

SANDERSON FARMS INC

Form 10-K/A

June 29, 2006

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K/A**

(Amendment No. 1)

(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, 2005**

**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)

225 North 13th Avenue

Laurel, Mississippi

(Address of principal executive offices)

64-0615843  
(IRS Employer  
Identification No.)  
39440  
(Zip Code)

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

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

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

Common Stock, \$1.00 per share par value

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 an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes  No

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

Yes  No

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant computed by reference to the closing sales price of the common equity in the NASDAQ National Market System on the last business day of the Registrant's most recently completed second fiscal quarter: \$602,841,455.52.

Number of shares outstanding of the Registrant's common stock as of December 28, 2005: 20,063,070 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 2006 Annual Meeting of Stockholders are incorporated by reference into Part III.

---

**Table of Contents**

**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-K/A amends certain items of the Annual Report on Form 10-K of Sanderson Farms, Inc. (the Company or the Registrant ) for the fiscal year ended October 31, 2005 as filed with the Securities and Exchange Commission on December 29, 2005 (the Annual Report ) and presents only the items of the Annual Report that are being amended. This Form 10-K/A does not reflect events occurring after the filing of the original Annual Report or modify or update those disclosures affected by subsequent events.

The amendments include the following:

Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations is being amended under the section entitled Hurricane Katrina to clarify the nature of the Company's insurance receivables related to Hurricane Katrina;

Item 7 is also being amended under the paragraph entitled Contingencies to clarify that the Company cannot estimate the possible loss or range of losses resulting from the legal proceedings to which it is a party;

Item 8, Financial Statements and Supplementary Data is being amended to correct the stockholders' equity portion of the Company's consolidated balance sheets and its consolidated statements of stockholders' equity to reflect the effect of a stock split in the earliest period presented, and to add an accompanying statement under Note 1 to the Consolidated Financial Statements, Significant Accounting Policies Earnings Per Share ;

Item 8 is also being amended to revise Note 2 to the Consolidated Financial Statements, Hurricane Receivable ;

Item 8 is also being amended to expand the explanation of the Company's Shareholder Rights Plan in Note 10 to the Consolidated Financial Statements;

Item 8 is also being amended to add clarification to Note 11 regarding the manner in which the Company accrues reserves for pending legal proceedings; and

Item 8 is also being amended to revise the Quarterly Financial Data by replacing operating income with gross profit information.

**TABLE OF CONTENTS**

<u>PART II</u>	2
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	2
<u>Item 8. Financial Statements and Supplementary Data</u>	11
<u>PART IV</u>	28
<u>Item 15. Exhibits and Financial Statement Schedules</u>	28
<u>SIGNATURES</u>	33
<u>EXHIBITS</u>	35
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-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**

**PART II**

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE PERFORMANCE**

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

- (1) Changes in the market price for the Company's finished products and feed grains, both of which may fluctuate substantially and exhibit cyclical characteristics typically associated with commodity markets.
- (2) Changes in economic and business conditions, monetary and fiscal policies or the amount of growth, stagnation or recession in the global or U.S. economies, either of which may affect the value of inventories, the collectability of accounts receivable or the financial integrity of customers.
- (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.

**Table of Contents**

(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 62.1% 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.

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, 2005 as follows:

	<b>1<sup>st</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	<b>4<sup>th</sup> Quarter</b>
Fiscal 2005				
High	\$.7525*	\$.7400	\$.7475	\$.7525*
Low	\$.7325*	\$.7375	\$.7400	\$.7425
Fiscal 2004				
High	\$.7000	\$.7500	\$.8100*	\$.8075
Low	\$.6825*	\$.7050	\$.7525	\$.7575
Fiscal 2003				
High	\$.6250	\$.6400	\$.6775	\$.6925*
Low	\$.6125*	\$.6250	\$.6350	\$.6800

\*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

**Table of Contents**

10, 2004. Per share information in this Annual Report reflects the stock split. Cash was paid in lieu of fractional shares.

**EXECUTIVE OVERVIEW OF RESULTS 2005**

The Company's financial results for the fiscal year ended October 31, 2005 reflect 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. The Company believes the remaining effects of lost production and additional expenses that will be incurred related to Hurricane Katrina during the first quarter of fiscal 2006 will be substantially covered by the Company's insurance policies.

**RESULTS OF OPERATIONS**

**Fiscal 2005 Compared to Fiscal 2004**

The Company's net sales during fiscal 2005 were \$1.0 billion, a decrease of \$46.1 million or 4.4% as compared to fiscal 2004. This reduction reflects lower prices for the Company's poultry products of 6.5% 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 \$9.2 million or 8.6% 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 \$826.7 million, a decrease of \$15.7 million, or 1.9%, 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 18.6% 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



**Table of Contents**

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. The Company expects that the impact of Hurricane Katrina on its operating income during fiscal 2006 to be minimal, as such impact will be substantially covered by the Company's insurance policies. Also during fiscal 2006, the Company's cost structure will improve as the new complex in South Georgia reaches full capacity during the summer of 2006.

