

SANDERSON FARMS INC

Form 10-K

December 14, 2010

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

(Mark One)

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the fiscal year ended October 31, 2010**

**Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 1-14977  
SANDERSON FARMS, INC.**

(Exact name of registrant as specified in its charter)

Mississippi  
(State or other jurisdiction of  
incorporation or organization)

64-0615843  
(IRS Employer  
Identification No.)

127 Flynt Road  
Laurel, Mississippi  
(Address of principal executive offices)

39443  
(Zip Code)

Registrant's telephone number, including area code: (601) 649-4030

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

Title of each Class:  
Common stock, \$1.00 par value per share

Name of exchange on which registered:  
The NASDAQ Stock Market LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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

Edgar Filing: SANDERSON FARMS INC - Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant computed by reference to the closing sales price of the common equity in The NASDAQ Stock Market on the last business day of the Registrant's most recently completed second fiscal quarter: \$1,072,054,385.

Number of shares outstanding of the Registrant's common stock as of December 12, 2010: 22,077,559 shares of common stock, \$1.00 per share par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement filed or to be filed in connection with its 2011 Annual Meeting of Stockholders are incorporated by reference into Part III.

**TABLE OF CONTENTS**

<u>PART I</u>	3
<u>Item 1. Business</u>	3
<u>Item 1A. Risk Factors</u>	13
<u>Item 1B. Unresolved Staff Comments</u>	20
<u>Item 2. Properties</u>	20
<u>Item 3. Legal Proceedings</u>	21
<u>Item 4A. Executive Officers of the Registrant</u>	21
<u>PART II</u>	22
<u>Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	22
<u>Item 6. Selected Financial Data</u>	23
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 7A. Quantitative and Qualitative Disclosure About Market Risk</u>	35
<u>Item 8. Financial Statements and Supplementary Data</u>	37
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	51
<u>Item 9A. Controls and Procedures</u>	51
<u>Item 9B. Other Information</u>	53
<u>PART III</u>	54
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	54
<u>Item 11. Executive Compensation</u>	54
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	54
<u>Item 13. Certain Relationships and Related Transactions and Director Independence</u>	55
<u>Item 14. Principal Accountant Fees and Services</u>	55
<u>PART IV</u>	56
<u>Item 15. Exhibits and Financial Statement Schedules</u>	56
<u>SIGNATURES</u>	61
<u>EXHIBITS</u>	63
<u>EX-10.24</u>	
<u>EX-23</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

**Table of Contents**

**INTRODUCTORY NOTE**

**Definitions.** This Annual Report on Form 10-K is filed by Sanderson Farms, Inc., a Mississippi corporation. Except where the context indicates otherwise, the terms Registrant, Company, Sanderson Farms, we, us, or our to Sanderson Farms, Inc. and its subsidiaries and predecessor organizations. The use of these terms to refer to Sanderson Farms, Inc. and its subsidiaries collectively does not suggest that Sanderson Farms has abandoned their separate identities or the legal protections given to them as separate legal entities. Fiscal year means the fiscal year ended October 31, 2010, which is the year for which this Annual Report is filed.

**Presentation and Dates of Information.** Except for Item 4A herein, the Item numbers and letters appearing in this Annual Report correspond with those used in Securities and Exchange Commission Form 10-K (and, to the extent that it is incorporated into Form 10-K, those used in SEC Regulation S-K) as effective on the date hereof, which specifies the information required to be included in Annual Reports to the SEC. Item 4A ( Executive Officers of the Registrant ) has been included by the Registrant in accordance with General Instruction G(3) of Form 10-K and Instruction 3 of Item 401(b) of Regulation S-K. The information contained in this Annual Report is, unless indicated to be given as of a specified date or for a specified period, given as of the date of this Report, which is December 14, 2010.

**PART I**

**Item 1. Business**

**(a) GENERAL DEVELOPMENT OF THE REGISTRANT S BUSINESS**

The Registrant was incorporated in Mississippi in 1955, and is a fully-integrated poultry processing company engaged in the production, processing, marketing and distribution of fresh and frozen chicken products. In addition, the Registrant is engaged in the processing, marketing and distribution of prepared chicken through its wholly-owned subsidiary, Sanderson Farms, Inc. (Foods Division).

The Registrant sells ice pack, chill pack, bulk pack and frozen chicken, in whole, cut-up and boneless form, primarily under the Sanderson Farms® brand name to retailers, distributors, and casual dining operators principally in the southeastern, southwestern, northeastern and western United States, and to United States based customers who resell frozen chicken into export markets. During its fiscal year ended October 31, 2010 the Registrant processed 405.0 million chickens, or over 2.57 billion dressed pounds. According to 2010 industry statistics, the Registrant was the 4<sup>th</sup> largest processor of dressed chickens in the United States based on estimated average weekly processing.

The Registrant s chicken operations presently encompass 7 hatcheries, 6 feed mills and 8 processing plants, which does not include the facilities at its new Kinston, North Carolina complex. The Registrant began manufacturing feed at the new North Carolina feed mill in November 2010 and began operations at the new hatchery the last week of October 2010. It will begin processing chickens at its new Kinston, North Carolina complex in January 2011. The Registrant has contracts with operators of approximately 576 grow-out farms that provide it with sufficient housing capacity for its current operations. The Registrant also has contracts with operators of 185 breeder farms.

The Company s prepared chicken product line includes approximately 65 institutional and consumer packaged partially cooked or marinated chicken items that it sells nationally and regionally, primarily to distributors and food service establishments. A majority of the prepared chicken items are made to the specifications of food service users.

Since the Registrant completed the initial public offering of its common stock in May 1987, the Registrant has significantly expanded its operations to increase production capacity, product lines and marketing flexibility. Through 1997, this expansion included the expansion of the Registrant s Hammond, Louisiana processing facility, the construction of new waste water facilities at the Hammond, Louisiana and Collins and Hazlehurst, Mississippi processing facilities, the addition of second shifts at the Hammond, Louisiana, Laurel, Hazlehurst, and Collins, Mississippi processing facilities, expansion of freezer and production capacity at its prepared chicken facility in Jackson, Mississippi, the expansion of freezer capacity at its Laurel, Mississippi, Hammond, Louisiana and Collins, Mississippi processing facilities, the addition of deboning capabilities at all of the Registrant s poultry processing facilities, and the construction and start-up of its McComb, Mississippi and Bryan, Texas production and processing

**Table of Contents**

facilities, including a hatchery, a feed mill, a processing plant, and a waste water treatment facility for each complex, and the expansion and renovation of the hatchery at its Hazlehurst, Mississippi production facilities.

In the fourth quarter of fiscal 2005, the Registrant began initial operations at a new poultry processing complex in southern Georgia. The complex consists of a feed mill, hatchery, processing plant and wastewater treatment facility. This plant has the capacity to process 1.25 million head of chickens per week.

On August 6, 2007, the Company began initial operations at a new poultry processing complex in Waco and McLennan County, Texas. The complex consists of a hatchery, processing plant and wastewater treatment facility. This complex shares a feed mill located in Robertson County, Texas with our Bryan, Texas complex. The plant has the capacity to process 1.25 million head of chicken per week.

Sanderson Farms announced plans on April 24, 2008, to invest approximately \$126.5 million for construction of a new feed mill, poultry processing plant and a hatchery on separate sites in Kinston and Lenoir County, North Carolina. On June 26, 2008, the Company announced its decision to postpone the project due to market conditions and escalating grain prices. On July 23, 2009, the Company announced plans to proceed with the construction and start-up of the Company's Kinston, North Carolina, poultry complex with an expected budget of approximately \$121.4 million. The Kinston facilities comprise a state-of-the-art poultry complex with the capacity to process 1.25 million chickens per week for the retail chill pack market. At full capacity, the complex will employ approximately 1,500 people, will require 130 contract growers, and will be equipped to process and sell 6.7 million pounds per week of dressed poultry meat. Initial operation of the new complex will begin during January 2011.

On March 29, 2010, the Company announced its plans to construct a potential second new poultry complex in North Carolina, subject to various contingencies including, among others, our obtaining an acceptable economic incentive package from the state and local governments. The project, if completed, will consist of an expansion of the feed mill for the Kinston, North Carolina plant, a hatchery, a processing plant with capacity to process 1.25 million chickens per week and a waste water treatment facility. At full capacity, the plant is expected to employ approximately 1,100 people, will require approximately 150 contract growers and will be equipped to process and sell 8.9 million pounds of dressed poultry per week. We will need to identify a site, obtain permits, enter into construction contracts and complete construction before the complex can open. See Item 1A, Risk Factors. The construction and potential benefits of our new North Carolina facilities are subject to risks and uncertainties.

Since 1997, the Company has changed its marketing strategy to move away from the small bird markets serving primarily the fast food markets and to concentrate its production in the retail and big bird deboning markets serving the retail grocery and food service industries. This market shift has resulted in larger average bird weights of the chickens processed by the Company, and has substantially increased the number of pounds processed by the Company. In addition, the Registrant continually evaluates internal and external expansion opportunities to continue its growth in poultry and/or related food products.

Capital expenditures for fiscal 2010 were funded by working capital, cash generated by our operations and proceeds from the April 7, 2010 secondary offering of the Company's common stock. On May 1, 2008, the Company entered into a new revolving credit facility to, among other things, increase the available credit to \$300.0 million, increase the capital expenditure limits to allow construction of the Kinston, North Carolina facility, and to change the covenant requiring a maximum debt to total capitalization ratio to 50% during fiscal 2008, 55% during fiscal 2009 and not to exceed 50% for fiscal 2010 and thereafter. On December 13, 2010, the Company entered into an amendment to the facility to increase the capital expenditure limitation to \$55 million during fiscal 2011, 2012 and 2013, and to permit up to \$115 million in capital expenditures to be spent at any time during the term of the agreement on the potential second new poultry complex in North Carolina. The credit remains unsecured and, unless extended, expires May 1, 2013. As of October 31, 2010, the Company was in compliance with all covenants, had \$8.4 million outstanding letters of credit under the facility, and had \$291.6 million available to borrow under the revolving credit facility.

**(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS**

Not applicable.

**(c) NARRATIVE DESCRIPTION OF REGISTRANT'S BUSINESS**

**General**

The Registrant is engaged in the production, processing, marketing and distribution of fresh and frozen chicken and the preparation, processing, marketing and distribution of processed and prepared chicken items.

**Table of Contents**

The Registrant sells chill pack, ice pack, bulk pack and frozen chicken, in whole, cut-up and boneless form, primarily under the Sanderson Farms® brand name to retailers, distributors and casual dining operators principally in the southeastern, southwestern, northeastern and western United States. During its fiscal year ended October 31, 2010, the Registrant processed approximately 405.0 million chickens, or over 2.57 billion dressed pounds. In addition, the Registrant purchased and further processed 4.6 million pounds of poultry products during fiscal 2010. According to 2010 industry statistics, the Registrant was the 4th largest processor of dressed chicken in the United States based on estimated average weekly processing.

The Registrant conducts its chicken operations through Sanderson Farms, Inc. (Production Division) and Sanderson Farms, Inc. (Processing Division), both of which are wholly-owned subsidiaries of Sanderson Farms, Inc. The production subsidiary, Sanderson Farms, Inc. (Production Division), which has facilities in Laurel, Collins, Hazlehurst and McComb, Mississippi; Bryan, Waco, and Robertson County, Texas; Adel, Georgia and Kinston, North Carolina, is engaged in the production of chickens to the broiler stage. Sanderson Farms, Inc. (Processing Division), which has facilities in Laurel, Collins, Hazlehurst and McComb, Mississippi; Hammond, Louisiana; Bryan and Waco, Texas; Moultrie, Georgia and Kinston, North Carolina, is engaged in the processing, sale and distribution of chickens.

The Registrant conducts its prepared chicken business through its wholly-owned subsidiary, Sanderson Farms, Inc. (Foods Division), which has a facility in Jackson, Mississippi. The Foods Division is engaged in the processing, marketing and distribution of approximately 65 prepared chicken items, which it sells nationally and regionally, principally to distributors and national food service accounts.

**Products**

The Registrant has the ability to produce a wide range of processed chicken products and prepared chicken items.

Processed chicken is first saleable as an ice packed, whole chicken. The Registrant adds value to its ice packed, whole chickens by removing the giblets, weighing, packaging and labeling the product to specific customer requirements and cutting and deboning the product based on customer specifications. The additional processing steps of giblet removal, close tolerance weighing and cutting increase the value of the product to the customer over whole, ice packed chickens by reducing customer handling and cutting labor and capital costs, reducing the shrinkage associated with cutting, and ensuring consistently sized portions.

The Registrant adds additional value to the processed chicken by deep chilling and packaging whole chickens in bags or combinations of fresh chicken parts, including boneless product, in various sized, individual trays under the Registrant's brand name, which then may be weighed and pre-priced, based on each customer's needs. This chill pack process increases the value of the product by extending shelf life, reducing customer weighing and packaging labor, and providing the customer with a wide variety of products with uniform, well designed packaging, all of which enhance the customer's ability to merchandise chicken products.

To satisfy some customers' merchandising needs, the Registrant freezes the chicken product, which adds value by meeting the customers' handling, storage, distribution and marketing needs and by permitting shipment of product overseas where transportation time may be as long as 25 days.



**Table of Contents**

The following table sets forth, for the periods indicated, the contribution, as a percentage of net sales dollars, of each of the Registrant's major product lines.

	<b>Fiscal Year Ended October 31,</b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Registrant processed chicken:					
Value added:					
Chill pack	31.0%	28.5%	31.2%	31.1%	28.5%
Fresh bulk pack	45.1	44.3	46.1	50.3	54.5
Frozen	14.1	17.2	13.7	10.1	9.8
Subtotal	90.2	90.0	91.0	91.5	92.8
Non-value added:					
Ice pack	.3	.3	.7	.8	.8
Frozen	.0	.0	.0	.0	.0
Subtotal	.3	.3	.7	.8	.8
Total Company processed chicken	90.5	90.3	91.7	92.3	93.6
Prepared chicken	9.5	9.7	8.3	7.7	6.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%

**Market Segments and Pricing**

The three largest market segments in the chicken industry are big bird deboning, chill pack and small birds.

The following table sets forth, for each of the Company's poultry processing plants, the general market segment in which the plant participates, the weekly capacity of each plant at full capacity expressed in number of head processed, and the average industry size of birds processed in the relevant market segment.

<b>Plant Location</b>	<b>Market Segment</b>	<b>Capacity Per Week*</b>	<b>Industry Bird Size</b>
Laurel, Mississippi	Big Bird Deboning	625,000	7.65
Hazlehurst, Mississippi	Big Bird Deboning	625,000	7.65
Hammond, Louisiana	Big Bird Deboning	625,000	7.65
McComb, Mississippi	Chill Pack Retail	1,250,000	5.95
Bryan, Texas	Chill Pack Retail	1,250,000	5.95
Collins, Mississippi	Big Bird Deboning	1,250,000	7.65
Moultrie, Georgia	Chill Pack Retail	1,250,000	5.95
Waco, Texas	Big Bird Deboning	1,250,000	7.65

\* At full capacity.

The Company's Kinston, North Carolina facility, which will begin initial operations in January 2011 will, at full capacity, process 1.25 million head of chill pack chickens per week. The Company expects to reach full production at this plant during January 2012.

Those plants that target the big bird deboning market grow a relatively large bird. The dark meat from these birds is sold primarily as frozen leg quarters in the export market or as fresh whole legs to further processors. This dark meat is sold primarily at spot commodity prices, which prices exhibit fluctuations typical of commodity markets. The white meat produced by these plants is generally sold as fresh deboned breast meat, chicken tenders and whole or cut

wings, and is likewise sold at spot commodity market prices for wings, tenders and boneless breast meat. The Company as of October 31, 2010 had the capacity to process 4.375 million head per week in its big bird deboning plants, and its results are materially impacted by fluctuations in the commodity market prices for leg quarters, boneless breast meat, chicken tenders and wings.

**Table of Contents**

The Urner Barry spot market price for leg quarters, boneless breast meat, chicken tenders and whole wings for the past five calendar years is set forth below:

7

---

**Table of Contents**

Those plants that target the chill pack retail grocery market grow a medium sized bird and cut and package the product in various sized individual trays to customers specifications. The trays are weighed and pre-priced primarily for customers to resell through retail grocery outlets. While the Company sells some of its chill pack product under store brand names, most of its chill pack production is sold under the Company s Sanderson Farms® brand name. The Company has long term contracts (one to three years) with most of its chill pack customers, and the pricing of this product is based on a formula that uses the Georgia Dock whole bird price as its base. The Georgia Dock whole bird price is published each week by the Georgia Department of Agriculture and is based on its survey of prices and market conditions during the preceding week. As of October 31, 2010, the Company had the capacity to process 3.75 million head per week at its chill pack plants, and its results are materially impacted by fluctuations in the Georgia Dock price.

The Georgia Dock price for whole birds as published by the Georgia Department of Agriculture for the last five calendar years is set forth below:

**Table of Contents**

Those companies with plants dedicated to the small bird market grow and process a relatively small chicken and market the finished product primarily to fast food and food service companies at negotiated flat prices, cost plus formulas or spot market prices. Based on benchmarking services used by the industry, this market segment has been the least profitable of the three primary market segments over most of the last ten years. The Company has no product dedicated to the small bird market.

**Sales and Marketing**

The Registrant's chicken products are sold primarily to retailers (including national and regional supermarket chains and local supermarkets) and distributors located principally in the southeastern, southwestern, northeastern and western United States. The Registrant also sells its chicken products to casual dining operators and to United States based customers who resell the products outside of the continental United States. This wide range of customers, together with the Registrant's product mix, provides the Registrant with flexibility in responding to changing market conditions in its effort to maximize profits. This flexibility also assists the Registrant in its efforts to reduce its exposure to market volatility, although its ability to do so is limited.

Sales and distribution of the Registrant's chicken products are conducted primarily by sales personnel at the Registrant's general corporate offices in Laurel, Mississippi, by customer service representatives at each of its processing complexes and one prepared chicken plant and through independent food brokers. Each complex has individual on-site distribution centers and uses the Registrant's truck fleet, as well as contract carriers, for distribution of its products.

Generally, the Registrant prices much of its chicken products based upon weekly and daily market prices reported by the Georgia Department of Agriculture and by private firms. Consistent with the industry, the Registrant's profitability is impacted by such market prices, which may fluctuate substantially and exhibit cyclical and seasonal characteristics. The Registrant will adjust base prices depending upon value added, volume, product mix and other factors. While base prices may change weekly and daily, the Registrant's adjustments are generally negotiated from time to time with the Registrant's customers. The Registrant's sales are generally made on an as-ordered basis, and the Registrant maintains few long-term sales contracts with its non-chill pack customers.

From time to time, the Registrant may use television, radio and newspaper advertising, point of purchase material and other marketing techniques to develop consumer awareness of and brand recognition for its Sanderson Farms® products. The Registrant has achieved a high level of public awareness and acceptance of its products in its core markets. Brand awareness is an important element of the Registrant's marketing philosophy, and it intends to continue brand name merchandising of its products. During calendar 2004, the Company launched an advertising

**Table of Contents**

campaign designed to distinguish the Company's fresh chicken products from competitors' products. The campaign noted that the Company's product is a natural product free from salt, water and other additives that some competitors inject into their fresh chicken.

The Registrant's prepared chicken items are sold nationally and regionally, primarily to distributors and national food service accounts. Sales of such products are handled by sales personnel of the Registrant and by independent food brokers. Prepared chicken items are distributed from the Registrant's plant in Jackson, Mississippi, through arrangements with contract carriers.

**Production and Facilities**

**General.** The Registrant is a vertically-integrated producer of fresh and frozen chicken products, controlling the production of hatching eggs, hatching, feed manufacturing, growing, processing and packaging of its product lines.

**Breeding and Hatching.** The Registrant maintains its own breeder flocks for the production of hatching eggs. The Registrant's breeder flocks are acquired as one-day old chicks (known as pullets or cockerels) from primary breeding companies that specialize in the production of genetically designed breeder stock. As of October 31, 2010, the Registrant maintained contracts with 49 pullet farm operators for the grow-out of pullets (growing the pullet to the point at which it is capable of egg production, which takes approximately six months). Thereafter, the mature breeder flocks are transported by Registrant's vehicles to breeder farms that are maintained, as of October 31, 2010, by 136 independent contractors under the Registrant's supervision. Eggs produced by independent contract breeders are transported to Registrant's hatcheries in Registrant's vehicles.

The Registrant owns and operates eight hatcheries located in Mississippi, Texas, Georgia and North Carolina where eggs are incubated, vaccinated and hatched in a process requiring 21 days. The chicks are vaccinated against common poultry diseases and are transported by Registrant's vehicles to independent contract grow-out farms. As of October 31, 2010, the Registrant's hatcheries were capable of producing an aggregate of approximately 8.7 million chicks per week. The hatchery in North Carolina began operations the last week of October 2010 and will reach full production in early 2012.

