

SANDERSON FARMS INC

Form 10-K

December 29, 2006

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, 2006

**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:

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

Common stock, \$1.00 par
value per share

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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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: \$490,160,011 .

Number of shares outstanding of the Registrant's common stock as of December 27, 2006: 20,110,609 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 2007 Annual Meeting of Stockholders are incorporated by reference into Part III.

TABLE OF CONTENTS

<u>PART I</u>	
<u>Item 1. Business</u>	2
<u>Item 1A. Risk Factors</u>	12
<u>Item 1B. Unresolved Staff Comments</u>	16
<u>Item 2. Properties</u>	16
<u>Item 3. Legal Proceedings</u>	17
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	19
<u>Item 4A. Executive Officers of the Registrant</u>	19
<u>PART II</u>	19
<u>Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	19
<u>Item 6. Selected Financial Data</u>	20
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 7A. Quantitative and Qualitative Disclosure About Market Risk</u>	29
<u>Item 8. Financial Statements and Supplementary Data</u>	32
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	49
<u>Item 9A. Controls and Procedures</u>	49
<u>Item 9B. Other Information</u>	51
<u>PART III</u>	51
<u>Item 10. Directors and Executive Officers of the Registrant</u>	51
<u>Item 11. Executive Compensation</u>	51
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	52
<u>Item 13. Certain Relationships and Related Transactions</u>	52
<u>Item 14. Principal Accountant Fees and Services</u>	53
<u>PART IV</u>	53
<u>Item 15. Exhibits and Financial Statement Schedules</u>	53
<u>SIGNATURES</u>	59
<u>EXHIBITS</u>	61
EX-10.22 FORM OF PERFORMANCE SHARE AGREEMENT	
EX-23 CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	
EX-31.1 SARBANES 302 CERTIFICATION OF THE CEO	
EX-31.2 SARBANES 302 CERTIFICATION OF THE CFO	
EX-32.1 SARBANES 906 CERTIFICATION OF THE CEO	
EX-32.2 SARBANES 906 CERTIFICATION OF THE CFO	
<u>Ex-10.22 Form of Performance Share Agreement</u>	
<u>Ex-23 Consent of Independent Registered Public Accounting Firm</u>	
<u>Ex-31.1 Section 302 Certification of the CEO</u>	
<u>Ex-31.2 Section 302 Certification of the CFO</u>	
<u>Ex-32.1 Section 906 Certification of the CEO</u>	
<u>Ex-32.2 Section 906 Certification of the CFO</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, 2006, 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, the letters used in the Commission's Regulation S-K) as effective on the date hereof, which specifies the information required to be included in Annual Reports to the Commission. 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 the specified period, given as of the date of this Report, which is December 29, 2006.

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 processed and prepared food items through its wholly-owned subsidiary, Sanderson Farms, Inc. (Foods Division).

The Registrant sells ice pack, chill 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 and western United States. During its fiscal year ended October 31, 2006 the Registrant processed 307.7 million chickens, or approximately 1.8 billion dressed pounds. According to 2006 industry statistics, the Registrant was the 5th largest processor of dressed chickens in the United States based on estimated average weekly processing.

The Registrant's chicken operations presently encompass 6 hatcheries, 6 feed mills and 7 processing plants. The Registrant has contracts with operators of approximately 509 grow-out farms that provide it with sufficient housing capacity for its current operations. The Registrant also has contracts with operators of 160 breeder farms.

Through its Foods Division subsidiary, the Registrant sells over 100 processed and prepared food items nationally and regionally, primarily to distributors, national food service accounts and retailers. These food items include further processed chicken products and frozen entrees, such as chicken and dumplings, lasagna, seafood gumbo, shrimp creole and other specialty products.

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 1995, 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 foods 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 Pike County (McComb), Mississippi production and processing

Table of Contents

facilities, including a hatchery, a feed mill, a processing plant, a waste water treatment facility and a water treatment facility. In addition, since 1987, the Registrant completed the expansion and renovation of the hatchery at its Hazlehurst, Mississippi production facilities.

During 1997, the Registrant completed the construction and start-up of its Brazos County (Bryan), Texas production and processing facilities, including a hatchery, a feed mill located in Robertson County, Texas, a processing plant, a waste water treatment facility and a water treatment facility.

In the fourth quarter of fiscal 2005, the Registrant began initial operations at its new poultry processing complex in southern Georgia. The complex consists of a feed mill, hatchery, processing plant and wastewater treatment facility. This plant reached its full capacity of 1.2 million head of chicken per week during October 2006.

During fiscal 2006, the Company announced the construction of a new poultry complex in Waco, Texas. The completed complex will consist of an expansion of the feedmill in Robertson County, Texas, hatchery, processing plant and wastewater treatment facility, and will process 1.2 million head per week at full capacity. Operations at the new complex are expected to begin during the fourth fiscal quarter of 2007.

The Registrant currently has additional processing capacity available to it through the expansion of the 2nd shift of the second line at its Collins, Mississippi processing facility, which is currently at 88% capacity. The Company's plan to expand this plant and reach full capacity was postponed due to adverse market conditions, and the plant is not expected to reach full capacity before the spring of 2007.

Since 1997, the Company has also changed its marketing strategy to move away from the small bird markets serving primarily the fast food markets and into the retail and big bird deboning markets serving the retail 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 2006 were funded by working capital. Effective November 17, 2005, the Registrant entered into a new revolving credit agreement that terminates on July 31, 2010. The Registrant anticipates that capital expenditures for fiscal 2007 will be funded by internally generated working capital and, if needed, borrowings under the revolving credit agreement.

(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 food items.

The Registrant sells chill pack, ice pack and frozen chicken, both whole and cut-up, primarily under the Sanderson Farms® brand name to retailers, distributors and casual dining operators principally in the southeastern, southwestern and western United States. During its fiscal year ended October 31, 2006, the Registrant processed approximately 307.7 million chickens, or approximately 1.8 billion dressed pounds. In addition, the Registrant purchased and further processed 9.3 million pounds of poultry products during fiscal 2006. According to 2006 industry statistics, the Registrant was the 5th largest processor of dressed chicken in the United States based on estimated average weekly processing.

Table of Contents

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 Pike County, Mississippi, Bryan, Texas and Adel, Georgia, is engaged in the production of chickens to the broiler stage. Sanderson Farms, Inc. (Processing Division), which has facilities in Laurel, Collins, Hazlehurst and Pike County, Mississippi, Hammond, Louisiana, Bryan, Texas and Moultrie, Georgia, is engaged in the processing, sale and distribution of chickens.

The Registrant conducts its processed and prepared foods 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 over 100 processed and prepared food items, which it sells nationally and regionally, principally to distributors, national food service accounts, retailers and club stores.

Products

The Registrant has the ability to produce a wide range of processed chicken products and processed and prepared food items that allow it to take advantage of marketing opportunities as they arise.

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 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 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.

Value added products usually generate higher sale prices per pound, exhibit less finished price volatility and generally result in higher and more consistent profit margins over the long-term than non-value added product forms. Selling fresh chickens as a prepackaged brand name product has been a significant step in the development of the value added, higher margin consumer business.

The following table sets forth, for the periods indicated, the contribution, as a percentage of sales of chicken products, of value added and non-value added chicken products.

	Fiscal Year Ended October 31,				
	2002	2003	2004	2005	2006
Value added	99.7%	99.5%	99.6%	99.5%	99.7%
Non-value added	.3	.5	.4	.5	.3
Total Registrant chicken sales	100.0%	100.0%	100.0%	100.0%	100.0%

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.

	Fiscal Year Ended October 31,				
	2002	2003	2004	2005	2006
Registrant processed chicken:					
Value added:					
Chill pack	40.6%	34.4%	32.5%	33.6%	31.0%
Fresh bulk pack	38.9	42.5	47.5	44.4	45.1
Frozen	9.2	10.3	10.0	12.4	14.1
Subtotal	88.7	87.2	90.0	90.4	90.2
Non-value added:					
Ice pack	.2	.3	.3	.3	.3
Frozen	.1	.1	.1	.1	.0
Subtotal	.3	.4	.4	.4	.3
Total Company processed chicken	89.0	87.6	90.4	90.8	90.5
Processed and prepared foods	11.0	12.4	9.6	9.2	9.5
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 expressed in number of head processed, and the average industry size of birds processed in the relevant market segment.

Plant Location	Market Segment	Capacity Per Week	Industry Bird Size
Laurel, Mississippi	Big Bird Deboning	625,000	7.25
Hazlehurst, Mississippi	Big Bird Deboning	625,000	7.25
Hammond, Louisiana	Big Bird Deboning	625,000	7.25
McComb, Mississippi	Chill Pack Retail	1,250,000	5.60
Bryan, Texas	Chill Pack Retail	1,250,000	5.60
Collins, Mississippi	Big Bird Deboning	1,250,000	7.25
Moultrie, Georgia	Chill Pack Retail	1,250,000	5.60

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 and whole or cut wings, and is likewise sold at spot commodity market prices for wings and boneless breast meat. The Company as of October 31, 2006 processes 2.8 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 and wings.

Table of Contents

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

Those plants that target the chill pack retail 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 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 Farm® brand name. While the Company has long term contracts (up to four years) with most of its chill pack customers, 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 issued each week by the Georgia Department of Agriculture and is based on its survey of prices during the preceding week. The Company as of October 31, 2006 has 3.6 million head per week dedicated to the chill pack market, and its results are materially impacted by fluctuations in the Georgia Dock price.

The Georgia Dock price for whole birds as issued 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 bench marking services used by the industry, this market segment has been the least profitable of the three primary market segments over 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 and western United States. The Registrant also sells its chicken products to casual dining operators and to customers who resell the products outside of the continental United States. This wide range of customers, together with the Registrant's broad 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.

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 and by customer service representatives at each of its seven processing complexes 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 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 characteristics. The Registrant will adjust base prices depending upon value added, volume, product mix and other factors. While base prices may change weekly, the Registrant's adjustment is 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.

The Registrant uses television, radio and newspaper advertising, coupon promotion, 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 through television advertising. 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 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 campaign was well received, and the Company plans to continue the campaign in the future.

The Registrant's processed and prepared food items are sold nationally and regionally, primarily to distributors and national food service accounts. Sales of such products are handled by independent food brokers located throughout the United States, primarily in the southeast and southwest United States, and by sales personnel of the Registrant. Processed and prepared food 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, 2006, the Registrant maintained contracts with 39 pullet farm operators for the grow-out of pullets (growing the pullet to

Table of Contents

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, 2006, by 121 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 six hatcheries located in Mississippi, Texas and Georgia where eggs are incubated and hatched in a process requiring 21 days. Once hatched, the day-old chicks are vaccinated against common poultry diseases and are transported by Registrant's vehicles to independent contract grow-out farms. As of October 31, 2006, the Registrant's hatcheries were capable of producing an aggregate of approximately 7.3 million chicks per week.

Grow-out. The Registrant places its chicks on 509 grow-out farms, as of October 31, 2006, located in Mississippi, Louisiana, Texas and Georgia 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 on the open market the primary feed ingredients, including 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, 2006, the Registrant operated 6 feed mills, 4 of which are located in Mississippi, one in Texas and one in Georgia. The Registrant's annual feed requirements for fiscal 2006 were approximately 2,361,000 tons, and it has the capacity to produce approximately 2,933,000 tons of finished feed annually under current configurations.

Feed grains are commodities subject to volatile price changes caused by weather, size of harvest, transportation and storage costs and the agricultural policies of the United States and foreign governments. On October 31, 2006, the Registrant had approximately 1,833,000 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 supplies at current prices from suppliers and, to a limited extent, direct 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.

Processing. Once the chicks 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 Pike County, Mississippi processing plant, which currently operates two processing lines on a double shift basis, is currently processing approximately 1,200,000 chickens per week. The Registrant's Collins, Mississippi processing plant, which is currently operating one of its two lines on a double shift basis and one line on a partial double shift basis, is currently processing approximately 1,050,000 chickens per week. The Registrant's Brazos County, Texas processing plant, which is currently operating two lines on a double shift basis, is currently processing approximately 1,200,000 chickens per week. The Registrant's Laurel and Hazlehurst, Mississippi and Hammond, Louisiana processing plants, which currently operate on a double shift basis, are collectively processing approximately 1,750,000 chickens per week. The Registrant's Moultrie, Georgia processing plant, which began initial operation during the fourth quarter of fiscal 2005, currently is operating two lines on a double shift basis. The Moultrie, Georgia plant is structured similarly to the Pike County, Mississippi and Brazos County, Texas processing plants and is currently processing 1,200,000 million chickens per week. The Registrant also has the capabilities to

Table of Contents

produce deboned product at seven processing facilities. At October 31, 2006, these deboning facilities were operating on a double shifted basis resulting in a combined capacity to process approximately 17.5 million pounds of product per 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. The Registrant could increase significantly its production of processed and prepared food items without incurring significant capital expenditures or delays.

