of until such restrictions lapse. Shares of Common Stock issued pursuant to a restricted stock award are issued for no monetary consideration. Presently, no more than 500,000 shares of Stock can be granted as Restricted Stock.



**Will shares available under the Plan be granted under any other Company compensation plan?**

The Committee has determined that the deferral of cash bonuses and other compensation under the Plan will be made in accordance with the provisions of the Deferred Compensation Plan for Key Employees. Pursuant to that plan, the Committee may, in its discretion, permit an eligible employee to defer payment of a cash bonus or other cash consideration under the Equity Option of that plan. Upon such deferral, an account in the employee's name will be credited with an appropriate number of stock equivalents. Such employee's account will be credited from time to time with dividend equivalents if dividends are paid by the Company. Distributions under the Equity Option may be made only upon the employee's retirement or other termination of employment or at an earlier date as selected in advance by the employee. Upon distribution, the employee will receive shares of Common Stock equal to the number of equivalents in such employee's vested balance account.

**Can the Plan be amended?**

The Plan provides that it may be amended by the Board, except that no such amendment can increase the number of shares of stock reserved for awards or change the terms of awards granted prior to the amendment without the consent of the recipient.

**What happens to awards in the event of changes to the Company's capitalization?**

Appropriate adjustments will be made to the number of shares available for awards and the terms of outstanding awards under the Plan to reflect any issuance by the Company of another class of common, preferred, or otherwise targeted stock, any stock split-up, spin-off, issuance of targeted stock, stock dividend, combination or reclassification with respect to any outstanding series or class of stock of the Company, the consolidation or merger of the Company with any other entity or the sale of all or substantially all of the assets of the Company or any distribution to shareholders other than for regular cash dividends.

**What are the key accounting consequences of the Plan?**

Under the Company's current accounting practices, stock options which contain no specific performance criterion and are granted with an option price at least equal to the market price of the Common Stock on the date of grant would not result in any charge against earnings of the Company either at the time of grant or upon exercise. Stock options with a performance component result in a charge to earnings if the performance criterion is met. If the options are exercised, the proceeds received will be credited to the Treasury Stock or Common Stock account and to the capital in excess of par account and the shares issued would be added to the total Common Stock outstanding. Other stock awards result in a charge against earnings. Presently, if anti-dilution adjustments are made to stock options in accordance with applicable accounting rules, the Company does not incur compensation expense.

**What awards will be received by directors or key employees?**

The Committee and the Board have the discretion to grant awards under the Plan and, as noted, no determination has been made as to specific recipients or the amount or nature of future awards to be made under the Plan. Currently, non-management directors defer all or portions of their annual cash retainer and meeting fees, receive annual stock option awards and, in the case of the Chairman of the Board, receive an annual restricted stock award (see page 11). Since benefits granted to key employees in any particular year are solely in the discretion of the Committee, we cannot predict any awards that may be granted in future years under the Plan.



**What are the tax consequences of Non-Qualified Stock Options?**

Stock options issued under the Plan which do not satisfy the requirements of Section 422 of the Code have the following tax consequences:

1. the optionee will have ordinary income at the time the option is exercised in an amount equal to the excess of the fair market value of the Common Stock acquired at the date of exercise over the option price;
2. the Company will have a deductible expense in an amount equal to the ordinary income of the optionee;
3. no amount other than the price paid upon exercise of the option shall be considered as received by the Company for shares so transferred; and
4. any gain from the subsequent sale of the shares of Common Stock acquired upon exercise for an amount in excess of fair market value on the date the option is exercised will be capital gain and any loss will be capital loss.

**What are the tax consequences of Incentive Stock Options?**

Stock options to be issued under the Plan as ISOs will satisfy the requirements of Section 422 of the Code. Under the provisions of that section, the optionee will not be deemed to receive any income at the time an ISO is granted or exercised. If the optionee disposes of the shares of Common Stock acquired more than two years after the grant and one year after the exercise of the ISO, the gain, if any (i.e., the excess of the amount realized for the share over the option price) will be long-term capital gain. If the optionee disposes of the shares acquired on exercise of an ISO within two years after the date of grant or within one year after the exercise of the ISO, the disposition will constitute a ''disqualifying disposition'' and the optionee will have ordinary income in the year of the disqualifying disposition equal to the fair market value of the stock on the date of exercise minus the option price. The excess of the amount received for the shares over the fair market value at the time of exercise will be short-term capital gain if the shares are disposed of within one year after the ISO is exercised, or long-term capital gain if the shares are disposed of more than one year after the ISO is exercised. If the optionee disposes of the shares in a disqualifying disposition, and such disposition is a sale or exchange which would result in a loss to the optionee, then the amount treated as ordinary income shall not exceed the excess (if any) of the amount realized on such sale or exchange over the adjusted basis of such shares.

The Company is not entitled to a deduction as a result of the grant or exercise of an ISO. If the optionee has ordinary income as a result of a disqualifying disposition, the Company will have a corresponding deductible expense in an equivalent amount in the taxable year of the Company in which the disqualifying disposition occurs.

The difference between the fair market value of the option at the time of exercise and the option price is a tax preference item for alternative minimum tax purposes. The basis in stock acquired upon exercise of an ISO for alternative minimum tax purposes is increased by the amount of the preference.

**What are the tax consequences of other stock awards?**

In general, a recipient of other stock awards, including stock equivalents pursuant to the Deferred Compensation Plan for Key Employees, but excluding restricted stock awards (see below), will have ordinary income equal to the cash or fair market value of the Common Stock on the date received in the year in which the award is actually paid. The Company will have a corresponding deductible expense in an amount equal to that reported by the recipient as ordinary income in the same year so reported. The recipient's basis in the stock received will be equal to the fair market value of the Common Stock when received and his or her holding period will begin on that date.

Restricted stock awards do not constitute taxable income under existing federal tax law until such time as restrictions lapse with respect to any installment. When any installment of shares are released from restriction, the market value of such shares of Common Stock on the date the restrictions lapse constitutes income to the recipient in that year and is taxable at ordinary income rates.

The Code, however, permits a recipient of a restricted stock award to elect to have the award treated as taxable income in the year of the award and to pay tax at ordinary income tax rates on the fair market value of all of the shares awarded based on the price of the shares on the date the recipient receives a beneficial interest in such shares. The election must be made promptly within time limits prescribed by the Code and the regulations thereunder. Any appreciation in value thereafter would be taxed at capital gain rates when the restrictions lapse and the stock is subsequently sold. However, should the market value of the stock, at the time the restrictions lapse and the stock is sold, be lower than at the date acquired, the recipient would have a capital loss, to the extent of the difference. In addition, if, after electing to pay tax on the award in the year received, the recipient subsequently forfeits the award for any reason, the tax previously paid is not recoverable. Since the lapse of restrictions on restricted stock awards is accelerated in the event of a change in control of the Company, such acceleration may result in an excess parachute payment, as defined in Section 280G of the Code. In such event, the Company's deduction with respect to such excess parachute payment is denied and the recipient is subject to a nondeductible 20% excise tax on such excess parachute.



**When does the Plan expire?**

The Committee may grant awards under the Plan until January 31, 2012. The Plan will remain effective with respect to all awards granted prior to expiration.