**Grow-out.** The Registrant places its chicks on 576 grow-out farms, as of October 31, 2010, located in Mississippi, Texas, Georgia and North Carolina where broilers are grown to an age of approximately seven to nine weeks. The farms provide the Registrant with sufficient housing capacity for its operations, and are typically family-owned farms operated under contract with the Registrant. The farm owners provide facilities, utilities and labor; the Registrant supplies the day-old chicks, feed and veterinary and technical services. The farm owner is compensated pursuant to an incentive formula designed to promote production cost efficiency.

Historically, the Registrant has been able to accommodate expansion in grow-out facilities through additional contract arrangements with independent growers.

**Feed Mills.** An important factor in the grow-out of chickens is the rate at which chickens convert feed into body weight. The Registrant purchases the primary feed ingredients on the open market. Ingredients include corn and soybean meal, which historically have been the largest cost components of the Registrant's total feed costs. The quality and composition of the feed are critical to the conversion rate, and accordingly, the Registrant formulates and produces its own feed. As of October 31, 2010, the Registrant operated 6 feed mills, 4 of which are located in Mississippi, one in Texas and one in Georgia. The Company's new feed mill in North Carolina began operations in November 2010. The Registrant's annual feed requirements for fiscal 2010 were approximately 3,252,824 tons, and it has the capacity to produce approximately 3,713,000 tons of finished feed annually under current configurations.

Feed grains are commodities subject to volatile price changes caused by weather, size of the harvest, transportation and storage costs, domestic and export demand and the agricultural and energy policies of the United States and foreign governments. On October 31, 2010, the Registrant had approximately 2,386,000 bushels of corn storage capacity at its feed mills, which was sufficient to store all of its weekly requirements for corn. Generally, the Registrant purchases its corn and other feed ingredients at current prices from suppliers and, to a limited extent, directly from farmers. Feed grains are available from an adequate number of sources. Although the Registrant has not experienced, and does not anticipate problems in securing adequate supplies of feed grains, price fluctuations of feed grains can be expected to have a direct and material effect upon the Registrant's profitability. Although the Registrant attempts to manage the risk from volatile price changes in grain markets by sometimes purchasing grain at current

prices for future delivery, it cannot eliminate the potentially adverse effect of grain price increases.

**Table of Contents**

**Processing.** Once broilers reach processing weight, they are transported to the Registrant's processing plants. These plants use modern, highly automated equipment to process and package the chickens. The Registrant's McComb, Mississippi processing plant operates two processing lines on a double shift basis and was processing approximately 1,250,000 chickens per week on October 31, 2010. The Registrant's Collins, Mississippi processing plant operates two processing lines on a double shift basis and was processing approximately 1,250,000 chickens per week on October 31, 2010. The Registrant's Bryan, Texas processing plant operates two processing lines on a double shift basis and was processing approximately 1,250,000 chickens per week on October 31, 2010. The Registrant's Laurel and Hazlehurst, Mississippi and Hammond, Louisiana processing plants operate on a double shift basis and were collectively processing approximately 1,875,000 chickens per week on October 31, 2010. The Registrant's Moultrie, Georgia processing plant operates two processing lines on a double shift basis and was processing 1,250,000 chickens per week on October 31, 2010. The Registrant's Waco, Texas processing plant, which began initial operations during the fourth quarter of fiscal 2007, operates two processing lines on a double shift basis and was processing 1,250,000 chickens per week on October 31, 2010. The Registrant also has the capabilities to produce deboned product at each processing facility. At October 31, 2010, the Company's deboning facilities were operating on a double shifted basis and have the capacity to produce approximately 9.0 million pounds of big bird boneless breast product and 5.0 million pounds of chill pack boneless breast product each week.

**Sanderson Farms, Inc. (Foods Division).** The facilities of Sanderson Farms, Inc. (Foods Division) are located in Jackson, Mississippi in a plant with approximately 75,000 square feet of refrigerated manufacturing and storage space. The plant uses highly automated equipment to prepare, process and freeze food items.

**Executive Offices; Other Facilities.** The Registrant's laboratory and corporate offices are located on separate sites in Laurel, Mississippi. The office building houses the Company's corporate offices, meeting facilities and computer equipment and constitutes the corporate headquarters. As of October 31, 2010, the Registrant operated 10 automotive maintenance shops, which service approximately 742 Registrant over-the-road and farm vehicles. In addition, the Registrant has one child care facility located near its Collins, Mississippi processing plant, serving over 163 children on October 31, 2010.

**Quality Control**

The Registrant believes that quality control is important to its business and conducts quality control activities throughout all aspects of its operations. The Registrant believes these activities are beneficial to efficient production and in assuring its customers receive wholesome, high quality products.

From its company owned laboratory in Laurel, Mississippi, the Director of Technical Services supervises the operation of a modern, well-equipped laboratory which, among other things, monitors sanitation at the hatcheries, quality and purity of the Registrant's feed ingredients and feed, the health of the Registrant's breeder flocks and broilers, and conducts microbiological tests of live chickens, facilities and finished products. The Registrant conducts on-site quality control activities at each of the eight processing plants and the prepared chicken plant.

**Regulation**

The Registrant's facilities and operations are subject to regulation by various federal and state agencies, including, but not limited to, the Federal Food and Drug Administration (FDA), the United States Department of Agriculture (USDA), the Environmental Protection Agency, the Occupational Safety and Health Administration and corresponding state agencies. The Registrant's chicken processing plants are subject to continuous on-site inspection by the USDA. The Sanderson Farms, Inc. (Foods Division) prepared chicken plant operates under the USDA's Total Quality Control Program, which is a strict self-inspection plan written in cooperation with and monitored by the USDA. The FDA inspects the production at the Registrant's feed mills.

Compliance with existing regulations has not had a material adverse effect upon the Registrant's earnings or competitive position in the past. Management believes that the Registrant is in substantial compliance with existing laws and regulations relating to the operation of its facilities and does not know of any major capital expenditures necessary to comply with such statutes and regulations.

On June 18, 2010, the United States Department of Agriculture, Grain Inspection, Packers and Stockyard Administration, or GIPSA, proposed new regulations under the Packers and Stockyard Act, or PSA, that would apply to all stages of a live poultry dealer's poultry grow-out, including the pullet, breeder and broiler stages. If adopted, the



new regulations would likely have a significant impact on the relationship between integrated poultry

**Table of Contents**

processors, like the Company, and their independent contract producers. Many of the proposed new regulations are, in our view, unclear, vague and would likely require time and litigation to determine their scope and impact. The Company cannot predict with any certainty, at this time, the financial impact of the proposed new rules on the Company.

The Registrant takes extensive precautions to ensure that its flocks are healthy and that its processing plants and other facilities operate in a healthy and environmentally sound manner. Events beyond the control of the Registrant, however, such as an outbreak of disease in its flocks or the adoption by governmental agencies of more stringent regulations, could materially and adversely affect its operations.

**Competition**

The Registrant is subject to significant competition from regional and national firms in all markets in which it competes. Some of the Registrant's competitors have greater financial and marketing resources than the Registrant.

The primary methods of competition are price, product quality, number of products offered, brand awareness and customer service. The Registrant has emphasized product quality and brand awareness through its advertising strategy. See Business Sales and Marketing. Although poultry is relatively inexpensive in comparison with other meats, the Registrant competes indirectly with the producers of other meats and fish, since changes in the relative prices of these foods may alter consumer buying patterns.

One customer accounted for more than 10% of the Registrant's consolidated sales for the years ended October 31, 2010, 2009 and 2008. The Company does not believe the loss of any single customer would have a material adverse effect on the Company because it could sell poultry earmarked for any single customer at market prices.

**Sources of Supply**

During fiscal 2010, the Registrant purchased its pullets and cockerels from a single major breeder. The Registrant has found the genetic breeds or cross breeds supplied by this company produce chickens most suitable to the Registrant's purposes. The Registrant has no written contracts with this breeder for the supply of breeder stock. Other sources of breeder stock are available, and the Registrant continually evaluates these sources of supply.

Should breeder stock from its present supplier not be available for any reason, the Registrant believes that it could obtain adequate breeder stock from other suppliers.

Other major raw materials used by the Registrant include feed grains and other feed ingredients, cooking ingredients and packaging materials. The Registrant purchases these materials from a number of vendors and believes that its sources of supply are adequate for its present needs. The Registrant does not anticipate any difficulty in obtaining these materials in the future.

**Seasonality**

The demand for the Registrant's chicken products generally is greatest during the spring and summer months and lowest during the winter months.

**Trademarks**

The Registrant has registered with the United States Patent and Trademark Office the trademark Sanderson Farms®, which it uses in connection with the distribution of its prepared foods, frozen entree products and premium grade chill pack products. The Registrant considers the protection of this trademark to be important to its marketing efforts due to consumer awareness of and loyalty to the Sanderson Farms® label. The Registrant also has registered with the United States Patent and Trademark Office seven other trademarks that are used in connection with the distribution of chicken and other products and for other competitive purposes.

**Table of Contents**

The Registrant, over the years, has developed important non-public proprietary information regarding product related matters. While the Registrant has internal safeguards and procedures to protect the confidentiality of such information, it does not generally seek patent protection for its technology.

**Employee and Labor Relations**

As of October 31, 2010, the Registrant had 9,859 employees, including 1,235 salaried and 8,624 hourly employees. A collective bargaining agreement with the United Food and Commercial Workers International Union covering 472 hourly employees who work at the Registrant's processing plant in Hammond, Louisiana expires on December 1, 2013. This collective bargaining agreement has a grievance procedure and no strike-no lockout clauses that should assist in maintaining stable labor relations at the Hammond plant.

A collective bargaining agreement with the Laborers' International Union of North America, Professional Employees Local Union #693, AFL-CIO, covering 471 hourly employees who work at the Registrant's processing plant in Hazlehurst, Mississippi expires on December 31, 2011. The current collective bargaining agreement has a grievance procedure and no strike-no lockout clauses that should assist in maintaining stable labor relations at the Hazlehurst plant.

A collective bargaining agreement with the Laborers' International Union of North America, Professional Employees Local Union #693, AFL-CIO, covering 943 hourly employees who work at the Registrant's processing plant in Collins, Mississippi expires on January 10, 2013. The current collective bargaining agreement has a grievance procedure and no strike-no lockout clauses that should assist in maintaining stable labor relations at the Collins plant.

The production, maintenance and clean-up employees at the Company's Bryan, Texas poultry processing facility are represented by the United Food and Commercial Workers Union Local #408, AFL-CIO. A collective bargaining agreement covering 1,321 employees expires on December 31, 2011. The collective bargaining agreement has a grievance procedure and no strike-no lockout clause that should assist in maintaining stable labor relations at the Bryan, Texas processing facility.

**(d) FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS**

All of the Company's operations are domiciled in the United States. All of the Company's products sold in the Company's fiscal years 2010, 2009 and 2008 were produced in the United States and all long-lived assets of the Company are domiciled in the United States.

The Company sells certain of its products either directly to foreign markets or to U.S. based customers who resell the product in foreign markets. These foreign markets are primarily Russia, Eastern Europe, China, Mexico and the Caribbean. These export sales for fiscal years 2010, 2009 and 2008 totaled approximately \$191.4 million, \$177.3 million and \$232.9 million, respectively. The Company's export sales are facilitated through independent food brokers located in the United States and the Company's internal sales staff.

**(e) AVAILABLE INFORMATION**

Our address on the World Wide Web is <http://www.sandersonfarms.com>. The information on our web site is not a part of this document. Our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and all amendments to those reports and the Company's corporate code of conduct are available, free of charge, through our web site as soon as reasonably practicable after they are filed with the SEC. Information concerning corporate governance matters is also available on the website.

**Item 1A. Risk Factors**

*In addition to the other information set forth in this report, you should carefully consider the following factors, which could materially affect our business, financial condition or results of operations in future periods.*

**Table of Contents**

*The risks described below are not the only risks facing our Company. Additional risks not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations in future periods.*

*Industry cyclicality can affect our earnings, especially due to fluctuations in commodity prices of feed ingredients and chicken.*

Profitability in the poultry industry is materially affected by the commodity prices of feed ingredients, chicken, and, to a lesser extent, alternative proteins. These prices are determined by supply and demand factors, and supply and demand factors in respect of feed ingredients and chicken may not correlate. For example, grain prices during 2009 were relatively high, while prices for chicken products did not increase proportionally. As a result, the poultry industry is subject to wide fluctuations that are called cycles. Typically we do well when chicken prices are high and feed prices are low. We do less well, and sometimes have losses, when chicken prices are low and feed prices are high. It is very difficult to predict when these cycles will occur. All we can safely predict is that they do and will occur.

Various factors can affect the supply of corn and soybean meal, which are the primary ingredients of the feed we use. In particular, global weather patterns, including adverse weather conditions that may result from climate change, the global level of supply inventories and demand for feed ingredients, currency fluctuations and the agricultural and energy policies of the United States and foreign governments all affect the supply of feed ingredients. Weather patterns often change agricultural conditions in an unpredictable manner. A sudden and significant change in weather patterns could affect supplies of feed ingredients, as well as both the industry's and our ability to obtain feed ingredients, grow chickens or deliver products. More recently, demand for corn from ethanol producers has resulted in sharply higher costs for corn and other grains.

Increases in the prices of feed ingredients will result in increases in raw material costs and operating costs. Because prices for our products are related to the commodity prices of chickens, which depend on the supply and demand dynamics of fresh chicken, we typically are not able to increase our product prices to offset these increased grain costs. We periodically enter into contracts to purchase feed ingredients at current prices for future delivery to manage our feed ingredient costs. This practice could reduce, but does not eliminate, the risk of increased operating costs from commodity price increases. In addition, if we are unsuccessful in our grain buying strategy, we could actually pay a higher cost for feed ingredients than we would if we purchased at current prices for current delivery.

Prepared chicken and poultry inventories, and inventories of feed, eggs, medication, packaging supplies and live chickens, are stated on our balance sheet at the lower of cost (first-in, first-out method) or market. Our cost of sales is calculated during a period by adding the value of our inventories at the beginning of the period to the cost of growing, processing and distributing products produced during the period and subtracting the value of our inventories at the end of the period. If the market prices of our inventories are below the accumulated cost of those inventories at the end of a period, we would record adjustments to write down the carrying value of the inventory from cost to market value. These write-downs would directly increase our cost of sales by the amount of the write-downs. This risk is greatest when the costs of feed ingredients are high and the market value for finished poultry products is declining.

For example, for the fiscal year ended October 31, 2008, we recorded a charge of \$35 million to lower the value of live broiler inventories on hand at that date from cost to estimated market value because the estimated market price for the products to be produced from those live chickens when sold was estimated to be below the estimated cost to grow, process and distribute those chickens. Market conditions improved during the first fiscal quarter ended January 31, 2009 such that the estimated market price of the products to be produced from our live broiler inventories on January 31, 2009 was higher than the estimated cost to grow, process and distribute those chickens and, accordingly, we recorded our live broiler inventories on January 31, 2009 at cost. The \$35 million adjustment to inventory on October 31, 2008 effectively absorbed into fiscal 2008 a portion of the costs to grow, process and distribute chickens that we would have otherwise incurred in the first quarter of fiscal 2009, thereby benefitting fiscal 2009. Any similar adjustments that we make in the future could be material, and could materially adversely affect our financial condition and results of operations.

**Table of Contents**

*Outbreaks of avian disease, such as avian influenza, or the perception that outbreaks may occur, can significantly restrict our ability to conduct our operations.*

We take reasonable precautions to ensure that our flocks are healthy and that our processing plants and other facilities operate in a sanitary and environmentally sound manner. Nevertheless, events beyond our control, such as the outbreak of avian disease, even if it does not affect our flocks, could significantly restrict our ability to conduct our operations or our sales. An outbreak of disease could result in governmental restrictions on the import and export of fresh and frozen chicken, including our fresh and frozen chicken products, or other products to or from our suppliers, facilities or customers, or require us to destroy one or more of our flocks. This could result in the cancellation of orders by our customers and create adverse publicity that may have a material adverse effect on our business, reputation and prospects. In addition, world-wide fears about avian disease, such as avian influenza, have, in the past, depressed demand for fresh chicken, which adversely impacted our sales.

In recent years there has been substantial publicity regarding a highly pathogenic Asian strain of avian influenza, or AI, known as H5N1, which has affected Asia since 2002 and which has been found in Europe, the Middle East and Africa. It is widely believed that this strain of AI is spread by migratory birds, such as ducks and geese. There have also been some cases where this strain of AI is believed to have passed from birds to humans as humans came into contact with live birds that were infected with the disease.

Although the highly pathogenic Asian strain of AI has not been identified in North America, there have been outbreaks of both low and high pathogenic strains of avian influenza in North America, including in the U.S. in 2002 and 2004 and in Mexico in past years, including 2005. In addition, low pathogenic strains of the AI virus were detected in wild birds in the United States in 2006. Although these outbreaks have not generated the same level of concern, or received the same level of publicity or been accompanied by the same reduction in demand for poultry products in certain countries as that associated with the highly pathogenic Asian strain, they have nevertheless impacted our sales. Accordingly, even if the Asian strain does not spread to North America, we cannot assure you that it will not materially adversely affect domestic or international demand for poultry produced in North America, and, if it were to spread to North America, we cannot assure you that it would not significantly affect our operations or the demand for our products, in each case in a manner having a material adverse effect on our business, reputation or prospects.

*A decrease in demand for our products in the export markets could materially and adversely affect our results of operations.*

Nearly all of our customers are based in the United States, but some of our customers resell poultry products in the export markets. Our chicken products are sold in Russia and other former Soviet countries, China and Mexico, among other countries. Approximately 9.7% of our sales in fiscal 2010 were to export markets, including \$45.0 million to Russia, \$20.3 million to Mexico and \$20.0 million to China. Any disruption to the export markets, such as trade embargos, tariffs, import bans, duties or quotas could materially impact our sales or create an oversupply of chicken in the United States. This, in turn, could cause domestic poultry prices to decline. Any quotas or bans in the future could materially and adversely affect our sales and our results of operations.

On January 19, 2010, Russia banned imports of U.S. poultry, citing its concerns about the practice in the United States of treating poultry meat with chlorinated water during processing. On February 5, 2010, China announced that it would impose anti-dumping duties on U.S. chicken products beginning on February 13, 2010. The duty applicable to Sanderson Farms products was 64.5%. On April 28, 2010, China imposed countervailing duties on United States chicken products, raising the duty applicable to Sanderson Farms products by 6.1% to 70.6%. The total duties were later lowered to 59.2%. Following the imposition of the Russian embargo and the Chinese duty, we and our customers who resell our frozen chicken product to Russia and China were able, for a period of time, to sell those products in alternative markets without a significant price disadvantage. However, our customers who resell or previously resold our frozen chicken products in China are now selling a portion of those products in China and paying the applicable duty. This lowers their return and the price they are willing to pay us, reducing our revenues and profits. We do not know whether or when China might lift the anti-dumping duties. In the case of Russia, an agreement between the governments of the United States and Russia was reached in July 2010 pursuant to which poultry meat processed pursuant to the standards demanded by Russia and incorporated into the agreement may be shipped to Russia.



**Table of Contents**

*The poultry industry is highly competitive. Some of our competitors have greater financial and marketing resources than we have.*

In general, the competitive factors in the U.S. poultry industry include:

price;

product quality;

brand identification;

breadth of product line and

customer service.

Competitive factors vary by major markets. In the food service market, competition is based on consistent quality, product development, service and price. In the U.S. retail grocery market, we believe that competition is based on product quality, brand awareness, price and customer service. Our success depends in part on our ability to manage costs and be efficient in the highly competitive poultry industry.

*The loss of our major customers could have a material adverse effect on our results of operations.*

Our sales to our top ten customers represented approximately 43.5% of our net sales during the 2010 fiscal year. Our non-chill pack customers, with whom we generally do not have long-term contracts, could significantly reduce or cease their purchases from us with little or no advance notice, which could materially and adversely affect our sales and results of operations.

*We must identify changing consumer preferences and develop and offer food products to meet their preferences.*

Consumer preferences evolve over time and the success of our food products depends on our ability to identify the tastes and dietary habits of consumers and to offer products that appeal to their preferences. We introduce new products and improved products from time to time and incur significant development and marketing cost. If our products fail to meet consumer preference, then our strategy to grow sales and profits with new products will be less successful.

*Inclement weather, such as excessive heat or storms, could hurt our flocks, which could in turn have a material adverse effect on our results of operations.*

Extreme weather in the Gulf South region where we operate, such as excessive heat, hurricanes or other storms, could impair the health or growth of our flocks or interfere with our hatching, production or shipping operations. Some scientists believe that climate change could increase the frequency and severity of adverse weather events. Extreme weather, regardless of its cause, could affect our business due to power outages; fuel shortages; damage to infrastructure from powerful winds, rising water or extreme temperatures; disruption of shipping channels; less efficient or non-routine operating practices necessitated by adverse weather or increased costs of insurance coverages in the aftermath of such events, among other things. Any of these factors could materially and adversely affect our results of operations. We may not be able to recover through insurance all of the damages, losses or costs that may result from weather events, including those that may be caused by climate change.