Executive Offices; Other Facilities. The Registrant's corporate offices are located in Laurel, Mississippi. As of October 31, 2006, the Registrant operated 8 automotive maintenance shops which service approximately 682 Registrant over-the-road and farm vehicles. In addition, the Registrant has one child care facility located near its Collins, Mississippi processing plant, currently serving over 175 children.

During fiscal 2005, the Company began construction of a new 90,000 square feet corporate office building in Laurel, Mississippi. Construction was completed in February 2006. The office building houses the Company's corporate offices, meeting facilities and computer equipment and constitutes the corporate headquarters.

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 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 seven processing plants and the prepared food 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) processing 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 of 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 and is not anticipated to have a materially adverse effect in the future. 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.

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.

Table of Contents

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.

No customer accounted for more than 10.0% of consolidated sales for the year ended October 31, 2006 and October 31, 2005. One customer accounted for 12.5% of consolidated sales for the year ended October 31, 2004. The Company does not believe the loss of this or any customer would have a material adverse effect on the Company.

Sources of Supply

During fiscal 2006, the Registrant purchased its pullets and its cockerels from two (2) major breeders. The Registrant has found the genetic cross of the breeds supplied by these companies to produce chickens most suitable to the Registrant's purposes. The Registrant has no written contracts with these breeders 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 suppliers 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, 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 eight other trademarks that are used in connection with the distribution of chicken and other products and for other competitive purposes.

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.

Table of Contents

Employees and Labor Relations

As of October 31, 2006, the Registrant had 8,711 employees, including 922 salaried and 7,789 hourly employees. A collective bargaining agreement with the United Food and Commercial Workers International Union covering 600 hourly employees who work at the Registrant's processing plant in Hammond, Louisiana expires on December 1, 2007. The 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 558 hourly employees who work at the Registrant's processing plant in Hazlehurst, Mississippi was negotiated and signed by the union and the Registrant effective July 26, 1999. This agreement was renegotiated and signed on January 19, 2003, and had an expiration date of December 31, 2005. This agreement was renegotiated and signed effective January 1, 2006. The new agreement has an expiration date of December 31, 2008. This 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 999 hourly employees who work at the Registrant's processing plant in Collins, Mississippi was negotiated and signed by the union and the Registrant effective September 9, 1995, and expired on December 30, 1999. The agreement was renegotiated and has a termination date of December 31, 2006. This collective bargaining agreement will expire by its terms on December 31, 2006, and a new agreement is currently being negotiated.

On June 9, 1999, the production, maintenance and clean-up employees at the Company's Brazos County, Texas poultry processing facility voted to be represented by the United Food and Commercial Workers Union Local #408, AFL-CIO. A collective bargaining agreement was negotiated and signed on October 7, 1999. A contract was negotiated and signed effective October 25, 2002, with an expiration date of December 31, 2005. The Company and the union have renegotiated this agreement effective January 1, 2006, with an expiration date of December 31, 2008. This collective bargaining agreement has a grievance procedure and no strike-no lockout clause that should assist in maintaining stable labor relations at the Brazos County, Texas processing facility.

On November 30, 2001, live haul drivers at the Company's McComb, Mississippi production division voted to be represented by United Food and Commercial Workers' Union Local #1529 AFL-CIO in collective bargaining. A collective bargaining agreement was reached with an expiration date of December 31, 2006. That agreement has been extended by agreement of both parties pending negotiation of a new agreement. The union demonstrated during 2004 by signed authorization cards that it had been chosen as the bargaining representative of the loader-operators, and at their request loader operators were included in the bargaining unit with the live-haul drivers.

On September 13, 2001, production, maintenance and truck driver employees at the Company's McComb, Mississippi Feed Mill facility voted to be represented in collective bargaining by United Food and Commercial Workers' Union Local #1529 AFL-CIO. A collective bargaining agreement was negotiated and signed effective July 1, 2002, and had an expiration date of June 30, 2005. This agreement included a provision allowing re-opening of bargaining of certain financial matters on July 1, 2003 and July 1, 2004, and has a grievance procedure and no strike-no lockout clause that should assist in maintaining stable labor relations at this facility. By agreement dated July 20, 2003, the Company and the union agreed to amend the agreement to provide for an expiration date of December 31, 2004. Negotiations were completed on a new contract in February 2005, and the new agreement has an expiration date of December 31, 2007.

Table of Contents

(d) FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

All of the Company's operations are domiciled in the United States. All of the products sold to the Company's customers for the Company's fiscal years 2006, 2005 and 2004 were produced in the United States and all long-lived assets of the Company are domiciled in the United States.

The Company exports certain of its products to foreign markets, primarily Mexico, Russia, China, Puerto Rico, and the Caribbean. These exports sales for fiscal years 2006, 2005 and 2004 totaled approximately \$69.5 million, \$69.1 million and \$65.2 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. For fiscal 2006, 2005 and 2004, the Company made no sales of products produced in a country other than the United States.

(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

Before making an investment in our common stock, investors should consider carefully the following risks.

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

Profitability in the poultry industry is materially affected by the commodity prices of feed ingredients, chicken and alternative proteins, particularly beef. These prices are determined by supply and demand factors. As a result, the poultry industry is subject to wide fluctuations that are called cycles. Typically we do well when chicken and beef prices are high and feed prices are low. We do less well, and sometimes have losses, when chicken and beef 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, the global level of supply inventories and demand for feed ingredients, currency fluctuations and the agricultural 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 our chicken prices are related to the commodity prices of chickens, 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 reduces but does not eliminate the risk of increased operating costs from commodity price increases.

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

Table of Contents

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 chicken, including our fresh 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 depressed, and may continue to depress, demand for fresh chicken, which would adversely impact our sales.

Over the last eighteen months there has been substantial publicity regarding a highly pathogenic strain of avian influenza, known as H5N1, which has affected Asia since 2002 and which has been found in Eastern Europe. It is widely believed that H5N1 is spread by migratory birds, such as ducks and geese. There have also been some cases where H5N1 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 H5N1 strain has not been identified in North America, there have been outbreaks of low pathogenic strains of avian influenza in North America, including in the U.S. in 2002 and 2004 and in Mexico for the past several years, including 2005. In addition, low pathogenic strains of the avian influenza virus were detected in wild birds in the United States in 2006. Although these low pathogenic 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 H5N1 strain, they have nevertheless impacted our sales. Accordingly, even if the H5N1 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.

We export fresh chicken products overseas to Russia and other former Soviet countries, China and Mexico, among other countries. Any disruption to the export markets, such as trade embargos, import bans or quotas could materially impact our sales or create an over supply 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.

Competition in the poultry industry with other poultry companies, especially companies with greater resources, may make us unable to compete successfully in these industries, which could adversely affect our business.

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

Table of Contents

customer service.

Competitive factors vary by major market. In the foodservice market, competition is based on consistent quality, product development, service and price. In the U.S. retail market, we believe that competition is based on product quality, brand awareness 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 43.7% of our net sales during the 2006 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 due to power outages, fuel shortages, damage to infrastructure, or disruption of shipping channels, among other things. Any of these factors could materially and adversely affect our results of operations.

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 do not have employment agreements with these persons and they 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.

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

We have approximately 8,700 employees, 3,591 of which are covered by collective bargaining agreements or are members of labor unions. In addition, we contract with over 600 independent farms in Mississippi, Louisiana, 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, our production operations could be negatively impacted.

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

Table of Contents

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 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 and integrating the acquired business or new plant into our operations. 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.

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 cyclicalities 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 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 designed to discourage attempts to acquire control of our company without the approval of our board of directors. These provisions include a classified board of directors, advance notification requirements for stockholders to nominate persons for election to the board and to make stockholder proposals, special stockholder voting requirements and a poison pill that discourages acquisitions of shares that could increase ownership beyond 20% of our total shares. These measures 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.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The Registrant's principal properties are as follows:

Use	Location (City, State)
Poultry complex, including poultry processing plant, hatchery and feedmill	Laurel, Mississippi
Poultry complex, including poultry processing plant, hatchery and feedmill	Pike County, Mississippi
Poultry complex, including poultry processing plant, hatchery and feedmill	Hazlehurst and Gallman, Mississippi
Poultry complex, including poultry processing plant, hatchery and feedmill	Brazos and Robertson Counties, Texas
Poultry complex, including poultry processing plant, hatchery and feedmill	Moultrie and Adel, Georgia
Poultry complex under construction, 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
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, which expires in 2012 and is thereafter renewable annually through 2091. All of the foregoing leases are capital leases.

Table of Contents

There are no material encumbrances on the major operating facilities owned by the Registrant, except that the plant of Sanderson Farms, Inc. (Foods Division) is encumbered by a mortgage which collateralizes a note with an outstanding principal balance of \$598,000 on October 31, 2006, which bears interest at the rate of 5.0% per annum and is payable in equal annual installments through 2009. In addition, under the terms of the Company's revolving credit agreement and under its \$20 million long-term fixed rate loan agreement effective June 1999, the Registrant may not pledge any additional assets as collateral other than fixed assets up to 15.0% of its tangible assets.

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.

Item 3. Legal Proceedings.

On May 19, 2003, a lawsuit was filed on behalf of 74 individual plaintiffs in the United States District Court for the Southern District of Mississippi alleging an intentional pattern and practice of race discrimination and hostile environment in violation of Title VII and Section 1981 rights. This lawsuit alleged that Sanderson Farms, in its capacity as an employer, had engaged in (and continues to engage in) a pattern and practice of intentional unlawful employment discrimination and intentional unlawful employment practices at its plants, locations, off-premises work sites, offices, and facilities in Pike County, Mississippi...in violation of Title VII of the Civil Rights Act of 1964 (as amended)... . The action further alleged that Sanderson Farms has willfully, deliberately, intentionally, and with malice deprived black workers in its employ of the full and equal benefits of all laws in violation of the Civil Rights Act... . On June 6, 2003, thirteen additional plaintiffs joined in the pending lawsuit by the filing of a First Amended Complaint. This brought the total number of plaintiffs to 87.

The plaintiffs in this lawsuit sought among other things, back pay and other compensation in the amount of \$500,000 each and unspecified punitive damages. The Company aggressively defended the lawsuit. The Company has a policy of zero tolerance for discrimination of any type, and preliminarily investigated the complaints alleged in this lawsuit when they were brought as EEOC charges. This investigation substantiated none of the complaints alleged in the lawsuit, and the Company believes the charges were without merit. On July 21, 2003, the Company filed a Motion to Dismiss or, alternatively, Motion for Summary Judgment or Motion for More Definite Statement. On December 17, 2003, the court entered its order denying the Company's motion for summary judgment, but granting its motion for more definite statement. The court also ordered that the union representing some of the plaintiffs be joined as a defendant. The court gave the plaintiffs until January 26, 2004 to amend their complaint to more specifically set out their claims. Although the Company's motion to dismiss was denied, the court's order permitted the Company to refile its dispositive motions after the plaintiffs file an amended complaint. On January 27, 2004, 84 of the 87 plaintiffs filed their Second Amended Complaint. The remaining three plaintiffs voluntarily dismissed their claims. The Company filed its answer to the plaintiffs' second amended complaint on March 26, 2004, denying any and all liability and setting forth numerous affirmative defenses. On July 1, 2004, the Company filed a Motion to Sever Plaintiffs' Cases, wherein the Company requested that the court sever the pending lawsuit with 84 plaintiffs into 84 separate lawsuits, one for each plaintiff. The Company asserted in its motion that this relief should be granted because the 84 cases are too dissimilar and were misjoined. The Company further asserted that it would be prejudiced by being subjected to one common trial for all 84 plaintiffs, rather than separate trials for each plaintiff. On August 26, 2004, the Court issued its order severing this case into six separate causes of action, with the plaintiffs divided into six groups based on their job classifications. On October 12, 2004, the plaintiffs filed new complaints for each of the six severed cases, which the Company answered on November 24, 2004. A case management conference for each of the six cases was held on December 28, 2004, during which various procedural issues related to discovery were settled. On September 28, 2005, the Company filed a Motion for a Pre-Trial conference seeking to preclude the plaintiffs from utilizing a pattern and practice method of proof. This method of proof is typically reserved for class action cases, or cases brought by the government. The plaintiffs had indicated their intention to use this method of proof in the pleadings and discovery requests filed up to the date of the Company's motion. On October 26, 2005, the court entered an order ruling that the plaintiffs would not be permitted to use the pattern and practice method of proof.