**What vote is required to approve the amendment to the Plan?**

The affirmative vote of a majority of the shares entitled to vote and present (in person or by proxy) is required for approval.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ITEM 2, APPROVAL OF THE AMENDMENT TO THE 2002 INCENTIVE STOCK PLAN.**

## EXECUTIVE COMPENSATION

### Summary Compensation Table

| Name and Principal Position | Year | Annual Compensation: Salary($) | Annual Compensation: Bonus($) | Annual Compensation: Other Annual Compensation ($)(5) | Long-Term Compensation Compensation Awards: Restricted Stock Award(s) ($)(4) | Long-Term Compensation Compensation Awards: Securities Underlying Options/ SARs (#) | All Other Compensation ($)(1) |
|---|---|---|---|---|---|---|---|
| K. J. Hunt Co-CEO & President | 2004 | 350,000 | 348,000 | 4,756 | 1,071,000 | 50,000 | 34,035 |
| | 2003 | 237,504 | 185,000 | 0 | 0 | 30,000 | 15,676 |
| | 2002 | 216,300 | 120,000 | 1,288 | 0 | 30,000 | 10,449 |
| D. P. Skarie Co-CEO & President | 2004 | 350,000 | 375,000 | 1,616 | 1,071,000 | 50,000 | 39,375 |
| | 2003 | 229,008 | 185,000 | 0 | 0 | 30,000 | 10,741 |
| | 2002 | 210,000 | 137,000 | 0 | 0 | 30,000 | 10,335 |
| D. L. Beré(2) Corporate VP & CEO Bakery Chef | 2004 | 285,100 | 80,649 | 0 | 0 | 25,000 | 0 |
| R. R. Koulouris Corporate VP & President of Bremner Inc. & Nutcracker Brands, Inc.(3) | 2004 | 189,798 | 97,500 | 0 | 535,500 | 23,000 | 93,351 |
| R. D. Wilkinson Corporate VP & Director of Product Supply of Ralston Foods and The Carriage House Companies, Inc. | 2004 | 208,000 | 126,000 | 0 | 535,500 | 23,000 | 8,580 |
| | 2003 | 200,508 | 125,000 | 0 | 0 | 23,000 | 7,558 |
| | 2002 | 193,308 | 114,600 | 0 | 0 | 23,000 | 7,299 |

(1) The amounts shown in this column consist of the following for fiscal years 2004, 2003 and 2002:

- Company Matching Contributions or Accruals to the Company's SIP and Executive SIP:

| | Fiscal Year 2004 | Fiscal Year 2003 | Fiscal Year 2002 |
|---|---|---|---|
| Mr. Hunt | $ 34,035 | $ 13,071 | $ 10,449 |
| Mr. Skarie | $ 39,375 | $ 9,243 | $ 10,335 |
| Mr. Koulouris | $ 15,512 | (3) | (3) |
| Mr. Wilkinson | $ 8,580 | $ 6,015 | $ 7,299 |

- Company reimbursement for relocation costs: Mr. Koulouris for fiscal year 2004, $77,839.

(2) Mr. Beré became a Corporate Officer on December 3, 2003.

(3) Mr. Koulouris became a Corporate Officer on November 6, 2003.

(4) Restricted stock awards are valued by multiplying the closing market price of the Common Stock on the date of grant by the number of shares awarded. The Company pays dividends on shares of restricted stock at the same rate, if any, as paid to all Shareholders. Dividends are held in an account bearing interest at the prime rate until restrictions lapse. The restrictions lapse as follows: one-third on September 24 in 2011, 2012 and 2013. The number of shares of restricted stock awarded are as follows: Mr. Hunt - 30,000; Mr. Skarie - 30,000; Mr. Koulouris - 15,000; and Mr. Wilkinson - 15,000.

(5) Amounts reflect reimbursement for taxes associated with spouse/immediate family accompaniment on business travel. Consistent with applicable regulations, this column does not include perquisites that when aggregated did not exceed the lesser of $50,000 or 10% of any such officer's salary and bonus.

### Option Grants in Last Fiscal Year

| Name | Individual Grants: Number of Securities Underlying Options Granted(#)(1) | % of Total Options Granted to Employees in Fiscal Year(2) | Exercise or Base Price ($/Sh) | Expiration Date | Grant Date Value: Grant Date Present Value($)(3) |
|---|---|---|---|---|---|
| K. J. Hunt | 50,000 | 12.0 | 32.30 | 2/4/14 | 727,850 |
| D. P. Skarie | 50,000 | 12.0 | 32.30 | 2/4/14 | 727,850 |
| D. L. Beré | 25,000 | 6.0 | 32.30 | 2/4/14 | 363,925 |
| R. R. Koulouris | 23,000 | 5.5 | 32.30 | 2/4/14 | 334,811 |
| R. D. Wilkinson | 23,000 | 5.5 | 32.30 | 2/4/14 | 334,811 |

(1) 25% of the total shares become exercisable on February 5 of 2007, 2008, 2009 and 2010 respectively.

(2) The number of options granted to all employees in fiscal year 2004 was 419,000.

(3) Grant date valuation amounts were determined by application of the Black-Scholes valuation method. Assumptions used were as follows: (i) interest rate equals the interpolated grant date Treasury rate for a term equal to the expected life of each option (averaging 3.75%); (ii) dividend yield equals 0%; (iii) expected volatility at grant date equals 35.06%; and (iv) expected exercise date equals the midpoint between the date exercisable and the expiration date.

### Aggregated Option Exercises in Last Fiscal Year And Fiscal Year-End Option Values

| Name | Shares Acquired on Exercise (#) | Value Realized($) | Number of Securities Underlying Unexercised Options at FY-End(#) | | Value of Unexercised In-the-Money Options at FY-End($) | |
|---|---|---|---|---|---|---|
| | | | Exercisable | Unexercisable | Exercisable | Unexercisable |
| K. J. Hunt | 0 | 0 | 67,700 | 163,800 | 1,400,091 | 1,940,948 |
| D. P. Skarie | 0 | 0 | 43,000 | 157,750 | 834,897 | 1,831,347 |
| D. L. Beré | 0 | 0 | 0 | 25,000 | 0 | 85,000 |
| R. R. Koulouris | 0 | 0 | 12,625 | 49,250 | 243,916 | 492,075 |
| R. D. Wilkinson | 27,244 | 506,167 | 35,500 | 113,000 | 681,679 | 1,491,017 |

### Long-Term Incentive Plans - Awards in Last Fiscal Year

| Name | Number of Shares, Units or Other Rights(#) | Performance or Other Period Until Maturation or Payout | Estimated Future Payouts Under Non-Stock Price-Based Plans | | |
|---|---|---|---|---|---|
| | | | Threshold ($ or #) | Target ($ or #) | Maximum ($ or #) |
| K. J. Hunt | 0 | 0 | $0 | $0 | $0 |
| D. P. Skarie | 0 | 0 | 0 | 0 | 0 |
| D. L. Beré | (1) | 3 years | 100,000 | 0 | 400,000 |
| R. R. Koulouris | 0 | 0 | 0 | 0 | 0 |
| R. D. Wilkinson | 0 | 0 | 0 | 0 | 0 |

(1) In September 2004, the Board of Directors awarded Mr. Beré a long-term special cash bonus. Under this program, Mr. Beré may receive a special cash bonus of $100,000, $200,000 or $400,000 based upon the achievement of certain pre-determined performance targets for the Company's frozen bakery products segment. The payment date for any award amount earned under the program will be November 15, 2007. In order to be eligible to receive an award under the program, Mr. Beré must be considered an active employee of the Company on the payment date.

## Equity Plan Compensation Information For Fiscal-Year End

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options | Weighted Average of Exercise Price of Outstanding Options ($) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column a) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 2,681,457 | 20.65 | 933,683(1) |
| Equity compensation plans not approved by security holders | 0 | 0 | 0 |
| Total (2) | 2,681,457 | 20.65 | 933,683 |

(1) Approximately 84,000 shares of this number are reserved for issuance under the equity option of the Company's Deferred Compensation Plan for Key Employees. This amount equals the dollar value of previous deferrals of income by executive officers and key employees.