*We rely heavily on the services of key personnel.*

We depend substantially on the leadership of a small number of executive officers and other key employees. We have employment agreements with only three of these persons (our Chairman of the Board and Chief Executive Officer, our President and Chief Operating Officer, and our Treasurer and Chief Financial Officer), and those with whom we have no agreement would not be bound by non-competition agreements or non-solicitation agreements if they were to leave us. The loss of the services of these persons could have a material adverse effect on our business, results of operations and financial condition. In addition, we may not be able to attract, retain and train the new

**Table of Contents**

management personnel we need for our new complexes, or do so at the pace necessary to sustain our significant company growth.

*We depend on the availability of, and good relations with, our employees and contract growers.*

We have approximately 9,859 employees, approximately 33% of which are covered by collective bargaining agreements. In addition, we contract with over 761 independent farms in Mississippi, Texas and Georgia for the grow-out of our breeder and broiler stock and the production of broiler eggs. Our operations depend on the availability of labor and contract growers and maintaining good relations with these persons and with labor unions. If we fail to maintain good relations with our employees or with the unions, we may experience labor strikes or work stoppages. If we do not attract and maintain contracts with our growers, including new growers for our second potential new poultry complex in North Carolina, our production operations could be negatively impacted.

*Failure of our information technology infrastructure or software could adversely affect our day-to-day operations and decision making processes and have an adverse effect on our performance.*

We depend on accurate and timely information and numerical data from key software applications to aid our day-to-day business and decision-making and, in many cases, proprietary and custom-designed software is necessary to operate equipment in our feed mills, hatcheries and processing plants. Any disruption caused by the failure of these systems, the underlying equipment or communication networks could delay or otherwise adversely impact our day-to-day business and decision making, could make it impossible for us to operate critical equipment, and could have a materially adverse effect on our performance.

We have been informed by our primary financial reporting software vendor that the vendor will cease to support and maintain that software effective January 1, 2012. As a result, we are currently evaluating alternative products, and will purchase and integrate new software for our financial reporting systems during calendar 2011. Failures or delays in identifying, procuring and installing software that meets our needs, effectively integrating the software into our systems, or adequately training our personnel to use the new software could adversely affect our performance.

*Immigration legislation and enforcement may affect our ability to hire hourly workers.*

Immigration reform continues to attract significant attention in the public arena and the United States Congress. If new immigration legislation is enacted at the federal level or in states in which we do business, such legislation may contain provisions that could make it more difficult or costly for us to hire United States citizens and/or legal immigrant workers. In such case, we may incur additional costs to run our business or may have to change the way we conduct our operations, either of which could have a material adverse effect on our business, operating results and financial condition. Also, despite our past and continuing efforts to hire only United States citizens and/or persons legally authorized to work in the United States, increased enforcement efforts with respect to existing immigration laws by governmental authorities may disrupt a portion of our workforce or our operations at one or more of our facilities, thereby negatively impacting our business. Officials with the Bureau of Immigration and Customs Enforcement have informally indicated an intent to focus their enforcement efforts on red meat and poultry processors.

*If our poultry products become contaminated, we may be subject to product liability claims and product recalls.*

Poultry products may be subject to contamination by disease-producing organisms, or pathogens, such as *Listeria monocytogenes*, *Salmonella* and generic *E. coli*. These pathogens are generally found in the environment and, as a result, there is a risk that they, as a result of food processing, could be present in our processed poultry products. These pathogens can also be introduced as a result of improper handling by our customers, consumers or third parties after we have shipped the products. We control these risks through careful processing and testing of our finished product, but we cannot entirely eliminate them. We have little, if any, control over proper handling once the product has been shipped. Nevertheless, contamination that results from improper handling by our customers, consumers or third parties, or tampering with our products by those persons, may be blamed on us. Any publicity regarding product contamination or resulting illness or death could adversely affect us even if we did not cause the contamination and could have a material adverse effect on our business, reputation and future prospects. We could



**Table of Contents**

be required to recall our products if they are contaminated or damaged and product liability claims could be asserted against us.

*We are exposed to risks relating to product liability, product recalls, property damage and injuries to persons, for which insurance coverage is expensive, limited and potentially inadequate.*

Our business operations entail a number of risks, including risks relating to product liability claims, product recalls, property damage and injuries to persons. We currently maintain insurance with respect to certain of these risks, including product liability and recall insurance, property insurance, workers compensation insurance and general liability insurance, but in many cases such insurance is expensive and difficult to obtain. We cannot assure you that we can maintain on reasonable terms sufficient coverage to protect us against losses due to any of these events.

*We would be adversely affected if we expand our business by acquiring other businesses or by building new processing plants, but fail to successfully integrate the acquired business or run a new plant efficiently.*

We regularly evaluate expansion opportunities such as acquiring other businesses or building new processing plants. Significant expansion involves risks such as additional debt, integrating the acquired business or new plant into our operations and attracting and retaining growers. In evaluating expansion opportunities, we carefully consider the effect that financing the opportunity will have on our financial condition. Successful expansion depends on our ability to integrate the acquired business or efficiently run the new plant. If we are unable to do this, expansion could adversely affect our operations, financial results and prospects.

*Governmental regulation is a constant factor affecting our business.*

The poultry industry is subject to federal, state, local and foreign governmental regulation relating to the processing, packaging, storage, distribution, advertising, labeling, quality and safety of food products. Unknown matters, new laws and regulations, or stricter interpretations of existing laws or regulations may materially affect our business or operations in the future. Our failure to comply with applicable laws and regulations could subject us to administrative penalties and civil remedies, including fines, injunctions and recalls of our products. Our operations are also subject to extensive and increasingly stringent regulations administered by the Environmental Protection Agency, which pertain to the discharge of materials into the environment and the handling and disposition of wastes. Failure to comply with these regulations can have serious consequences, including civil and administrative penalties and negative publicity.

On June 18, 2010, the United States Department of Agriculture, Grain Inspection, Packers and Stockyards Administration, or GIPSA, proposed new regulations under the Packers and Stockyards Act, or PSA, that would apply to all stages of a live poultry dealer's poultry grow-out, including the pullet, breeder and broiler stages. If adopted, the new regulations would likely have a significant impact on the relationship between integrated poultry processors, like us, and their independent growers. While we believe there are insufficient facts and legal basis to support many of the proposed new rules, the rules, if adopted, would prohibit or restrict numerous practices that have been permitted for decades. Indeed, many of the proposed regulations would substantially limit our and our independent contract growers freedom of contract, and could fundamentally change the way integrated poultry companies pay their independent contract growers. Many of the proposed new regulations are, in our view, unclear, vague and would likely require litigation to determine their scope and impact. This litigation could be costly to our industry and us. Finally, GIPSA has proposed a regulation designed to overturn judicial precedent from several federal Circuit Courts of Appeal related to the fundamental scope and application of the PSA that could lead to unwarranted enforcement actions and private class action suits against integrated poultry companies, including us, that could have a materially adverse effect on our operations.

*Our stock price may be volatile.*

The market price of our common stock could be subject to wide fluctuations in response to factors such as the following, many of which are beyond our control:

market cyclicality and fluctuations in the price of feed grains and chicken products, as described above;

**Table of Contents**

quarterly variations in our operating results, or results that vary from the expectations of securities analysts and investors;

changes in investor perceptions of the poultry industry in general, including our competitors; and

general economic and competitive conditions.

In addition, purchases or sales of large quantities of our stock could have an unusual effect on our market price.

*Anti-takeover provisions in our charter and by-laws, as well as certain provisions of Mississippi law, may make it difficult for anyone to acquire us without approval of our board of directors.*

Our articles of incorporation and by-laws contain provisions that may discourage attempts to acquire control of our company without the approval of our board of directors. These provisions, among others, include a classified board of directors, advance notification requirements for stockholders to nominate persons for election to the board and to make stockholder proposals, and special stockholder voting requirements. These measures, and any others we may adopt in the future, as well as applicable provisions of Mississippi law, may discourage offers to acquire us and may permit our board of directors to choose not to entertain offers to purchase us, even offers that are at a substantial premium to the market price of our stock. Our stockholders may therefore be deprived of opportunities to profit from a sale of control of our company, and as a result, may adversely affect the marketability and market price of our common stock.

*Deteriorating national or global economic conditions could negatively impact our business.*

Our business may be adversely affected by deteriorating national or global economic conditions, including rising inflation, unfavorable currency exchange rates and interest rates, the lack of availability of credit on reasonable terms, changes in consumer spending rates and habits, and a tight energy supply and rising energy costs. With respect to changes in government policy, our business could be negatively impacted if efforts and initiatives of the governments of the United States and other countries to manage and stimulate the economy fail or result in worsening economic conditions. Deteriorating economic conditions could negatively impact consumer demand for protein generally or our products specifically, consumers' ability to afford our products, or consumer habits with respect to how they spend their food dollars.

The recent disruptions in credit and other financial markets caused by deteriorating national and international economic conditions could, among other things, make it more difficult for us, our customers or our growers or prospective growers to obtain financing and credit on reasonable terms, cause lenders to change their practice with respect to the industry generally or our company specifically in terms of granting credit extensions and terms, impair the financial condition of our customers, suppliers or growers making it difficult for them to meet their obligations and supply raw material, or impair the financial condition of our insurers, making it difficult or impossible for them to meet their obligations to us.

*The construction and potential benefits of our new North Carolina facilities are subject to risks and uncertainties.*

In August 2009, we began construction of a poultry complex in Kinston, North Carolina. The budget for the project is approximately \$121.4 million. We expect initial operation of the new complex to begin during the first quarter of fiscal 2011. In March 2010 we announced plans for a second potential new poultry complex in North Carolina, subject to our obtaining an acceptable economic incentive package from the State of North Carolina and the local government. Our ability to complete construction of these plants on a timely basis and within budget is subject to a number of risks and uncertainties described below. Once constructed and in operation, the Kinston complex and the second potential complex may not generate the benefits we expect if demand for the products to be produced by them is different from what we expect.

In order to begin construction of the second North Carolina facility, we will need to take a significant number of steps and obtain a number of approvals, none of which we can assure you will be obtained. In particular:

**Table of Contents**

we will need to identify a site and purchase or lease such site;

we will need to obtain a number of licenses and permits; and

we will need to enter into construction contracts.

Additionally, we must attract and enter into contracts with a sufficient number of growers for the second North Carolina complex, and our growers must obtain financing on reasonable terms. If we are unable to identify a site for the second new North Carolina complex and obtain the necessary licenses and permits, proceed with or complete construction of both complexes as planned, attract growers or achieve the expected benefits of these new facilities, our business could be negatively impacted.

We cannot assure you that we will be able to complete such steps on a timely basis, or at all, or on terms that are reasonable or consistent with our expectations.

**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Item 2. Properties.**

The Registrant's principal properties are as follows:

<b>Use</b>	<b>Location (City, State)</b>
Poultry complex, including poultry processing plant, hatchery and feedmill	Laurel, Mississippi
Poultry complex, including poultry processing plant, hatchery and feedmill	McComb, Mississippi
Poultry complex, including poultry processing plant, hatchery and feedmill	Hazlehurst and Gallman, Mississippi
Poultry complex, including poultry processing plant, hatchery and feedmill	Bryan and Robertson Counties, Texas
Poultry complex, including poultry processing plant, hatchery and feedmill	Moultrie and Adel, Georgia
Poultry complex, including poultry processing plant and hatchery	Waco and McLennan County, Texas
Poultry processing plant	Hammond, Louisiana
Poultry processing plant, hatchery, child care facility and feedmill	Collins, Mississippi
Poultry processing plant, hatchery and feedmill	Kinston and Lenoir County, North Carolina
Prepared food plant	Jackson, Mississippi
Corporate general offices and technical laboratory	Laurel, Mississippi

The Registrant owns substantially all of its major operating facilities with the following exceptions: one processing plant and feed mill complex is leased on an annual renewal basis through 2063 with an option to purchase at a nominal amount at the end of the lease term. One processing plant complex is leased under four leases, which are renewable annually through 2061, 2063, 2075 and 2073, respectively. Certain infrastructure improvements associated with a processing plant are leased under a lease that expires in 2012 and is thereafter renewable annually through 2091. All of the foregoing leases are capital leases.

There are no material encumbrances on the major operating facilities owned by the Registrant, except that, under the terms of the Company's revolving credit agreement, the Registrant may not pledge any additional assets as collateral other than fixed assets not to exceed \$5.0 million at any one time.

Management believes that the Company's facilities are suitable for its current purposes, and believes that current renovations and expansions will enhance present operations and allow for future internal growth.

**Table of Contents****Item 3. Legal Proceedings**

The Company is involved in various claims and litigation incidental to its business. Although the outcome of these matters cannot be determined with certainty, management, upon the advice of counsel, is of the opinion that the final outcome should not have a material effect on the Company's consolidated results of operations or financial position.

The Company recognizes the costs of legal defense for the legal proceedings to which it is a party in the periods incurred. A determination of the amount of reserves required, if any, for these matters is made after considerable analysis of each individual case. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed reasonably estimable and probable due to changes in the Company's assumptions, the effectiveness of legal strategies, or other factors beyond the Company's control. Future results of operations may be materially affected by the creation of reserves or by accruals of losses to reflect any adverse determinations in these legal proceedings.

**Item 4A. Executive Officers of the Registrant.**

<b>Name</b>	<b>Age</b>	<b>Office</b>	<b>Executive Officer Since</b>
Joe F. Sanderson, Jr.	<b>63</b>	Chairman of the Board of Directors and Chief Executive Officer	1984(1)
Lampkin Butts	<b>59</b>	President and Chief Operating Officer, Director	1996(2)
Mike Cockrell	<b>53</b>	Treasurer and Chief Financial Officer, Director	1993(3)
James A. Grimes	<b>62</b>	Secretary and Chief Accounting Officer	1993(4)

- (1) Joe F. Sanderson, Jr. has served as Chief Executive Officer of the Registrant since November 1, 1989, and as Chairman of the Board since January 8, 1998. Mr. Sanderson served as President from November 1, 1989, to October 21, 2004. From January 1984 to November 1989, Mr. Sanderson served as Vice-President, Processing and Marketing of the Registrant.
- (2) Lampkin Butts was elected President and Chief Operating Officer of the Registrant effective October 21, 2004. From November 1, 1996 to October 21, 2004, Mr. Butts served as Vice President - Sales and was elected to the Board of Directors on February 19, 1998. Prior to that time, Mr. Butts served the Registrant in various capacities since 1973.
- (3) Mike Cockrell became Treasurer and Chief Financial Officer of the Registrant effective November 1, 1993, and was elected to the Board of Directors on February 19, 1998. Prior to that time, for more than five years, Mr. Cockrell was a member and shareholder of the Jackson, Mississippi law firm of Wise Carter Child & Caraway, Professional Association.
- (4) James A. Grimes became Secretary of the Registrant effective November 1, 1993. Mr. Grimes also serves as Chief Accounting Officer, which position he has held since 1985.

The Company entered into employment agreements with Messrs. Sanderson, Butts and Cockrell dated as of September 15, 2009. The term of the agreements ends when the officer's employment terminates under the provisions of the agreement. The agreements provide for severance payments to be paid to the officers if their employment is terminated in certain circumstances, as well as provisions prohibiting them from engaging in certain competitive activity with the Company during their employment and for the two years after their employment with the Company terminates for any reason other than poor performance.

**Table of Contents****PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

The Company's common stock is traded on the NASDAQ Stock Market LLC under the symbol SAFM.

The number of stockholders of record as of November 30, 2010 was 3,192.

The following table shows quarterly cash dividends and quarterly high and low sales prices for the common stock for the past two fiscal years. NASDAQ quotations are based on actual sales prices.

	<b>Fiscal Year 2010</b>	<b>Stock Price</b>		<b>Dividends</b>
		<b>High</b>	<b>Low</b>	
First Quarter		\$47.95	\$36.80	\$.15
Second Quarter		\$59.05	\$46.10	\$.15
Third Quarter		\$57.37	\$46.75	\$.15
Fourth Quarter		\$45.82	\$38.98	\$.17

  

	<b>Fiscal Year 2009</b>	<b>Stock Price</b>		<b>Dividends</b>
		<b>High</b>	<b>Low</b>	
First Quarter		\$38.24	\$21.65	\$.14
Second Quarter		\$42.00	\$27.44	\$.14
Third Quarter		\$48.53	\$38.59	\$.14
Fourth Quarter		\$42.75	\$36.39	\$.15

On December 10, 2010 the closing sales price for the common stock was \$43.56 per share.

During its fourth fiscal quarter, the Company repurchased shares of its common stock as follows:

<b>Period</b>	<b>(a) Total Number of Shares Purchased<sup>1</sup></b>	<b>(b) Average Price Paid per Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs<sup>2</sup></b>
Aug. 1, 2010 - Aug. 31, 2010	209,252	\$ 43.25	209,252	744,456
Sept. 1, 2010 - Sept. 30, 2010	456,402	\$ 42.46	456,402	288,054
Oct. 1, 2010 - Oct. 31, 2010	0	\$ 00.00	0	288,054
<b>Total</b>	<b>665,654</b>	<b>\$ 42.71</b>	<b>665,654</b>	<b>288,054</b>

- 1 The Company purchased 966 shares during September 2010 pursuant to the Company's Stock Incentive Plan under which participants may satisfy tax withholding obligations incurred upon the vesting of restricted stock by requesting the Company to withhold shares with a value equal to the amount of the withholding obligation. The remaining 664,688 shares purchased during the fourth quarter of fiscal 2010 were purchased in open market transactions.

- 2 The Company announced on April 28, 2008 that its Board of Directors had authorized the repurchase of up to 225,000 shares over a period of four years from that date. On October 22, 2009, the Company announced that the Board expanded the stock repurchase program to cover the repurchase of up to 1 million shares. Under the stock repurchase program, shares may be purchased from time to time at prevailing prices in open market transactions or in negotiated purchases, subject to market conditions, share price and other considerations. The Company has repurchased 711,946 shares as of October 31, 2010 under the authorized stock repurchase program.

**Table of Contents****Item 6. Selected Financial Data.**

	<b>Year Ended October 31,</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(In thousands, except per share data)</b>				
Net sales	\$ 1,925,445	\$ 1,789,508	\$ 1,723,583	\$ 1,474,844	\$ 1,047,930
Operating income (loss)	209,841	136,610	(65,663)	125,393	(26,816)
Net income (loss)	134,820	82,319	(43,129)	78,833	(11,501)
Basic earnings (loss) per share	6.07	3.94	(2.13)	3.83	(0.57)
Diluted earnings (loss) per share	6.07	3.94	(2.13)	3.82	(0.57)
Working capital	238,166	162,663	188,779	128,049	112,883
Total assets	841,620	636,176	681,158	600,373	485,067
Long-term debt, less current maturities	62,075	103,123	225,322	96,623	77,078
Stockholders' equity	645,713	430,708	353,967	404,546	328,340
Cash dividends declared per share	\$ .62	\$ .57	\$ .56	\$ .50	\$ .48

Various factors affecting the comparability of the information included in the table above are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.****CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE PERFORMANCE**

This Annual Report, and other periodic reports filed by the Company under the Securities Exchange Act of 1934, and other written or oral statements made by it or on its behalf, may include forward-looking statements, which are based on a number of assumptions about future events and are subject to various risks, uncertainties and other factors that may cause actual results to differ materially from the views, beliefs and estimates expressed in such statements. These risks, uncertainties and other factors include, but are not limited to the following:

- (1) Changes in the market price for the Company's finished products and feed grains, both of which may fluctuate substantially and exhibit cyclical characteristics typically associated with commodity markets.
- (2) Changes in economic and business conditions, monetary and fiscal policies or the amount of growth, stagnation or recession in the global or U.S. economies, either of which may affect the value of inventories, the collectability of accounts receivable or the financial integrity of customers, and the ability of the end user or consumer to afford protein.
- (3) Changes in the political or economic climate, trade policies, laws and regulations or the domestic poultry industry of countries to which the Company or other companies in the poultry industry ship product, and other changes that might limit the Company's or the industry's access to foreign markets.
- (4) Changes in laws, regulations, and other activities in government agencies and similar organizations applicable to the Company and the poultry industry and changes in laws, regulations and other activities in government agencies and similar organizations related to food safety.
- (5) Various inventory risks due to changes in market conditions.
- (6) Changes in and effects of competition, which is significant in all markets in which the Company competes, and the effectiveness of marketing and advertising programs. The Company competes with regional and national firms, some of which have greater financial and marketing resources than the Company.
- (7) Changes in accounting policies and practices adopted voluntarily by the Company or required to be adopted by accounting principles generally accepted in the United States.
- (8) Disease outbreaks affecting the production performance and/or marketability of the Company's poultry products, or the contamination of its products.

**Table of Contents**

- (9) Changes in the availability and cost of labor and growers.
- (10) The loss of any of the Company's major customers.
- (11) Inclement weather that could hurt Company flocks or otherwise adversely affect its operations, or changes in global weather patterns that could impact the supply of feed grains.
- (12) Failure to respond to changing consumer preferences.
- (13) Failure to successfully and efficiently start up and run a new plant or integrate any business the Company might acquire.

Readers are cautioned not to place undue reliance on forward-looking statements made by or on behalf of Sanderson Farms. Each such statement speaks only as of the day it was made. The Company undertakes no obligation to update or to revise any forward-looking statements. The factors described above cannot be controlled by the Company. When used in this annual report, the words believes, estimates, plans, expects, should, outlook, and anticipates and other expressions as they relate to the Company or its management are intended to identify forward-looking statements.