Table of Contents

Three of the six cases or groups of plaintiffs (live-haul drivers, chicken catchers and forklift drivers) had been originally set for consecutive trials beginning on September 18, 2006. After discovery for those three cases ended on June 23, 2006, the Court continued the trials for the chicken catchers and forklift drivers. No trial date was set for those two cases, or any of the cases other than the trial for live-drivers on September 18, 2006. The Company filed Motions for Summary Judgment on each of the plaintiffs' claims on July 7, 2006, in which the Company asked the Court to rule in its favor in the three cases originally set for trial on September 18, 2006. In conjunction with its Motions for Summary Judgment on plaintiffs' claims, the Company filed a Motion for Separate Trials, or in the Alternative, for Further Severance of Plaintiffs. For the live-haul driver plaintiffs whose claims the Court may have allowed to proceed to trial on September 18, 2006, this motion asked the Court to conduct separate trials for each plaintiff rather than allow the plaintiffs to try all of their claims together at one trial or, alternatively, to conduct trials with smaller groups of plaintiffs. As it did in its Motion to Sever previously filed with Court at the beginning of discovery, the Company asserted in the motion that it would be prejudiced by being subjected to one common trial, rather than separate trials for each plaintiff.

The Court granted the Company's Motion for Separate Trial, and ordered plaintiff Perry White to trial on September 25, 2006. With respect to the motion for summary judgment filed by the Company on Perry White's claims, the Court granted the motion with respect to all of Mr. White's claims, except his claim of disparate treatment regarding his termination. Prior to the commencement of trial on that claim, the parties reached a global settlement agreement on all claims of all plaintiffs for an amount well within the Company's insurance coverage for such matters. The parties are in the process of executing the necessary documents to complete the settlement. The Company's insurer reimbursed the Company for the settlement amount, therefore, the settlement did not affect the Company's financial position or operating results.

On June 6, 2006, Annie Collins, a former employee of the processing division subsidiary, on behalf of herself and as representative of a class of individuals who are similarly situated and who have suffered the same or similar damages filed a Complaint against the Company's processing and production subsidiaries in the United States District Court for the Eastern District of Louisiana. Since the filing of the Complaint, at least 2,930 individuals purportedly have given their consent to be a party plaintiff to this action.

Plaintiffs allege that the Company's subsidiaries violated the Fair Labor Standards Act by failing to pay plaintiffs and other hourly employees for the time spent donning and doffing protective and sanitary clothing and performing other alleged compensable activities, and that Sanderson automatically deducted thirty minutes from each worker's workday for a meal break regardless of the actual time spent on break. Plaintiffs also allege that they were not paid overtime wages at the legal rate. Plaintiffs seek unpaid wages, liquidated damages and injunctive relief.

On July 24, 2006, plaintiffs filed a Motion for Protective Order, Sanctions and a Corrective Notice related to a letter the Company sent to all employees concerning the donning and doffing issue. The letter informed employees that, among other things, the Company was in negotiations with the Department of Labor about any adjustment to its pay practices and its calculations of any back pay obligations. The Company responded to the plaintiffs' motion and filed a Motion to Stay Proceedings Pending Conciliation Efforts with the Department of Labor. On July 25, 2006, plaintiffs responded to the Company's motion, which is still pending. On July 31, 2006, the Company filed its Answer to the plaintiffs' Complaint.

On July 20, 2006, ten current and former employees of the processing division subsidiary filed an action nearly identical to the one described above in the United States District Court for the Eastern District of Louisiana. No notice that any other employees have given their consent to be a party plaintiff to this action has been received to date. The Company will vigorously defend the donning and doffing litigation.

The Company is also involved in various other claims and litigation incidental to its business. Although the outcome of the matters referred to in the preceding sentence 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.

Table of Contents

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. Because the outcome of these cases cannot be determined with any certainty, no estimate of the possible loss or range of loss resulting from the cases can be made. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed 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 or changes to reserves or by accruals of losses to reflect any adverse determinations of these legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of the Registrant's security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the Fiscal Year.

Item 4A. Executive Officers of the Registrant.

Name	Age	Office	Executive Officer Since
Joe F. Sanderson, Jr.	59	Chairman of the Board of Directors and Chief Executive Officer	1984 (1)
Lampkin Butts	55	President and Chief Operating Officer, Director	1996 (2)
D. Michael Cockrell	49	Treasurer and Chief Financial Officer, Director	1993 (3)
James A. Grimes	58	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) D. Michael 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.

Executive officers of the Company serve at the pleasure of the Board of Directors. There are no understandings or agreements relating to any person's service or prospective service as an executive officer of the Registrant.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Security.

19

Table of Contents

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

The number of stockholders as of November 30, 2006, was 2,724.

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.

Fiscal Year 2006	Stock Price		Dividends
	High	Low	
First Quarter	\$36.11	\$25.73	\$.12
Second Quarter	\$28.25	\$19.93	\$.12
Third Quarter	\$31.25	\$25.09	\$.12
Fourth Quarter	\$35.30	\$23.74	\$.12

Fiscal Year 2005	Stock Price		Dividends
	High	Low	
First Quarter	\$44.33	\$31.97	\$.10
Second Quarter	\$46.93	\$36.00	\$.10
Third Quarter	\$49.19	\$36.00	\$.10
Fourth Quarter	\$43.64	\$32.65	\$.12

On December 27, 2006 the closing sales price for the common stock was \$31.73 per share.

Item 6. Selected Financial Data.

	Year Ended October 31				
	2006	2005	2004	2003	2002
	(In thousands, except per share data)				
Net sales	\$1,047,930	\$1,053,192	\$1,095,279	\$908,319	\$775,155
Operating income (loss)	(26,816)	113,484	150,154	90,522	49,977
Net income (loss)	(11,501)	70,638	91,428	54,061	28,840
Basic earnings (loss) per share	(.57)	3.53	4.62	2.78	1.45
Diluted earnings (loss) per share	(.57)	3.51	4.57	2.75	1.43
Working capital	112,883	107,631	150,624	82,236	68,452
Total assets	485,067	445,791	375,007	298,905	280,510
Long-term debt, less current maturities	77,078	6,511	10,918	21,604	49,969
Stockholders' equity	328,340	345,653	279,341	197,099	155,891
Cash dividends declared per share	\$.48	\$.42	\$.84	\$.61	\$.27

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.

Table of Contents

(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.

(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.

(9) Changes in the availability and cost of labor and growers.

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 quarterly report, the words believes, estimates, plans, expects, should, outlook, and anticipates 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 production costs have averaged approximately 63.7% of the Company's total 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. 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 believes that one of its major strengths is its ability to change its product mix to meet customer demands.

Table of Contents

The Company's processed and prepared foods product line includes approximately 100 institutional and consumer packaged food items that it sells nationally, primarily to distributors and food service establishments. A majority of the prepared food items are made to the specifications of food service users.

Poultry prices per pound, as measured by the Georgia Dock price, fluctuated during the three years ended October 31, 2006 as follows:

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Fiscal 2006				
High	\$.7375*	\$.6950	\$.7000	\$.7100
Low	\$.6975	\$.6750*	\$.6750*	\$.6950
Fiscal 2005				
High	\$.7525*	\$.7400	\$.7475	\$.7525*
Low	\$.7325*	\$.7375	\$.7400	\$.7425
Fiscal 2004				
High	\$.7000	\$.7500	\$.8100*	\$.8075
Low	\$.6825*	\$.7050	\$.7525	\$.7575

* Year High/Low

On January 29, 2004, the Company announced a three-for-two stock split to be effected as a 50% stock dividend. The new shares were distributed on February 26, 2004, to stockholders of record as of close of business on February 10, 2004. Per share information in this Annual Report reflects the stock split. Cash was paid in lieu of fractional shares.

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 plant is expected to begin operations during the Company's fourth fiscal quarter of 2007, and at full production will process approximately 1.2 million head of chickens per week.

EXECUTIVE OVERVIEW OF RESULTS 2006

The Company's financial results for fiscal 2006 reflect significantly lower prices for the Company's poultry products due to an oversupply of poultry products. This oversupply resulted primarily because of the appearance of H5N1 avian influenza in certain countries of Asia and Europe during the first and second quarters of fiscal 2006, which reduced demand for poultry products in the affected countries and in Russia, a significant customer of the United States poultry industry. In addition, high fuel prices for domestic consumers impacted demand for boneless breast meat sold through casual dining customers. Although the industry did experience improvement in prices for boneless breast meat and leg quarters during the summer months of fiscal 2006, the market dropped significantly during September and October 2006. The Company experienced higher grain costs during the fourth fiscal quarter, and based on current prices and trends, expects significantly higher prices during fiscal 2007 compared to fiscal 2006.

RESULTS OF OPERATIONS

As a result of the challenging market conditions during fiscal 2006 as compared to fiscal 2005, net sales decreased \$5.3 million or 0.5% despite an increase in the pounds of poultry products and prepared food products sold of 14.5% and 24.0%, respectively. During the first six months of fiscal 2006, demand for poultry products was greatly impacted by the occurrence of H5N1 avian influenza in certain countries of Asia and Europe, which affected demand for poultry products in the affected countries and in Russia, a significant customer for United States poultry products. The industry experienced decreases in bulk leg quarter prices and jumbo wings of 24.6% and 8.0%, respectively, as well as decreases in the market prices for boneless breast meat and tenders of 15.4% and 18.7%, respectively, for fiscal 2006 as compared to fiscal 2005. A simple average of the Georgia Dock prices for whole birds was 6.1% lower during fiscal 2006 as

Table of Contents

compared to fiscal 2005. Net sales of prepared food products increased \$15.7 million or 15.6% due to an increase in the pounds of prepared food products sold of 24.0%, offset by a decrease in the average sale price of prepared food products of 6.8% during fiscal 2006 as compared to fiscal 2005.

During fiscal 2006 as compared to fiscal 2005, cost of sales was \$1,023.4 million, an increase of \$149.8 million or 17.1%. The increase in cost of sales can be attributed to the additional pounds of product sold at the new complex in South Georgia, which will have a higher average cost of sales than the Company as a whole until full capacity is reached for a complete period. The increase in the pounds sold at the new complex in South Georgia was partially offset by fewer pounds sold in the first quarter of fiscal 2006 as compared to the first quarter of fiscal 2005 at the Company's Louisiana and Mississippi poultry operations due to the conversion of the Collins, Mississippi plant to a big bird deboning plant from a chill pack plant and fewer pounds produced as a result of Hurricane Katrina. Prices for corn and soybean meal reflect increases of 6.7% and 3.2%, respectively, during fiscal 2006 as compared to fiscal 2005. Cost of sales of the Company's prepared food products increased \$14.2 million or 15.6%. This increase resulted from additional pounds of prepared food products sold of 24.0% and a decrease in the average cost of chicken which is a major raw material used in many of the products sold by the Company's prepared foods facility.

Selling, general and administrative costs for fiscal 2006 were \$51.3 million as compared to \$66.0 million during fiscal 2005. The decrease in selling, general and administrative costs of \$14.7 million resulted from lower advertising expenditures and lower expenses related to the start up of the new poultry complex in South Georgia. All costs of operating the new complex in South Georgia, except for certain sales related expenditures, are included in cost of sales during fiscal 2006. In fiscal 2005, the start-up costs incurred were included in selling, general and administrative costs until operations began in the fourth quarter of fiscal 2005. Also, during fiscal 2005 the Company contributed \$5.5 million to the Company's Employee Stock Ownership Plan and incurred increased expenses associated with the incentive award program as compared to fiscal 2006. The Company did not make a contribution to the ESOP during fiscal 2006.

The Company had an operating loss of \$26.8 million during fiscal 2006 as compared to an operating income of \$113.5 million during fiscal 2005. The reduction of \$140.3 million resulted from a significant reduction in poultry prices during fiscal 2006 as compared to fiscal 2005 and the start-up of initial operations at the new poultry complex in South Georgia and the conversion of the Collins, Mississippi processing plant to a big bird deboning plant. The Collins, Mississippi plant was down for one week during the first quarter of fiscal 2006 to allow for the installation of equipment necessary to convert the plant to its new product mix.

Interest expense during fiscal 2006 was \$2.8 million as compared to \$0.4 million during fiscal 2005. The increase in interest expense resulted from a combination of lower interest expensed during fiscal 2005 due to the capitalization of interest for the construction of the new general offices in Laurel, Mississippi, the new poultry complex in South Georgia during fiscal 2005 and higher outstanding debt and interest rates during fiscal 2006 as compared to fiscal 2005.

Other income for fiscal 2006 includes \$3.6 million in insurance proceeds resulting from the Company's claim for business interruption losses caused by Hurricane Katrina.

The Company's effective tax rate for fiscal 2006 was 55.2% as compared to 38.3% during fiscal 2005. The 2005 effective tax rate differs from the statutory federal rate due to state income taxes and certain nondeductible expenses for federal income tax purposes. The 2006 effective tax rate differs from the statutory federal rate due to state income taxes, certain nondeductible expense for federal income tax purposes and the benefit of certain federal income tax credits available as a result of the impact of Hurricane Katrina on the Company and state investment credits unrelated to the hurricane.