(2) Does not include the 76,281 shares issued under the 2002 Incentive Stock Plan's antidilution provision in connection with the Special Dividend paid on October 22, 2004.

## EXECUTIVE AGREEMENTS

The Company has Management Continuity Agreements with the Named Executive Officers and each of the other corporate officers. The agreements provide severance compensation to each corporate officer in the event of the officer's voluntary or involuntary termination after a change-in-control of the Company. The compensation provided would be in the form of a lump sum payment equal to the present value of continuing the executive officer's salary and bonus for a specified period following the executive officer's termination of employment, and the continuation of other executive benefits for the same period. The initial applicable period is three years in the event of an involuntary termination of employment (including a constructive termination) and one year in the event of a voluntary termination of employment.

No payments would be made if the executive officer's termination is due to death, disability or normal retirement, or is ''for cause,'' nor would any payments continue beyond the executive officer's normal retirement date. Contracts governing stock options and restricted stock provide that upon a change-in-control of the Company, any unexercised, unvested, unearned restricted or unpaid shares become 100% vested. The agreements provide that executives with a Management Continuity Agreement be indemnified from any tax under Section 4999 and Section 280G of the Internal Revenue Code of 1986, as amended, that is attributable to a parachute payment under the Code and any tax upon the payment of such amounts.

## RETIREMENT PLAN

The Ralcorp Retirement Plan may provide pension benefits in the future to the named executive officers. Certain regular U.S. employees having one year of service with the Company or certain Company subsidiaries are eligible to participate in the Retirement Plan. Employees become vested after five years of service. Normal retirement is at age 65; however, employees who work beyond age 65 may continue to accrue benefits.

Annual benefits are computed by multiplying the participant's Final Average Earnings (average of participant's five highest consecutive annual earnings during ten years prior to retirement or earlier termination) by the product of 1.5% times the participant's years of service (to a maximum of 40 years) and by subtracting from that amount up to one half of the participant's primary social security benefit at retirement (with the actual amount of offset determined by age and years of service at retirement).

The following table shows the estimated annual retirement benefits that would be payable from the Retirement Plan to salaried employees, including the named executive officers, assuming age 65 retirement. To the extent an employee's compensation or benefits exceed certain limits imposed by the Internal

Revenue Code of 1986, as amended, the table also includes benefits payable from an unfunded supplemental retirement plan. The table reflects benefits prior to the subtraction of social security benefits as described above. Effective December 31, 2003, the Company froze retirement benefits for administrative employees including corporate officers. Consequently, they no longer accrue defined pension benefits.

### PENSION PLAN TABLE

| Remuneration (Final Average Earnings) | Years of Service | | | | | | |
|---|---|---|---|---|---|---|---|
| | 10 | 15 | 20 | 25 | 30 | 35 | 40 |
| $ 100,000 | $ 15,000 | $ 22,500 | $ 30,000 | $ 37,500 | $ 45,000 | $ 52,500 | $ 60,000 |
| $ 200,000 | $ 30,000 | $ 45,000 | $ 60,000 | $ 75,000 | $ 90,000 | $105,000 | $120,000 |
| $ 300,000 | $ 45,000 | $ 67,500 | $ 90,000 | $112,500 | $135,000 | $157,500 | $180,000 |
| $ 400,000 | $ 60,000 | $ 90,000 | $120,000 | $150,000 | $180,000 | $210,000 | $240,000 |
| $ 500,000 | $ 75,000 | $112,500 | $150,000 | $187,500 | $225,000 | $262,500 | $300,000 |
| $ 600,000 | $ 90,000 | $135,000 | $180,000 | $225,000 | $270,000 | $315,000 | $360,000 |
| $ 700,000 | $105,000 | $157,500 | $210,000 | $262,500 | $315,000 | $367,500 | $420,000 |
| $ 800,000 | $120,000 | $180,000 | $240,000 | $300,000 | $360,000 | $420,000 | $480,000 |
| $ 900,000 | $135,000 | $202,500 | $270,000 | $337,500 | $405,000 | $472,500 | $540,000 |
| $1,000,000 | $150,000 | $225,000 | $300,000 | $375,000 | $450,000 | $525,000 | $600,000 |

For the purpose of calculating retirement benefits, the Named Executive Officers had, as of September 30, 2004, the following years of credited service, calculated to the nearest year: Mr. Hunt—18 years; Mr. Skarie—18 years; Mr. Koulouris—24 years; and Mr. Wilkinson—8 years. Credited service includes service with Ralston Purina Company, the Company's former parent corporation. Earnings used in calculating benefits under the Retirement Plan and any unfunded supplemental retirement plan previously described are approximately equal to amounts included in the Salary and Bonus columns in the Summary Compensation Table on page 16.

***Other Benefit Plans***

Beneficiaries of eligible retired executive officers will be provided a death benefit in an amount equal to 50% of the earnings recognized under the Company's benefit plans for the executive officer during the last full year of employment. This benefit is not presently insured or funded.

In addition, the Executive Long-Term Disability Plan would provide benefits to its corporate officers, including certain executive officers, in the event they become disabled. The Long-Term Disability Plan, which is available to certain regular employees of the Company and in which officers must participate at their own expense in order to be eligible for the Executive Long-Term Disability Plan, imposes a limit of $10,000 per month (60% of a maximum annual salary of $200,000) on the amount paid to a disabled employee. The Executive Long-Term Disability Plan will provide a supplemental benefit equal to 60% of the difference between the executive officer's previous year's earnings recognized under the Company's benefit plans and $200,000, with appropriate taxes withheld.

## CORPORATE GOVERNANCE AND COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Corporate Governance and Compensation Committee consists entirely of independent directors. It approves direct and indirect compensation of all executive officers, administers and makes awards under the Company's existing Incentive Stock Plan. Stock-based awards such as stock options and restricted stock may be granted under that Plan to officers and other key employees of the Company.

### Compensation Philosophy

The Company's executive compensation program is designed to provide total compensation that can attract, retain and motivate key employees. The Committee's intent is to provide overall cash compensation packages that have a greater ''at risk'' element than competitive norms, i.e., salaries below industry medians and performance-based bonuses which may permit recipients to achieve total cash compensation packages exceeding medians. The Committee generally reviews executive officer compensation including salaries, bonuses and any long-term compensation each September near the end of the Company's fiscal year.

### Salaries

The Committee establishes the salaries for executive officers based on its assessment of each individual's responsibilities, experience, individual performance and contribution to the Company's performance. The Committee also takes into account compensation data from other companies; length of service in current position and with the Company overall, historical compensation levels at the Company; the competitive environment for attracting and retaining executives; entitlement to employee retirement benefits (pension, 401k, etc.) and the recommendation of Messrs. Hunt and Skarie, except with respect to their own compensation. The Company attempts to set base salary levels at or below the median level for executives holding positions of similar responsibility and complexity at corporations as reflected in published surveys. The salaries and other compensation information for the Company's Named Executive Officers are set forth in the Summary Compensation Table on page 16.

### Bonuses

On September 23, 2004, the Committee awarded bonuses to all but one of the Named Executive Officers for the Company's 2004 fiscal year. The amount of each such bonus was based on the officer's total compensation package including salary, bonus, stock options, and long-term stock based awards; the financial performance of the officer's business unit relative to the business plan (including such measures as sales volume, revenues, costs, cash flow and operating profit); Company financial performance (including the measures of business unit performance listed above and, in addition, earnings per share); the officer's individual performance (including the quality of strategic plans, organizational and management development, participation in evaluations of potential acquisitions and similar manifestations of individual performance); and the business environment for the officer's business unit. With the exception of their own bonuses, the Committee considered recommendations of Messrs. Hunt and Skarie, which were based on bonus targets (as a percent of salary) set prior to the beginning of the fiscal year. Mr. Beré was paid a bonus under the terms of the Bakery Chef bonus plan in place at the time of the acquisition in December 2003.