**GENERAL**

The Company's poultry operations are integrated through its control of all functions relative to the production of its chicken products, including hatching egg production, hatching, feed manufacturing, raising chickens to marketable age (grow-out), processing and marketing. Consistent with the poultry industry, the Company's profitability is substantially impacted by the market price for its finished products and feed grains, both of which may fluctuate substantially and exhibit cyclical characteristics typically associated with commodity markets. Other costs, excluding feed grains, related to the profitability of the Company's poultry operations, including hatching egg production, hatching, growing, and processing cost, are responsive to efficient cost containment programs and management practices. Over the past three fiscal years, these other normal production costs have averaged approximately 52.8% of the Company's total normal production costs.

The Company believes that value-added products are subject to less price volatility and generate higher, more consistent profit margin than whole chickens ice packed and shipped in bulk form. To reduce its exposure to market cyclicality that has historically characterized commodity chicken market prices, the Company has increasingly concentrated on the production and marketing of value-added product lines with emphasis on product quality, customer service, and brand recognition. However, the Company cannot eliminate its exposure to fluctuations in commodity market prices for chicken since market prices for value added products also exhibit cyclicality. The Company adds value to its poultry products by performing one or more processing steps beyond the stage where the whole chicken is first saleable as a finished product, such as cutting, deep chilling, packaging and labeling the product.

The Company's prepared chicken product line includes approximately 65 institutional and consumer packaged chicken items that it sells nationally, primarily to distributors and food service establishments. A majority of the prepared chicken items are made to the specifications of food service users.



**Table of Contents**

Poultry prices per pound, as measured by the Georgia Dock price, fluctuated during the three years ended October 31 as follows:

	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>
Fiscal 2010				
High	\$.8325	\$.8525	\$.8800*	\$.8800*
Low	\$.8200*	\$.8325	\$.8550	\$.8650
Fiscal 2009				
High	\$.8725	\$.8725	\$.8900*	\$.8800
Low	\$.8675	\$.8550	\$.8600	\$.8250*
Fiscal 2008				
High	\$.7850	\$.8200	\$.8875	\$.8875*
Low	\$.7675*	\$.7800	\$.8250	\$.8750

\* Year High/Low

On January 12, 2006, the Company announced that sites in Waco and McLennan County, Texas had been selected for the construction of a new poultry complex, consisting of a processing plant, hatchery and wastewater treatment facility. The processing plant began processing chickens on August 6, 2007, and reached full capacity of 1,250,000 chickens per week during the third quarter of fiscal 2009.

Sanderson Farms announced plans on April 24, 2008 to invest approximately \$126.5 million for construction of a new feed mill, poultry processing plant and hatchery on separate sites in Kinston and Lenoir County, North Carolina. On June 26, 2008, the Company announced its decision to postpone the project due to market conditions and escalating grain prices. On July 23, 2009, the Company announced plans to proceed with the construction and start-up of the Company's Kinston, North Carolina poultry complex with an expected budget of approximately \$121.4 million. The Kinston facilities will have the capacity to process 1,250,000 chickens per week for the retail chill pack market. At full capacity, the complex will employ approximately 1,500 people, will require 130 contract growers, and will be equipped to process and sell 6.7 million pounds per week of dressed poultry meat. The Company will begin initial operation at the new complex in January 2011.

On March 29, 2010, the Company announced its plans to construct a potential second new poultry complex in North Carolina, subject to various contingencies including, among others, our obtaining an acceptable economic incentive package from the state and local governments. The project, if completed, will consist of an expansion of the feed mill for the Kinston, North Carolina plant, a hatchery, a processing plant with capacity to process 1.25 million chickens per week and a waste water treatment facility. At full capacity, the plant is expected to employ approximately 1,100 people, will require approximately 150 contract growers and will be equipped to process and sell 8.9 million pounds of dressed poultry per week. We will need to identify a site, obtain permits, enter into construction contracts and complete construction before the complex can open. See Item 1A, Risk Factors. The construction and potential benefits of our new North Carolina facilities are subject to risks and uncertainties.

On May 1, 2008, the Company entered into a new revolving credit facility to, among other things, increase the available credit to \$300.0 million, increase the capital expenditure limits to allow construction of the Kinston, North Carolina facility, and to change the covenant requiring a maximum debt to total capitalization ratio of 50% during fiscal 2008, 55% during fiscal 2009 and not to exceed 50% for fiscal 2010 and thereafter. On December 13, 2010, the Company entered into an amendment to the facility to increase the capital expenditure limitation to \$55 million during fiscal 2011, 2012 and 2013, and to permit up to \$115 million in capital expenditures to be spent at any time during the term of the agreement on the potential second new poultry complex in North Carolina. The credit remains unsecured and, unless extended, will expire on May 1, 2013. At October 31, 2010 the Company had \$291.6 million available under the revolving credit facility.

On October 9, 2008, the Company announced that it filed a Form S-3 shelf registration statement with the Securities and Exchange Commission to register for possible future sale of shares of the Company's common and/or preferred

stock at an aggregate offering price not to exceed \$1.0 billion. The stock may be offered by the Company in amounts, at prices and on terms to be determined by the board of directors if and when shares are issued. The

**Table of Contents**

Company sold 2.3 million shares of its common stock pursuant to this registration statement on April 7, 2010 at \$53.00 per share.

**EXECUTIVE OVERVIEW OF RESULTS 2010**

During fiscal 2010 as compared to fiscal 2009, the Company's margins improved primarily as a result of higher overall market prices for poultry products, additional pounds of poultry products sold and a decrease of \$0.0103 per pound, or 3.6% in feed costs in broiler flocks sold. The Company believes overall market prices for poultry products during fiscal 2010 as compared to fiscal 2009 improved due more from the tightening of the supply of poultry products than an improvement in demand from consumers. While encouraged by the recent re-opening of Russia to United States poultry products and significantly higher market prices for boneless breast meat and tenders during the fourth quarter of fiscal 2010 as compared to the fourth quarter of fiscal 2009, the Company believes that demand for white meat from food service customers will remain under pressure until overall economic conditions in the United States improve and export demand from Russia and China will continue to be subject to political uncertainty. Feed grain market prices have increased significantly due to multiple factors, including the lower than expected United States corn crop, recent drought conditions in Russia and increased demand for grain from China. The Company has not priced a significant portion of its grain needs for fiscal 2011. Had it priced those needs at December 10, 2010 market prices, including the additional volume needed during 2011, cash feed grain prices would be approximately \$231.2 million higher during fiscal 2011 as compared to fiscal 2010.

**RESULTS OF OPERATIONS 2010**

Net sales for fiscal 2010 were \$1,925.4 million as compared to \$1,789.5 million during fiscal 2009, an increase of \$135.9 million or 7.6%. Net sales of poultry products during fiscal 2010 and fiscal 2009 were \$1,803.9 million and \$1,656.6 million, respectively. The increase of \$147.3 million or 8.9% in net sales of poultry products during fiscal 2010 as compared to fiscal 2009 resulted from an increase in the pounds of poultry products sold of 4.7% and an increase in the Company's average sales price of poultry products of 4.0%. The Company sold 2.57 billion pounds of poultry products during fiscal 2010, up from 2.45 billion pounds during fiscal 2009 resulting from an increase in the Company's average live weight of chickens processed of 3.5% and an increase in the number of chickens processed of 2.0%. During fiscal 2009, the Company implemented a planned reduction in pounds of poultry produced in response to weak demand from food service customers. Overall, market prices for poultry products improved during fiscal 2010 as compared to fiscal 2009 as reflected by increases in the average Urner Barry market prices for boneless breast and tenders of 12.3% and 6.8%, respectively. These improvements were somewhat offset by decreases in the average Urner Barry market prices of bulk leg quarters and jumbo wings of 4.2% and 3.2%, respectively, and a decrease in the average Georgia Dock price for whole chickens of 1.3%. Net sales of prepared chicken products during fiscal 2010 were \$121.5 million as compared to \$132.9 million during fiscal 2009, a decrease of \$11.4 million or 8.6%. This was the result of a decrease in the pounds of prepared chicken products sold from 64.8 million pounds sold during fiscal 2009 to 61.0 million pounds sold during fiscal 2010.

Cost of sales during fiscal 2010 were \$1,630.5 million as compared to \$1,589.2 million during fiscal 2009, an increase of \$41.3 million or 2.6%. Cost of sales of poultry products during fiscal 2010 as compared to fiscal 2009 were \$1,519.4 million and \$1,471.9 million, respectively, an increase of \$47.5 million or 3.2%. As illustrated in the table below, the increase in the cost of sales of poultry products resulted from an increase in the pounds of poultry products sold of 4.7% offset by a decrease in feed costs per pound of 3.6%.

**Poultry Cost of Sales**

(In thousands, except per pound data)

Description	2010		2009		Increase (Decrease)	
	Dollars	Per Pnd	Dollars	Per Pnd	Dollars	Per Pnd
Feed in broiler flocks sold	\$ 704,733	\$0.2742	\$ 698,287	\$0.2845	\$ 6,446	\$(0.0103)
All other cost of sales	\$ 814,626	\$0.3170	\$ 773,619	\$0.3152	\$41,007	\$ 0.0018

Edgar Filing: SANDERSON FARMS INC - Form 10-K

Total poultry cost of sales	\$1,519,359	\$0.5912	\$1,471,906	\$0.5997	\$47,453	\$(0.0085)
Poultry Pounds Sold	2,570,017		2,454,344			

---

**Table of Contents**

The cost of feed in broiler flocks sold during fiscal 2010 as compared to fiscal 2009 increased \$6.4 million, but decreased \$0.0103 per pound. Excluding feed in broiler flocks sold, all other costs of sales increased \$41.0 million or \$0.0018 per pound of poultry products sold. These other costs of sales of poultry products include labor, contract grower pay, packaging, freight and certain fixed costs, among other costs. All other costs of sales also include bonuses in fiscal 2010 and fiscal 2009 of \$11.4 million and \$7.5 million, respectively. Costs of sales of the Company's prepared chicken products were \$111.2 million during fiscal 2010 as compared to \$117.3 million during fiscal 2009, a decrease of \$6.1 million or 5.2%.

Selling, general and administrative costs during fiscal 2010 and fiscal 2009 were \$85.1 million and \$63.7 million, respectively, an increase of \$21.4 million. The following table includes the components of selling, general and administrative costs for the twelve months ended October 31, 2010 and 2009.

Selling, General and Administrative Cost  
(In thousands)

Description	2010	2009
All other S,G & A	\$49,002	\$44,160
ESOP expense	9,000	6,000
Start up expense	6,143	264
Stock compensation expense	7,462	5,799
Bonus expense	8,352	4,406
Advertising expense	637	591
Trainee Cost	4,459	2,443
Total S,G & A	\$85,055	\$63,663

As illustrated in the table above, the increase in selling, general and administrative costs during fiscal 2010 as compared to fiscal 2009 resulted from increased accruals related to the Company's Bonus Award and stock compensation plans and the Company's Employee Stock Ownership Plan (ESOP). In addition the Company incurred additional administrative costs related to the new Kinston and Lenoir County poultry complex. The Company expects start up and trainee cost to be \$4.5 million during November and December 2010. All costs at Kinston, excluding customer service department costs, after the plant starts up operations during January 2011 will be included in cost of sales.

Operating income for fiscal 2010 was \$209.8 million as compared to operating income for fiscal 2009 of \$136.6 million, an improvement of \$73.2 million. The increase in the Company's operating income for fiscal 2010 as compared to fiscal 2009 resulted primarily from overall improvement in market prices of poultry products, a decrease in the cost of feed grains and increased profitability due to the additional pounds of poultry products sold during fiscal 2010 as compared to fiscal 2009.

Interest expense during fiscal 2010 was \$2.7 million as compared to \$9.0 million for fiscal 2009. The decrease in interest expense during fiscal 2010 as compared to fiscal 2009 resulted from lower average outstanding debt and approximately \$1.9 million in interest cost capitalized during fiscal 2010 to the new complex under construction in Kinston and Lenoir County, North Carolina. The Company capitalized minimal interest cost during fiscal 2009. The Company's effective tax rate during fiscal 2010 was 35.0% and differs from the statutory federal rate due to state income taxes, certain nondeductible expenses for federal income tax purposes and state tax credits. The Company's effective tax rate for fiscal 2009 was 35.5% and differs from the statutory federal rate due to state income taxes, certain nondeductible expenses for federal income tax purposes, tax credits available as a result of Hurricane Katrina and state credits unrelated to the hurricane. The federal tax credits related to Hurricane Katrina expired on August 29, 2009, and unless Congress extends the benefit, the Company will not benefit from such

**Table of Contents**

credits during fiscal 2011. Without the federal tax credits related to Hurricane Katrina, the Company's effective tax rate for fiscal 2009 would have been approximately 36.5%.

Net income for fiscal 2010 was \$134.8 million or \$6.07 per share as compared to a net income of \$82.3 million or \$3.94 per share for fiscal 2009.

**EXECUTIVE OVERVIEW OF RESULTS 2009**

During fiscal 2009, the Company's margin improved as compared to fiscal 2008 as a result of significantly lower cost of corn and an overall improvement in market prices for poultry products. During fiscal 2009, the Company's cost of feed grains were approximately \$120.8 million lower than during fiscal 2008 and were 47.3% of cost of sales of poultry products during fiscal 2009 as compared to 50.1% of cost of sales of poultry products during fiscal 2008. The improvement in the overall market prices for poultry products during fiscal 2009 resulted more from a tightening of the supply of poultry products than an improvement in demand from consumers. While demand for fresh chicken in retail grocery stores was relatively strong during fiscal 2009, demand from some food service customers remained weak.

**RESULTS OF OPERATIONS 2009**

Net sales during fiscal 2009 were \$1,789.5 million as compared to \$1,723.6 million during fiscal 2008, an increase of \$65.9 million or 3.8%. Net sales of poultry products during fiscal 2009 and fiscal 2008 were \$1,656.6 million and \$1,588.6 million, respectively. The increase of \$68.0 million or 4.3% in net sales of poultry products during fiscal 2009 as compared to fiscal 2008 resulted from an increase in the pounds of poultry products sold of 2.8% and an increase in the Company's average sales price of poultry products of 1.4%. During fiscal 2009, the Company implemented a planned reduction in pounds of poultry produced in response to weak demand from food service customers. The effect of this reduction was offset by additional pounds of poultry products produced at the Company's new poultry complex in Waco, Texas and a reduction in processed inventories. The new Waco complex began initial operations in the fourth quarter of fiscal 2007 and reached full capacity during the third quarter of fiscal 2009. Overall, market prices for poultry products improved during fiscal 2009 as compared to fiscal 2008. A simple average of the Georgia dock prices for whole birds increased by 4.0% during fiscal 2009 as compared to fiscal 2008. Market prices for jumbo wings and tenders during fiscal 2009 as compared to fiscal 2008 were significantly higher increasing 40.7% and 15.8%, respectively. However, market prices for bulk leg quarters and boneless breast meat decreased 19.2% and 1.0%, respectively, during fiscal 2009 as compared to fiscal 2008. Net sales of prepared chicken products during fiscal 2009 were \$132.9 million as compared to \$134.9 million during fiscal 2008, a decrease of \$2.0 million or 1.5%. The decrease in net sales of prepared chicken products resulted from a decrease in the pounds of prepared chicken products sold of 5.6% and an increase in the average sales price of prepared chicken products of 4.3% during fiscal 2009 as compared to fiscal 2008. The Company made changes at the prepared chicken plant to increase that facility's capacity to produce individually frozen poultry products and cooked poultry products in fiscal 2008.

During fiscal 2009 cost of sales were \$1,589.2 million as compared to \$1,683.7 million during fiscal 2008, a decrease of \$94.4 million or 5.6%. Cost of sales of poultry products sold during fiscal 2009 and fiscal 2008 were \$1,471.9 million and \$1,559.3 million, respectively, a decrease of \$87.3 million or 5.6%. As illustrated in the table below, the decrease in the cost of sales of poultry products sold resulted primarily from lower feed costs in broiler flocks sold, offset by the additional pounds of poultry products sold of 2.8%.

**Poultry Cost of Sales**

(In thousands, except per pound data)

Description	2009		2008		Increase/(Decrease)	
	Dollars	Per Pnd	Dollars	Per Pnd	Dollars	Per Pnd
Feed in broiler flocks sold	\$ 698,287	\$0.2845	\$ 783,550	\$0.3282	\$(85,263)	\$(0.0437)
All other cost of sales	\$ 773,619	\$0.3152	\$ 775,706	\$0.3249	\$( 2,087)	\$(0.0098)
	\$1,471,906	\$0.5997	\$1,559,256	\$0.6532	\$(87,350)	\$(0.0535)

Total poultry cost of sales

Poultry Pounds Sold	2,454,344	2,387,164
		28

---

**Table of Contents**

A simple average of the Company's cost of corn and soybean meal purchased by the Company during fiscal 2009 as compared to fiscal 2008 reflected decreases of 22.4% and 0.6%, respectively. Excluding feed in broiler flocks sold, all other costs of sales decreased \$2.1 million and is reflective of the increase in pounds of poultry products sold of 2.8% offset by lower freight costs and improved efficiencies at the Company's new complex in Waco, Texas which was operating closer to capacity during fiscal 2009 than during fiscal 2008. These other costs of sales of poultry products include labor, contract grower pay, packaging and freight, among other costs. Costs of sales of the Company's prepared chicken products were \$117.3 million during fiscal 2009 as compared to \$124.4 million during fiscal 2008, a decrease of \$7.1 million, or 5.7%, due primarily to the decrease in the pounds of prepared chicken products sold of 5.6%.

Selling, general and administrative costs during fiscal 2009 and fiscal 2008 were \$63.7 million and \$53.6 million, respectively. The following table includes the components of selling, general and administrative costs for the twelve months ended October 31, 2009 and 2008.

Selling, General and Administrative Cost  
(In thousands)

Description	2009	2008
All other S,G & A	\$ 44,160	\$ 44,073
ESOP expense	6,000	0
Start up expense	264	28
Stock compensation expense	5,799	2,908
Bonus expense	4,406	0
Advertising expense	591	3,900
Trainee Cost	2,443	2,690
Total S,G & A	\$ 63,663	\$ 53,599

As illustrated in the table above, the increase of \$10.1 million resulted from contributions of \$6.0 million to the Company's ESOP, \$4.4 million expensed for the Company's bonus award program and \$2.7 million additional amortization related to restricted stock grants awarded during and prior to fiscal 2009. Contributions to the Company's ESOP and bonus program are contingent upon the Company's profitability, therefore, no expense was incurred during fiscal 2008 for these plans. These additional costs were partially offset by a planned decrease in advertising expenditures during fiscal 2009 as compared to fiscal 2008 of \$3.3 million.

On October 31, 2008, the Company recorded a charge of \$35.0 million to lower the value of live broiler inventories on hand from cost to estimated market value because the estimated market price for products to be produced from those live chickens when sold was below the estimated cost to grow, process and distribute those chickens. As of October 31, 2009 market fundamentals had improved such that the estimated market prices of the products to be produced from the Company's live broiler inventories were higher than the estimated cost to grow, process and distribute those chickens. Accordingly, the Company recorded its live broiler inventories on October 31, 2009 at cost. The \$35.0 million adjustment to live broiler inventories on October 31, 2008 effectively absorbed into fiscal 2008 a portion of the costs to grow, process and distribute chicken that were incurred and would have otherwise been recognized in fiscal 2009.

During September and October of 2008 market prices for products sold to some export markets declined significantly due to the world economic environment and the resulting tightening of the credit markets. The Company's processed inventory at October 31, 2008 included approximately 71.2 million pounds of leg quarters and paws awaiting shipment into the export markets. These products were appropriately valued at October 31, 2008 at the lower of cost or market value, resulting in a charge before income taxes of \$13.1 million. Market fundamentals at October 31, 2009 were much improved, and accordingly, the Company had no such charge at October 31, 2009.



As described in Note 6 of the Company's Quarterly Report on Form 10-Q for its third fiscal quarter ended July 31, 2008, the Company settled certain donning and doffing litigation during the third quarter of fiscal 2008. The

**Table of Contents**

settlement resulted in the recognition of a \$2.7 million expense before taxes during the third quarter ended July 31, 2008 and the fiscal year ended October 31, 2008.

During August and September of 2008 the Company incurred a charge of approximately \$1.2 million as a result of hurricane damage to processed poultry products in cold storage in New Orleans, Louisiana and additional expenses incurred due to temporary disruption of electricity service to the Company's Robertson County, Texas feed mill. A cold storage facility in New Orleans was partially flooded during Hurricane Gustav and resulted in damage to some of the product held in that storage facility. The feed mill was without electricity for approximately one week after Hurricane Ike during which time the Company was able to maintain basic operations by renting generator capacity. The feed mill returned to normal operations subsequent to electricity service being restored. The Company's insurance policy had a deductible of \$2,750,000 for the hurricane season. As the total cost of the hurricane season was less than the deductible, the Company was not reimbursed for these costs. The Company's operations were not impacted during fiscal 2009 by any hurricanes and as a result had no related costs during fiscal 2009.