The Company's net loss was \$11.5 million or \$0.57 per share for fiscal 2006 as compared to a net income of \$70.6 million or \$3.51 per share during fiscal 2005.

EXECUTIVE OVERVIEW OF RESULTS 2005

Table of Contents

The Company's financial results for the fiscal year ended October 31, 2005 reflected strong market prices for dark meat poultry products as well as favorable prices for feed grains. Although overall market prices for the Company's poultry products were lower during fiscal 2005 as compared to the historical highs experienced during fiscal 2004, the Company was able to partially offset the reduced selling prices with lower costs of corn and soybean meal ingredients. The Company's cost of corn and soybean meal was \$60.0 million lower during fiscal 2005 as compared to fiscal 2004. During the fourth quarter of fiscal 2005, the Company was negatively impacted by Hurricane Katrina and had an estimated reduction in its operating income during the fourth quarter of \$7.9 million related to the storm.

RESULTS OF OPERATIONS**Fiscal 2005 Compared to Fiscal 2004**

The Company's net sales during fiscal 2005 were \$1,053.2 million, as compared to \$1,095.3 million during fiscal 2004, or a decrease of 3.8%. This reduction reflects lower prices for the Company's poultry products of 6.1% during fiscal 2005 as compared to fiscal 2004, offset by an increase in the pounds of poultry products sold of 2.8%. The decrease in the average sale price of the Company's poultry products resulted primarily from decreases in the market prices of boneless breast meat, tenders and wings of 24.9%, 30.8% and 12.4%, respectively. However, the softness in these prices were partially offset by strong export demand for leg quarters and paws during fiscal 2005. Bulk leg quarter prices were approximately 17.9% higher for fiscal 2005 as compared to fiscal 2004. A simple average of the Georgia Dock prices for whole chickens decreased only 0.6% for fiscal 2005 as compared to fiscal 2004. During the fourth quarter of fiscal 2005 the Company's pounds of poultry products sold were lower because of chickens lost during Hurricane Katrina and a reduction in leg quarters sold in the export market because of hurricane related disruptions. Net sales of prepared food products decreased \$8.9 million or 8.1% and resulted from a decrease in the pounds of prepared food products sold of 8.2% and a decrease in the average sale price of prepared food products sold of 0.5%.

Cost of sales for the fiscal year ended October 31, 2005, were \$873.7 million, a decrease of \$11.6 million, or 1.3%, as compared to the fiscal year ended October 31, 2004. This decrease resulted from the lower cost of feed grains during fiscal 2005 as compared to fiscal 2004, which result was partially offset by the increase in the pounds of poultry products sold of 2.8% and increased cost of sales incurred at the new poultry complex in South Georgia. A simple average of the corn and soybean meal cash market prices during fiscal 2005 as compared to fiscal 2004 reflects decreases of 16.0% and 23.3%, respectively. Cost of sales of prepared food products decreased 17.9% due to the 24.9% reduction in prices for boneless breast meat. Boneless breast meat is a major component of the prepared foods division's costs of sales and is purchased from the Company's poultry operations.

Selling, general and administrative costs for fiscal 2005 were \$66.0 million as compared to \$59.8 million for fiscal 2004, an increase of \$6.2 million. Approximately \$4.1 million of the increase was due to the Company's start up of the new poultry complex in Moultrie and Adel, Georgia. Expenses incurred prior to the start up of the complex which were incurred during the first three quarters of the fiscal year were included in selling, general and administrative costs. During the fourth quarter of fiscal 2005 the costs of operations at the new complex were included in cost of sales.

For fiscal 2005 the Company's operating income was \$113.5 million as compared to \$150.2 million for fiscal 2004, a decrease of \$36.7 million. The overall lower prices for poultry products were partially offset by the favorable prices for feed grains during fiscal 2005 as compared to fiscal 2004. The Company's operating income was negatively impacted by \$7.9 million from Hurricane Katrina during the fourth quarter of fiscal 2005. The total reduction in operating income of \$7.9 million relates to the insurance deductible of \$2,750,000 and incurred but unrecognized lost profits and expenses of \$5.1 million. The unrecognized lost profits and expenses were the direct result of the effect of Hurricane Katrina and the Company's efforts to minimize the potential loss from the hurricane. In addition, the Company's operating income was negatively impacted by the start up of the new complex in South Georgia.

Table of Contents

Interest expense during fiscal 2005 was \$433,000, a 72.4% decrease from the \$1.6 million expensed during fiscal 2004. The reduction in interest expense was due to the capitalization of interest incurred to the cost of construction of the new complex in South Georgia and the new general offices in Laurel, Mississippi and, to a lesser extent, lower outstanding debt.

The Company's effective tax rate during fiscal 2005 and fiscal 2004 was 38.30% and 38.75%, respectively.

Net income for the fiscal year ended October 31, 2005 was \$70.6 million, or \$3.51 per diluted share. For fiscal 2004, the Company's net income was \$91.4 million, or \$4.57 per diluted share. During the fourth quarter of fiscal 2005 the Company had an estimated reduction in its operating income from Hurricane Katrina of \$7.9 million. The \$7.9 million before income taxes consist of the deductible under the Company's insurance policies and certain expenses and lost profits of \$5.1 million.

Liquidity and Capital Resources

The Company's working capital at October 31, 2006 was \$112.9 million and its current ratio was 2.9 to 1. This compares to working capital of \$107.6 million and a current ratio of 2.4 to 1 as of October 31, 2005. During fiscal 2006 the Company spent approximately \$82.6 million on planned capital projects, which include \$9.4 million to complete construction of the new corporate office building in Laurel, Mississippi and \$24.2 million to build a feed mill in Collins, Mississippi, complete the conversion of the Collins, Mississippi processing facility to a big bird deboning plant and expand the Collins, Mississippi hatchery. Also included is \$15.2 million to begin construction at the new poultry complex in Waco, Texas, and \$4.8 million to improve operating efficiencies at the Company's prepared foods plant in Jackson, Mississippi.

On January 29, 2004, the Company announced a three-for-two stock split to be effected as a 50% stock dividend. The new shares were distributed on February 26, 2004, to stockholders of record as of close of business on February 10, 2004. Share and per share data have been adjusted to reflect this stock split.

The Company's capital budget for fiscal 2007 is approximately \$92.8 million, and will be funded by cash on hand, internally generated working capital and cash flows from operations. If needed, the Company has \$175.0 million available under a revolving line of credit. The fiscal 2007 capital budget includes approximately \$3.3 million in operating leases and \$67.1 million to complete construction of the new poultry complex in Waco, Texas. The Company expects initial operations to begin in August 2007. Without operating leases, and the new poultry complex in Waco, Texas, the Company's capital budget for fiscal 2007 would be \$22.4 million.

In the second quarter of fiscal 2006, the Company issued a private placement of \$50.0 million in unsecured debt. The note carries a 6.12% interest rate that matures in 2016 with annual principal installments of \$10.0 million beginning in 2012. The note carries net worth, current ratio and debt to capitalization covenants comparable to that of the Company's revolving credit facility.

On November 17, 2005, the Company entered into a new revolving credit facility. The new facility, among other things, increased allowed capital expenditures, changed the net worth covenant to reflect the Company's new dividend rate, extended the committed revolver by five years rather than the usual three year extension, reduced the interest rate charged on amounts outstanding, and removed a letter of credit commitment related to certain industrial development bonds.

On January 12, 2006, Sanderson Farms, Inc. announced that sites in Waco and McLennan County, Texas have been selected for construction of a new poultry processing plant, wastewater treatment facility and hatchery. Sanderson Farms will also expand its feed mill in Easterly, Texas to satisfy the live production needs associated with the new complex. The Company expects to invest approximately \$82.3 million in the new complex during fiscal 2006 and fiscal 2007.

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

Table of Contents

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, 2006 were as follows (in thousands):

	Total	Payments Due By Period			
		Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Contractual Obligations					
Long-term debt	\$ 79,466	\$ 4,138	\$ 297	\$ 25,031	\$ 50,000
Capital lease obligations	2,045	295	640	720	390
Interest on long-term debt	29,654	4,895	9,342	7,806	7,611
Operating leases	21,573	6,819	9,904	4,850	0
Purchase obligations:					
Feed grains, feed ingredients and packaging supplies	10,994	10,994	0	0	0
Construction contracts	60,792	60,792	0	0	0
Claims payable	6,488	3,288	3,200	0	0
Total	\$ 211,012	\$ 91,221	\$ 23,383	\$ 38,407	\$ 58,001

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles 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.

Hurricane Katrina

The Company's insurance claim from Hurricane Katrina was settled during the fourth quarter of fiscal 2006 for \$22.3 million. The Company also received the final installment of \$6.8 million on the claim during the fourth quarter of fiscal 2006 and accordingly, the balance sheet as of October 31, 2006 does not reflect a receivable from the Company's insurance carriers.

Table of Contents

The Company's final insurance claim for property damage, expenses incurred and lost profits of \$22.3 million, net of the applicable deductible of \$2,750,000 was approximately \$3.7 million less than the Company had previously calculated prior to final settlement. Of the \$3.7 million, \$2.0 million was attributable to additional costs to compensate the Company's contract poultry producers for the loss of revenue they incurred resulting from decreased efficiencies resulting from the storm. Although the Company believes that these payments were warranted to ensure affected growers were able to maintain operations during the difficult weeks subsequent to Katrina, these payments were determined by the Company and the Company's insurance carriers to be not covered under the terms of the policy. The remainder of the \$3.7 million difference resulted from final determination of certain estimates used in calculating the initial claim related to lost profits and certain expenses.

As of July 31, 2006, the Company had recognized \$18.7 million of the final settlement of \$22.3 million. During the fourth quarter of fiscal 2006, the Company recognized \$3.6 million as an increase to other income, of which \$2.5 million pertains to lost profits and certain expenses incurred during fiscal 2005 and \$1.1 million relates to lost profits and certain expenses incurred during fiscal 2006. The Company's lost profits resulted from the destruction of live inventories in the hurricane and from the loss of workforce required to produce higher margin products normally sold by the Company during the weeks immediately following the storm.

Inventories

Processed food and poultry inventories and inventories of feed, eggs, medication and packaging supplies are stated at the lower of cost (first-in, first-out method) or market. If market prices for poultry or feed grains move substantially lower, the Company would record adjustments to write down the carrying values of processed poultry and feed inventories to fair market value, which would increase the Company's costs 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 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 costs 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 costs 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.

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

Table of Contents

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.

Contingencies

The Company is a party to a number of legal proceedings and recognizes the costs of legal defense 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. Because the outcome of these cases cannot be determined with any certainty, no estimate of the possible loss or range of loss resulting from the cases can be made. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed 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 or changes to reserves or by accruals of losses to reflect any adverse determinations of these legal proceedings.

New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 amends Accounting Research Bulletin No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight handling costs and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overhead to inventory be based on the normal capacity of the production facilities during fiscal years beginning after June 15, 2005. The Company's adoption of SFAS No. 151 in the first quarter of fiscal 2006 did not have a significant impact on the Company's results of operations, financial position or cash flows.

In December 2004, the FASB issued SFAS Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. SFAS No. 123(R) requires 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. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. In the first quarter of fiscal 2006, the Company adopted SFAS No. 123(R) using the modified prospective method. Under the modified prospective method, compensation cost will be recognized for all share-based payments granted after the adoption of SFAS No. 123(R) and for all awards granted to employees prior to the adoption date of SFAS No. 123R that remain unvested on the adoption date. Accordingly, no restatements were made to prior periods. The adoption of SFAS No. 123(R) was not significant to the Company's operations or financial position for fiscal 2006.

Prior to adoption of SFAS No. 123(R), the Company accounted for share-based payments to employees using APB 25's intrinsic value method and, as such, generally recognized no compensation cost for employee stock options. Under APB 25, the Company recorded unearned compensation in the shareholders' equity section of its balance

Table of Contents

sheet upon the grant of restricted stock and amortized the unearned compensation over the vesting period. Based upon the provisions of SFAS No. 123(R), the Company was required to reverse the previously recorded unearned compensation and to accrue stock based compensation expense as it is earned.

The Company's share-based compensation plans are described in Note 9 of the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2006. These plans have not been modified in the 2006 fiscal year. The Company has not granted stock options since fiscal 2002. Since the beginning of fiscal 2005, the Company's share-based compensation has primarily been in the form of restricted stock awards.