Although the foregoing factors were weighed heavily by the Committee, individual bonuses and the total bonus pool were not based on application of a strict numerical formula developed prior to the fiscal year, but were based on the Committee's exercise of subjective judgment and discretion in light of the quantitative and qualitative factors listed above. Each of Messrs. Hunt's and Skarie's bonus was based on the Committee's general assessment of the factors described above as well as their leadership in completing and managing the integration of key acquisitions during the year.

### Long-Term Compensation

Long-term compensation currently consists of stock options and restricted stock awards (or a long-term cash incentive for Mr. Beré). Stock options entitle the recipient to purchase a specified number of shares of the Company's Common Stock after a specified period of time at an option price, which is ordinarily equal to the fair market value of the Common Stock at the time of grant. They provide executives with an opportunity to buy and maintain an equity interest in the Company while linking the executive's compensation directly to shareholder value since the executive receives no benefit from the option unless all shareholders have benefited from an appreciation in the value of the Common Stock. In addition, since the options ''vest'' serially over a period of time after the date of grant (usually three to six years), they enhance the ability of the Company to retain the executive while encouraging the executive to take a longer-term view on decisions impacting the Company. Stock options were awarded in February 2004. The amount awarded to each Company officer was recommended by Messrs. Hunt and Skarie after consultation with the Committee's Chairman. With respect to each of Messrs. Hunt and Skarie, the Committee authorized a stock option award of 50,000 shares. The amount reflected the increase in their responsibilities but was significantly lower than option awards granted to their predecessor. Long-term restricted stock awards were granted to all but one corporate officer in September 2004. The amounts awarded were recommended by Messrs. Hunt and Skarie after consultation with the Committee's Chairman. The awards were designed to link compensation to long-term share price performance. Consequently, the awards do not begin vesting until 2011.



**Additional Information**

In September 2004, we retained an independent consulting firm to study existing salary, bonus and stock based compensation paid to corporate officers. The results confirmed that, after giving effect to the 2004 restricted stock awards, total direct compensation (salary, bonus and present value of long-term incentives) for corporate officers was consistent with or below median market levels. With respect to Messrs. Hunt and Skarie, the analysis compared their total direct compensation against that of the Chief Operating Officer at other companies using published data and an average of the first and second highest paid individuals against a publicly-traded peer group. The peer group was comprised of twelve U.S.-based publicly traded food companies with revenue ranging from $422 million to $3.8 billion.

**Deductibility of Certain Executive Compensation**

A feature of the Omnibus Budget Reconciliation Act of 1993 sets a limit on deductible compensation of $1,000,000 per person, per year for the Chief Executive Officer and the next four highest-paid executives. While it is the general intention of the Committee to meet the requirements for deductibility, the Committee may, in the exercise of its judgment, approve payment of compensation from time to time that may not be fully deductible. The Committee believes this flexibility will enable it to respond to changing business conditions, or to an executive's exceptional individual performance. The Committee will continue to review and monitor its policy with respect to the deductibility of compensation.

| | | |
|---|---|---|
| J. W. Goodall—*Chairman* | M. D. Ingram | D. W. Kemper |
| D. R. Banks | R. A. Liddy | W. P. Stiritz |

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The members of the Corporate Governance and Compensation Committee are listed on page 10 under the heading ''Board and Committee Service Summary.'' Mr. Micheletto, Vice-Chairman of the Board of Directors of Ralcorp and its former Chief Executive Officer and President, serves on the Board of Directors of Energizer Holdings, Inc. During the Company's fiscal year, he sat on Energizer's Executive and Finance Committees. On December 8, 2003, he ended his service on Energizer's Nominating and Executive Compensation Committee. Mr. Stiritz, the Chairman of the Board of Energizer Holdings, Inc. and Chairman of its Management Strategy and Finance Committee, serves on Ralcorp's Board of Directors and sits on its Corporate Governance and Compensation Committee.

## AUDIT COMMITTEE REPORT

The Board has determined, in its judgment, that the Audit Committee is comprised solely of independent directors as defined in the NYSE listing standards, Rule 10A-3 of the Securities Exchange Act of 1934 and the Company's Corporate Governance Guidelines. The Audit Committee operates under a written charter, adopted by the entire Board, which is available on the Company's website at www.ralcorp.com/corporategovernance.htm.

Management is responsible for the Company's internal controls, financial reporting process and compliance with laws and regulations and ethical business standards. The independent accountants are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board and issuing a report thereon. Ernst & Young, LLP, the Company's internal auditor, assists the Audit Committee with its responsibility to monitor and oversee these processes and internal controls. The Committee discussed with the Company's internal and independent auditors the overall scopes and plans for their respective audits. The Committee met, at least quarterly, with the internal and independent auditors, with and without management present, and discussed the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

With respect to the Company's audited financial statements for the Company's fiscal year ended September 30, 2004, management of the Company has represented to the Committee that the financial statements were prepared in accordance with generally accepted accounting principles and the Committee has reviewed and discussed those financial statements with management. The Audit Committee has also discussed with PricewaterhouseCoopers LLP, the Company's independent accountants, the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees) as modified or supplemented.

The Audit Committee has received the written disclosures from PricewaterhouseCoopers required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as modified or supplemented, and has discussed the independence of PricewaterhouseCoopers with members of that firm.

Based on the review and discussions referred to above, the Audit Committee recommended to the Company's Board of Directors that the audited consolidated financial statements for the fiscal year ended September 30, 2004, be included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for that year.

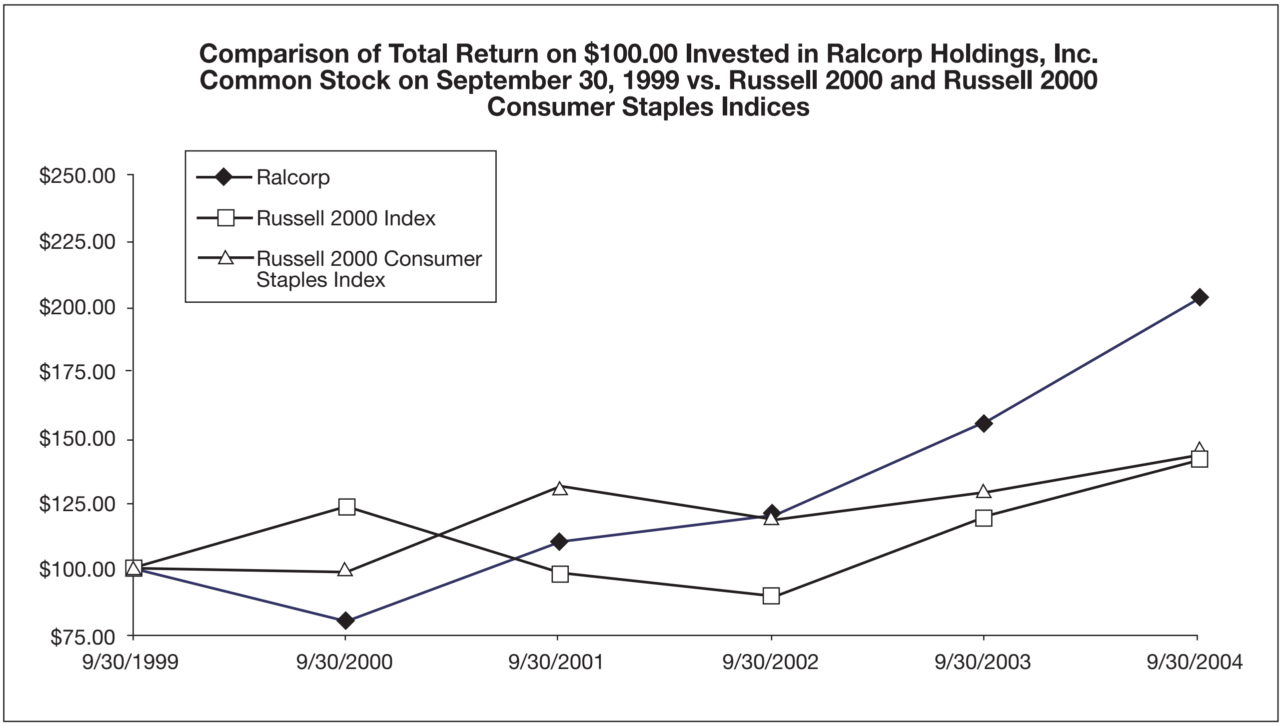
| | | |
|---|---|---|
| D. R. Banks—*Chairman* | M. D. Ingram | R. A. Liddy |
| J. W. Goodall | D. W. Kemper | |