Operating income for fiscal 2009 was \$136.6 million as compared to an operating loss for fiscal 2008 of \$65.7 million, an improvement of \$202.3 million. The increase in the Company's operating income for fiscal 2009 as compared to fiscal 2008 was the result of lower cost of corn, the \$35.0 million adjustment to live broiler inventories and the \$13.1 million adjustment to processed inventories during fiscal 2008 and an overall improvement in the market prices for poultry products, as described above.

Interest expense during fiscal 2009 was \$9.0 million, a slight increase from \$8.5 million in interest expense during fiscal 2008 and reflects the Company's higher average outstanding debt during fiscal 2009, which impact was partially offset by lower interest rates during fiscal 2009 as compared to fiscal 2008. The Company capitalized \$7,112 of interest cost during fiscal 2009 to the cost of construction of the new Kinston, North Carolina complex. The Company did not capitalize any interest cost during fiscal 2008.

The Company's effective tax rate during fiscal 2009 was 35.5% as compared to an effective tax rate of 41.8% during fiscal 2008. The Company's effective tax rate differs from the statutory federal rate of 35.0% due to state income taxes, certain nondeductible expenses for federal and state income tax purposes and tax credits available as a result of Hurricane Katrina and state credits unrelated to the hurricane. The federal tax credits related to Hurricane Katrina expired on August 29, 2009. Without the federal tax credits related to Hurricane Katrina, the Company's effective tax rates for fiscal 2009 and fiscal 2008 would have been approximately 36.5% and 39.2%, respectively.

Net income for fiscal 2009 was \$82.3 million or \$3.94 per share as compared to a net loss of \$43.1 million or \$2.13 per share for fiscal 2008. The Company's net loss for fiscal 2008 included charges of \$32.0 million, net of income taxes, or \$1.58 per share related to a write down of live and processed inventories, settlement of the Company's donning and doffing litigation and hurricane damaged inventories and additional hurricane related expenses.

**Liquidity and Capital Resources**

The Company's working capital, calculated by subtracting current liabilities from current assets, at October 31, 2010 was \$238.2 million and its current ratio, calculated by dividing current assets by current liabilities, was 3.2 to 1. The Company's working capital and current ratio at October 31, 2009 was \$162.7 million and 3.1 to 1. These measures reflect the Company's ability to meet its short term obligations and are included here as a measure of the Company's short term market liquidity. The improvement in the Company's working capital and current ratio at October 31, 2010 as compared to October 31, 2009 resulted, in part, from the secondary stock offering during the second quarter of fiscal 2010 and cash flows from operations during fiscal 2010. On April 7, 2010, the Company sold 2.3 million shares of its common stock at \$53.00 per share, resulting in net proceeds of \$115.1 million. The Company's principal source of liquidity during fiscal 2010 was cash from operations. The Company has a \$300.0 million revolving credit facility with nine banks. At October 31, 2010, there were \$8.4 million in outstanding letters of credit, and the Company had \$291.6 million available, if needed, under this revolving credit facility.

The Company's cash position at October 31, 2010 and 2009 consisted of \$73.4 million and \$8.2 million, respectively, in cash and cash equivalents. The Company's ability to invest cash is limited by covenants in its

**Table of Contents**

revolving credit agreement to short term, conservative investments. All of the Company's cash at October 31, 2010 and 2009 was held in checking accounts and highly liquid, overnight investment accounts maintained at two banks. There were no restrictions on the Company's access to its cash and cash investments, and such cash and cash investments were available to the Company on demand to fund its operations.

Cash flows provided by operating activities during fiscal 2010 and fiscal 2009 were \$178.4 million and \$162.9 million, respectively, an increase of \$15.5 million. The increase in cash flows from operations of \$15.5 million resulted primarily from an increase in cash received from customers as a result of the overall higher average prices for poultry products. Also, during fiscal 2009 the Company received refunds of prior year income taxes resulting from the fiscal 2008 net operating loss carryback.

Cash flows provided by (used in ) operating activities during fiscal 2009 and fiscal 2008 were \$162.9 million and (\$55.5) million, respectively. The improvement in cash flows from operations of \$218.4 million resulted primarily from the effects of lower market prices for corn and overall improved market prices for poultry products during fiscal 2009 as compared to fiscal 2008. During fiscal 2009, lower feed costs resulted in a significant reduction in cash paid for feed grains and operating activities of \$148.3. In addition, the Company benefited from increased cash received from customers of \$55.0 million resulting primarily from overall improved market prices for poultry products and a decrease in cash paid to employees of \$15.3 million during fiscal 2009 as compared to fiscal 2008. During fiscal 2008, the Company paid bonuses earned by employees and accrued by the Company during fiscal 2007. During fiscal 2009 the Company did not pay any bonuses, although bonuses were accrued in fiscal 2009 for payments in 2010.

Cash flows provided by (used in) operating activities during fiscal 2008 and fiscal 2007 were (\$55.5) million and \$99.2 million, respectively. The decrease in cash flows from operating activities between fiscal 2008 and fiscal 2007 of \$154.7 million relates primarily to the negative impact of higher cost of feed grains on the Company's margins. An increase in cash received from customers of \$283.3 million resulting from the additional pounds of products sold and a decrease in cash paid for income taxes of \$17.7 million during fiscal 2008 as compared to fiscal 2007 were more than offset by increases in cash used for feed grains and operating activities of \$413.1 million and to pay employees of \$47.0 million.

Cash flows used in investing activities during fiscal 2010, 2009 and 2008 were \$144.8 million, \$25.2 million and \$48.0 million, respectively. The Company's capital expenditures during fiscal 2010 were \$144.8 million and included \$107.7 million for construction of the Company's new Kinston and Lenoir County, North Carolina complex. During fiscal 2009, the Company spent approximately \$25.4 million on planned capital projects, including \$3.1 million to begin construction of the Company's new Kinston, North Carolina complex. During fiscal 2008, the Company spent approximately \$48.8 million on planned capital projects, which includes \$8.1 million to acquire land for the new Kinston, North Carolina complex. Excluding the Kinston and Lenoir County complex under construction, the Company's capital expenditures during fiscal 2010, 2009 and 2008 were \$37.1 million, \$22.3 million and \$40.7 million, respectively.

Cash flows provided by (used in) financing activities during fiscal 2010, 2009 and 2008 were \$31.6 million, (\$133.8) million and (\$105.1) million, respectively. On April 7, 2010 the Company sold 2.3 million shares of its common stock at \$53.00 per share resulting in net proceeds from the secondary offering of \$115.1 million. The Company used \$40.0 million of the proceeds from the sale of the stock to pay off the outstanding draws under its revolving credit facility. The remaining proceeds of \$75.2 million will be used to finance a portion of the construction of the new retail poultry complex in Kinston, North Carolina, construction of a potential new big bird poultry complex to be located in North Carolina, and general corporate purposes. A portion was also used during our fourth fiscal quarter of 2010 to purchase and retire 664,688 shares of common stock in open market transactions at a total cost of \$28.4 million. During fiscal 2009 the Company's favorable margins allowed for the repayment of borrowings under the revolving credit facility of \$121.3 million and to fund the 2009 capital budget. The Company borrowed \$116.3 million during fiscal 2008 under its revolving credit facility to fund the effects of higher grain costs and operating activities, the fiscal 2008 capital budget and payment of dividends. Approximately \$14.0 million, \$11.9 million and \$11.6 million were used for payment of dividends during fiscal 2010, 2009 and 2008, respectively, and reflect the Company's normal dividend rate.

The Company's capital budget for fiscal 2011 is approximately \$60.1 million and will be funded by \$73.4 million cash on hand at October 31, 2010, internally generated working capital, cash flows from operations and, as needed, draws under the Company's revolving credit facility. The Company had \$291.6 million available under the

**Table of Contents**

revolving line of credit at October 31, 2010. The fiscal 2011 capital budget includes approximately \$20.0 million to complete construction of the poultry complex in Kinston, North Carolina and \$11.9 million in vehicle operating leases, of which, \$7.2 million are for vehicles to be used at the Kinston, North Carolina complex. Also included in the fiscal 2011 capital budget is \$4.8 million in quality control equipment that was carried forward from the Company's fiscal 2010 capital budget and \$5.5 million for software replacement. Excluding these capital items, the Company's capital budget for fiscal 2011 would be \$25.1 million.

On October 9, 2008, the Company announced that it filed a Form S-3 shelf registration statement with the Securities and Exchange Commission to register for possible future sale of shares of the Company's common and/or preferred stock at an aggregate offering price not to exceed \$1.0 billion. The stock may be offered by the Company in amounts, at prices and on terms to be determined by the board of directors if and when shares are issued.

On March 29, 2010 the Company announced that it had commenced an underwritten registered public offering of 2,000,000 shares of its common stock under its shelf registration statement. In connection with this offering, the Company granted the underwriters a 30-day option to purchase up to an additional 300,000 shares of common stock to cover over-allotments, if any. On April 7, 2010 the Company announced the closing of its underwritten registered public offering of 2,300,000 shares of its common stock, including 300,000 shares issued in connection with the underwriters' exercise of their over-allotment option. The offering price to the public was \$53.00 per share. The Company also announced it intends to use the net proceeds from the offering, together with other funds, to finance the construction of its new retail poultry complex in Kinston, North Carolina, and a second potential complex to be located in North Carolina, discussed below. Pending such uses, net proceeds from the offering were used to reduce indebtedness and to invest in cash and cash equivalents. The Company has used some of the invested proceeds as working capital and for general corporate purposes.

Sanderson Farms announced plans on April 24, 2008, to invest approximately \$126.5 million for construction of a new feed mill, poultry processing plant and hatchery on separate sites in Kinston and Lenoir County, North Carolina.

On June 26, 2008, the Company announced its decision to postpone the project due to market conditions and escalating grain prices. On July 23, 2009, the Company announced plans to proceed with the construction and start-up of the Company's Kinston, North Carolina, poultry complex with a revised budget of approximately \$121.4 million. The Kinston facilities comprise a state-of-the-art poultry complex with the capacity to process 1,250,000 birds per week for the retail chill pack market. At full capacity, the complex will employ approximately 1,500 people, will require 130 contract growers, and will be equipped to process and sell 6.7 million pounds per week of dressed poultry meat. Construction began during August 2009 and the Company expects initial operations at the new complex to begin January 2011.

As discussed above, on March 29, 2010, the Company announced its plans to construct a potential second new poultry complex in North Carolina, subject to various contingencies including, among others, our obtaining an acceptable economic incentive package from the state and local governments. The project, if completed, will consist of an expansion of the feed mill for the Kinston, North Carolina plant, a hatchery, a processing plant with capacity to process 1.25 million chickens per week and a waste water treatment facility. At full capacity, the plant is expected to employ approximately 1,100 people, will require approximately 150 contract growers and will be equipped to process and sell 8.9 million pounds of dressed poultry per week. We will need to identify a site, obtain permits, enter into construction contracts and complete construction before the complex can open. See Item 1A, Risk Factors. The construction and potential benefits of our new North Carolina facilities are subject to risks and uncertainties.

On May 1, 2008, the Company entered into a new revolving credit facility to, among other things, increase the available credit to \$300.0 million, increase the capital expenditure limits to allow construction of the Kinston, North Carolina facility, and to change the covenant requiring a maximum debt to total capitalization ratio of 50% during fiscal 2008, 55% during fiscal 2009 and not to exceed 50% for fiscal 2010 and thereafter. On December 13, 2010, the Company entered into an amendment to the facility to increase the capital expenditure limitation to \$55 million during fiscal 2011, 2012 and 2013, and to permit up to \$115 million in capital expenditures to be spent at any time during the term of the agreement on the potential second new poultry complex in North Carolina. The credit remains unsecured and, unless extended, will expire on May 1, 2013. As of October 31, 2010 the Company has no outstanding borrowings under the revolving credit facility, but the Company does have \$8.4 million outstanding letters of credit

under the credit facility.

**Table of Contents**

The Company regularly evaluates both internal and external growth opportunities, including acquisition opportunities and the possible construction of new production assets, and conducts due diligence activities in connection with such opportunities. The cost and terms of any financing to be raised in conjunction with any growth opportunity, including the Company's ability to raise debt or equity capital on terms and at costs satisfactory to the Company, and the effect of such opportunities on the Company's balance sheet, are critical considerations in any such evaluation.

**Contractual Obligations**

Obligations under long-term debt, long-term capital leases, non-cancelable operating leases, purchase obligations relating to feed grains, other feed ingredients and packaging supplies and claims payable relating to the Company's workers' compensation insurance policy at October 31, 2010 were as follows (in thousands):

	Total	Payments Due By Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt	\$ 50,000	\$ 0	\$ 20,000	\$ 20,000	\$ 10,000
Capital lease obligations	13,123	1,048	1,863	10,212	0
Interest on long-term debt	13,356	3,751	6,073	3,229	303
Operating leases	5,979	3,827	2,152	0	0
Purchase obligations:					
Feed grains, feed ingredients and packaging supplies	177,763	134,110	40,295	3,358	0
Construction contracts	10,779	10,779	0	0	0
Claims payable	10,645	8,545	2,100	0	0
Total	\$ 281,645	\$ 162,060	\$ 72,483	\$ 36,799	\$ 10,303

**Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles ( GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions, and the differences could be material.

**Allowance for Doubtful Accounts**

In the normal course of business, the Company extends credit to its customers on a short-term basis. Although credit risks associated with our customers are considered minimal, the Company routinely reviews its accounts receivable balances and makes provisions for probable doubtful accounts based on an individual assessment of a customer's credit quality as well as subjective factors and trends, including the aging of receivable balances. In circumstances where management is aware of a specific customer's inability to meet its financial obligations to the Company, a specific reserve is recorded to reduce the receivable to the amount expected to be collected. If circumstances change (i.e., higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligations to us), our estimates of the recoverability of amounts due us could be reduced by a material amount, and the allowance for doubtful accounts and related bad debt expense would increase by the same amount.

**Inventories**

Processed and prepared inventories and inventories of feed, eggs, medication and packaging supplies are stated at the lower of cost (first-in, first-out method) or market. When market prices for poultry are low and feed grains are high, the Company may be required to write down the carrying values of processed poultry and feed inventories to fair market value, which would increase the Company's cost of sales.

Live poultry inventories of broilers are stated at the lower of cost or market and breeders at cost less accumulated amortization. The cost associated with broiler inventories, consisting principally of chicks, feed, medicine and

payments to the growers who raise the chicks for us, are accumulated during the growing period. The cost associated with breeder inventories, consisting principally of breeder chicks, feed, medicine and grower



**Table of Contents**

payments are accumulated during the growing period. Capitalized breeder costs are then amortized over nine months using the straight-line method. Mortality of broilers and breeders is charged to cost of sales as incurred. If market prices for chicks, feed or medicine or if grower payments increase (or decrease) during the period, the Company could have an increase (or decrease) in the market value of its inventory as well as an increase (or decrease) in cost of sales. Should the Company decide that the nine month amortization period used to amortize the breeder costs is no longer appropriate as a result of operational changes, a shorter (or longer) amortization period could increase (or decrease) the cost of sales recorded in future periods. High mortality from disease or extreme temperatures would result in abnormal charges to cost of sales to write-down live poultry inventories.

Inventories at October 31, 2008, included approximately 71.2 million pounds of leg quarters and paws awaiting shipment into the export markets. The market prices for dark meat and paws declined below their costs during September 2008 and October 2008, resulting in an approximately \$13.1 million adjustment, before income taxes, to processed inventory values. In addition, the Company made an adjustment to the value of its live inventories at October 31, 2008. As with processed inventories, the value of live chickens, the costs for which are accumulated during the life of a flock as each flock is fed and cared for, must be at the lower of cost or market. Because market prices declined during November and December 2008, the projected cost to complete, process and sell broilers included in live inventory at October 31, 2008 was expected to exceed the market value for the finished product. Accordingly, the Company's results for the year ended October 31, 2008 include a charge of \$35.0 million before income taxes to reduce the value of live inventories from cost to market. The Company's live broiler inventories are recorded at cost at October 31, 2010 and 2009 because the estimated market value is higher than the estimated cost to complete those live broiler inventories.

**Long-Lived Assets**

Depreciable long-lived assets are primarily comprised of buildings and machinery and equipment. Depreciation is provided by the straight-line method over the estimated useful lives, which are 15 to 39 years for buildings and 3 to 12 years for machinery and equipment. An increase or decrease in the estimated useful lives would result in changes to depreciation expense.

The Company continually reevaluates the carrying value of its long-lived assets for events or changes in circumstances that indicate that the carrying value may not be recoverable. As part of this reevaluation, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposal. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized to reduce the carrying value of the long-lived asset to the estimated fair value of the asset. If the Company's assumptions with respect to the future expected cash flows associated with the use of long-lived assets currently recorded change, then the Company's determination that no impairment charges are necessary may change and result in the Company recording an impairment charge in a future period.

**Accrued Self Insurance**

Insurance expense for workers' compensation benefits and employee-related health care benefits are estimated using historical experience and actuarial estimates. Stop-loss coverage is maintained with third party insurers to limit the Company's total exposure. Management regularly reviews the assumptions used to recognize periodic expenses. If historical experience proves not to be a good indicator of future expenses, if management were to use different actuarial assumptions, or if there is a negative trend in the Company's claims history, there could be a significant increase (or decrease) in cost of sales depending on whether these expenses increased or decreased, respectively.

**Income Taxes**

The Company determines its effective tax rate by estimating its permanent differences resulting from differing treatment of items for financial and income tax purposes. The Company is periodically audited by taxing authorities and considers any adjustments made as a result of the audits in computing the Company's income tax expense. Any audit adjustments affecting permanent differences could have an impact on the Company's effective tax rate.

**Table of Contents****Contingencies**

The Company is involved in various claims and litigation incidental to its business. Although the outcome of these matters cannot be determined with certainty, management, upon the advice of counsel, is of the opinion that the final outcome should not have a material effect on the Company's consolidated results of operations or financial position. The Company recognizes the costs of legal defense for the legal proceedings to which it is a party in the periods incurred. After a considerable analysis of each case, the Company determines the amount of reserves required, if any. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed reasonably estimable and probable due to changes in the Company's assumptions, the effectiveness of legal strategies, or other factors beyond the Company's control. Future results of operations may be materially affected by the creation of reserves or by accruals of losses to reflect any adverse determinations of these legal proceedings.

**New Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements ( SFAS 157 ), codified in ASC 820. This standard defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosure about fair value measurements. This pronouncement applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value. Accordingly, this statement does not require any new fair value measurements. The Company adopted ASC 820 effective November 1, 2008 for its financial assets and liabilities and the adoption had no material effect on the Company's consolidated financial position, results of operations or cash flows. The Company adopted ASC 820 for its non-financial assets and liabilities that are recognized at fair value on a non-recurring basis on November 1, 2009 and the adoption had no material effect on the Company's consolidated financial position, results of operations or cash flows.

In June 2008, the FASB issued guidance to clarify that unvested share-based payment awards with a right to receive non-forfeitable dividends are participating securities. This guidance discusses how to allocate earnings to participating securities and compute basic EPS using the two-class method. The guidance must be applied retrospectively to all prior-period EPS data presented in financial statements (including selected financial data).

**Item 7A. Quantitative and Qualitative Disclosure About Market Risk.**

The Company is a purchaser of certain commodities, primarily corn and soybean meal, for use in manufacturing feed for its chickens. As a result, the Company's earnings are affected by changes in the price and availability of such feed ingredients. Feed grains are subject to volatile price changes caused by factors described below that include weather, size of harvest, transportation and storage costs and the agricultural policies of the United States and foreign governments. The price fluctuations of feed grains have a direct and material effect on the Company's profitability.

Generally, the Company purchases feed ingredients for deferred delivery from one month to six months after the time of purchase. The Company sometimes purchases its feed ingredients for prompt delivery to its feed mills at market prices at the time of such purchases. The grain purchases are made directly with our usual grain suppliers, which are companies in the regular business of supplying grain to end users, and do not involve options to purchase. Such purchases occur when senior management concludes that market factors indicate that prices at the time the grain is needed are likely to be higher than current prices, or where, based on current and expected market prices for the Company's poultry products, management believes it can purchase feed ingredients at prices that will allow the Company to earn a reasonable return for its shareholders. Market factors considered by management in determining whether or not and to what extent to buy grain for deferred delivery include:

Current market prices;

Current and predicted weather patterns in the United States, South America, China and other grain producing areas, as such weather patterns might affect the planting, growing, harvesting and yield of feed grains;

**Table of Contents**

The expected size of the harvest of feed grains in the United States and other grain producing areas of the world as reported by governmental and private sources;

Current and expected changes to the agricultural policies of the United States and foreign governments;

The relative strength of United States currency and expected changes therein as it might impact the ability of foreign countries to buy United States feed grain commodities;

The current and expected volumes of export of feed grain commodities as reported by governmental and private sources;

The current and expected use of available feed grains for uses other than as livestock feed grains (such as the use of corn for the production of ethanol, which use is impacted by the price of crude oil); and

Current and expected market prices for the Company's poultry products.