The following restricted stock transactions have occurred during fiscal 2006:

	Number Of Shares	Weighted Average Grant Price
Restricted stock awards outstanding at October 31, 2005	343,000	\$ 44.56
Granted during fiscal 2006	49,050	\$ 33.46
Forfeited during fiscal 2006	(13,050)	\$ 43.03
Restricted stock awards outstanding at October 31, 2006	379,000	\$ 43.15

As of October 31, 2006, none of these restricted awards are vested. The aggregate intrinsic value of stock options outstanding of 188,543, as of October 31, 2006 was \$2.8 million. During fiscal 2006, 31,500 options were exercised with an intrinsic value of \$468,000. As of October 31, 2006, the Company had \$12.4 million in unrecognized share-based compensation costs that will be recognized over a weighted average period of 4.6 years.

On July 13, 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement No. 109 and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, Interpretation No. 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interpretation 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. The Company is currently evaluating the impact the adoption of Interpretation 48 will have on the Company's consolidated financial position, results of operations and cash flows.

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 its corn, soybean meal and other feed ingredients for prompt delivery to its feed mills at market prices at the time of such purchases. The Company sometimes will purchase feed ingredients for deferred delivery that typically ranges from one month to six months after the time of purchase. 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

Table of Contents

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;

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 SFAS 133, 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.

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, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2006. 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2006, 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Sanderson Farms, Inc.'s internal control over financial reporting as of October 31, 2006, 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 27, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana

December 27, 2006

Table of Contents

Sanderson Farms, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	October 31	
	2006	2005
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,396	\$ 34,616
Accounts receivable, less allowance of \$893,808 in 2006 and \$748,808 in 2005	40,930	38,833
Receivable from insurance companies	0	14,892
Inventories	96,490	84,713
Refundable income taxes	14,402	0
Prepaid expenses	13,179	11,599
 Total current assets	 172,397	 184,653
Property, plant and equipment:		
Land and buildings	246,828	212,463
Machinery and equipment	326,594	296,449
	573,422	508,912
Accumulated depreciation	(263,112)	(249,586)
	310,310	259,326
Other assets	2,360	1,812
 Total assets	 \$ 485,067	 \$ 445,791
 Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 31,514	\$ 24,468
Accrued expenses	23,567	48,148
Current maturities of long-term debt	4,433	4,406
 Total current liabilities	 59,514	 77,022
Long-term debt, less current maturities	77,078	6,511
Claims payable	3,200	2,900
Deferred income taxes	16,935	13,705
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-20,094,571 in 2006 and 20,063,070 in 2005	20,095	20,063
Paid-in capital	17,181	26,791
Unearned compensation	0	(13,607)
Retained earnings	291,064	312,406

Total stockholders' equity	328,340	345,653
Total liabilities and stockholders' equity	\$ 485,067	\$ 445,791

See accompanying notes.

32

Table of Contents

Sanderson Farms, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended October 31		
	2006	2005	2004
	(In thousands, except per share data)		
Net sales	\$ 1,047,930	\$ 1,053,192	\$ 1,095,279
Cost and expenses:			
Cost of sales	1,023,438	873,677	885,319
Selling, general and administrative	51,308	66,031	59,806
	1,074,746	939,708	945,125
Operating income (loss)	(26,816)	113,484	150,154
Other income (expense):			
Interest income	235	1,257	743
Interest expense	(2,803)	(433)	(1,569)
Other	3,738	173	(60)
	1,170	997	(886)
Income (loss) before income taxes	(25,646)	114,481	149,268
Income tax expense (benefit)	(14,145)	43,843	57,840
Net income (loss)	\$ (11,501)	\$ 70,638	\$ 91,428
Earnings (loss) per share:			
Basic	\$ (.57)	\$ 3.53	\$ 4.62
Diluted	\$ (.57)	\$ 3.51	\$ 4.57
Dividends per share	\$.48	\$.42	\$.84
Weighted average shares outstanding:			
Basic	20,070	20,014	19,789
Diluted	20,070	20,137	19,995

See accompanying notes.

Table of Contents

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

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Unearned Compensation	Retained Earnings	Total Stockholders Equity
	(In thousands, except shares and per share amounts)					
Balance at October 31, 2003	19,520,814	\$ 19,521	\$ 1,949	\$ 0	\$ 175,629	\$ 197,099
Net income for year					91,428	91,428
Cash dividends (\$.34 per share)					(6,753)	(6,753)
Special cash dividends (\$.50 per share)					(9,980)	(9,980)
Redemption of fractional shares					(32)	(32)
Issuance of common stock	438,424	438	7,141			7,579
Balance at October 31, 2004	19,959,238	19,959	9,090	0	250,292	279,341
Net income for year					70,638	70,638
Cash dividends (\$.42 per share)					(8,524)	(8,524)
Issuance of common stock	103,832	104	2,033			2,137
Issuance of restricted common stock			15,668	(15,360)		308
Amortization of unearned compensation			0	1,753		1,753
Balance at October 31, 2005	20,063,070	20,063	26,791	(13,607)	312,406	345,653
Reversal of unearned compensation upon adoption of 123R			(13,607)	13,607		0
Net income (loss) for year					(11,501)	(11,501)
Cash dividends (\$.48 per share)					(9,841)	(9,841)
Issuance of common stock	31,501	32	526			558
Issuance of restricted common stock			907			907
Amortization of unearned compensation			2,564			2,564
	20,094,571	\$ 20,095	\$ 17,181	\$ 0	\$ 291,064	\$ 328,340

Balance at October 31,
2006

See accompanying notes.

34

Table of Contents

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

	Years Ended October 31		
	2006	2005	2004
	(In thousands)		
Operating activities			
Net income (loss)	\$ (11,501)	\$ 70,638	\$ 91,428
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	30,833	24,752	26,326
Amortization of unearned compensation	2,564	1,753	0
Provision for losses on accounts receivable	480	1,063	165
Deferred income taxes	3,105	(3,115)	500
Change in assets and liabilities:			
Accounts receivable	(2,577)	9,344	(3,210)
Receivable from insurance companies	14,892	(14,892)	0
Inventories	(11,777)	(9,110)	(13,850)
Prepaid expenses and refundable income taxes	(16,106)	4,540	(3,483)
Other assets	(780)	(95)	(123)
Accounts payable	7,046	(5,916)	11,351
Accrued expenses and claims payable	(24,031)	17,419	(6,511)
Total adjustments	3,649	25,743	11,165
Net cash provided by (used in) operating activities	(7,852)	96,381	102,593
Investing activities			
Capital expenditures	(82,615)	(128,107)	(27,538)
Net proceeds from sale of property and equipment	1,030	897	79
Other investment	0	0	(1,597)
Net cash used in investing activities	(81,585)	(127,210)	(29,056)
Financing activities			
Net change in revolving credit	25,000	0	0
Long-term borrowings	50,000	0	0
Principal payments on long-term debt	(4,132)	(4,126)	(10,420)
Principal payments on capital lease obligation	(275)	(260)	(245)
Dividends paid	(9,841)	(8,524)	(16,733)
Tax benefit on exercised stock options	190	0	0
Purchase and retirement of common stock	0	0	(32)
Net proceeds from common stock issued	1,275	2,445	7,579
Net cash provided by (used in) financing activities	62,217	(10,465)	(19,851)
Net change in cash and cash equivalents	(27,220)	(41,294)	53,686
Cash and cash equivalents at beginning of year	34,616	75,910	22,224
Cash and cash equivalents at end of year	\$ 7,396	\$ 34,616	\$ 75,910

Supplemental disclosure of cash flow information:

Income taxes paid	\$ 9,952	\$ 33,002	\$ 63,486
Interest paid	\$ 3,355	\$ 1,360	\$ 1,611

See accompanying notes.

35

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 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. No customer accounted for more than 10.0% of consolidated net sales during fiscal 2006 or fiscal 2005. One customer accounted for 12.5% of consolidated sales for the years ended October 31, 2004. Shipping and handling costs are included as a component of cost of sales.

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.

Hurricane Receivable from Insurance Companies: The Company has recorded insurance recoveries related to Hurricane Katrina when realization of the claim for recovery has been deemed probable and only to the extent the loss has been recorded in the financial statements. Any possible gain that may result from recoveries under the Company's insurance policies are recognized when the insurance proceeds are received.

Inventories: Processed food and poultry 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.

Table of Contents

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 2006, 2005 and 2004, the Company capitalized interest of approximately \$719,000, \$896,000 and \$0.0 million, respectively, to certain capital expenditures.

Impairment of Long-Lived Assets: The Company continually reevaluates the carrying value of its long-lived assets for events or changes in circumstances which 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 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 \$9.6 million, \$13.0 million and \$14.0 million for fiscal 2006, 2005 and 2004, respectively.

Income Taxes: Deferred income taxes are accounted for using the liability method and relate principally to depreciation expense accounted for differently for financial and income tax purposes.

Share Based Compensation: In the first quarter of fiscal 2006, the Company adopted SFAS Statement No. 123 (revised 2004), Share-Based Payment, (SFAS No. 123(R)) using the modified prospective method. SFAS No. 123 (R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95,

Statement of Cash Flows. SFAS No. 123(R) requires 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. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. Under the modified prospective method, compensation cost is recognized for all share-based payments granted after the adoption of SFAS No. 123(R) and for all awards granted to employees prior to the adoption date of SFAS No. 123(R) that are unvested on the adoption date. Accordingly, no restatements were made to prior periods. The adoption of SFAS No. 123(R) was not significant to the Company's operations or financial position for fiscal 2006.

Prior to adoption of SFAS No. 123(R), the Company accounted for share-based payments to employees using APB 25's intrinsic value method and, as such, generally recognized no compensation cost for employee stock options. Under APB 25, the Company recorded unearned compensation in the shareholders' equity section of its balance sheet upon the grant of restricted stock and amortized the unearned compensation over the vesting period. Based upon the provisions of SFAS No. 123(R), the Company was required to reverse the previously recorded unearned compensation and to accrue stock based compensation expense as it is earned.

Pro forma information regarding net income and earnings per share is required by SFAS Statement No. 123, Accounting for Stock-Based Compensation, (SFAS No.123) for fiscal 2005 and 2004, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation in fiscal 2005 and 2004.

Table of Contents

	(In Thousands)	
	2005	2004
Net income as reported	\$70,638	\$91,428
Deduct: Total stock-based employee compensation expense for employee stock options determined under fair value based method for all awards, net of related tax effects	(45)	(45)
Pro forma net income	\$70,593	\$91,383
Earnings per share		
Basic as reported	\$ 3.53	\$ 4.62
Basic pro forma	\$ 3.53	\$ 4.62
Diluted as reported	\$ 3.51	\$ 4.57
Diluted proforma	\$ 3.51	\$ 4.57

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.

On January 29, 2004, the Board of Directors declared a 3 for 2 stock split to be effected in the form of a 50% stock dividend. This dividend was paid February 29, 2004 to stockholders of record on February 10, 2004. Share and per share data have been adjusted to reflect this stock split. Cash was paid in lieu of fractional shares. Stockholders' equity was restated as of the earliest period presented to give retroactive recognition to the stock split by reclassifying the par value of the additional shares from retained earnings to common stock.

Fair Value of Financial Instruments: The carrying amounts for cash and temporary cash investments approximate their fair values. The carrying amounts of the Company's borrowings under its credit facilities and long-term debt also approximate the fair values based on current rates for similar debt.

Reclassifications: The condensed consolidated statement of operations for fiscal 2005 and 2004, include a reclassification of certain expenses to cost of sales from net sales, in order to conform with the classification in fiscal 2006. The reclassification to cost of sales from net sales were \$47.0 million and \$43.0 million, respectively, during fiscal 2005 and 2004.

Impact of Recently Issued Accounting Standards:

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 amends Accounting Research Bulletin (ARB) No. 43, Chapter 4, to clarify that abnormal amounts of idled facility expense, freight handling costs and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overhead to inventory be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company's adoption of SFAS No. 151 in the first quarter of fiscal 2006 did not have a significant impact on the Company's results of operations, financial position or cash flows.

On July 13, 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. Interpretation 48 clarifies the accounting for uncertainty in income

Table of Contents

taxes recognized in a company's financial statements in accordance with Statement No. 109 and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, Interpretation No. 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interpretation 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. The Company is currently evaluating the impact the adoption of Interpretation 48 will have on the Company's consolidated financial position, results of operations and cash flows.

2. Hurricane Receivable

The Company's insurance claim from Hurricane Katrina was settled during the fourth quarter of fiscal 2006 for \$22.3 million. The Company also received the final installment of \$6.8 million on the claim during the fourth quarter of fiscal 2006 and accordingly, the balance sheet as of October 31, 2006 does not reflect a receivable from the Company's insurance carriers.