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. The Company intends to seek reimbursement for the unrecognized lost profits and incurred expense of \$5.1 million and the \$14.9 million recognized as of October 31, 2005. Negotiations with the Company's insurance carriers are expected to be completed during 2006.

**EXECUTIVE OVERVIEW OF RESULTS 2004**

Results for the fiscal year ended October 31, 2004 were driven by record high chicken market prices, although feed ingredient costs were also higher than the fiscal year ended October 31, 2003. Higher chicken prices also more than offset higher advertising costs incurred as part of the Company's fiscal 2004 advertising and marketing program and a reduction in settlement proceeds from vitamin and methionine suppliers.

**RESULTS OF OPERATIONS****Fiscal 2004 Compared to Fiscal 2003**

For fiscal 2004 the Company's net sales were a record \$1.1 billion, an increase of \$180.1 million, or 20.6%, over the previous fiscal year's record net sales of \$872.2 million. The increase in the Company's net sales was due to favorable market prices of the Company's poultry products and an increase in the pounds of poultry products sold of 6.1%. As measured by a simple average of the Georgia dock price for whole chickens, prices increased 15.0% during fiscal 2004 as compared to fiscal 2003. Also, average market prices for boneless breast, leg quarters and wings all showed considerable strength during fiscal 2004 as compared to fiscal 2003 and increased 22.0%, 41.0% and 65.2%, respectively. Although these same market prices were higher during the fourth quarter of fiscal 2004 as compared to the fourth quarter of fiscal 2003, they were less favorable during the fourth quarter of fiscal 2004 than the Company experienced for the first three quarters of fiscal 2004. The increase in the pounds of poultry products sold resulted primarily from an increase in the average live weight of chickens sold during fiscal 2004 as compared to fiscal 2003. Net sales of prepared food products decreased \$6.2 million or 5.5%, as a result of a decrease in the pounds of prepared food products sold of 6.3%.

The Company's cost of sales were \$842.3 million during fiscal 2004 as compared to \$741.4 million during fiscal 2003. Cost of sales of the Company's poultry products during fiscal 2004 were \$734.2 million as compared to \$638.9 million during the previous fiscal year, an increase of \$95.3 million or 14.2%. The increase in the Company's cost of sales of poultry products resulted from an increase in the cost of feed grains, and to a lesser

**Table of Contents**

extent, an increase in the pounds of poultry products sold of 6.1% during fiscal 2004 as compared to fiscal 2003. In addition, during fiscal 2004 and fiscal 2003 the Company's cost of sales were reduced by \$0.3 million and \$12.4 million, respectively, from proceeds related to lawsuits against vitamin and methionine suppliers.

The Company's cost of corn and soybean meal, the Company's primary feed ingredients, increased approximately 6.8% and 52.1% for the fiscal year ended October 31, 2004 as compared to the fiscal year ended October 31, 2003. Cost of sales of prepared food products increased \$5.6 million or 5.5% due to an increase in poultry prices. The prepared foods operation purchases most of its chicken from the Company's poultry operations, and such chicken is a major component of its raw materials.

Selling, general and administrative expenses for fiscal 2004 were \$59.8 million as compared to \$40.3 million, an increase of \$19.5 million. This increase is primarily due to the cost of the Company's advertising program and increased contributions to the Employee Stock Ownership Plan ( ESOP ). The Company's fiscal 2004 advertising program began in January 2004 and cost the Company approximately \$14.0 million during fiscal 2004. The Company continued and expanded this program with new ads and in new markets during fiscal 2005. During fiscal 2004 the Company contributed \$7.0 million to the ESOP, an increase of \$3.0 million as compared to the contribution the Company made during fiscal 2003 of \$4.0 million.

The Company's operating income for the fiscal year ended October 31, 2004 was a record \$150.1 million as compared to \$90.5 million during the fiscal year ended October 31, 2003. This increase in the Company's operating income of \$59.6 million resulted from the favorable market for poultry products and continued strong operating performance.

These factors enabled the Company to more than offset increased feed costs and the benefit received from additional settlement proceeds received during fiscal 2003 as compared to fiscal 2004.

During fiscal 2004, interest expense was \$1.6 million as compared to \$2.5 million during fiscal 2003. This decrease reflects lower outstanding debt during fiscal 2004 as compared to fiscal 2003. The Company's total debt at October 31, 2004 was \$15.3 as compared to \$26.0 million as of October 31, 2003.