## OTHER RELATIONSHIPS INVOLVING DIRECTORS, OFFICERS, OR THEIR ASSOCIATES

Mr. Kemper is Chairman, President and Chief Executive Officer of Commerce Bancshares, Inc., which is one of eight banks that participate in the Company's committed credit facility. Commerce Bancshares' lending commitment under that facility in Fiscal 2004 was limited to $25 million out of a total syndicate commitment of $275 million. During the fiscal year, the Company paid approximately $21,000 in interest to Commerce Bancshares, Inc. The Company's corporate credit card program is administered through Commerce Bancshares, Inc., but there is no charge made to or fee paid by the Company for this service.

## STOCK PERFORMANCE GRAPH

The following performance graph compares the changes, for the period indicated, in the cumulative total value of $100 hypothetically invested in each of (a) Ralcorp Common Stock, (b) the Russell 2000 Index, and (c) the Russell 2000 Consumer Staples Index.




### Graph Data Points

| | Ralcorp ($) | Russell 2000 Index ($) | Russell 2000 Consumer Staples Index ($) |
|---|---|---|---|
| 9/30/1999 | 100.00 | 100.00 | 100.00 |
| 9/30/2000 | 79.86 | 123.55 | 98.77 |
| 9/30/2001 | 110.02 | 98.09 | 131.29 |
| 9/30/2002 | 120.25 | 89.58 | 118.69 |
| 9/30/2003 | 156.61 | 120.28 | 129.29 |
| 9/30/2004 | 204.10 | 141.72 | 143.44 |

## OTHER MATTERS

### Proxy Solicitation

Ralcorp has paid for preparing this Proxy Statement and the Proxy Card. Ralcorp will also pay for the solicitation of proxies. The Company hired Georgeson Shareholder Communications Inc. to assist in the solicitation of proxies for a fee of $9,000 plus expenses. Ralcorp will reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for costs, including postage and handling, reasonably incurred by them in sending proxy materials to the beneficial owners of Ralcorp's Common Stock. In addition to the use of the mail, employees of the Company may make proxy solicitations, via telephone or personal contact.

**Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP acted as Ralcorp's independent accountants for fiscal year 2004 and has served in that capacity since 1994. The Board, upon the recommendation of the Audit Committee, appointed PricewaterhouseCoopers as independent accountants for the current fiscal year. A representative of that firm will be present at the Annual Meeting, will have an opportunity to make a statement, if they desire, and will be available to respond to appropriate questions.



**Fees Paid to PricewaterhouseCoopers LLC**

The following fees were paid for audit services rendered in conjunction with reviewing and auditing the Company's fiscal years 2003 and 2004 financial statements and for other services during those fiscal years:

| | FY 2003 | FY 2004 |
|---|---|---|
| Audit Fees | $390,000 | $556,500 |
| Audit-Related Fees | $ 15,000 | $ 66,700 |
| Tax Fees | $ 0 | $ 0 |
| All Other Fees | $ 1,400 | $ 1,400 |

The "Audit-Related Fees" paid for fiscal years 2003 and 2004 were for audits of employee benefit plans. For Fiscal 2004, audit-related fees also included assistance related to compliance with Section 404 of the Sarbanes-Oxley Act of 2002 covering reporting on internal controls over financial reporting. "All Other Fees" included amounts paid for the use of a proprietary accounting research database.

With regard to the fees listed above, the Audit Committee has considered whether the provision by PricewaterhouseCoopers of services other than audit services is compatible with its ability to maintain its independence. Regardless of the size or nature of the other services, if any, to be provided, it is the Audit Committee's policy and practice to approve any services not under the heading "Audit Fees" before any such other services are undertaken. The audit performed on behalf of the Company was staffed primarily by full-time, permanent employees of PricewaterhouseCoopers.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Executive officers and directors of Ralcorp are required under the Securities Exchange Act of 1934 to file reports of ownership and changes in ownership of Ralcorp Common Stock with the Securities and Exchange Commission and the New York Stock Exchange. Copies of those reports must also be furnished to Ralcorp.

Based solely on a review of copies of those reports, other documents furnished to Ralcorp and written representations that no other reports were required, Ralcorp believes that all filing requirements applicable to executive officers and directors have been complied with during the preceding fiscal year except that Ronald D. Wilkinson filed late one report for two transactions.

**Shareholder Proposals for 2006 Meeting**

Under the Company's Bylaws, shareholders who desire to nominate a director or present any other business at an Annual Meeting of Shareholders must follow certain procedures. Generally, to be considered at the 2006 Annual Meeting of Shareholders, a shareholder nomination or proposal not to be included in the Proxy Statement and Notice of Meeting must be received by the Company's Secretary between November 4, 2005, and December 4, 2005. However, if the shareholder desires that the proposal be included in the Company's Proxy Statement and Notice of Meeting for the 2006 Annual Meeting of Shareholders then it must be received by the Secretary of the Company no later than August 22, 2005 and must also comply in all respects with the rules and regulations of the Securities and Exchange Commission (SEC) and the laws of the State of Missouri. A copy of the Bylaws will be furnished to any shareholder without charge upon written request to the Company's Secretary.

**Form 10-K and Other Filings**

Upon written request and at no charge, the Company will provide a copy of any of its filings with the SEC, including its Annual Report on Form 10-K, with financial statements and schedules for its most recent fiscal year. The Company may impose a reasonable fee for expenses associated with providing copies of separate exhibits to the report when such exhibits are requested. These documents are also available on the Company's website, http://www.ralcorp.com, and the SEC's website, http://www.sec.gov.



**Householding**

SEC rules allow delivery of a single annual report and proxy statement to households at which two or more shareholders reside. Accordingly, shareholders sharing an address who have been previously notified by their broker or its intermediary will receive only one copy of the annual report and proxy statement, unless the shareholder has provided contrary instructions. Individual proxy cards or voting instruction forms (or electronic voting facilities) will, however, continue to be provided for each shareholder account. This procedure, referred to as ''householding,'' reduces the volume of duplicate information received by shareholders, as well as the Company's expenses. Shareholders having multiple accounts may have received householding notifications from their respective brokers and, consequently, such shareholders may receive only one proxy statement and annual report. Shareholders who prefer to receive separate copies of the proxy statement and annual report, either now or in the future, may request to receive separate copies of the proxy statement and annual report by notifying the Company's Secretary. Shareholders currently sharing an address with another shareholder who wish to have only one proxy statement and annual report delivered to the household in the future should also contact the Company's Secretary.