The Company's final insurance claim for property damage, expenses incurred and lost profits of \$22.3 million, net of the applicable deductible of \$2,750,000 was approximately \$3.7 million less than the Company had previously calculated prior to final settlement. Of the \$3.7 million, \$2.0 million was attributable to additional costs to compensate the Company's contract poultry producers for the loss of revenue they incurred resulting from decreased efficiencies resulting from the storm. Although the Company believes that these payments were warranted to ensure affected growers were able to maintain operations during the difficult weeks subsequent to Katrina, these payments were determined by the Company and the Company's insurance carriers to be not covered under the terms of the policy. The remainder of the \$3.7 million difference resulted from final determination of certain estimates used in calculating the initial claim related to lost profits and certain expenses.

As of July 31, 2006, the Company had recognized \$18.7 million of the final settlement of \$22.3 million. During the fourth quarter of fiscal 2006, the Company recognized \$3.6 million as an increase to other income, of which \$2.5 million pertains to lost profits and certain expenses incurred during fiscal 2005 and \$1.1 million relates to lost profits and certain expenses incurred during fiscal 2006. The Company's lost profits resulted from the destruction of live inventories in the hurricane and from the loss of workforce required to produce higher margin products normally sold by the Company during the weeks immediately following the storm.

3. Inventories

Inventories consisted of the following:

	October 31	
	2006	2005
	(In thousands)	
Live poultry-broilers and breeders	\$ 53,011	\$ 42,662
Feed, eggs and other	13,840	10,983
Processed poultry	18,102	19,881
Processed food	6,492	6,905
Packaging materials	5,045	4,282
	\$ 96,490	\$ 84,713

Table of Contents**4. Prepaid expenses**

Prepaid expenses consisted of the following:

	October 31	
	2006	2005
	(In thousands)	
Parts and supplies	\$ 7,976	\$ 6,801
Current deferred tax assets	2,055	1,930
Other prepaid expenses	3,148	2,868
	\$ 13,179	\$ 11,599

5. Accrued expenses

Accrued expenses and claims payable consisted of the following:

	October 31	
	2006	2005
	(In thousands)	
Accrued wages	\$ 4,702	\$ 4,020
Workers compensation claims	3,288	3,711
Accrued property taxes	3,167	2,627
Accrued vacation	3,125	3,199
Accrued rebates	2,891	3,236
Accrued bonuses	567	13,515
Income taxes payable	0	12,990
Other accrued expenses	5,827	4,850
	\$ 23,567	\$ 48,148

6. Long-term Credit Facilities and Debt

Long-term debt consisted of the following:

	October 31	
	2006	2005
	(In thousands)	
Revolving credit agreement with banks (weighted average rate of 6.01% at October 31, 2006)	\$ 25,000	\$ 0
Term loan, accruing interest at 6.12%, maturing in 2016	50,000	0
Term loan with an insurance company, accruing interest at 7.05%; due in annual principal installments of \$4,000,000, maturing in 2007	4,000	8,000
Note payable, accruing interest at 5%; due in annual installments of \$161,400, including interest, maturing in 2009	466	597
6% Mississippi Business Investment Act bond-capital lease obligation, due November 1, 2012	2,045	2,320
	81,511	10,917
Less current maturities of long-term debt	4,433	4,406
	\$ 77,078	\$ 6,511

Table of Contents

On November 17, 2005, the Company entered into a new \$200.0 million unsecured revolving credit facility with six banks that extends until 2010. Borrowings are at prime or below and may be prepaid without penalty. A commitment fee of .25% is payable quarterly on the unused portion of the revolver. Covenants related to the revolving credit facility include requirements for maintenance of minimum consolidated net working capital, tangible net worth, debt to total capitalization and current ratio. The agreement also establishes limits on dividends, assets that can be pledged and capital expenditures. The Company had \$175.0 million available to borrow under the line of credit at October 31, 2006.

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 aggregate annual maturities of long-term debt at October 31, 2006 are as follows (in thousands):

Fiscal Year	Amount
2007	\$ 4,433
2008	455
2009	482
2010	381
2011	25,370
Thereafter	50,390
	\$ 81,511

7. Income Taxes

Income tax expense (benefit) consisted of the following:

	Years Ended October 31		
	2006	2005	2004
	(In thousands)		
Current:			
Federal	\$ (14,460)	\$ 41,453	\$ 49,250
State	(2,790)	5,505	8,090
	(17,250)	46,958	57,340
Deferred:			
Federal	3,855	(2,705)	430
State	(750)	(410)	70
	3,105	(3,115)	500
	\$ (14,145)	\$ 43,843	\$ 57,840

Table of Contents

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

	October 31	
	2006	2005
Deferred tax liabilities		
Property, plant and equipment	\$ 20,705	\$ 15,675
Prepaid and other assets	470	495
Total deferred tax liabilities	21,175	16,170
Deferred tax assets:		
Accrued expenses and accounts receivable	4,645	4,395
Restricted stock	1,650	0
Total deferred tax assets	6,295	4,395
Net deferred tax liabilities	\$ 14,880	\$ 11,775
Current deferred tax assets (included in prepaid expenses)	\$ 2,055	\$ 1,930
Long-term deferred tax liabilities	16,935	13,705
Net deferred tax liabilities	\$ 14,880	\$ 11,775

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

	Years Ended October 31		
	2006	2005	2004
	(In thousands)		
Income taxes at statutory rate	\$ (8,976)	\$ 40,068	\$ 52,244
State income taxes	(1,546)	3,312	5,584
State income tax credits	(755)	0	0
Federal income tax credits	(2,640)	0	0
Other, net	(228)	463	12
Income tax expense	\$ (14,145)	\$ 43,843	\$ 57,840

8. Employee Benefit Plans

The Company has an Employee Stock Ownership Plan (ESOP) covering substantially all employees. Contributions to the ESOP are determined at the discretion of the Company's Board of Directors. Total contributions to the ESOP were \$5,500,000 and \$7,000,000 in fiscal 2005 and 2004, respectively. The Company did not make a contribution to the ESOP during fiscal 2006.

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 compensation and 50% of employee contributions between 3% and 5% of each employee's compensation. The Company's contributions to the 401(k) Plan totaled \$2,893,000 in fiscal 2006, \$2,666,000 in fiscal 2005 and \$1,803,000 in fiscal 2004.

Note 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 2005 and 2006 vests three to ten years from the date of grant.

Table of Contents

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 \$2,564,000 and \$1,753,000 during fiscal 2006 and 2005, respectively. A summary of the Company's restricted stock activity and related information is as follows:

	Number of Shares	Weighted Average Grant Price
Granted during fiscal 2005	354,000	\$ 44.56
Forfeited	(11,000)	\$ 44.56
Outstanding at October 31, 2005	343,000	\$ 44.56
Granted during fiscal 2006	49,050	\$ 33.46
Forfeited	(13,050)	\$ 43.81
Outstanding at October 31, 2006	379,000	\$ 43.15

None of the restricted awards are vested as of October 31, 2006. The Company had \$12.4 million in unrecognized share-based compensation costs as of October 31, 2006 that will be recognized over a weighted average period of 4.6 years.

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 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 2006 and 2005, the participants purchased a total of 36,680 shares and 7,497 shares of restricted stock pursuant to the Purchase Plan, valued at \$28.81 and \$41.13 per share, respectively, and the Company issued 9,085 and 1,832 matching shares, valued at \$28.88 and \$41.11 per share, respectively. Compensation expense related to the Company's matching contribution totaled approximately \$86,000 and \$8,000 in fiscal 2006 and 2005, respectively.

During the quarter ended January 31, 2006, 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-year performance period beginning November 1, 2005. If the Company's average return on equity and average return on sales exceed certain threshold amounts for the three-year performance period, participants will receive 50 percent to 150 percent of the target number of shares, 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. No compensation expense was

Table of Contents

recognized for the performance shares during the fiscal year ended October 31, 2006 because achievement of the applicable performance measures is not considered probable.

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 2006, 2005, and 2004. The Stock Option Plan has been superceded 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:

	Shares	Weighted-Average Exercise Price
Outstanding at October 31, 2003	799,704	\$ 14.41
Granted		0.00
Exercised	(440,078)	9.75
Forfeited	(2,250)	12.37
Outstanding at October 31, 2004	357,376	11.56
Granted		0.00
Exercised	(102,332)	11.27
Forfeited	(33,501)	12.22
Outstanding at October 31, 2005	221,543	\$ 11.66
Granted		0.00
Exercised	(31,500)	11.69
Forfeited	(1,500)	12.37
Outstanding at October 31, 2006	188,543	\$ 11.66

The exercise price of the options outstanding as of October 31, 2006, ranged from \$7.40 to \$12.37 per share. At October 31, 2006, the weighted average remaining contractual life of the options outstanding was 6 years and all of the options were exercisable. The aggregate intrinsic value of the 188,543 stock options outstanding as of October 31, 2006 was \$2.8 million. During the fiscal year ended October 31, 2006, 31,500 options were exercised with an intrinsic value of \$468,000.

In fiscal 2000, the Company granted 211,507 phantom shares to certain key management personnel. Upon exercise of a phantom share, the holder will receive a cash payment or an equivalent number of shares of the Company's Common Stock, at the Company's option, equal to the excess of the fair market value of the Company's Common Stock at the time of exercise over the phantom share award value of \$4.98 per share. The phantom shares have a ten-year term and vest over four years beginning one year after the date of grant. Compensation expense of \$0, \$84,000, and \$1,567,000 for the phantom share plan is included in selling, general and administrative expense in the accompanying consolidated statement of income for fiscal 2006, 2005, and 2004 respectively.

A summary of the Company's phantom share activity and related information is as follows:

Table of Contents

	Shares	EXERCISE PRICE
Outstanding at October 31, 2003	69,750	\$ 4.98
Granted		0.00
Forfeited		0.00
Exercised	(63,000)	4.98
Outstanding at October 31, 2004	6,750	4.98
Granted		0.00
Forfeited		0.00
Exercised	(6,750)	4.98
Outstanding at October 31, 2005		\$ 0.00

10. Shareholder Rights Agreement

On April 22, 1999, the Company adopted a shareholder rights agreement (the "Agreement") with similar terms as the previous one. The purpose of the rights is to force a potential acquirer to negotiate with the Company's board of directors to ensure that the Company's shareholders receive a fair price in any acquisition transaction.

Under the terms of the Agreement a purchase right ("right") was declared as a dividend for each share of the Company's Common Stock outstanding on May 4, 1999. The rights do not become exercisable and certificates for the rights will not be issued until ten business days after a person or group acquires or announces a tender offer for the beneficial ownership of 20% or more of the Company's Common Stock. Special rules set forth in the Agreement apply to determine beneficial ownership for members of the Sanderson family. Under these rules, such a member will not be considered to beneficially own certain shares of Common Stock, the economic benefit of which is received by any member of the Sanderson family, and certain shares of Common Stock acquired pursuant to employee benefit plans of the Company.

The exercise price of a right has been established at \$75. Once exercisable, each right would entitle the holder to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value \$100 per share. Because of the liquidation, voting and dividend preferences associated with the Preferred Stock, the value of one one-hundredth of a share of the Preferred Stock should approximate the value of one share of the Company's Common Stock. In addition, after a person or group acquires 20% of the Common Stock, but before such person or group acquires 50%, the board of directors may exchange the rights for share of the Company's Common Stock at a ratio of one common share to each on one-hundredth of a preferred share.

In some circumstances, the agreement also permits the Company's shareholders to acquire additional shares of the Company's Common Stock, or shares of an acquirer's common stock, at a discount. The rights may be redeemed by the Board of Directors at \$0.001 per right prior to an acquisition, through open market purchases, a tender offer or otherwise, of the beneficial ownership of 20% or more of the Company's Commons Stock. The rights expire on May 4, 2009.

Table of Contents**11. Other Matters**

The Company has vehicle and equipment leases that expire at various dates through fiscal 2011. Rental expense under these leases totaled \$6.3 million, \$4.9 million and \$4.7 million for fiscal 2006, 2005 and 2004, respectively. The minimum lease payments of obligations under non-cancelable operating leases at October 31, 2006 were as follows:

Fiscal Year	Amount
2007	\$ 6.8 million
2008	5.2 million
2009	4.7 million
2010	3.6 million
2011	1.3 million
Thereafter	0.0 million
	21.6
	\$ million

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 plant is expected to begin operations during the Company's fourth fiscal quarter of 2007, and at full production will process approximately 1.2 million head of chickens per week. The fiscal 2007 capital budget includes approximately \$67.1 million to complete construction of the new poultry complex in Waco, Texas.