The Company's effective tax rate during fiscal 2004 and fiscal 2003 was 38.75% and 38.68%, respectively.

Net income for the fiscal year ended October 31, 2004 was \$91.4 million, or \$4.57 per diluted share, compared with net income of \$54.1 million, or \$2.75 per diluted share for the fiscal year ended October 31, 2003. During fiscal 2004, the Company recognized \$177,000, net of income taxes, for Sanderson Farms' share in the partial settlement of lawsuits against vitamin and methionine suppliers for overcharges, compared with total similar recoveries of \$7.6 million, net of income taxes, or \$0.38 per diluted share, during fiscal 2003.

**Liquidity and Capital Resources**

The Company's working capital at October 31, 2005 was \$107.6 million and its current ratio was 2.4 to 1. This compares to working capital of \$150.6 million and a current ratio of 3.3 to 1 as of October 31, 2004. During fiscal 2005 the Company spent approximately \$128.1 million on planned capital projects, which include \$92.3 million on the new complex in south Georgia and \$15.1 million on the new general offices in Laurel, 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 2006 is approximately \$73.4 million, and will be funded by cash on hand, internally generated working capital and cash flows from operations. If needed, the Company has a \$200.0 million revolving line of credit available. The \$73.4 million fiscal 2006 capital budget includes approximately \$7.9 million in operating leases and \$10.0 million to complete construction of the new corporate office building in Laurel, Mississippi. In addition, the fiscal 2006 capital budget includes \$22.4 million to build a feed mill in Collins, Mississippi, complete the conversion of the Collins, Mississippi processing facility to a big bird deboning plant,

**Table of Contents**

expand the Collins, Mississippi hatchery and \$4.8 million to improve operating efficiencies at the Company's prepared foods plant in Jackson, Mississippi. Without operating leases, the new office building and capital investment in Collins and Jackson, Mississippi, the Company's capital budget for fiscal 2006 would be \$28.3 million.

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 April 26, 2004, the Company gave notice to U.S. Bank National Association, as trustee under the Indenture of Trust dated as of November 16, 1995, related to the Robinson County Industrial Development Corporation Variable Rate Demand Industrial Development Revenue Bonds (Sanderson Farms, Inc. Project) Series 1995 ( Bonds ), of the Company's intent to exercise its right to call all of the Bonds for optional redemption on June 1, 2004 (the Redemption Date ) at a redemption price of 100% of the principal amount of the Bonds plus accrued interest to the Redemption Date. The Trustee redeemed the Bonds on June 1, 2004.

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

**Contractual Obligations**

Obligations under long-term debt, long-term capital leases, non-cancelable operating leases, purchase obligations relating to feed grains, other feed ingredients and packaging supplies and claims payable relating to the Company's workers' compensation insurance policy at October 31, 2005 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	\$ 8,597	\$ 4,131	\$ 4,283	\$ 183	\$ 0
Capital lease obligations	2,320	275	605	680	760
Operating leases	19,032	5,643	8,518	4,793	78
Purchase obligations:					
Feed grains, feed ingredients and packaging supplies	155,314	155,314	0	0	0
Construction contracts	18,127	18,127	0	0	0
Claims payable	6,611	3,711	2,900	0	0
Total	\$210,001	\$ 187,201	\$16,306	\$5,656	\$ 838

**Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with accounting standards generally accepted in the United States 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**

**Table of Contents**

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 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 will be recognized when the insurance proceeds are received.

Hurricane Katrina struck Mississippi and Louisiana on August 29, 2005, and resulted in significant damage to South Mississippi and Southeastern Louisiana. Although the Company experienced no significant damage to any of its facilities in the affected areas, the Company's operations throughout the region were affected by the loss of electricity to the Company's facilities and to the facilities of the Company's independent contract growers. Hurricane Katrina also destroyed approximately three million live chickens and approximately 5.2 million hatching eggs were either lost or destroyed and were not placed as broiler chicks. In addition, Hurricane Katrina destroyed approximately \$2.5 million of processed inventory in independent contract cold storage facilities, as well as a lesser amount of processed product and other inventory in Company owned facilities.

The Company's financial statements for the fourth fiscal quarter and fiscal year ended October 31, 2005, reflect a receivable from the Company's insurance carriers of \$14.9 million for property damage and expenses incurred resulting from Hurricane Katrina. The Company's total insurance claim through October 31, 2005, for property damage, expenses incurred and lost profits is approximately \$20.0 million, net of the applicable deductible of \$2,750,000. During the fourth quarter of fiscal 2005, operating income was reduced by unrecognized lost profits and expenses of approximately \$5.1 million. These 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.