**Notices, Requests or Communications with Directors**

Any notice or request discussed above, or any communication intended for any member or members of the Company's Board of Directors, should be directed to the Company's Secretary, Ralcorp Holdings, Inc., 800 Market Street, Suite 2900, St. Louis, Missouri 63101. The Company's Secretary will forward the communication to the designated member or members of the Company's Board of Directors.

By Order of the Board of Directors,

Charles G. Huber, Jr.
*Secretary*

December 14, 2004

**APPENDIX A**

# RALCORP HOLDINGS, INC.

## AMENDED AND RESTATED
## 2002 INCENTIVE STOCK PLAN

### Section I. General Provisions

**A. Purpose of Plan**

The purpose of the Amended and Restated 2002 Ralcorp Incentive Stock Plan (the ''Plan'') is to enhance the profitability and value of the Company for the benefit of its shareholders by providing for stock options and other stock awards to attract, retain and motivate directors, officers and other key employees who make important contributions to the success of the Company.

**B. Definitions of Terms as Used in the Plan**

1. *''Affiliate''* means any subsidiary, whether directly or indirectly owned, or parent of the Company, or any other entity designated by the Committee.
2. *''Award''* means a Stock Option granted under Section II of the Plan or Other Stock Award granted under Section III of the Plan.
3. *''Board''* means the Board of Directors of Ralcorp Holdings, Inc.
4. *''Committee''* means the Nominating and Compensation Committee of the Board of Directors of the Company or any successor committee the Board of Directors may designate to administer the Plan.
5. *''Company''* means Ralcorp Holdings, Inc.
6. *''Employee''* means any person who is employed by the Company or an Affiliate.
7. *''Fair Market Value''* of any class or series of Stock means the fair and reasonable value thereof as determined by the Committee according to prices in trades as reported on the New York Stock Exchange-Composite Transactions. If there are no prices so reported or if, in the opinion of the Committee, such reported prices do not represent the fair and reasonable value of the Stock, then the Committee shall determine Fair Market Value by any means it deems reasonable under the circumstances.
8. *''Stock''* means the Ralcorp Common Stock $.01 par value or any other authorized class or series of common stock or any such other security outstanding upon the reclassification of any of such classes or series of common stock, including, without limitation, any stock split-up, stock dividend, creation of targeted stock, spin-off or other distributions of stock in respect of stock, or any reverse stock split-up, or recapitalization of the Company or any merger or consolidation of the Company with any Affiliate.

**C. Scope of Plan and Eligibility**

Any Employee or director selected by the Board or Committee shall be eligible for any Award contemplated under the Plan.

**D. Authorization and Reservation**

The shares of Stock for which Awards may be granted under the Plan shall be subject to the following:

(a) the shares of Stock with respect to which Awards may be made under the Plan shall be shares currently authorized but unissued or currently held or subsequently acquired by the Company as treasury shares, including shares purchased in the open market or in private transactions;

(b) subject to the following provisions of Paragraph D, the maximum number of shares of stock that may be delivered to participants and their beneficiaries under the Plan shall be equal to the sum of:

(i) 1,500,000 shares of Stock; (ii) any shares of Stock available for future awards under any prior plan of the Company (the ''Prior Plan'') as of the effective date of this Plan; and (iii) any shares of Stock that are forfeited, expire or are canceled without delivery of shares of Stock or which result in the forfeiture of shares of Stock back to the Company under the Plan or the Prior Plan;

(c) to the extent any shares of Stock covered by an Award are not delivered to an Award recipient or beneficiary because the Award is forfeited or canceled or the shares of Stock are not delivered because the shares are used to satisfy the applicable tax withholding obligation, such shares shall not be deemed to have been delivered for purpose of determining the maximum number of shares of Stock available for delivery of the Plan;

(d) if the exercise price of any Stock Option granted under the Plan or all Prior Plans is satisfied by tendering shares of Stock to the Company, only the number of shares of Stock issued net of the shares of Stock tendered shall be deemed delivered for purposes of determining the maximum number of shares of Stock available under the Plan; and

(e) the total number of shares of Stock that may be issued to any one participant during the term of Plan shall not exceed 1,000,000 shares of Stock.

**E. Administration of the Plan**

1. The Committee shall administer the Plan and, in connection therewith, it shall have full power to grant Awards, construe and interpret the Plan, establish rules and regulations and perform all other acts it believes reasonable and proper, including the power to delegate responsibility to others to assist it in administering the Plan.
2. The Committee shall include three or more members of the Board of the Company. Its members shall be appointed by and serve at the pleasure of the Board.
3. The determination of those eligible to receive Awards, and the amount and type of each Award shall rest in the sole discretion of the Committee or the Board, subject to the provisions of the Plan.

## Section II. Stock Options

**A. Description**

The Committee or the Board may grant options with respect to any class or series of Stock (''Stock Options'') that qualify as ''Incentive Stock Options'' under Section 422 of the Internal Revenue Code of 1986, as amended, and it may grant Stock Options that do not so qualify.

**B. Terms and Conditions**

1. Each Stock Option shall be set forth in a written agreement containing such terms and conditions as the Committee or the Board may determine, subject to the provisions of the Plan.
2. Except as set forth below in this paragraph, the purchase price of any shares exercised under any Stock Option must be paid in full upon such exercise. The payment shall be made in such form, which may be cash or Stock, as the Committee or the Board may determine. The Committee may permit a participant to pay the exercise price upon the exercise of a Stock Option by irrevocably authorizing a third party to sell shares of Stock (or a sufficient portion of shares) acquired upon exercise of the Stock Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire exercise price and any tax withholding resulting from such exercise.
3. No Incentive Stock Option may be exercised after the expiration of ten (10) years from the date such option is granted.

4. The exercise price of each Stock Option shall be established by the Committee or shall be determined by a method established by the Committee at the time the Stock Option is granted. The exercise price shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant of the Award; provided, however, that if the Award is granted in connection with the recipient's hiring, promotion or similar event, the Stock Option exercise price may not be less than the Fair Market Value of the Stock on the date on which the recipient is hired or promoted (or similar event) if the grant of the Stock Option occurs not more than 180 days after the date of such hiring, promotion or other event.

5. In the case of an Incentive Stock Option, the aggregate Fair Market Value (determined as of the time the Stock Option is granted) of the appropriate class or series of Stock with respect to which Stock Options are exercisable for the first time by any Employee during any calendar year (under all such plans of his employer corporation and its parent and subsidiary corporations) shall not exceed $100,000.



### Section III. Other Stock Awards

In addition to Stock Options, the Committee or the Board may grant Other Stock Awards payable in any class or series of Stock upon such terms and conditions as the Committee or the Board may determine, subject to the provisions of the Plan. Other Stock Awards may include, but are not limited to, the following types of Awards:

1. *Restricted Stock Awards.* The Committee or the Board may grant Restricted Stock Awards, each of which consists of a grant of shares of any class or series of Stock subject to terms and conditions determined by the Committee or the Board in each entity's discretion, subject to the provisions of the Plan. Such terms and conditions shall be set forth in written agreements. The shares of Stock granted will be restricted and may not be sold, pledged, transferred or otherwise disposed of until the lapse or release of restrictions in accordance with the terms of the agreement and the Plan. Prior to the lapse or release of restrictions, all shares of Stock are subject to forfeiture in accordance with Section IV of the Plan. Shares of Stock issued pursuant to a Restricted Stock Award can be issued for no monetary consideration. No more than 500,000 shares of Stock available for Awards may be used for the grant of Restricted Stock.