On May 19, 2003, a lawsuit was filed on behalf of 74 individual plaintiffs in the United States District Court for the Southern District of Mississippi alleging an intentional pattern and practice of race discrimination and hostile environment in violation of Title VII and Section 1981 rights. This lawsuit alleged that Sanderson Farms, in its capacity as an employer, had engaged in (and continues to engage in) a pattern and practice of intentional unlawful employment discrimination and intentional unlawful employment practices at its plants, locations, off-premises work sites, offices, and facilities in Pike County, Mississippi...in violation of Title VII of the Civil Rights Act of 1964 (as amended)... The action further alleged that Sanderson Farms has willfully, deliberately, intentionally, and with malice deprived black workers in its employ of the full and equal benefits of all laws in violation of the Civil Rights Act... On June 6, 2003, thirteen additional plaintiffs joined in the pending lawsuit by the filing of a First Amended Complaint. This brought the total number of plaintiffs to 87.

The plaintiffs in this lawsuit sought among other things, back pay and other compensation in the amount of \$500,000 each and unspecified punitive damages. The Company aggressively defended the lawsuit. The Company has a policy of zero tolerance for discrimination of any type, and preliminarily investigated the complaints alleged in this lawsuit when they were brought as EEOC charges. This investigation substantiated none of the complaints alleged in the lawsuit, and the Company believes the charges were without merit. On July 21, 2003, the Company filed a Motion to Dismiss or, alternatively, Motion for Summary Judgment or Motion for More Definite Statement. On December 17, 2003, the court entered its order denying the Company's motion for summary judgment, but granting its motion for more definite statement. The court also ordered that the union representing some of the plaintiffs be joined as a defendant. The court gave the plaintiffs until January 26, 2004 to amend their complaint to more specifically set out their claims. Although the Company's motion to dismiss was denied, the court's order permitted the Company to refile its dispositive motions after the plaintiffs file an amended complaint. On January 27, 2004, 84 of the 87 plaintiffs filed their Second Amended Complaint. The remaining three plaintiffs voluntarily dismissed their claims. The Company filed its answer to the plaintiffs' second amended complaint on March 26, 2004, denying any and all liability and setting forth numerous affirmative defenses. On July 1, 2004, the Company filed a Motion to Sever Plaintiffs' Cases, wherein the Company requested that the court sever the pending lawsuit with 84 plaintiffs into 84 separate lawsuits, one for each plaintiff. The Company asserted in its motion that this relief should be granted because the 84 cases are too dissimilar and were misjoined. The Company further asserted that it would be prejudiced by being subjected to one common trial for all 84 plaintiffs, rather than separate trials for each plaintiff. On August 26, 2004, the Court

issued its order severing this case into six separate causes of action, with the plaintiffs divided into six groups based on their job classifications. On October 12, 2004, the plaintiffs filed new complaints for each of the six severed cases, which the Company answered on November 24, 2004. A case

Table of Contents

management conference for each of the six cases was held on December 28, 2004, during which various procedural issues related to discovery were settled. On September 28, 2005, the Company filed a Motion for a Pre-Trial conference seeking to preclude the plaintiffs from utilizing a pattern and practice method of proof. This method of proof is typically reserved for class action cases, or cases brought by the government. The plaintiffs had indicated their intention to use this method of proof in the pleadings and discovery requests filed up to the date of the Company's motion. On October 26, 2005, the court entered an order ruling that the plaintiffs would not be permitted to use the pattern and practice method of proof.

Three of the six cases or groups of plaintiffs (live-haul drivers, chicken catchers and forklift drivers) had been originally set for consecutive trials beginning on September 18, 2006. After discovery for those three cases ended on June 23, 2006, the Court continued the trials for the chicken catchers and forklift drivers. No trial date was set for those two cases, or any of the cases other than the trial for live-drivers on September 18, 2006. The Company filed Motions for Summary Judgment on each of the plaintiffs' claims on July 7, 2006, in which the Company asked the Court to rule in its favor in the three cases originally set for trial on September 18, 2006. In conjunction with its Motions for Summary Judgment on plaintiffs' claims, the Company filed a Motion for Separate Trials, or in the Alternative, for Further Severance of Plaintiffs. For the live-haul driver plaintiffs whose claims the Court may have allowed to proceed to trial on September 18, 2006, this motion asked the Court to conduct separate trials for each plaintiff rather than allow the plaintiffs to try all of their claims together at one trial or, alternatively, to conduct trials with smaller groups of plaintiffs. As it did in its Motion to Sever previously filed with Court at the beginning of discovery, the Company asserted in the motion that it would be prejudiced by being subjected to one common trial, rather than separate trials for each plaintiff.

The Court granted the Company's Motion for Separate Trial, and ordered plaintiff Perry White to trial on September 25, 2006. With respect to the motion for summary judgment filed by the Company on Perry White's claims, the Court granted the motion with respect to all of Mr. White's claims, except his claim of disparate treatment regarding his termination. Prior to the commencement of trial on that claim, the parties reached a global settlement agreement on all claims of all plaintiffs for an amount well within the Company's insurance coverage for such matters. The parties are in the process of executing the necessary documents to complete the settlement. The Company's insurer reimbursed the Company for the settlement amount, therefore, the settlement did not affect the Company's financial position or operating results.

On June 6, 2006, Annie Collins, a former employee of the processing division subsidiary, on behalf of herself and as representative of a class of individuals who are similarly situated and who have suffered the same or similar damages filed a Complaint against the Company's processing and production subsidiaries in the United States District Court for the Eastern District of Louisiana. Since the filing of the Complaint, at least 2,930 individuals purportedly have given their consent to be a party plaintiff to this action.

Plaintiffs allege that the Company's subsidiaries violated the Fair Labor Standards Act by failing to pay plaintiffs and other hourly employees for the time spent donning and doffing protective and sanitary clothing and performing other alleged compensable activities, and that Sanderson automatically deducted thirty minutes from each worker's workday for a meal break regardless of the actual time spent on break. Plaintiffs also allege that they were not paid overtime wages at the legal rate. Plaintiffs seek unpaid wages, liquidated damages and injunctive relief.

On July 24, 2006, plaintiffs filed a Motion for Protective Order, Sanctions and a Corrective Notice related to a letter the Company sent to all employees concerning the donning and doffing issue. The letter informed employees that, among other things, the Company was in negotiations with the Department of Labor about any adjustment to its pay practices and its calculations of any back pay obligations. The Company responded to the plaintiffs' motion and filed a Motion to Stay Proceedings Pending Conciliation Efforts with the Department of Labor. On July 25, 2006, plaintiffs responded to the Company's motion, which is still pending. On July 31, 2006, the Company filed its Answer to the plaintiffs' Complaint.

Table of Contents

On July 20, 2006, ten current and former employees of the processing division subsidiary filed an action nearly identical to the one described above in the United States District Court for the Eastern District of Louisiana. No notice that any other employees have given their consent to be a party plaintiff to this action has been received to date. The Company will vigorously defend the donning and doffing litigation.

The Company is also involved in various other claims and litigation incidental to its business. Although the outcome of the matters referred to in the preceding sentence 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. A determination of the amount of reserves required, if any, for these matters is made after considerable analysis of each individual case. Because the outcome of these cases cannot be determined with any certainty, no estimate of the possible loss or range of loss resulting from the cases can be made. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed 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 or changes to reserves or by accruals of losses to reflect any adverse determinations of these legal proceedings.

QUARTERLY FINANCIAL DATA

	Fiscal Year 2006			
	First Quarter	Second Quarter	Third Quarter(1)	Fourth Quarter(1)
	(In thousands, except per share data)			
	(Unaudited)			
Net sales	\$236,203	\$239,082	\$280,976	\$291,669
Gross profit (loss)	(651)	(12,098)	15,244	21,997
Net income (loss)	(8,606)	(16,649)	3,289	10,465
Diluted earnings (loss) per share	\$ (.43)	\$ (.83)	\$.16	\$.52

	Fiscal Year 2005			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter(2)
	(In thousands, except per share data)			
	(Unaudited)			
Net sales	\$243,638	\$270,077	\$277,011	\$262,466
Gross profit	29,535	59,197	57,346	33,437
Net income	10,041	26,520	24,022	10,055
Diluted earnings per share	\$.50	\$ 1.32	\$ 1.19	\$.50

(1) Net income for the fourth quarter reflects the recognition of other income of \$3.6 million, or \$.11 per share net of income taxes, in insurance proceeds

resulting from the Company's claim for business interruption losses caused by Hurricane Katrina. Net income for the third and fourth quarter of fiscal 2006 also reflects a tax benefit of \$2.1 and \$.5 million from federal income tax credits related to Hurricane Katrina.

- (2) During the fourth quarter of fiscal 2005, the Company was negatively impacted by Hurricane Katrina and had an estimated reduction in its gross profit during the fourth quarter of \$7.9 million related to the storm.

Sanderson Farms, Inc. and Subsidiaries

Table of ContentsValuation and Qualifying Accounts
Schedule II

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
Classification	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions Describe(1)	Balance at End of Period
(In Thousands)					
Year ended October 31, 2006					
Deducted from accounts receivable:					
Allowance for doubtful accounts					
Totals	\$ 749	\$ 480		\$ 335	\$ 894
Year ended October 31, 2005					
Deducted from accounts receivable:					
Allowance for doubtful accounts					
Totals	\$1,555	\$1,063		\$1,869	\$ 749
Year ended October 31, 2004					
Deducted from accounts receivable:					
Allowance for doubtful accounts					
Totals	\$1,390	\$ 165		\$ 0	\$1,555

(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, 2006 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, 2006. There have been no changes in the Company's internal control over financial reporting during the fourth quarter ended October 31, 2006 that 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, 2006. 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.

Table of Contents

Based on our assessment we have concluded that, as of October 31, 2006, 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 management's assessment of the Company's internal control over financial reporting as of October 31, 2006.

**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 management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Sanderson Farms, Inc. maintained effective internal control over financial reporting as of October 31, 2006, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, 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, management's assessment that Sanderson Farms, Inc. maintained effective internal control over financial reporting as of October 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Sanderson Farms, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2006, 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, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2006 of Sanderson Farms, Inc. and subsidiaries and our report dated December 27, 2006 expressed an unqualified opinion thereon.

Table of Contents

/s/ Ernst & Young LLP
New Orleans, Louisiana
December 27, 2006

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant.

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, John Bierbusse, Phil K. Livingston, Gail J. Pittman, Charles W. Ritter, Jr. (Chairman) and Donald W. Zacharias. All members of the audit committee are independent directors under the listing standards of the National Association of Securities Dealers. The Registrant's Board of Directors has determined that Phil K. Livingston and John Bierbusse are audit committee financial experts.

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 39440
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.

Table of Contents**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, 2006 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.

Plan category(1)	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights(2)	(b) Weighted-average exercise price of outstanding options, warrants and rights(2)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(3)
Equity compensation plans approved by security holders	188,543	\$ 11.66	665,866
Equity compensation plans not approved by security holders	0	0	0
Total	188,543	\$ 11.66	665,866

(1) The table above does not include information concerning the Registrant's Phantom Stock Agreements dated April 21, 2000 with certain of its executive officers and key employees. These

agreements permit the respective holders to claim a cash award from the Registrant at specified times prior to April 21, 2010, equal to a number of shares selected by the holder, but not exceeding in the aggregate the number of shares specified in the agreement, multiplied by the difference between the market value of a share of the Registrant's common stock at that time and \$4.9817. The Company has the option to issue shares of its common stock in lieu of the cash payable to a phantom stock holder upon the exercise of such holder's phantom stock. Because the value of a share of phantom stock upon conversion depends on the value of the Registrant's common stock on the

conversion date, the number of shares of the Registrant's common stock that would be issuable upon conversion of the outstanding phantom stock in lieu of a cash payment, should the Registrant exercise its option to issue shares in lieu of paying cash, cannot be determined. Information concerning the amount of the Registrant's phantom stock awards is contained in the Registrant's revised definitive proxy statement on Schedule 14A filed on January 28, 2002.

- (2) These columns do not reflect the 354,000 and 49,050 shares of restricted stock issued to participants in the Stock Incentive Plan in fiscal 2005 and 2006, respectively, nor the 55,010 shares of restricted stock purchased by or

issued to
participants
under the
management
stock purchase
plan provisions
of the Stock
Incentive Plan
or the purchase
prices therefor.

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

Item 13. Certain Relationships and Related Transactions.

52

Table of Contents

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 Accountant 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.

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, 2006 and 2005
- Consolidated Statements of Operations Years ended October 31, 2006, 2005 and 2004
- Consolidated Statements of Stockholders' Equity Years ended October 31, 2006, 2005 and 2004
- Consolidated Statements of Cash Flows Years ended October 31, 2006, 2005 and 2004
- Notes to Consolidated Financial Statements October 31, 2006

(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.)

Table of Contents

Exhibit Number	Description
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 December 2, 2004. (Incorporated by reference to Exhibit 3 filed with the Registrant's Current Report on Form 8-K on December 8, 2004.)
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 +	Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates, amended and restated effective November 1, 1997. (Incorporated by reference to Exhibit 10.5 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2005.)
10.6 +	Amendment One dated October 22, 2002 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates. (Incorporated by reference to Exhibit 10.6 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2005.)
10.7 +	Amendment Two dated December 2, 2003 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates. (Incorporated by reference to Exhibit 10.7 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2005.)