Of the \$5.1 million of unrecognized lost profits and expenses, \$1.5 million was attributable to additional costs to compensate the Company's contract poultry producers for the loss of revenue they incurred because of decreased efficiencies resulting from the storm. These payments to the Company's contract poultry producers were included in cost of sales on the Company's income statement for the year ended October 31, 2005. While the Company's management believes these additional payments to contract poultry producers are covered by the terms of the its insurance policies, it cannot deem such recovery as probable, and therefore did not recognize any possible reimbursement of these costs in its financial statements. The Company will recognize any reimbursements of these costs if and when they are received, and any such reimbursements will be classified in the period received as other income, with appropriate disclosures of the nature of such amount.

Also included in the \$5.1 million is \$3.6 million in lost profits. For several weeks after Hurricane Katrina, the Company was unable to sustain the workforce required to produce higher margin products normally sold by the Company, and therefore suffered \$2.4 million in lost profits due to a less profitable product mix during the weeks immediately following the storm. The reasons for these human resource issues included the unavailability of fuel, damage to employees' personal property and impassable roads due to down trees and power lines. In addition, the Company lost profits of \$1.2 million that would have been realized on sales of live inventories destroyed by the hurricane. The Company has not recognized these lost profits as of December 31, 2005, but will recognize these amounts as other income when and if it receives reimbursement from the Company's insurance carriers, with appropriate disclosures of the nature of such amounts.

**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

## **Table of Contents**

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**

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 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

**Table of Contents**

Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Company is required to adopt SFAS No. 123(R) in the first quarter of fiscal 2006.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share in Note 1 to our audited financial statements. 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. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the income tax benefits of such deductions were \$966,000 and \$3,726,000 for the fiscal years ended October 31, 2005 and 2004, respectively. Also, under the provision of FAS 123(R), unearned compensation related to unvested restricted stock awards are not recorded. Accordingly, any remaining unearned compensation related to unvested restricted stock awards and the corresponding amount in paid-in capital will no longer be included in stockholders equity beginning November 1, 2005.

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 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 during fiscal years beginning after June 15, 2005. The Company is currently assessing the impact that SFAS No. 151 will have on the results of operations, financial position or cash flows.

**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, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2005. 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2005, 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, 2005, 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 22, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
New Orleans, Louisiana  
December 22, 2005



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

	<b>October 31</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 34,616	\$ 75,910
Accounts receivable, less allowance of \$748,808 in 2005 and \$1,555,452 in 2004	38,833	49,240
Receivable from insurance companies	14,892	0
Inventories	84,713	75,603
Refundable income taxes	0	2,592
Prepaid expenses	11,599	13,077
 Total current assets	 184,653	 216,422
Property, plant and equipment:		
Land and buildings	212,463	141,727
Machinery and equipment	296,449	257,671
	508,912	399,398
Accumulated depreciation	(249,586)	(242,685)
	259,326	156,713
Other assets	1,812	1,872
 Total assets	 \$ 445,791	 \$ 375,007
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 24,468	\$ 30,384
Accrued expenses	48,148	31,029
Current maturities of long-term debt	4,406	4,385
 Total current liabilities	 77,022	 65,798
Long-term debt, less current maturities	6,511	10,918
Claims payable	2,900	2,600
Deferred income taxes	13,705	16,350
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-20,063,070 in 2005 and 19,959,238 in 2004	20,063	19,959
Paid-in capital	26,791	9,090
Unearned compensation	(13,607)	0
Retained earnings	312,406	250,292

Total stockholders' equity	345,653	279,341
Total liabilities and stockholders' equity	\$ 445,791	\$ 375,007

See accompanying notes.

12

---

**Table of Contents**

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

	Years ended October 31		
	2005	2004	2003
	(In thousands, except per share data)		
Net sales	\$ 1,006,185	\$ 1,052,297	\$ 872,235
Cost and expenses:			
Cost of sales	826,670	842,337	741,420
Selling, general and administrative	66,031	59,806	40,293
	892,701	902,143	781,713
Operating income	113,484	150,154	90,522
Other income (expense):			
Interest income	1,257	743	80
Interest expense	(433)	(1,569)	(2,484)
Other	173	(60)	43
	997	(886)	(2,361)
Income before income taxes	114,481	149,268	88,161
Income tax expense	43,843	57,840	34,100
Net income	\$ 70,638	\$ 91,428	\$ 54,061
Earnings per share:			
Basic	\$ 3.53	\$ 4.62	\$ 2.78
Diluted	\$ 3.51	\$ 4.57	\$ 2.75
Dividends per share	\$ .42	\$ .84	\$ .61
Weighted average shares outstanding:			
Basic	20,014	19,789	19,462
Diluted	20,137	19,995	19,689