2. *Stock Related Deferred Compensation.* The Committee or the Board may, in its discretion, permit the deferral of payment of an Employee's cash bonus or other cash compensation in the form of either cash or any class or series of Stock (or Stock equivalents, each corresponding to a share of such Stock) under such terms and conditions as the Committee or the Board may prescribe. Payment of such compensation may be deferred for such period or until the occurrence of such event as the Committee or the Board may determine. All deferrals made in any class or series of Stock (or Stock equivalents) shall be paid on distribution in Stock. If a deferral is permitted in the form of Stock or Stock equivalents, the number of shares of Stock or number of Stock equivalents deferred will be determined by dividing the amount of the Employee's bonus or other cash compensation being deferred by the closing price of the appropriate class or series of Stock, as reported by the New York Stock Exchange-Composite Transactions, on the date in question. Deferrals in any class or series of Stock or Stock equivalents cannot be transferred into other investment options. Additional rights or restrictions may apply in the event of a change in control of the Company.

### Section IV. Forfeiture of Awards

A. The Committee or the Board may include in any Award any conditions of forfeiture it may deem appropriate. The Committee or the Board also, after taking into account the relevant circumstances, may waive any condition of forfeiture stated in any Award contract.

B. In the event of forfeiture, the recipient shall lose all rights in and to the Award. Except in the case of Restricted Stock Awards as to which the restrictions have not lapsed, this provision, however, shall not be invoked to force any recipient to return any Stock already received under an Award.

C. Such determinations as may be necessary for application of this section, including any grant of authority to others to make determinations under this section, shall be at the sole discretion of the Committee or the Board, and its determinations shall be conclusive.

**Section V. Death of Awardee**



Upon the death of an Award recipient, the following rules apply:

A. A Stock Option, to the extent exercisable on the date of his death, may be exercised at any time within six (6) months, or such longer period not exceeding three years as the Committee or the Board may determine, after the recipient's death, but not after the expiration of the term of the Stock Option, by the recipient's designated beneficiary or personal representative or the person or persons entitled thereto by will or in accordance with the laws of descent and distribution.

B. In the case of any Other Stock Award, the Stock due shall be determined as of the date of the recipient's death, and the Company shall issue the appropriate number of shares of the appropriate class or series of Stock. The issuance of shares of such Stock shall be made to recipient's designated beneficiary or personal representative or the person or persons entitled thereto by will or in accordance with the laws of descent and distribution.

C. An Award recipient may file with the Committee a written designation of a beneficiary or beneficiaries (subject to such limitations as to the classes and number of beneficiaries and contingent beneficiaries as the Committee and the Board may from time to time prescribe) to exercise, in the event of the death of the recipient, a Stock Option, or to receive, in such event, any Other Stock Awards. The Committee and the Board reserve the right to review and approve beneficiary designations. A recipient may from time to time revoke or change any such designation or beneficiary and any designation of beneficiary under the Plan shall be controlling over any other disposition, testamentary or otherwise; provided, however, that if the Committee or the Board shall be in doubt as to the right of any such beneficiary to exercise any Stock Option or to receive any Other Stock Award, the Committee or the Board, as the case may be, may determine to recognize only an exercise by the legal representative of the recipient, in which case the Company and the Committee and the Board and the members thereof shall not be under any further liability to anyone.

**Section VI. Other Governing Provisions**

**A. Transferability**

Except as otherwise noted herein, no Award shall be transferable other than by beneficiary designation, will or the laws of descent and distribution, and any right granted under an Award may be exercised during the lifetime of the holder thereof only by him or by his guardian or legal representative.

**B. Rights as a Shareholder**

A recipient of an Award shall, unless the terms of the Award provide otherwise, have no rights as a shareholder, with respect to any Stock Options or shares which may be issued in connection with the Award until the issuance of a Stock certificate for such shares, and no adjustment other than as stated herein shall be made for dividends or other rights for which the record date is prior to the issuance of such Stock certificate.

**C. General Conditions of Awards**

No director, Employee or other person shall have any right with respect to this Plan, the shares reserved or in any Award, contingent or otherwise, until written evidence of the Award shall have been delivered to the recipient and all the terms, conditions and provisions of the Plan applicable to such recipient have been met.

**D. Reservation of Rights of Company**

The selection of an Employee for any Award shall not give such person any right to continue as an Employee and the right to discharge any Employee is specifically reserved.

**E. Acceleration**

The Committee or the Board may, in its sole discretion, accelerate the date of exercise of any Award.

**F. Adjustments**

In the event of any stock split, reverse stock split, stock dividend, recapitalization, combination of shares, reclassification of shares, spin-off or other similar change in capitalization or event, or any distribution to holders of Common Stock other than an ordinary cash dividend, (i) the number and class of securities available under this Plan, (ii) the sub-limit set forth in Section III(1), (iii) the number and class of securities and exercise price per share subject to each outstanding Option (under the Plan or the Prior Plan) and (iv) the terms of each other outstanding stock-based Award shall be appropriately adjusted by the Company (or substituted Awards may be made, if applicable) to the extent the Board shall determine, in good faith, that such an adjustment (or substitution) is appropriate.

**G. Withholding of Taxes**

The Company shall deduct from any payment, or otherwise collect from the recipient, any taxes required to be withheld by federal, state or local governments in connection with any Award. The recipient may elect, subject to approval by the Committee or the Board, to have shares withheld by the Company in satisfaction of such taxes, or to deliver other shares of Stock owned by the recipient in satisfaction of such taxes. The number of shares to be withheld or delivered shall be calculated by reference to the Fair Market Value of the appropriate class or series of Stock on the date that such taxes are determined.

**H. No Warranty of Tax Effect**

Except as may be contained in the terms of any Award, no opinion is expressed nor warranties made as to the effect for federal, state, or local tax purposes of any Award.

**I. Amendment of Plan**

The Board may, from time to time, amend, suspend or terminate the Plan in whole or in part, and if terminated may reinstate any or all of the provisions of the Plan, except that no amendment, suspension or termination may (i) apply to the terms of any Award (contingent or otherwise) granted prior to the effective date of such amendment, suspension or termination without the recipient's consent or (ii) increase the shares of Stock available for Awards.

**J. Construction of Plan**

The place of administration of the Plan shall be in the State of Missouri, and the validity, construction, interpretation, administration and effect of the Plan and of its rules and regulations, and rights relating to the Plan, shall be determined solely in accordance with the laws of the State of Missouri.

**K. Elections of Corporate Officers**

Notwithstanding anything to the contrary stated herein, any election or other action with respect to an Award of a recipient subject to Section 16 of the Securities Exchange Act of 1934 will be null and void if any such election or other action would cause said recipient to be subject to short-swing profit recovery under Section 16.

## Section VII. Effective Date and Term

This Plan shall be effective upon adoption by the shareholders of the Company. The Plan shall continue in effect until January 31, 2012, when it shall terminate. Upon termination, any balances in the share reserve shall be canceled, and no Awards shall be granted under the Plan thereafter. The Plan shall continue in effect, however, insofar as is necessary to complete all of the Company's obligations under outstanding Awards to conclude the administration of the Plan.

## CORPORATE AND SHAREHOLDER INFORMATION

**General Office**
Ralcorp Holdings, Inc.
PO Box 618
St. Louis, MO 63188-0618
Telephone: 314-877-7000
Internet: www.ralcorp.com

**Date and State of Incorporation**
October 23, 1996 – Missouri

**Fiscal Year End**
September 30

**Number of Record Shareholders**
10,933 at September 30, 2004

**Number of Employees**
Approximately 6,000 at
September 30, 2004

**Independent Registered Public Accounting Firm**
PricewaterhouseCoopers LLP,
St. Louis, MO

**Exchange Listing**
New York Stock Exchange, Inc.
Ticker Symbol – RAH

RAH Listed NYSE

**Daily Closing Market Price**


**Notice of Annual Meeting**
The 2005 Annual Meeting of Shareholders will be held at the Corporate Offices of Ralcorp Holdings, 800 Market St., 30th Floor, St. Louis, Missouri at 8:30 a.m., Wednesday, February 2, 2005. Proxy material for the meeting is enclosed.