The Company purchases physical grain, not financial instruments such as puts, calls or straddles that derive their value from the value of physical grain. Thus, the Company does not use derivative financial instruments as defined by in ASC 815, Accounting for Derivatives for Instruments and Hedging Activities. The Company does not enter into any derivative transactions or purchase any grain-related contracts other than the physical grain contracts described above. The cost of feed grains is recognized in cost of sales, on a first-in-first-out basis, at the same time that the sales of the chickens that consume the feed grains are recognized.

The Company's interest expense is sensitive to changes in the general level of interest rates in the United States. The Company maintains certain of its debt as fixed rate in nature to mitigate the impact of fluctuations in interest rates. The fair value of the Company's fixed rate debt approximates the carrying amount at October 31, 2010. Management believes the potential effects of near-term changes in interest rates on the Company's debt are not material. The Company is a party to no other market risk sensitive instruments requiring disclosure.

**Table of Contents**

**Item 8. Financial Statements and Supplementary Data.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Sanderson Farms, Inc.

We have audited the accompanying consolidated balance sheets of Sanderson Farms, Inc. and subsidiaries as of October 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2010. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sanderson Farms, Inc. and subsidiaries at October 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 7 to the consolidated financial statements, Sanderson Farms, Inc. changed its method of computing earnings per share during fiscal 2010.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sanderson Farms, Inc.'s internal control over financial reporting as of October 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 13, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana  
December 13, 2010

**Table of Contents**Sanderson Farms, Inc. and Subsidiaries  
**CONSOLIDATED BALANCE SHEETS**

**October 31,**  
**2010      2009**  
**(In thousands)**

**Assets**

## Current assets:

Cash and cash equivalents	\$ 73,419	\$ 8,194
Accounts receivable, less allowance of \$1,373,000 in 2010 and 2009	92,467	68,461
Inventories	153,289	140,521
Refundable income taxes	0	1,567
Deferred income taxes	1,760	2,866
Prepaid expenses	24,033	18,428
<b>Total current assets</b>	<b>344,968</b>	<b>240,037</b>
Property, plant and equipment:		
Land and buildings	432,292	350,248
Machinery and equipment	451,346	390,339
	883,638	740,587
Accumulated depreciation	(389,911)	(347,459)
	493,727	393,128
Other assets	2,925	3,011
<b>Total assets</b>	<b>\$ 841,620</b>	<b>\$ 636,176</b>

**Liabilities and Stockholders Equity**

## Current liabilities:

Accounts payable	\$ 49,437	\$ 36,878
Accrued expenses	56,317	39,474
Current maturities of long-term debt	1,048	1,022
<b>Total current liabilities</b>	<b>106,802</b>	<b>77,374</b>
Long-term debt, less current maturities	62,075	103,123
Claims payable	2,100	2,600
Deferred income taxes	24,930	22,371
Stockholders equity:		
Preferred Stock:		
Series A Junior Participating Preferred Stock, \$100 par value: authorized shares-500,000; none issued		
Par value to be determined by the Board of Directors: authorized shares-4,500,000; none issued		
Common Stock, \$1 par value: authorized shares-100,000,000; issued and outstanding shares-22,077,559 in 2010 and 20,333,637 in 2009	22,078	20,334
Paid-in capital	127,580	35,143
Retained earnings	496,055	375,231
<b>Total stockholders equity</b>	<b>645,713</b>	<b>430,708</b>

Total liabilities and stockholders equity

\$ 841,620 \$ 636,176

See accompanying notes.

38

---

**Table of Contents**

Sanderson Farms, Inc. and Subsidiaries  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years ended October 31,		
	2010	2009	2008
	(In thousands, except per share data)		
Net sales	\$ 1,925,445	\$ 1,789,508	\$ 1,723,583
Cost and expenses:			
Cost of sales	1,630,549	1,589,235	1,683,660
Live inventory adjustment	0	0	35,000
Processed inventory adjustment	0	0	13,100
Hurricane costs	0	0	1,194
Legal settlement (Donning and doffing)	0	0	2,693
Selling, general and administrative	85,055	63,663	53,599
	1,715,604	1,652,898	1,789,246
Operating income (loss)	209,841	136,610	(65,663)
Other income (expense):			
Interest income	103	29	174
Interest expense	(2,708)	(9,019)	(8,546)
Other	19	6	(49)
	(2,586)	(8,984)	(8,421)
Income (loss) before income taxes	207,255	127,626	(74,084)
Income tax expense (benefit)	72,435	45,307	(30,955)
Net income (loss)	\$ 134,820	\$ 82,319	\$ (43,129)
Earnings (loss) per share:			
Basic	\$ 6.07	\$ 3.94	\$ (2.13)
Diluted	\$ 6.07	\$ 3.94	\$ (2.13)
Dividends per share	\$ .62	\$ .57	\$ .56

See accompanying notes.

**Table of Contents**

Sanderson Farms, Inc. and Subsidiaries  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

	<b>Common Stock</b>		<b>Paid-In</b>	<b>Retained</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Capital</b>	<b>Earnings</b>	<b>Stockholders</b>
	<b>(In thousands, except shares and per share amounts)</b>				<b>Equity</b>
Balance at October 31, 2007	20,239,111	\$ 20,239	\$ 24,719	\$ 359,588	\$ 404,546
Net (loss) for year				(43,129)	(43,129)
Cash dividends (\$.56 per share)				(11,640)	(11,640)
Issuance of common stock under stock compensation plans	49,532	50	203		253
Issuance of restricted common stock under stock compensation plans			1,085		1,085
Amortization of unearned compensation			2,852		2,852
Balance at October 31, 2008	20,288,643	\$ 20,289	\$ 28,859	\$ 304,819	\$ 353,967
Net income for year				82,319	82,319
Cash dividends (\$.57 per share)				(11,907)	(11,907)
Issuance of common stock under stock compensation plans	44,994	45	124		169
Issuance of restricted common stock under stock compensation plans			362		362
Amortization of unearned compensation			5,798		5,798
Balance at October 31, 2009	20,333,637	\$ 20,334	\$ 35,143	\$ 375,231	\$ 430,708
Net income for year				134,820	134,820
Cash dividends (\$.62 per share)				(13,996)	(13,996)
Secondary offering of common stock	2,300,000	2,300	112,798		115,098
Purchase and retirement of common stock	(664,688)	(665)	(27,708)		(28,373)
Issuance of common stock under stock compensation plans	108,610	109	(1,149)		(1,040)
Issuance of restricted common stock under stock compensation plans			978		978
Amortization of unearned compensation			7,518		7,518
Balance at October 31, 2010	22,077,559	\$ 22,078	\$ 127,580	\$ 496,055	\$ 645,713

See accompanying notes.

40



**Table of Contents**

Sanderson Farms, Inc. and Subsidiaries  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended October 31,		
	2010	2009	2008
	(In thousands)		
<b>Operating activities</b>			
Net income (loss)	\$ 134,820	\$ 82,319	\$ (43,129)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	44,430	43,197	41,931
Amortization of unearned compensation	7,518	5,798	2,852
Provision for losses on accounts receivable	82	367	451
Deferred income taxes	3,665	15,305	(10,451)
Change in assets and liabilities:			
Accounts receivable	(24,088)	(5,312)	5,517
Inventories	(12,768)	(3,506)	(17,757)
Prepaid expenses and refundable income taxes	(5,605)	26,891	(32,751)
Other assets	(114)	(538)	(296)
Accounts payable	12,559	(13,555)	5,455
Accrued expenses and claims payable	17,910	11,942	(7,287)
Total adjustments	43,589	80,589	(12,336)
Net cash provided by (used in) operating activities	178,409	162,908	(55,465)
<b>Investing activities</b>			
Capital expenditures	(144,847)	(25,356)	(48,757)
Net proceeds from sale of property and equipment	18	153	713
Net cash used in investing activities	(144,829)	(25,203)	(48,044)
<b>Financing activities</b>			
Net (repayment on) borrowings from revolving credit agreement	(40,000)	(121,307)	116,307
Principal payments on long-term debt	(31)	(152)	(145)
Principal payments on capital lease obligations	(991)	(937)	(713)
Dividends paid	(13,996)	(11,907)	(11,640)
Net proceeds from secondary offering of common stock	115,098	0	0
Purchase of common stock	(28,373)	0	0
Tax benefit on exercised stock options	405	6	153
Net proceeds (payments) from common stock issued under stock compensation plans	(467)	525	1,185
Net cash provided by (used in) financing activities	31,645	(133,772)	105,147
Net change in cash and cash equivalents	65,225	3,933	1,638
Cash and cash equivalents at beginning of year	8,194	4,261	2,623
Cash and cash equivalents at end of year	73,419	8,194	4,261

**Supplemental disclosure of cash flow information:**

Edgar Filing: SANDERSON FARMS INC - Form 10-K

Income taxes paid	\$ 62,625	\$ 536	\$ 9,427
Interest paid	\$ 4,667	\$ 9,878	\$ 8,038
<b>Non-cash investing and financing activities:</b>			
Capital lease obligations for equipment	\$ 0	\$ 0	\$ 14,014

See accompanying notes.

41

---

**Table of Contents**

Sanderson Farms, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Significant Accounting Policies**

*Principles of Consolidation:* The consolidated financial statements include the accounts of Sanderson Farms, Inc. (the Company ) and its wholly-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

*Business:* The Company is engaged in the production, processing, marketing and distribution of fresh and frozen chicken and other prepared food items. The Company's net sales and cost of sales are significantly affected by market price fluctuations of its principal products sold and of its principal feed ingredients, corn and other grains.

The Company sells to retailers, distributors and casual dining operators primarily in the southeastern, southwestern, northeastern and western United States. Revenue is recognized when product is delivered to customers. Revenue on certain international sales is recognized upon transfer of title, which may occur after shipment. Management periodically performs credit evaluations of its customers' financial condition and generally does not require collateral. One customer accounted for more than 10% of consolidated sales for the year ended October 31, 2010, 2009 and 2008, respectively. Shipping and handling costs are included as a component of cost of sales.

The Company's sales of poultry and prepared chicken products to external customers are made in various forms depending on individual customer needs. Gross sales for all poultry and prepared chicken products to external customers during fiscal 2010, 2009 and 2008 were \$1.975 billion, \$1.833 billion and \$1.764 billion, respectively.

Gross sales of fresh ice packed chicken made primarily to food service customers totaled approximately \$328.3 million, \$275.3 million and \$214.1 million in fiscal 2010, 2009 and 2008, respectively. Gross sales of chill pack chicken made primarily to retail grocery store customers totaled approximately \$576.2 million, \$584.4 million and \$572.2 million in fiscal 2010, 2009 and 2008, respectively. Gross sales of frozen chicken made primarily to export customers totaled approximately \$217.8 million, \$198.2 million and \$252.8 million in fiscal 2010, 2009 and 2008, respectively. Gross sales of fresh CVP packed chicken made primarily to food service customers totaled approximately \$730.0 million, \$640.9 million and \$588.4 million in fiscal 2008, 2009 and 2010, respectively. Gross sales of prepared, partially cooked chicken made primarily to food service customers totaled approximately \$122.5 million, \$133.7 million and \$136.6 million in fiscal 2010, 2009 and 2008, respectively. Other sales include sales of mechanically deboned meat made primarily to customers who further process the meat and sales of offal to rendering companies.

The Company sells certain of its products either directly to foreign markets or to U.S. based customers who resell the product in foreign markets. These foreign markets are primarily Russia, Eastern Europe, China, Mexico and the Caribbean. These export sales for fiscal years 2010, 2009 and 2008 totaled approximately \$191.4 million, \$177.3 million and \$232.9 million, respectively. The Company does not believe that the amount of sales attributable to any single foreign country is material to its total sales during any of the periods presented. The Company's export sales are facilitated through independent food brokers located in the United States and the Company's internal sales staff.

*Use of Estimates:* The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

*Cash Equivalents:* The Company considers all highly liquid investments with maturities of ninety days or less when purchased to be cash equivalents.

*Allowance for Doubtful Accounts:* In the normal course of business, the Company extends credit to its customers on a short-term basis. Although credit risks associated with our customers are considered minimal, the Company routinely reviews its accounts receivable balances and makes provisions for probable doubtful accounts based on an individual assessment of a customer's credit quality as well as subjective factors and trends, including the aging of receivable balances. In circumstances where management is aware of a specific customer's inability to meet its financial obligations to the Company, a specific reserve is recorded to reduce the receivable to the amount expected to be collected. If circumstances change (i.e., higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligations to us), our estimates of the recoverability of amounts due us

could be reduced by a material amount and the allowance for doubtful accounts and related bad debt expense would increase by the same amount.

**Table of Contents**

*Inventories:* Processed and prepared inventories and inventories of feed, eggs, medication and packaging supplies are stated at the lower of cost (first-in, first-out method) or market.

Live poultry inventories of broilers are stated at the lower of cost or market and breeders at cost less accumulated amortization. The costs associated with breeders, including breeder chicks, feed, medicine and grower pay, are accumulated up to the production stage and amortized over nine months using the straight-line method.

*Property, Plant and Equipment:* Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is provided by the straight-line and units of production methods over the estimated useful lives of 15 to 39 years for buildings and 3 to 12 years for machinery and equipment. During fiscal 2010 and 2009, the Company capitalized interest of \$1,945,557 and \$7,112 to the new complex under construction in Kinston, North Carolina. The Company did not capitalize any interest during fiscal 2008.

*Impairment of Long-Lived Assets:* The Company continually reevaluates the carrying value of its long-lived assets based on events or changes in circumstances which indicate that the carrying value may not be recoverable. As part of this reevaluation and when indicators are present, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposal. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss, based on the fair value of the assets, is recognized through a charge to operations.

*Self-Insurance Programs:* Insurance expense for workers' compensation benefits and employee-related health care benefits are estimated using historical experience and actuarial estimates. Stop-loss coverage is maintained with third party insurers to limit the Company's total exposure. Management regularly reviews the assumptions used to recognize periodic expenses. Any resulting adjustments to accrued claims are reflected in current operating results.

*Advertising and Marketing Costs:* The Company expenses advertising costs as incurred. Advertising costs are included in selling, general and administrative expenses and totaled \$637,000, \$591,000 and \$3.9 million for fiscal 2010, 2009 and 2008, respectively.

*Income Taxes:* Deferred income taxes are accounted for using the liability method and relate principally to depreciation expense, stock based compensation programs and self-insurance programs accounted for differently for financial and income tax purposes.

*Share Based Compensation:* The Company accounts for all share-based payments to employees, including grants of employee stock options, restricted stock and performance-based shares to be recognized in the income statement based on their fair values.

*Earnings Per Share:* Basic earnings per share is based upon the weighted average number of common shares outstanding during the year. Diluted earnings per share includes any dilutive effects of options, warrants, restricted stock and convertible securities as shown in Note 7.

*Fair Value of Financial Instruments:* The Company holds certain items that are required to be measured at fair value, primarily cash equivalents representing overnight investments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A three-level hierarchy is followed for disclosure to show the extent and level of judgment used to estimate fair value measurements:

Level 1 Inputs used to measure fair value are unadjusted quoted prices that are available in active markets for the identical assets or liabilities as of the reporting date.

Level 2 Inputs used to measure fair value, other than quoted prices included in Level 1, are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.

Level 3 Inputs used to measure fair value are unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

## Edgar Filing: SANDERSON FARMS INC - Form 10-K

At October 31, 2010 and 2009, the fair value of the Company's cash equivalents of approximately \$35.9 million and \$18.2 million, respectively, approximated their carrying value due to the short maturity of these financial instruments and were categorized as a Level 2 measurement. Inputs used to measure fair value were primarily recent trading prices and prevailing market interest rates.

The carrying amounts for cash and temporary cash investments approximate their fair values. Fair values for debt are based on quoted market prices or published forward interest rate curves. The fair value and carrying value of the Company's borrowings under its credit facilities, long-term debt and capital lease obligations were as follows (in millions):

	October 31, 2010		October 31, 2009	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Total Debt ( In millions)	\$71	\$ 63	\$109	\$ 104

*Reclassification:* The Company has made reclassifications to prior year financial statements to conform with the presentation for the current year financial statements. The reclassifications are for consistency of presentation and do not affect previously reported net income (loss), stockholders' equity or total assets.

**Table of Contents***Impact of Recently Issued Accounting Standards:*

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements ( SFAS 157 ), codified in ASC 820. This standard defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosure about fair value measurements. This pronouncement applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value. Accordingly, this statement does not require any new fair value measurements. The Company adopted ASC 820 effective November 1, 2008 for its financial assets and liabilities and the adoption had no material effect on the Company's consolidated financial position, results of operations or cash flows. The Company adopted ASC 820 for its non-financial assets and liabilities that are recognized at fair value on a non-recurring basis on November 1, 2009 and the adoption had no material effect on the Company's consolidated financial position, results of operations or cash flows.

In June 2008, the FASB issued guidance to clarify that unvested share-based payment awards with a right to receive non-forfeitable dividends are participating securities. This guidance discusses how to allocate earnings to participating securities and compute basic EPS using the two-class method. The guidance has been applied retrospectively to all prior-period EPS data presented in financial statements (including selected financial data). See Note 7.

**2. Inventories**

Inventories consisted of the following:

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Live poultry-broilers and breeders	\$ 96,962	\$ 88,054
Feed, eggs and other	27,732	20,637
Processed poultry	14,255	20,768
Prepared chicken	8,611	6,796
Packaging materials	5,729	4,266
	<b>\$ 153,289</b>	<b>\$ 140,521</b>

The increase of \$8.9 million or 10.1% in live poultry-broilers and breeders at October 31, 2010 as compared to October 31, 2009 resulted from an increase in the number of broilers on the ground of 6.8% and an increase in the average cost of broilers of 1.7%. In addition, the new complex in Kinston, North Carolina had pullets and hens in inventory at October 31, 2010 in preparation for the start-up of processing to begin in January 2011. The new Kinston complex did not have any broilers on hand at October 31, 2010.

The increase in feed, eggs, and other at October 31, 2010 when compared to October 31, 2009 reflects higher feed grain prices and additional units of feed, eggs and other inventories on hand at the Company's new Kinston, North Carolina complex.

The decrease in processed poultry inventories resulted primarily from fewer units of export product in inventory at October 31, 2010. The decrease in the units of export products in inventory at October 31, 2010 as compared to October 31, 2009 resulted from the timing of export sales.

Inventories at October 31, 2008, included approximately 71.2 million pounds of leg quarters and paws awaiting shipment into the export markets. The market prices for dark meat and paws declined below their costs during September 2008 and October 2008, resulting in an approximately \$13.1 million adjustment, before income taxes, to processed inventory values. In addition, the Company made an adjustment to the carrying value of its live inventories at October 31, 2008. As with processed inventories, the carrying value of live chickens, the costs for which are accumulated during the life of a flock as each flock is fed and cared for, must be at the lower of cost or market. Because market prices declined during November and December 2008, the projected cost to complete, process and sell broilers included in live inventory at October 31, 2008 was expected to exceed the market value for the finished product. Accordingly, the Company's results for the year ended October 31, 2008 include a charge of \$35.0 million

before income taxes to reduce the carrying value of live inventories from cost to market. The



**Table of Contents**

Company's live broiler inventories at October 31, 2010 and 2009 are recorded at cost because the estimated market value is higher than the estimated cost to complete those live broiler inventories.

**3. Prepaid expenses**

Prepaid expenses consisted of the following:

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Parts and supplies	\$ 11,896	\$ 11,325
Prepaid insurance	10,856	5,635
Other prepaid expenses	1,281	1,468
	<b>\$ 24,033</b>	<b>\$ 18,428</b>

The increase in prepaid insurance resulted primarily from a change in the policy period of the Company's property insurance from a fiscal year period to May through April of each year.

**4. Accrued expenses**

Accrued expenses consisted of the following:

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Accrued bonuses	\$ 19,769	\$ 11,892
Accrued wages	4,554	4,281
Workers' compensation claims	8,545	6,191
Accrued vacation	4,554	4,335
Accrued income taxes	4,578	0
Accrued rebates	3,670	3,122
Accrued property taxes	4,951	4,350
Post retirement benefit	1,756	2,356
Accrued payroll taxes	1,018	1,566
Deferred revenue	1,100	0
Other accrued expenses	1,822	1,381
	<b>\$ 56,317</b>	<b>\$ 39,474</b>

The increase in accrued expenses resulted primarily from an increased accrual under the Company's Bonus Award Program of \$7.9 million, which will be paid in December 2010. The Bonus Award Program is based upon profitability and \$19.8 million and \$11.9 million in bonuses was earned for fiscal 2010 and 2009, respectively.