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 (In thousands, except shares and per share amounts)	Unearned Compensation	Retained Earnings	Total Stockholders Equity
Balance at October 31, 2002	13,051,026	\$ 13,051	\$ 0	\$ 0	\$ 142,840	\$ 155,891
Three-for-two stock split	6,525,513	6,525			(6,525)	0
Adjusted Balance at October 31, 2002	19,576,539	19,576	\$ 0	\$ 0	136,315	155,891
Net income for year					54,061	54,061
Cash dividends (\$.28 per share)					(5,449)	(5,449)
Special cash dividends (\$.33 per share)					(6,508)	(6,508)
Purchase and retirement of common stock	(328,500)	(328)	(2,042)		(2,790)	(5,160)
Issuance of common stock	272,775	273	3,991			4,264
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				1,753		1,753
	20,063,070	\$ 20,063	\$ 26,791	\$ (13,607)	\$ 312,406	\$ 345,653

Balance at October 31,  
2005

See accompanying notes.

14

---

**Table of Contents**

SANDERSON FARMS, INC.  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended October 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(In thousands)</b>		
<b>Operating activities</b>			
Net income	\$ 70,638	\$ 91,428	\$ 54,061
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	24,752	26,326	24,485
Amortization of unearned compensation	1,753	0	0
Provision for losses on accounts receivable	1,063	165	727
Deferred income taxes	(3,115)	500	(920)
Change in assets and liabilities:			
Accounts receivable	9,344	(3,210)	(5,849)
Receivable from insurance companies	(14,892)	0	0
Inventories	(9,110)	(13,850)	(3,789)
Prepaid expenses and refundable income taxes	4,540	(3,483)	2,431
Other assets	(95)	(123)	(135)
Accounts payable	(5,916)	11,351	(6,225)
Accrued expenses and claims payable	17,419	(6,511)	11,029
Total adjustments	25,743	11,165	21,754
Net cash provided by operating activities	96,381	102,593	75,815
<b>Investing activities</b>			
Capital expenditures	(128,107)	(27,538)	(23,430)
Net proceeds from sale of property and equipment	897	79	394
Other investment	0	(1,597)	0
Net cash used in investing activities	(127,210)	(29,056)	(23,036)
<b>Financing activities</b>			
Net change in revolving credit	0	0	(20,000)
Principal payments on long-term debt	(4,126)	(10,420)	(7,014)
Principal payments on capital lease obligation	(260)	(245)	(230)
Dividends paid	(8,524)	(16,733)	(11,957)
Purchase and retirement of common stock	0	(32)	(5,160)
Net proceeds from common stock issued	2,445	7,579	4,264
Net cash used in financing activities	(10,465)	(19,851)	(40,097)
Net change in cash and cash equivalents	(41,294)	53,686	12,682
Cash and cash equivalents at beginning of year	75,910	22,224	9,542
Cash and cash equivalents at end of year	\$ 34,616	\$ 75,910	\$ 22,224

**Supplemental disclosure of cash flow information:**

Edgar Filing: SANDERSON FARMS INC - Form 10-K/A

Income taxes paid	\$ 33,002	\$ 63,486	\$ 20,093
Interest paid	\$ 1,360	\$ 1,611	\$ 2,569

See accompanying notes.

15

---

**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 2005. One customer accounted for 12.5% and 11.7%, respectively, of consolidated sales for the years ended October 31, 2004 and October 31, 2003. 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 accounting principles generally accepted in the United States 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 will be 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.

*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 \$13.0 million, \$14.0 million and \$0.8 million for fiscal 2005, 2004 and 2003, respectively.

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

*Stock Based Compensation:* At October 31, 2005, the Company has a stock-based employee compensation plan, which is described more fully in Note 9. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost applicable to employee stock options is reflected in net income, as all options granted had an exercise price at least equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	<b>Year Ended October 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(In thousands)</b>		
Net income, as reported	\$ 70,638	\$ 91,428	\$ 54,061
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)	(60)
Pro forma net income	\$ 70,593	\$ 91,383	\$ 54,001
Earnings per share:			
Basic-as reported	\$ 3.53	\$ 4.62	\$ 2.78
Basic-pro forma	\$ 3.53	\$ 4.62	\$ 2.78
Diluted-as reported	\$ 3.51	\$ 4.57	\$ 2.75
Diluted-pro forma	\$ 3.51	\$ 4.57	\$ 2.74

*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.



**Table of Contents**

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.

*Impact of Recently Issued Accounting Standards:* 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. Generally, the approach in Statement 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Company is required to adopt SFAS No. 123(R) in the first quarter of fiscal 2006.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share in Note 1 to our audited financial statements. 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. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the income tax benefits of such deductions were \$966,000 and \$3,726,000 for the fiscal years ended October 31, 2005 and 2004, respectively. Also, under the provisions of SFAS 123(R), unearned compensation related to unvested restricted stock awards is not recorded. Accordingly, any remaining unearned compensation related to unvested restricted stock awards and the corresponding amount in paid-in capital will no longer be included in stockholders' equity beginning November 1, 2005.