**Certifications**
The Company has submitted to the New York Stock Exchange the certification of the Company's chief executive officers required by Section 303A.12(a) of the New York Stock Exchange listing standards. Additionally, the certifications of the Company's chief executive officers and controller required by Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, have been filed with the Securities and Exchange Commission as Exhibits 31.1 and 31.2, respectively, to the Company's Annual Report on Form 10-K for the year ended September 30, 2004.

**Additional Information**
You can access financial and other information about Ralcorp Holdings, Inc. at www.ralcorp.com, including press releases, Forms 10-K and 10-Q as filed with the Securities and Exchange Commission, and Information on Corporate Governance such as the Director Code of Ethics, Standards of Business Conduct for Officers and Employees, and charters of Board committees. You can also request that any of these materials be mailed to you at no charge by calling or writing:

Ralcorp Holdings, Inc.
Attn: Shareholder Services
PO Box 618
St. Louis, MO 63188-0618
Telephone: 314-877-7046

**Transfer Agent and Registrar**
EquiServe Trust Company

*Shareholder Telephone Calls:*
Operators are available Monday-Friday, 9:00 a.m. to 5:00 p.m. Eastern time. An interactive automated system is available around the clock daily.
Inside the U.S.: 877-498-8861
Outside the U.S.: 781-575-2879

*Internet:*
www.equiserve.com

*Addresses:*
For questions regarding stock transfers, change of address or lost certificates:
EquiServe Trust Company
PO Box 43083
Providence, RI 02940-3083

To send stock certificates by regular mail:
EquiServe Trust Company
PO Box 43083
Providence, RI 02940-3083

To send stock certificates by messenger or drop off by shareholders:
EquiServe Trust Company
17 Battery Place, 11th Floor
New York, NY 10004

To send stock certificates by express courier:
EquiServe Trust Company
250 Royal Street
Canton, MA 02021

**Bakery Chef** Krusteaz® French Toast Krusteaz® Cinnamon Swirl French Toast Krusteaz® French Toast Stix Krusteaz® Waffles Krusteaz® Belgian Waffles Krusteaz® Pancakes Buttermilk Easy Split Biscuits Ready-to-Heat Buttermilk Biscuits Ready-to-Heat Pancakes, French Toast and Waffles Thaw and Serve Muffins Dinner Rolls Bread Sticks Onion Buns Deli Breads Sweet Breads Artisan Breads Specialty One-Step Mixes **Carriage House** Preserves Jellies Jams Fruit Spreads Lite/Low Sugar Spreads Regular Peanut Butter Reduced Fat Peanut Butter All Natural Peanut Butter No Salt Peanut Butter Fun Stripes™ Peanut Butter Barbecue Sauce Chili Sauce Cocktail Sauce Pasta Sauce Picante Sauce Pizza Sauce Salsa Seafood Sauce Steak Sauce Taco Sauce Marinades Regular Pourable Salad Dressing Fat Free Pourable Salad Dressing Light Pourable Salad Dressing Regular Spoonable Salad Dressing Reduced Fat Spoonable Salad Dressing Regular Mayonnaise Light Mayonnaise Lime Mayonnaise Sandwich Spread Maple Syrup Butter Syrup Lite Pure Maple Syrup Chocolate Syrup Strawberry Syrup Major Peters'® Cocktail Mixes **Ralston Foods** Corn Flakes Corn Biscuits Crisp Rice Crispy Hexagons Crunchy Granola Raisin Bran Enriched Bran Flakes Extra Raisin Raisin Bran Nutty Nuggets Raisin Bran Rice Biscuits Shredded Wheat Tasteeos® Tasteeos® with Mixed Berries Tasteeos® with Strawberries Apple Cinnamon Tasteeos® Wheat Biscuits/Squares Whole Grain 100 Frosted Flakes Frosted Shredded Wheat Honey Almond Corn Flakes Honey Nut Biscuits Honey Nut Shredded Wheat Honey Nut Tasteeos® Oats & More® with Almonds Oats & More® with Honey Oats & More® with Strawberries Apple Dapples® Coco Crispy Rice Coca Crunchies Confruity Crisp® Crisp Crunch Crisp Crunch Berrry Treets® Crispy Corn Puffs (Silly Spheres)® Freaky Fruits® Fruit Rings® Honey Puffs Magic Stars® Peanut Butter Crisp Crunch Sweetened Corn Puffs Sweetened Wheat Puffs Farina Grits Instant Oats Instant Oats For Kids Only® Oat Bran Quick/Old Fashioned Oats Cheddar Snack Mix Traditional Snack Mix **Bremner** Premium Chocolate Chip Cookies Oatmeal Cookies Iced Oatmeal Cookies Fig Bars Fudge Marshmallow Cookies Fudge Covered Grahams Fudge Sticks Fudge Striped Shortbreads Ginger Snaps Pecan Shortbreads Old Fashioned Oatmeal Cookies Old Fashioned Iced Oatmeal Cookies Old Fashioned Sugar Cookies Premium Chocolate Sandwich Cookies Sandwich Cremes Sugar Wafers Vanilla Wafers Animal Cookies English Toffee Cookies M&M®/Chocolate Chip Cookies Lofthouse® Frosted Sugar Cookies Lofthouse® Wire Cut Cookies Lofthouse® Holiday Shaped Sugar Cookies Lofthouse® No Bake Cookies Lofthouse® Holiday Cutout Cookies Lofthouse® Holiday Shortbread Cookies Lofthouse® Dessert Bars Animal Crackers Saltines All Purpose Snack Crackers Graham Crackers Cheese Crackers Wheat Crackers Woven Wheats® Rich & Crisp/Gourmet Crackers Oysters Chicken Bites Chicken Flavored Crackers™ Sea Snacks™ Cheddar Crackers Fat Free Saltines Low Fat Honey Grahams Low Fat Cinnamon Grahams Reduced Fat Cheese Crackers Reduced Fat Wheat Crackers Reduced Fat Woven Wheats® Reduced Fat All Purpose Snack Crackers Ry-Krisp® Crackers Sesame Semolina Artisan Bread Pan Bigio Italian Country Artisan Bread Peasant Rye Artisan Bread Pain au Levain French Artisan Bread Kalamata Olive Rosemary Artisan Bread Rosemary Garlic Artisan Rolls Monterey Sourdough Artisan Rolls Pan Bianco Italian Artisan Rolls Honey Oat Artisan Rolls Multigrain Artisan Rolls Earl of Sandwich® Caraway Rye Bread Earl of Sandwich® Eight Grain Bread Earl of Sandwich® Sourdough Bread Earl of Sandwich® Honey Oat Bread Earl of Sandwich® Cinnamon Raisin Bread Earl of Sandwich® Pumpernickel Bread Earl of Sandwich® Wheat Bread **Nutcracker** Peanuts Cashews Mixed Nuts Macadamia Nuts Sunflower Kernels Natural Pistachios Roasted & Salted Peanuts Honey Roasted Peanuts Roasted & Salted Cashews Roasted & Salted Mixed Nuts with Peanuts Roasted & Salted Deluxe Mixed Nuts Roasted Almonds Pecans Walnut Halves Walnut Pieces Almonds Sliced Almonds Slivered Almonds Pecan Halves Pecan Pieces Chocolate Covered Almonds Chocolate Covered Cashews Honey Roasted Cashews Butter Toffee Peanuts Trail Mix Boxed Chocolates Creamy Peanut Butter Cups Creamy Caramel Cups Creamy White Peanut Butter Cups Milk Chocolate Mint Cups Dark Chocolate Mint Cups Seasonal Chocolates

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