**5. Long-Term debt and capital lease obligations**

Long-term debt and capital lease obligations consisted of the following:

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Revolving credit agreement with banks (weighted average rate of 1.49% at October 31, 2009)	\$ 0	\$ 40,000
Term loan, accruing interest at 6.12%, maturing in 2016	50,000	50,000
	12,363	13,004

Edgar Filing: SANDERSON FARMS INC - Form 10-K

Capital lease obligation, imputed interest at 5.53%, due in monthly installments of \$112,015, including interest, maturity in 2015		
Note payable; final installment made on November 8, 2009	0	31
6% Mississippi Business Investment Act bond-capital lease obligation, due November 1, 2012	760	1,110
	63,123	104,145
Less current maturities of long-term debt and capital leases	1,048	1,022
	\$ 62,075	\$ 103,123

**Table of Contents**

On May 1, 2008, the Company entered into a new revolving credit facility to, among other things, increase the available credit to \$300.0 million, increase the capital expenditure limits to allow construction of the Kinston, North Carolina facility, and to change the covenant requiring a maximum debt to total capitalization ratio of 50% during fiscal 2008, 55% during fiscal 2009 and not to exceed 50% for fiscal 2010 and thereafter. On December 13, 2010, the Company entered into an amendment to the facility to increase the capital expenditure limitation to \$55 million during fiscal 2011, 2012 and 2013, and to permit up to \$115 million in capital expenditures to be spent at any time during the term of the agreement on the potential second new poultry complex in North Carolina. The credit remains unsecured and, unless extended, will expire on May 1, 2013. As of October 31, 2010, the Company had no outstanding draws on the revolving credit facility, had \$8.4 million outstanding letters of credit under the facility, leaving \$291.6 available under the facility at the end of fiscal 2010. The Company has the option to borrow funds under the revolving line of credit based on the Prime interest rate or the Libor interest rate plus a spread ranging from 1.25% to 2.0%. The spread on Libor borrowings and the commitment fee for the unused balance of the revolving credit agreement are determined based upon the Company's leverage ratio as follows:

<i>Level</i>	<b>Leverage Ratio</b>	<b>Spread</b>	<b>Commitment Fee</b>
1.	< 25%	1.25%	0.15%
2.	> = 25% and < 35%	1.50%	0.20%
3.	> = 35% and < 45%	1.75%	0.20%
4.	> = 45%	2.00%	0.25%

The term loan consists of a private placement of \$50.0 million in unsecured debt. The term loan matures in 2016 with annual principal installments of \$10.0 million beginning in 2012. The term loan has net worth, current ratio and debt to capitalization covenants comparable to that of the Company's revolving credit facility. The Company was in compliance with all covenants at October 31, 2010.

The aggregate annual maturities of long-term debt and capital lease obligations at October 31, 2010 are as follows (in thousands):

<b>Fiscal Year</b>	<b>Amount</b>
2011	\$ 1,048
2012	11,106
2013	10,757
2014	10,799
2015	19,413
Thereafter	10,000
	\$ 63,123

**6. Income Taxes**

Income tax expense (benefit) consisted of the following:

	<b>Years Ended October 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
		<b>(In</b>	
		<b>thousands)</b>	
Current:			
Federal	\$ 63,479	\$ 26,642	\$ (17,738)
State	5,291	3,360	(2,766)
	68,770	30,002	(20,504)

Deferred:				
Federal	2,622	13,546	(8,280)	
State	1,043	1,759	(2,171)	
	3,665	15,305	(10,451)	
	\$ 72,435	\$ 45,307	\$ (30,955)	

**Table of Contents**

Significant components of the Company's deferred tax assets and liabilities were as follows:

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Deferred tax liabilities:		
Property, plant and equipment	\$ 36,145	\$ 32,555
Prepaid and other assets	2,105	630
Total deferred tax liabilities	38,250	33,185
Deferred tax assets:		
Accrued expenses and accounts receivable	6,490	6,878
Inventory	235	10
Compensation on restricted stock	8,355	6,792
Total deferred tax assets	15,080	13,680
Net deferred tax liabilities	\$ 23,170	\$ 19,505
Current deferred tax assets	\$ (1,760)	\$ (2,866)
Long-term deferred tax liabilities	24,930	22,371
Net deferred tax liabilities	\$ 23,170	\$ 19,505

The differences between the consolidated effective income tax rate and the federal statutory rate of 35.0% are as follows:

	<b>Years Ended October 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>		
Income taxes at statutory rate	\$ 72,534	\$ 44,669	\$ (25,929)
State income taxes	4,117	3,327	(3,030)
State income tax credits	(273)	(517)	(179)
Federal income tax credits	(463)	(1,683)	(2,780)
Federal manufacturers (deduction) recapture	(4,129)	(1,877)	438
Other, net	649	1,388	525
Income tax expense (benefit)	\$ 72,435	\$ 45,307	\$ (30,955)

**7. Earnings Per Share**

In June 2008, the Financial Accounting Standards Board ( FASB ) issued FSP EITF No. 03-6-1, codified in ASC 260, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. ASC 260 clarifies that share-based payment awards entitling holders to receive non-forfeitable dividends before vesting should be considered participating securities and thus included in the calculation of basic earnings per share. Effective November 1, 2009, these awards are now included in the calculation of basic earnings per share under the two-class method, a change that reduces both basic and diluted earnings per share. The two-class method allocates earnings for the period between common shareholders and other security holders. The participating awards receiving dividends

will be allocated the same amount of income as if they were outstanding shares. All prior period earnings per share data presented have been adjusted retrospectively to conform to the provisions of the new requirements. Previously, the Company included unvested share payment awards in the calculation of diluted earnings per share under the treasury stock method. The adoption had no effect on the Company's financial position, retained earnings, cash flows or results of operations.

The following table presents the effect the adoption of ASC 260 has on affected financial statement line items, weighted average shares outstanding, and per share amounts for fiscal 2010 and 2009. Such adoption had no effect on 2008 earnings per share since, because of the net loss reported for fiscal 2008, the results were antidilutive.

	For the year ended			
	October 31, 2010		October 31, 2009	
	Two-class method	Treasury stock method	Two-class method	Treasury stock method
	(In thousands, except share and per share data)			
Net income	\$ 134,820	\$ 134,820	\$ 82,319	\$ 82,319
Distributed and undistributed (earnings) to unvested restricted stock	(3,571)	0	(2,179)	0
Distributed and undistributed earnings to common shareholders Basic	\$ 131,249	\$ 134,820	\$ 80,140	\$ 82,319
Weighted average shares outstanding Basic	21,625	21,625	20,317	20,317
Weighted average shares outstanding Diluted	21,632	21,982	20,327	20,613
Earnings per common share Basic	\$ 6.07	\$ 6.23	\$ 3.94	\$ 4.05
Earnings per common share Diluted	\$ 6.07	\$ 6.13	\$ 3.94	\$ 3.99

**Table of Contents****8. Employee Benefit Plans**

The Company has an Employee Stock Ownership Plan ( ESOP ) covering substantially all employees. Contributions to the ESOP are made at the discretion of the Company s Board of Directors. Total contributions to the ESOP were \$9,000,000 and \$6,000,000 in fiscal 2010 and 2009. The Company did not make a contribution to the ESOP during fiscal 2008.

The Company has a 401(k) Plan which covers substantially all employees after one year of service. Participants in the Plan may contribute up to the maximum allowed by IRS regulations. The Company matches 100% of employee contributions to the 401(k) Plan up to 3% of each employee s salary and 50% of employee contributions between 3% and 5% of each employee s salary. The Company s contributions to the 401(k) Plan totaled \$4,505,000 in fiscal 2010, \$3,857,000 in fiscal 2009 and \$3,573,000 in fiscal 2008.

**9. Stock Compensation Plans**

On February 17, 2005, the shareholders of the Company approved the Sanderson Farms, Inc. and Affiliates Stock Incentive Plan (the Plan ). The Plan allows the Company s Board of Directors to grant certain incentive awards including stock options, stock appreciation rights, restricted stock, and other similar awards. The Company may award up to 2,250,000 shares under the Plan.

Pursuant to the Plan, on February 23, 2005, the Company s Board of Directors approved agreements for the issuance of restricted stock to directors, executive officers and other key employees as designated by the Company s Board of Directors. Restricted stock granted in fiscal 2008, 2009 and 2010 vests three to four years from the date of grant. In some cases, the vesting schedule is accelerated upon death, disability or retirement of the participant or upon a change in control, as defined. Restricted stock grants are valued based upon the closing market price of the Company s Common Stock on the date of grant and are recognized as compensation expense over the vesting period.

Compensation expense related to restricted stock grants totaled \$4,055,000, \$5,016,000, \$3,132,000 during fiscal 2010, 2009 and 2008, respectively.

A summary of the Company s restricted stock activity and related information is as follows:

	<b>Number of Shares</b>	<b>Weighted Average Grant Price</b>
Outstanding at October 31, 2006	379,000	\$ 43.81
Granted during fiscal 2007	15,000	\$ 33.70
Vested during 2007	0	\$ 0.00
Forfeited during 2007	(5,050)	\$ 42.62
Outstanding at October 31, 2007	388,950	\$ 42.79
Granted during fiscal 2008	45,209	\$ 35.00
Vested during 2008	(21,000)	\$ 44.56
Forfeited during 2008	(3,485)	\$ 41.36
Outstanding at October 31, 2008	409,674	\$ 41.86
Granted during fiscal 2009	78,826	\$ 36.12
Vested during 2009	(9,000)	\$ 25.53
Forfeited during 2009	0	\$ 0.00
Outstanding at October 31, 2009	479,500	\$ 41.22
Granted during fiscal 2010	127,150	\$ 40.80
Vested during 2010	(96,838)	\$ 36.93
Forfeited during 2010	(16,864)	\$ 38.99

Edgar Filing: SANDERSON FARMS INC - Form 10-K

Outstanding at October 31, 2010	492,948	\$ 41.98
---------------------------------	---------	----------

As reflected in the schedule above, 126,838 of the restricted stock awards were vested as of October 31, 2010. Of the 126,838 shares vested as of October 31, 2010, 30,825 were withheld by the Company to satisfy the tax withholding obligations of the recipients. The Company had \$6.1 million in unrecognized share-based compensation costs as of October 31, 2010 that will be recognized over a weighted average period of 1.83 years.

48

---



**Table of Contents**

Also on February 23, 2005 and pursuant to the Plan, the Company's Board of Directors approved Management Share Purchase Plan agreements (the Purchase Plan) that authorized the issuance of shares of restricted stock to the Company's directors, executive officers and other key employees as designated by the Company's Board of Directors. Pursuant to the Purchase Plan, non-employee directors may elect to receive up to 100 percent of their annual retainer and meeting fees in the form of restricted stock. Other participants may elect to receive up to 15 percent of their salary and up to 75 percent of any bonus earned in the form of restricted stock. The purchase price of the restricted stock is the closing market price of the Company's Common Stock on the date of purchase. The Company makes matching contributions of 25 percent of the restricted shares purchased by participants. Restricted stock issued pursuant to the Purchase Plan vests after three years or immediately upon death, disability, retirement or change in control, as defined. If a participant's employment or service as a director is terminated for any other reason prior to the three-year vesting period, the participant forfeits the matching contribution and the Company may, at its option, repurchase restricted stock purchased by the participant at the price paid by the participant. Matching contributions are recognized as compensation expense over the vesting period. During fiscal 2010, 2009 and 2008, the participants purchased a total of 22,081, 22,092 and 31,072 shares of restricted stock pursuant to the Purchase Plan, valued at \$46.38, \$38.40 and \$34.92 per share, respectively, and the Company issued 5,437, 5,454 and 7,692 matching shares, valued at \$46.37, \$38.40 and \$34.92 per share, respectively. Compensation expense related to the Company's matching contribution totaled approximately \$273,000, \$204,000 and \$207,000 in fiscal 2010, 2009 and 2008, respectively.

During the quarters ended January 31, 2010, 2009 and 2008 the Company entered into performance share agreements that grant certain officers and key employees the right to receive shares of the Company's common stock, subject to the Company's achievement of certain performance measures. The performance share agreements specify a target number of shares that a participant can receive based upon the Company's average return on equity and average return on sales, as defined, during a three or two-year performance period beginning November 1 of each performance period. Although the performance share agreements have either a two or three year performance period, they all vest over three years. If the Company's average return on equity and average return on sales exceed certain threshold amounts for the performance period, participants will receive 50 percent to 200 percent for grants made for fiscal 2008 and thereafter, depending upon the Company's level of performance. The target number of shares specified in the performance share agreements executed during the quarter ended January 31, 2006 totaled 73,400, during the quarter ended January 31, 2007 totaled 102,000, during the quarter ended January 31, 2008 totaled 67,820, during the quarter ended January 31, 2009 totaled 60,500 and during the quarter ended January 31, 2010 totaled 86,725. The Company recorded compensation cost of \$3,190,000 and 578,000 during fiscal 2010, and 2009 related to the performance share agreements entered into during fiscal 2008 and 2009, respectively.

Under the Company's Stock Option Plan, 2,250,000 shares of Common Stock were reserved for grant to key management personnel. Options outstanding at October 31, 2006 were granted in fiscal 2002, have ten-year terms and vest over four years beginning one year after the date of grant. The Company did not grant any options during fiscal 2010, 2009 or 2008. The Stock Option Plan has been superseded by the Plan described above and no further options may be issued under the Stock Option Plan.

A summary of the Company's stock option activity and related information is as follows:

	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>
Outstanding at October 31, 2006	188,543	11.66
Granted	0	0.00
Exercised	(144,540)	11.64
Forfeited	(0)	0.00
Outstanding at October 31, 2007	44,003	11.71
Granted	0	0.00
Exercised	(21,939)	11.64
Forfeited	(0)	0.00

Edgar Filing: SANDERSON FARMS INC - Form 10-K

Outstanding at October 31, 2008	22,064	11.73
Granted	0	0.00
Exercised	(500)	12.37
Forfeited	0	0.00
Outstanding at October 31, 2009	21,564	11.72
Granted	0	0.00
Exercised	(14,063)	11.37
Forfeited	0	0.00
Outstanding at October 31, 2010	7,501	\$ 12.37

**Table of Contents**

The exercise price of the options outstanding as of October 31, 2010, ranged from \$7.40 to \$12.37 per share. At October 31, 2010, the weighted average remaining contractual life of the options outstanding was 1.75 years and all of the options were exercisable. The aggregate intrinsic value of the 7,501 stock options outstanding as of October 31, 2010 was \$222,129. During the fiscal year ended October 31, 2010, 14,063 options were exercised with an intrinsic value of \$430,424.

**10. Shareholder Rights Agreement**

The Company's shareholder rights agreement adopted on April 22, 1999 expired on May 4, 2009. There has been no impact on our shareholders related to the expiration other than the resulting expiration of their shareholder purchase rights under the agreement.

**11. Other Matters**

The Company has vehicle and equipment operating leases that expire at various dates through fiscal 2013. Rental expense under these leases totaled \$7.7 million, \$8.5 million, \$8.9 million and for fiscal 2010, 2009 and 2008, respectively. The minimum lease payments of obligations under non-cancelable operating leases at October 31, 2010 were as follows:

<b>Fiscal Year</b>	<b>Amount</b>
2011	\$ 3.8 million
2012	1.9 million
2013	0.3 million
2014	0.0 million
	\$ 6.0 million

The Company periodically enters into non-cancelable commitments to purchase feed grains, feed ingredients and packaging supplies, as well as other items. At October 31, 2010, the Company's estimated contractual obligation for feed grains, feed ingredients and packaging supplies totaled \$177,763, with approximately \$134,110 due in less than one year and the remainder due within 1 to 4 years.

The Company is involved in various claims and litigation incidental to its business. Although the outcome of these matters cannot be determined with certainty, management, upon the advice of counsel, is of the opinion that the final outcome should not have a material effect on the Company's consolidated results of operation, or financial position. The Company recognizes the costs of legal defense for the legal proceedings to which it is a party in the periods incurred. After a considerable analysis of each case, the Company determines the amount of reserves required, if any. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed reasonably estimable and probable due to changes in the Company's assumptions, the effectiveness of legal strategies, or other factors beyond the Company's control. Future results of operations may be materially affected by the creation of reserves or by accruals of losses to reflect any adverse determinations in these legal proceedings.

**QUARTERLY FINANCIAL DATA**

	<b>Fiscal Year 2010</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	<b>(In thousands, except per share data)</b>			
	<b>(Unaudited)</b>			
Net sales	\$420,123	\$487,101	\$489,096	\$529,125
Gross profit	42,079	74,992	79,255	98,570
Net income	15,817	35,087	36,116	47,800
Diluted earnings per share	\$ .75	\$ 1.62	\$ 1.55	\$ 2.08



**Table of Contents**

	<b>Fiscal Year 2009</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	<b>(In thousands, except per share data) (Unaudited)</b>			
Net sales	\$388,884	\$426,759	\$504,846	\$469,019
Gross profit	4,972	55,985	91,025	48,291
Net income (loss)	(6,749)	26,216	43,048	19,804
Diluted earnings (loss) per share	\$ (.33)	\$ 1.25	\$ 2.07	\$ .95

Sanderson Farms, Inc. and Subsidiaries  
Valuation and Qualifying Accounts

## Schedule II

<b>COL. A</b>	<b>COL. B</b>	<b>COL. C</b>	<b>COL. D</b>	<b>COL. E</b>	<b>COL. F</b>
<b>Classification</b>	<b>Balance at Beginning of Period</b>	<b>Charged to Costs and Expenses</b>	<b>Charged to Other Accounts (In Thousands)</b>	<b>Deductions Describe(1)</b>	<b>Balance at End of Period</b>
Year ended October 31, 2010					
Deducted from accounts receivable:					
Allowance for doubtful accounts					
Totals	\$ 1,373	\$ 83		\$ 83	\$ 1,373
Year ended October 31, 2009					
Deducted from accounts receivable:					
Allowance for doubtful accounts					
Totals	\$ 1,373	\$ 367		\$ 367	\$ 1,373
Year ended October 31, 2008					
Deducted from accounts receivable:					
Allowance for doubtful accounts					
Totals	\$ 1,142	\$ 451		\$ 220	\$ 1,373

(1) Uncollectible accounts written off, net of recoveries

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

Not applicable.

**Item 9A. Controls and Procedures.****Disclosure Controls**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of October 31, 2010 an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's

disclosure controls and procedures were effective as of October 31, 2010. There have been no changes in the Company's internal control over financial reporting during the fourth quarter ended October 31, 2010 that

51

---

**Table of Contents**

have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's management has assessed the effectiveness of the Company's internal control over financial reporting as of October 31, 2010. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on our assessment we have concluded that, as of October 31, 2010, the Company's internal control over financial reporting is effective based on those criteria. Our independent registered public accounting firm, Ernst & Young LLP, has provided an attestation report on the Company's internal control over financial reporting as of October 31, 2010.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting  
The Board of Directors and Stockholders  
Sanderson Farms, Inc.**

We have audited Sanderson Farms, Inc.'s internal control over financial reporting as of October 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Sanderson Farms, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sanderson Farms, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sanderson Farms, Inc. and subsidiaries as of October 31, 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2010 of Sanderson Farms, Inc. and subsidiaries and our report dated December 13, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana  
December 13, 2010

**Item 9B. Other Information.**

Not applicable.



**Table of Contents**

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

As permitted by General Instruction G(3) to Form 10-K, reference is made to the information concerning the Directors of the Registrant and the nominees for election as Directors appearing in the Registrant's definitive proxy statement filed or to be filed with the Commission pursuant to Rule 14a-6(b). Such information is incorporated herein by reference to the definitive proxy statement.

Information concerning the executive officers of the Registrant is set forth in Item 4A of Part I of this Annual Report.

The Registrant also incorporates by reference, as permitted by General Instruction G(3) to Form 10-K, information appearing in its definitive proxy statement filed or to be filed with the Commission pursuant to Rule 14a-6(b) related to the filing of reports under Section 16 of the Securities Exchange Act of 1934.

The Registrant has a standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, whose members are John H. Baker, III (Vice Chairman), Robert C. Khayat, Phil K. Livingston, Dianne Mooney, Gail J. Pittman and Charles W. Ritter, Jr. (Chairman). All members of the audit committee are independent directors under the listing standards of the NASDAQ Stock Market LLC. The Registrant's Board of Directors has determined that Phil K. Livingston is an audit committee financial expert.

The Registrant has adopted a code of ethics that applies to its senior financial personnel, including its chief executive officer, chief financial officer and chief accounting officer. The Registrant will provide a copy of the code of ethics free of charge to any person upon request to:

Sanderson Farms, Inc.  
P.O. Box 988  
Laurel, Mississippi 39441  
Attn.: Chief Financial Officer

Requests can also be made by phone at (601) 649-4030.

**Item 11. Executive Compensation.**

As permitted by General Instruction G(3) to Form 10-K, reference is made to the information concerning remuneration of Directors and executive officers of the Registrant appearing in the Registrant's definitive proxy statement filed or to be filed with the Commission pursuant to Rule 14a-6(b). Such information is incorporated herein by reference to the definitive proxy statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

As permitted by General Instruction G(3) to Form 10-K, reference is made to the information concerning beneficial ownership of the Registrant's Common Stock, which is the only class of the Registrant's voting securities, appearing in the Registrant's definitive proxy statement filed or to be filed with the Commission pursuant to Rule 14a-6(b). Such information is incorporated herein by reference to the definitive proxy statement.