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 is currently assessing the impact that SFAS No. 151 will have on the results of operations, financial position or cash flows.

**2. Hurricane Receivable**

The Company's financial statements for the fourth fiscal quarter and fiscal year ended October 31, 2005, reflect a receivable from the Company's insurance carriers of \$14.9 million for property damage and expenses incurred resulting from Hurricane Katrina. The Company's total insurance claim through October 31, 2005, for property damage, expenses incurred and lost profits is approximately \$20.0 million, net of the applicable deductible of \$2,750,000. During the fourth quarter of fiscal 2005, operating income was reduced by unrecognized lost profits and expenses of approximately \$5.1 million. These 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.

Of the \$5.1 million of unrecognized lost profits and expenses, \$1.5 million was attributable to additional costs to compensate the Company's contract poultry producers for the loss of revenue they incurred because of decreased efficiencies resulting from the storm. These payments to the Company's contract poultry producers were included in

cost of sales on the Company's income statement for the year ended October 31, 2005. While the Company's management believes these additional payments to contract poultry producers are covered by the terms of the its insurance policies, it cannot deem such recovery as probable, and therefore did not recognize any possible reimbursement of these costs in its financial statements. The Company will recognize any reimbursements of these costs if and when they are received, and any such reimbursements will be classified in the period received as other income, with appropriate disclosures of the nature of such amount.

Also included in the \$5.1 million is \$3.6 million in lost profits. For several weeks after Hurricane Katrina, the Company was unable to sustain the workforce required to produce higher margin products normally sold by the Company, and therefore suffered \$2.4 million in lost profits due to a less profitable product mix during the weeks immediately following the storm. The reasons for these human resource issues included the unavailability of fuel, damage to employees' personal property and impassable roads due to down trees and power lines. In addition, the Company lost profits of \$1.2 million that would have been realized on sales of live inventories destroyed by the hurricane. The Company has not recognized these lost profits as of December 31, 2005, but will recognize these amounts as other income when and if it receives reimbursement from the Company's insurance carriers, with appropriate disclosures of the nature of such amounts.

The Company intends to seek reimbursement for all of its insured losses, including the unrecognized lost profits and expenses. Negotiations with the Company's insurance carriers are expected to be completed during 2006. The Company believes the remaining effects of lost production and additional expenses related to Hurricane Katrina that will be incurred during the first fiscal quarter of 2006 will also be substantially covered by the Company's insurance policies.

**Table of Contents****3. Inventories**

Inventories consisted of the following:

	<b>October 31</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>	
Live poultry-broilers and breeders	\$ 42,662	\$ 45,318
Feed, eggs and other	10,983	10,081
Processed poultry	19,881	11,024
Processed food	6,905	5,172
Packaging materials	4,282	4,008
	<b>\$ 84,713</b>	<b>\$ 75,603</b>

**4. Prepaid expenses**

Prepaid expenses consisted of the following:

	<b>October 31</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>	
Parts and supplies	\$ 6,801	\$ 5,698
Current deferred tax assets	1,930	1,460
Other prepaid expenses	2,868	5,919
	<b>\$ 11,599</b>	<b>\$ 13,077</b>

**5. Accrued expenses**

Accrued expenses and claims payable consisted of the following:

	<b>October 31</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>	
Income taxes payable	\$ 12,990	\$ 0
Accrued bonuses	13,515	11,474
Accrued rebates	3,236	3,387
Workers compensation claims	3,711	3,484
Accrued property taxes	2,627	2,306
Accrued wages	4,020	3,201
Accrued vacation	3,199	2,822
Other accrued expenses	4,850	4,355
	<b>\$ 48,148</b>	<b>\$ 31,029</b>

**6. Long-term Credit Facilities and Debt**

Long-term debt consisted of the following:

**Table of Contents**

	<b>October 31</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>	
Term loan with an insurance company, accruing interest at 7.05%; due in annual principal installments of \$4,000,000, maturing in 2007	\$ 8,000	\$ 12,000
Note payable, accruing interest at 5%; due in annual installments of \$161,400, including interest, maturing in 2009	597	723
6% Mississippi Business Investment Act bond-capital lease obligation, due November 1, 2012	2,320	2,580
	10,917	15,303
Less current maturities of long-term debt	4,406	4,385
	\$ 6,511	\$ 10,918

At October 31, 2005, the Company had a \$100.0 million revolving credit agreement with four banks. As of October 31, 2005, all of the credit was available. On November 17, 2005, the Company entered into a new \$200.0 million 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 and the term loan agreements 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. As of December 22, 2005, all of the credit under the new revolver was available.