10.8 + Amendment Three dated February 11, 2004 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates. (Incorporated by reference to Exhibit 10.8 filed with the Registrant's Annual Report on Form 10-K

54

Table of Contents

Exhibit Number	Description
	for the year ended October 31, 2005.)
10.9 +	Amendment Four dated January 1, 2003 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates. (Incorporated by reference to Exhibit 10.9 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2005.)
10.10 +	Amendment Five dated March 28, 2005 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates. (Incorporated by reference to Exhibit 10.10 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2005.)
10.11 +	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.)
10.12 +	Sanderson Farms, Inc. and Affiliates Stock Option Plan. (Amended and Restated as of February 28, 2002). (Incorporated by reference to Exhibit 4.8 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
10.13 +	Form of Nonstatutory Stock Option Agreement. (Incorporated by reference to Exhibit 4.9 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
10.14 +	Sanderson Farms, Inc. Bonus Award Program effective November 1, 2005. (Incorporated by reference to Exhibit 10 to the Registrant's Current Report on Form 8-K filed February 28, 2006.)
10.15 +	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.)
10.16 +	Form of Restricted Stock Agreement between the Registrant and its non-employee directors who are granted restricted stock. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Current Report on Form 8-K on March 1, 2005.)
10.17 +	Form of Restricted Stock Agreement between Registrant and its officers and employees who are granted restricted stock. (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Current Report on Form 8-K on March 1, 2005.)
10.18 +	Form of Agreement between Registrant and its non-employee directors who participate in its management share purchase plan, as amended. (Incorporated by reference to Exhibit 10.3 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.)
10.19 +	Form of Agreement between Registrant and its officers and employees who participate in its management share purchase plan, as amended. (Incorporated by reference to Exhibit 10.4 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.)
10.20 +	Form of Restricted Stock Agreement between Registrant and its officers and employees who are granted restricted stock. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K

filed December 2, 2005.)

10.21 + Form of Performance Share Agreement between Registrant and its officers and employees who are granted performance shares. (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed December 2, 2005.)

10.22+* Form of Performance Share Agreement between Registrant and its officers and

55

Table of Contents

Exhibit Number	Description
	employees who are granted performance shares.
10.23	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.)
10.24	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.)
10.25	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.)
10.26	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.)
10.27	Credit Agreement dated as of July 31, 1996 among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank, Atlanta; Deposit Guaranty National Bank; Caisse National de Credit Agricole, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10-N to Amendment No. 1 to the Quarterly Report of the Registrant for the quarter ended July 31, 1996.)
10.28	First Amendment to Credit Agreement, dated as of October 23, 1997, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank; Deposit Guaranty National Bank; Caisse Nationale De Credit Agricole, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)
10.29	Second Amendment to Credit Agreement, dated as of July 23, 1998, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank; Deposit Guaranty National Bank; Caisse Nationale De Credit Agricole, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)
10.30	Third Amendment to Credit Agreement, dated as of July 29, 1999, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank; First American National Bank, D/B/A Deposit Guaranty National Bank; Caisse Nationale De Credit Agricole, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)
10.31	Fourth Amendment to Credit Agreement, dated as of March 17, 2000, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank; Credit Agricole Indosuez, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)

- 10.32 Fifth Amendment to Credit Agreement, dated as of February 16, 2001, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank; Credit Agricole Indosuez, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)
- 10.33 Sixth Amendment to Credit Agreement dated as of July 2, 2001, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent;

Table of Contents

Exhibit Number	Description
	SunTrust Bank; AmSouth Bank; Credit Agricole Indosuez, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10d to the Quarterly Report of the Registrant for the quarter ended January 31, 2002.)
10.34	Seventh Amendment to Credit Agreement dated as of July 29, 2002, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank; AmSouth Bank; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.1 to Amendment No. 1 to the Quarterly Report of the Registrant for the quarter ended July 31, 2002.)
10.35	Eighth Amendment to Credit Agreement dated as of July 31, 2003, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, individually and as Agent; SunTrust Bank; AmSouth Bank; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2003.)
10.36	Ninth Amendment dated May 18, 2004 to Credit Agreement dated as of July 31, 1996, as amended, among Sanderson Farms, Inc., Harris Trust and Savings Bank, as agent for the Banks, and Harris Trust and Savings Bank, Sun Trust Bank, AmSouth Bank and Trustmark National Bank. (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2004.)
10.37	Agreement dated as of April 22, 1999 between Sanderson Farms, Inc. and Chase Mellon Shareholder Services, L.L.C. (Incorporated by reference to Exhibit 4.1 filed with the Registrant's Current Report on Form 8-K dated April 22, 1999.)
10.38	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.)
10.39	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.)
10.40	Credit Agreement dated November 17, 2005 among Sanderson Farms, Inc. and Harris N.A., 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 November 23, 2005.)
10.41	Guaranty Agreement dated November 17, 2005 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 November 23, 2005.)
10.42	Intercreditor Agreement dated as of November 17, 2005 among The Lincoln National Life Insurance Company, Harris N.A., SunTrust Bank, AmSouth Bank, U.S. Bank National Association, Regions Bank, and Trustmark National Bank. (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed November 23, 2005.)
10.43	

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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.)

10.44 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.)

57

Table of Contents

Exhibit Number	Description
10.45	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.)
10.46	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.)
10.47	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.)
10.48	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.)
10.49	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 Harris N.A. 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 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 29, 2006

59

Table of Contents

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.	12/29/06	/s/ Beverly Wade Hogan	12/29/06
Joe F. Sanderson, Jr., Chairman of the Board and Chief Executive Officer (Principal Executive Officer)		Beverly Wade Hogan, Director	
/s/John H. Baker, III,	12/29/06	/s/ Phil K. Livingston	12/29/06
John H. Baker, III, Director		Phil K. Livingston, Director	
/s/ John Bierbusse	12/29/06	/s/Gail Jones Pittman	12/29/06
John Bierbusse, Director		Gail Jones Pittman, Director	
/s/ Lampkin Butts	12/29/06	/s/ Charles W. Ritter, Jr.	12/29/06
Lampkin Butts, Director, President and Chief Operating Officer		Charles W. Ritter, Jr., Director	
/s/ D. Michael Cockrell	12/29/06	/s/Rowan Taylor	12/29/06
D. Michael Cockrell, Director, Treasurer and Chief Financial Officer		Rowan Taylor, Director	
/s/ James A. Grimes	12/29/06	/s/ Donald W. Zacharias	12/29/06
James A. Grimes, Secretary and Chief Accounting Officer (Principal Accounting Officer)		Donald W. Zacharias, 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 December 2, 2004. (Incorporated by reference to Exhibit 3 filed with the Registrant's Current Report on Form 8-K on December 8, 2004.)
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 +	

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Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates, amended and restated effective November 1, 1997. (Incorporated by reference to Exhibit 10.5 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2005.)

10.6 + Amendment One dated October 22, 2002 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates. (Incorporated by reference to Exhibit 10.6 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2005.)

10.7 + Amendment Two dated December 2, 2003 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates. (Incorporated by reference to Exhibit 10.7

Table of Contents

Exhibit Number	Description
	filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2005.)
10.8 +	Amendment Three dated February 11, 2004 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates. (Incorporated by reference to Exhibit 10.8 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2005.)
10.9 +	Amendment Four dated January 1, 2003 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates. (Incorporated by reference to Exhibit 10.9 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2005.)
10.10 +	Amendment Five dated March 28, 2005 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates. (Incorporated by reference to Exhibit 10.10 filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 2005.)
10.11+	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.)
10.12 +	Sanderson Farms, Inc. and Affiliates Stock Option Plan. (Amended and Restated as of February 28, 2002). (Incorporated by reference to Exhibit 4.8 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
10.13 +	Form of Nonstatutory Stock Option Agreement. (Incorporated by reference to Exhibit 4.9 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)
10.14 +	Sanderson Farms, Inc. Bonus Award Program effective November 1, 2005. (Incorporated by reference to Exhibit 10 to the Registrant's Current Report on Form 8-K filed February 28, 2006.)
10.15 +	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.)
10.16 +	Form of Restricted Stock Agreement between the Registrant and its non-employee directors who are granted restricted stock. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Current Report on Form 8-K on March 1, 2005.)
10.17 +	Form of Restricted Stock Agreement between Registrant and its officers and employees who are granted restricted stock. (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Current Report on Form 8-K on March 1, 2005.)
10.18 +	Form of Agreement between Registrant and its non-employee directors who participate in its management share purchase plan, as amended. (Incorporated by reference to Exhibit 10.3 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.)
10.19 +	Form of Agreement between Registrant and its officers and employees who participate in its management share purchase plan, as amended. (Incorporated by reference to Exhibit 10.4 filed with the Registrant's

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Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.)

- 10.20 + Form of Restricted Stock Agreement between Registrant and its officers and employees who are granted restricted stock. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed December 2, 2005.)
- 10.21 + Form of Performance Share Agreement between Registrant and its officers and employees who are granted performance shares. (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed December 2, 2005.)
- 10.22+* Form of Performance Share Agreement between Registrant and its officers and employees who are granted performance shares.
- 10.23 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

Table of Contents

Exhibit Number	Description
	on Form 10-K for the year ended October 31, 1990.)
10.24	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.)
10.25	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.)
10.26	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.)
10.27	Credit Agreement dated as of July 31, 1996 among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank, Atlanta; Deposit Guaranty National Bank; Caisse National de Credit Agricole, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10-N to Amendment No. 1 to the Quarterly Report of the Registrant for the quarter ended July 31, 1996.)
10.28	First Amendment to Credit Agreement, dated as of October 23, 1997, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank; Deposit Guaranty National Bank; Caisse Nationale De Credit Agricole, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)
10.29	Second Amendment to Credit Agreement, dated as of July 23, 1998, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank; Deposit Guaranty National Bank; Caisse Nationale De Credit Agricole, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)
10.30	Third Amendment to Credit Agreement, dated as of July 29, 1999, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank; First American National Bank, D/B/A Deposit Guaranty National Bank; Caisse Nationale De Credit Agricole, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)
10.31	Fourth Amendment to Credit Agreement, dated as of March 17, 2000, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank; Credit Agricole Indosuez, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)
10.32	Fifth Amendment to Credit Agreement, dated as of February 16, 2001, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank; Credit Agricole Indosuez, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.29 to the

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Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)

- 10.33 Sixth Amendment to Credit Agreement dated as of July 2, 2001, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank; AmSouth Bank; Credit Agricole Indosuez, Chicago Branch; and Trustmark National Bank. (Incorporated by reference to Exhibit 10d to the Quarterly Report of the Registrant for the quarter ended January 31, 2002.)
- 10.34 Seventh Amendment to Credit Agreement dated as of July 29, 2002, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, Individually and as Agent; SunTrust Bank; AmSouth Bank; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.1 to Amendment No. 1 to the Quarterly Report of the Registrant for the quarter ended July 31, 2002.)

Table of Contents

Exhibit Number	Description
10.35	Eighth Amendment to Credit Agreement dated as of July 31, 2003, by and among Sanderson Farms, Inc.; Harris Trust and Savings Bank, individually and as Agent; SunTrust Bank; AmSouth Bank; and Trustmark National Bank. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2003.)
10.36	Ninth Amendment dated May 18, 2004 to Credit Agreement dated as of July 31, 1996, as amended, among Sanderson Farms, Inc., Harris Trust and Savings Bank, as agent for the Banks, and Harris Trust and Savings Bank, Sun Trust Bank, AmSouth Bank and Trustmark National Bank. (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2004.)
10.37	Agreement dated as of April 22, 1999 between Sanderson Farms, Inc. and Chase Mellon Shareholder Services, L.L.C. (Incorporated by reference to Exhibit 4.1 filed with the Registrant's Current Report on Form 8-K dated April 22, 1999.)
10.38	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.)
10.39	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.)
10.40	Credit Agreement dated November 17, 2005 among Sanderson Farms, Inc. and Harris N.A., 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 November 23, 2005.)
10.41	Guaranty Agreement dated November 17, 2005 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 November 23, 2005.)
10.42	Intercreditor Agreement dated as of November 17, 2005 among The Lincoln National Life Insurance Company, Harris N.A., SunTrust Bank, AmSouth Bank, U.S. Bank National Association, Regions Bank, and Trustmark National Bank. (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed November 23, 2005.)
10.43	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.)
10.44	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.)
10.45	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.)

- 10.46 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.)
- 10.47 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
10.48	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.)
10.49	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.	