The following table provides information as of October 31, 2010 with respect to compensation plans (including individual compensation arrangements) under which equity securities of the Registrant are authorized for issuance. The Registrant has no equity compensation plan not approved by security holders. All outstanding options to purchase the Company's common stock were issued under the Registrant's Stock Option Plan approved by shareholders on February 28, 2002. That plan has been superseded by the Registrant's Stock Incentive Plan approved by shareholders on February 17, 2005. No further options or other awards may be granted under the Stock Option Plan. There are 2,250,000 shares of common stock authorized for issuance under the Stock Incentive Plan.

**Table of Contents**

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	(b) Weighted-average exercise price of outstanding options, warrants and rights(1)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)(2)
Equity compensation plans approved by security holders	7,501	\$ 12.37	160,580
Equity compensation plans not approved by security holders	0	\$ 0.00	0
Total	7,501	\$ 12.37	160,580

(1) These columns do not reflect the 588,961 shares of restricted stock granted to participants in the Stock Incentive Plan, the 151,532 shares of restricted stock purchased by or granted to participants under the management stock purchase plan provisions of the Stock Incentive Plan, nor any of the 130,000 unearned performance shares outstanding at October 31, 2010 at the maximum level, in each case since the inception of the stock incentive plan and net of forfeitures and shares withheld at the election of participants to satisfy tax obligations.

(2) Represents shares available for issuance under the Stock Incentive Plan.

**Item 13. Certain Relationships and Related Transactions and Director Independence.**

As permitted by General Instruction G(3) to Form 10-K, information, if any, required to be reported by Item 13 of Form 10-K, with respect to transactions with management and others, certain business relationships, indebtedness of management, and transactions with promoters, is set forth in the Registrant's definitive proxy statement filed or to be filed with the Commission pursuant to Rule 14a-6(b). Such information, if any, is incorporated herein by reference to the definitive proxy statement.

**Item 14. Principal Accounting Fees and Services.**

As permitted by General Instruction G(3) to Form 10-K, information required to be reported by Item 14 of Form 10-K is set forth in the Registrant's definitive proxy statement filed or to be filed with the Commission pursuant to Rule 14a-6(b). That information is incorporated by reference into this Form 10-K.

**Table of Contents**

PART IV

**Item 15. Exhibits and Financial Statement Schedules.**

(a)1. FINANCIAL STATEMENTS:

The following consolidated financial statements of the Registrant are included in Item 8:

- Consolidated Balance Sheets October 31, 2010 and 2009
- Consolidated Statements of Operations Years ended October 31, 2010, 2009 and 2008
- Consolidated Statements of Stockholders Equity Years ended October 31, 2010, 2009 and 2008
- Consolidated Statements of Cash Flows Years ended October 31, 2010, 2009 and 2008
- Notes to Consolidated Financial Statements October 31, 2010

(a)2. FINANCIAL STATEMENT SCHEDULES:

The following consolidated financial statement schedules of the Registrant are included in Item 8:

Schedule II Valuation and Qualifying Accounts

All other schedules are omitted as they are not required, are not applicable or the required information is set forth in the Financial Statements or notes thereto.

(a) 3. EXHIBITS:

The following exhibits are filed with this Annual Report or are incorporated herein by reference:

Exhibit Number	Description
3.1	Articles of Incorporation of the Registrant dated October 19, 1978. (Incorporated by reference to Exhibit 4.1 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
3.2	Articles of Amendment, dated March 23, 1987, to the Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 4.2 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
3.3	Articles of Amendment, dated April 21, 1989, to the Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 4.3 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
3.4	Certificate of Designations of Series A Junior Participating Preferred Stock of the Registrant dated April 21, 1989. (Incorporated by reference to Exhibit 4.4 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
3.5	Article of Amendment, dated February 20, 1992, to the Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 4.5 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
3.6	Article of Amendment, dated February 27, 1997, to the Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 4.6 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
3.7	By-Laws of the Registrant, amended and restated as of April 23, 2009. (Incorporated by reference to Exhibit 3 filed with the Registrant's Current Report on Form 8-K on April 28, 2009.)
10.1	Contract dated July 31, 1964 between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)



**Table of Contents**

Exhibit Number	Description
10.2	Contract Amendment dated December 1, 1970 between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D-1 filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.3	Contract Amendment dated June 11, 1985 between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D-2 filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.4	Contract Amendment dated October 7, 1986 between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D-3 filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.5+	Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan, as amended and restated effective August 1, 2006. (Incorporated by reference to Exhibit 10.3 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2006.)
10.6+	First Amendment dated November 1, 2007 to Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan. (Incorporated by reference to Exhibit 10.7 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2007.)
10.7+	Amendment Number 2 to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan dated October 23, 2008. (Incorporated by reference to Exhibit 10.7 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2008.)
10.8+	Amendment dated January 29, 2009 to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan. (Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 2009.)
10.9+	Amendment dated July 23, 2009 to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan. (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2009.)
10.10+	Amendment dated July 21, 2010 to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2010.)
10.11+	Sanderson Farms, Inc. and Affiliates Stock Incentive Plan. (Incorporated by reference to Exhibit B to the Registrant's Definitive Proxy Statement filed on January 14, 2005 for its Annual Meeting held February 17, 2005.)
10.12+	Sanderson Farms, Inc. Bonus Award Program effective November 1, 2009. (Incorporated by reference to Exhibit 10 filed with the Registrant's Current Report on Form 8-K filed on February 1, 2010, modified as reported in the Registrant's Current Report on Form 8-K filed April 27, 2010.)
10.13+	

## Edgar Filing: SANDERSON FARMS INC - Form 10-K

Sanderson Farms, Inc. Supplemental Disability Plan effective September 1, 2008. (Incorporated by reference to Exhibit 10 to the Current Report on Form 8-K filed by the Registrant on October 1, 2008).

- 10.14 + Form of Restricted Stock Agreement between the Registrant and its officers and employees who are granted restricted stock with a ten-year resting period, as amended. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2009.)
- 10.15+ Form of Share Purchase Agreement between the Registrant and its non-employee directors who participate in its management share purchase plan, as amended. (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007.)
- 10.16 + Form of Share Purchase Agreement between the Registrant and its officers and employees who participate in its management share purchase plan, as amended. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Quarterly Report on Form 10-Q for the Quarter ended April 30, 2008.)
- 10.17+ Form of Restricted Stock Agreement between the Registrant and its officers and employees who are granted restricted stock with a four-year vesting period, as amended (for awards granted before August 2009). (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2009.)

**Table of Contents**

Exhibit Number	Description
10.18+	Form of Restricted Stock Agreement between Registrant and its officers and employees who are granted restricted stock with a four-year vesting period (for awards granted after August 2009). (Incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2009.)
10.19+	Form of Restricted Stock Agreement between the Registrant and its non-employee directors who are granted restricted stock, as amended. (Incorporated by reference to Exhibit 10.4 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007.)
10.20+	Form of Restricted Stock Agreement between the Registrant and certain management employees for special restricted stock grant on December 21, 2009. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 2010.)
10.21+	Form of Performance Share Agreement between Registrant and its officers and employees who are granted performance shares (for fiscal 2008). (Incorporated by reference to Exhibit 10.19 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2007.)
10.22+	Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2009). (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 2009.)
10.23+	Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2010). (Incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2009.)
10.24+*	Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2011).
10.25+	Employment Agreement dated as of September 15, 2009 between the Registrant and Joe F. Sanderson, Jr. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 15, 2009.)
10.26+	Employment Agreement dated as of September 15, 2009 between the Registrant and Lampkin Butts (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 15, 2009.)
10.27+	Employment Agreement dated as of September 15, 2009 between the Registrant and D. Michael Cockrell (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on September 15, 2009.)
10.28	Memorandum of Agreement dated June 13, 1989, between Pike County, Mississippi and the Registrant. (Incorporated by reference to Exhibit 10-L filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1990.)
10.29	

Edgar Filing: SANDERSON FARMS INC - Form 10-K

Wastewater Treatment Agreement between the City of Magnolia, Mississippi and the Registrant dated August 19, 1991. (Incorporated by reference to Exhibit 10-M filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991.)

- 10.30 Memorandum of Agreement and Purchase Option between Pike County, Mississippi and the Registrant dated May 1991. (Incorporated by reference to Exhibit 10-N filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991.)
- 10.31 Lease Agreement between Pike County, Mississippi and the Registrant dated as of November 1, 1992. (Incorporated by reference to Exhibit 10-M filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1993.)
- 10.32 Lease Agreement dated as of December 1, 2004 between Moultrie-Colquitt County Development Authority, as Lessor, and Sanderson Farms, Inc. (Processing Division) as Lessee. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.)
- 10.33 Bond Purchase Loan Agreement between Moultrie-Colquitt County Development Authority, as Issuer, and Sanderson Farms, Inc. (Processing Division), as Purchaser. (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.)



**Table of Contents**

Exhibit Number	Description
10.34	Credit Agreement dated May 1, 2008 among Sanderson Farms, Inc. and Bank of Montreal, Individually and as Agent for the Banks defined therein. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 2, 2008.)
10.35	Guaranty Agreement dated May 1, 2008 of Sanderson Farms, Inc. (Foods Division), Sanderson Farms, Inc. (Production Division) and Sanderson Farms, Inc. (Processing Division). (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed May 2, 2008.)
10.36	First Amendment dated July 25, 2008 to the Credit Agreement dated May 1, 2008 among Sanderson Farms, Inc. and Bank of Montreal, Individually and as Agent for the Banks defined therein. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended July 31, 2008.)
10.37	Note Purchase Agreement dated as of April 28, 2006 between Sanderson Farms, Inc. and Northwest Farm Credit Services, PCA. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
10.38	Guarantee Agreement dated as of April 28, 2006 of Sanderson Farms, Inc. (Foods Division). (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
10.39	Guarantee Agreement dated as of April 28, 2006 of Sanderson Farms, Inc. (Production Division). (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
10.40	Guarantee Agreement dated as of April 28, 2006 of Sanderson Farms, Inc. (Processing Division). (Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
10.41	Intercreditor Agreement dated as of April 28, 2006 among The Lincoln National Life Insurance Company, Northwest Farm Credit Services, PCA, Harris N.A., SunTrust Bank, AmSouth Bank, U.S. Bank National Association, Regions Bank, and Trustmark National Bank. (Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
10.42	Lease Agreement dated as of July 1, 2006 between Adel Industrial Development Authority as Lessor, and Sanderson Farms, Inc. (Production Division) as Lessee. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2006.)
10.43	Bond Purchase Agreement dated as of July 31, 2006 between Sanderson Farms, Inc. (Production Division) as Purchaser and Adel Industrial Development Authority as Issuer. (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2006.)
21	List of Subsidiaries of the Registrant. (Incorporated by reference to Exhibit 21 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)

23\* Consent of Independent Registered Public Accounting Firm.

31.1\* Certification of Chief Executive Officer.

31.2\* Certification of Chief Financial Officer.

32.1\*\* Section 1350 Certification.

32.2\*\* Section 1350 Certification.

\* Filed herewith.

\*\* Furnished herewith.

+ Management contract or compensatory plan or arrangement

(b) Agreements Available Upon Request by the Commission.

The Registrant's credit agreement with the banks for which Bank of Montreal acts as agent is filed or incorporated by reference as an exhibit to this report. The Registrant is a party to various other agreements defining the rights of

**Table of Contents**

holders of long-term debt of the Registrant, but, of those other agreements, no single agreement authorizes securities in an amount which exceeds 10% of the total assets of the Company. Upon request of the Commission, the Registrant will furnish a copy of any such agreement to the Commission. Accordingly, such agreements are omitted as exhibits as permitted by Item 601(b)(4)(iii) of Regulation S-K.

**QUALIFICATION BY REFERENCE**

Any statement contained in this Annual Report concerning the contents of any contract or other document filed as an exhibit to this Annual Report or incorporated herein by reference is not necessarily complete, and in each instance reference is made to the copy of the document filed.

**Table of Contents**

SIGNATURES

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

SANDERSON FARMS, INC.

By: /s/ Joe F. Sanderson, Jr.  
Chairman of the Board and Chief  
Executive  
Officer

Date: December 14, 2010

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

/s/ Joe F. Sanderson, Jr.	12/14/10
Joe F. Sanderson, Jr., Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	
/s/ John H. Baker, III	12/14/10
John H. Baker, III, Director	
/s/ Fred Banks, Jr.	12/14/10
Fred Banks, Jr. Director	
/s/ John Bierbusse	12/14/10
John Bierbusse, Director	
/s/ Lampkin Butts	12/14/10
Lampkin Butts, Director, President and Chief Operating Officer	
/s/ D. Michael Cockrell	12/14/10
D. Michael Cockrell, Director, Treasurer and Chief Financial Officer	
/s/ Ms. Toni Cooley	12/14/10

Toni Cooley  
Director

/s/ James A. Grimes

12/14/10

James A. Grimes,  
Secretary and Chief Accounting Officer  
(Principal Accounting Officer)

/s/ Beverly Wade Hogan

12/14/10

Beverly Wade Hogan,  
Director

/s/ Robert C. Khayat

12/14/10

Robert C. Khayat  
Director

**Table of Contents**

/s/ Phil K. Livingston	12/14/10
Phil K. Livingston, Director	
/s/ Dianne Mooney	12/14/10
Dianne Mooney Director	
/s/ Gail Jones Pittman	12/14/10
Gail Jones Pittman, Director	
/s/ Charles W. Ritter, Jr.	12/14/10
Charles W. Ritter, Jr., Director	
/s/ Rowan Taylor	12/14/10
Rowan Taylor, Director	

**Table of Contents**

**EXHIBITS:**

The following exhibits are filed with this Annual Report or are incorporated herein by reference:

Exhibit Number	Description
3.1	Articles of Incorporation of the Registrant dated October 19, 1978. (Incorporated by reference to Exhibit 4.1 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
3.2	Articles of Amendment, dated March 23, 1987, to the Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 4.2 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
3.3	Articles of Amendment, dated April 21, 1989, to the Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 4.3 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
3.4	Certificate of Designations of Series A Junior Participating Preferred Stock of the Registrant dated April 21, 1989. (Incorporated by reference to Exhibit 4.4 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
3.5	Article of Amendment, dated February 20, 1992, to the Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 4.5 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
3.6	Article of Amendment, dated February 27, 1997, to the Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 4.6 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
3.7	By-Laws of the Registrant, amended and restated as of April 23, 2009. (Incorporated by reference to Exhibit 3 filed with the Registrant's Current Report on Form 8-K on April 28, 2009.)
10.1	Contract dated July 31, 1964 between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.2	Contract Amendment dated December 1, 1970 between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D-1 filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.3	Contract Amendment dated June 11, 1985 between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D-2 filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.4	Contract Amendment dated October 7, 1986 between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D-3 filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.5+	

## Edgar Filing: SANDERSON FARMS INC - Form 10-K

Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan, as amended and restated effective August 1, 2006. (Incorporated by reference to Exhibit 10.3 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2006.)

- 10.6+ First Amendment dated November 1, 2007 to Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan. (Incorporated by reference to Exhibit 10.7 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2007.)
- 10.7+ Amendment Number 2 to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan dated October 23, 2008. (Incorporated by reference to Exhibit 10.7 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2008.)
- 10.8+ Amendment dated January 29, 2009 to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan. (Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 2009.)
- 10.9+ Amendment dated July 23, 2009 to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan. (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2009.)



**Table of Contents**

Exhibit Number	Description
10.10+	Amendment dated July 21, 2010 to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2010.)
10.11+	Sanderson Farms, Inc. and Affiliates Stock Incentive Plan. (Incorporated by reference to Exhibit B to the Registrant's Definitive Proxy Statement filed on January 14, 2005 for its Annual Meeting held February 17, 2005.)
10.12+	Sanderson Farms, Inc. Bonus Award Program effective November 1, 2009. (Incorporated by reference to Exhibit 10 filed with the Registrant's Current Report on Form 8-K filed on February 1, 2010, modified as reported in the Registrant's Current Report on Form 8-K filed April 27, 2010.)
10.13+	Sanderson Farms, Inc. Supplemental Disability Plan effective September 1, 2008. (Incorporated by reference to Exhibit 10 to the Current Report on Form 8-K filed by the Registrant on October 1, 2008).
10.14 +	Form of Restricted Stock Agreement between the Registrant and its officers and employees who are granted restricted stock with a ten-year resting period, as amended. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2009.)
10.15+	Form of Share Purchase Agreement between the Registrant and its non-employee directors who participate in its management share purchase plan, as amended. (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007.)
10.16 +	Form of Share Purchase Agreement between the Registrant and its officers and employees who participate in its management share purchase plan, as amended. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Quarterly Report on Form 10-Q for the Quarter ended April 30, 2008.)
10.17+	Form of Restricted Stock Agreement between the Registrant and its officers and employees who are granted restricted stock with a four-year vesting period, as amended (for awards granted before August 2009). (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2009.)
10.18+	Form of Restricted Stock Agreement between Registrant and its officers and employees who are granted restricted stock with a four-year vesting period (for awards granted after August 2009). (Incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2009.)
10.19+	Form of Restricted Stock Agreement between the Registrant and its non-employee directors who are granted restricted stock, as amended. (Incorporated by reference to Exhibit 10.4 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007.)
10.20+	Form of Restricted Stock Agreement between the Registrant and certain management employees for special restricted stock grant on December 21, 2009. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 2010.)

- 10.21+ Form of Performance Share Agreement between Registrant and its officers and employees who are granted performance shares (for fiscal 2008). (Incorporated by reference to Exhibit 10.19 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2007.)
- 10.22+ Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2009). (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 2009.)
- 10.23+ Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2010). (Incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2009.)
- 10.24+\* Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2011).
- 10.25+ Employment Agreement dated as of September 15, 2009 between the Registrant and Joe F. Sanderson, Jr. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 15, 2009.)

**Table of Contents**

Exhibit Number	Description
10.26+	Employment Agreement dated as of September 15, 2009 between the Registrant and Lampkin Butts (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 15, 2009.)
10.27+	Employment Agreement dated as of September 15, 2009 between the Registrant and D. Michael Cockrell (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on September 15, 2009.)
10.28	Memorandum of Agreement dated June 13, 1989, between Pike County, Mississippi and the Registrant. (Incorporated by reference to Exhibit 10-L filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1990.)
10.29	Wastewater Treatment Agreement between the City of Magnolia, Mississippi and the Registrant dated August 19, 1991. (Incorporated by reference to Exhibit 10-M filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991.)
10.30	Memorandum of Agreement and Purchase Option between Pike County, Mississippi and the Registrant dated May 1991. (Incorporated by reference to Exhibit 10-N filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991.)
10.31	Lease Agreement between Pike County, Mississippi and the Registrant dated as of November 1, 1992. (Incorporated by reference to Exhibit 10-M filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1993.)
10.32	Lease Agreement dated as of December 1, 2004 between Moultrie-Colquitt County Development Authority, as Lessor, and Sanderson Farms, Inc. (Processing Division) as Lessee. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.)
10.33	Bond Purchase Loan Agreement between Moultrie-Colquitt County Development Authority, as Issuer, and Sanderson Farms, Inc. (Processing Division), as Purchaser. (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.)
10.34	Credit Agreement dated May 1, 2008 among Sanderson Farms, Inc. and Bank of Montreal, Individually and as Agent for the Banks defined therein. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 2, 2008.)
10.35	Guaranty Agreement dated May 1, 2008 of Sanderson Farms, Inc. (Foods Division), Sanderson Farms, Inc. (Production Division) and Sanderson Farms, Inc. (Processing Division). (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed May 2, 2008.)
10.36	First Amendment dated July 25, 2008 to the Credit Agreement dated May 1, 2008 among Sanderson Farms, Inc. and Bank of Montreal, Individually and as Agent for the Banks defined therein. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended July 31, 2008.)

- 10.37 Note Purchase Agreement dated as of April 28, 2006 between Sanderson Farms, Inc. and Northwest Farm Credit Services, PCA. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
- 10.38 Guarantee Agreement dated as of April 28, 2006 of Sanderson Farms, Inc. (Foods Division). (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
- 10.39 Guarantee Agreement dated as of April 28, 2006 of Sanderson Farms, Inc. (Production Division). (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
- 10.40 Guarantee Agreement dated as of April 28, 2006 of Sanderson Farms, Inc. (Processing Division). (Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
- 10.41 Intercreditor Agreement dated as of April 28, 2006 among The Lincoln National Life Insurance Company, Northwest Farm Credit Services, PCA, Harris N.A., SunTrust Bank, AmSouth Bank, U.S. Bank National Association, Regions Bank, and Trustmark National Bank. (Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)

**Table of Contents**

Exhibit Number	Description
10.42	Lease Agreement dated as of July 1, 2006 between Adel Industrial Development Authority as Lessor, and Sanderson Farms, Inc. (Production Division) as Lessee. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2006.)
10.43	Bond Purchase Agreement dated as of July 31, 2006 between Sanderson Farms, Inc. (Production Division) as Purchaser and Adel Industrial Development Authority as Issuer. (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2006.)
21	List of Subsidiaries of the Registrant. (Incorporated by reference to Exhibit 21 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)
23*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification of Chief Executive Officer.
31.2*	Certification of Chief Financial Officer.
32.1**	Section 1350 Certification.
32.2**	Section 1350 Certification.
* Filed herewith.	
** Furnished herewith.	
+ Management contract or compensatory plan or arrangement.	