The aggregate annual maturities of long-term debt at October 31, 2005 are as follows (in thousands):

<b>Fiscal Year</b>	<b>Amount</b>
2006	\$ 4,406
2007	4,433
2008	455
2009	482
2010	381
Thereafter	760
	\$ 10,917

**7. Income Taxes**

Income tax expense (benefit) consisted of the following:

	<b>Years Ended October 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(In thousands)</b>		
Current:			
Federal	\$ 41,453	\$ 49,250	\$ 29,940
State	5,505	8,090	5,080
	46,958	57,340	35,020
Deferred:			
Federal	(2,705)	430	(800)

State	(410)	70	(120)
	(3,115)	500	(920)
	\$ 43,843	\$ 57,840	\$ 34,100

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

	<b>October 31</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>	
Deferred tax liabilities:		
Property, plant and equipment	\$ 15,675	\$ 17,977
Prepaid and other assets	495	1,108
Total deferred tax liabilities	16,170	19,085

**Table of Contents**

	<b>October 31</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>	
Deferred tax assets:		
Accrued expenses and accounts receivable	4,395	4,195
Net deferred tax liabilities	\$ 11,775	\$ 14,890
Current deferred tax assets (included in prepaid expenses)	\$ 1,930	\$ 1,460
Long-term deferred tax liabilities	13,705	16,350
Net deferred tax liabilities	\$ 11,775	\$ 14,890

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

	<b>Years Ended October 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(In thousands)</b>		
Income taxes at statutory rate	\$ 40,068	\$ 52,244	\$ 30,856
State income taxes	3,312	5,584	3,224
Other, net	463	12	20
Income tax expense	\$ 43,843	\$ 57,840	\$ 34,100

**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, \$7,000,000 and \$4,000,000 in fiscal 2005, 2004 and 2003, respectively.

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 \$2,666,000 in fiscal 2005, \$1,803,000 in fiscal 2004 and \$1,551,000 in fiscal 2003.

**9. Stock Compensation Plans**

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations in accounting for its employee stock options because the alternative fair value accounting provided for under FASB Statement No. 123, Accounting for Stock-Based Compensation, requires use of option valuation models that were not developed for use in valuing employee stock options.

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, 2005 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 2005, 2004 and 2003. The plan has been superceded by the Sanderson Farms, Inc. and Affiliates Stock Incentive Plan described below and no further options may be issued under the Stock Option Plan.

Pro forma information regarding net income and earnings per share is required by Statement 123, 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.





**Table of Contents**

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

	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>
Outstanding at October 31, 2002	1,082,604	\$ 9.61
Granted	0	0.00
Exercised	(272,775)	8.57
Forfeited	(10,125)	12.37
Outstanding at October 31, 2003	799,704	14.41
Granted	0	0.00
Exercised	(440,078)	9.75
Forfeited	(2,250)	12.37
Outstanding at October 31, 2004	357,376	11.56
Granted	0	0.00
Exercised	(102,332)	11.27
Forfeited	(33,501)	12.22
Outstanding at October 31, 2005	221,543	\$ 11.66

The exercise price of the options outstanding as of October 31, 2005, ranged from \$7.47 to \$12.37 per share. At October 31, 2005, the weighted average remaining contractual life of the options outstanding was 7 years and 150,336 options were exercisable.

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 \$84,000, \$1,567,000 and \$1,942,000 for the phantom share plan is included in selling, general and administrative expense in the accompanying consolidated statement of income for fiscal 2005, 2004 and 2003, respectively.

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

	<b>Shares</b>	<b>Exercise Price</b>
Outstanding at October 31, 2002	211,500	\$ 4.98
Granted	0	0.00
Forfeited	0	0.00
Exercised	(141,750)	4.98
Outstanding at October 31, 2003	69,750	4.98
Granted	0	0.00
Forfeited	0	0.00
Exercised	(63,000)	4.98
Outstanding at October 31, 2004	6,750	4.98
Granted	0	0.00
Forfeited	0	0.00
Exercised	(6,750)	4.98

Outstanding at October 31, 2005

0 \$ 0.00

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. Incentive awards granted under the Plan are accounted for in accordance with APB Opinion No. 25, Accounting for Stock issued to Employees and related interpretations.

**Table of Contents**

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 to non-employee directors vests three years from the date of grant and all other restricted stock granted at that time pursuant to the Plan vests ten years from the date of grant. 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. Restricted stock grants are recorded as unearned compensation and are recognized as compensation expense over the vesting period. During the quarter ended April 30, 2005, the Company issued a total of 354,000 shares of restricted stock valued at \$44.56 per share. During fiscal 2005, 11,000 shares granted on February 23, 2005 were forfeited. Compensation expense related to restricted stock grants totaled \$1,744,000 during fiscal 2005.

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% of their annual retainer and meeting fees in the form of restricted stock. Other participants may elect to receive up to 15% of their salary and up to 75% 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% 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 recorded as unearned compensation and are recognized as compensation expense over the vesting period. During fiscal 2005, the participants purchased a total of 7,497 shares of restricted stock pursuant to the Purchase Plan valued at \$41.13 per share and the Company issued 1,832 matching shares valued at \$41.11 per share. Compensation expense related to the Company's matching contribution totaled approximately \$8,000 in fiscal 2005.

**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 acquiror 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 shares of the Company's Common Stock at a ratio of one common share to each one 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 acquiror'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 Common Stock. The rights expire on May 4,

2009.

**11. Other Matters**

The Company has vehicle and equipment leases that expire at various dates through fiscal 2011. Rental expense under these leases totaled \$4.9 million, \$4.7 million and \$3.6 million for fiscal 2005, 2004 and 2003, respectively. The minimum lease payments of obligations under non-cancelable operating leases at October 31, 2004 were as follows:

23

---

**Table of Contents**

	<b>Fiscal Year</b>	<b>Amount</b>
2006		\$5.6 million
2007		5.0 million
2008		3.5 million
2009		3.0 million
2010		1.8 million
Thereafter		.1 million
		\$ 19.0

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 alleges that Sanderson Farms, in its capacity as an employer, has 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 alleges 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 seek, among other things, back pay and other compensation in the amount of \$500,000 each and unspecified punitive damages. The Company has aggressively defended the lawsuit and will continue to do so. 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, which is ongoing, has substantiated none of the complaints alleged in the lawsuit, and the Company believes the charges are 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 permits 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. Six separate trials are scheduled during 2006 and 2007 for the plaintiffs' causes

of actions. The first of the six trials is currently set for September 18, 2006.

On September 26, 2000, three current and former contract growers filed suit against the Company in the Chancery Court of Lawrence County, Mississippi. The plaintiffs filed suit on behalf of all Mississippi residents to whom, between, on or about November 1981 and the present, the Company induced into growing chickens for it and

**Table of Contents**

paid compensation under the so-called ranking system . Plaintiffs allege that the Company has defrauded plaintiffs by unilaterally imposing and utilizing the so-called ranking system which wrongfully places each grower into a competitive posture against other growers and arbitrarily penalizes each less successful grower based upon criteria which were never revealed, explained or discussed with plaintiffs. Plaintiffs further allege that they are required to accept chicks that are genetically different and with varying degrees of healthiness, and feed of dissimilar quantity and quality. Finally, plaintiffs allege that they are ranked against each other although they possess dissimilar facilities, equipment and technology. Plaintiffs seek an unspecified amount in compensatory and punitive damages, as well as varying forms of equitable relief.

The Company is vigorously defending and will continue to vigorously defend this action. On November 22, 2002, the Court denied the Company's motions to compel arbitration, challenging the jurisdiction of the Chancery Court of Lawrence County, Mississippi, and seeking to have the case dismissed pursuant to rule 5(c) of the Mississippi Rules of Civil Procedure. The Company then filed its motion for interlocutory appeal on these issues with the Mississippi Supreme Court. On December 6, 2002, the Mississippi Supreme Court agreed to hear this motion and stayed the action in the Chancery Court pending disposition of this motion. The Company's motion for interlocutory appeal was granted and this matter is pending before the Mississippi Supreme Court. The Supreme Court granted the Company's request that this case be consolidated with a second grower suit discussed below. Both this matter and the matter discussed below were decided by the court on October 6, 2005 with a decision in favor of the Company. The plaintiffs have indicated they plan to request a rehearing before the court and have until January 18, 2006 to file such a request.

On August 2, 2002, three contract egg producers filed suit against the Company in the Chancery Court of Jefferson Davis County, Mississippi. The Plaintiffs filed suit on behalf of all Mississippi residents who, between June 1993 and the present, [the Company] fraudulently and negligently induced into housing, feeding and providing water for [the Company's] breeder flocks and gathering, grading, packaging and storing the hatch eggs generated by said flocks and who have been compensated under the payment method established by the [Company]. Plaintiffs alleged that the Company has defrauded Plaintiffs by unilaterally imposing and utilizing a method of payment which wrongfully and arbitrarily penalizes each grower based upon criteria which are under the control of the [Company] and which were never revealed, explained or discussed with each Plaintiff. Plaintiffs allege that they were required to accept breeder hens and roosters which are genetically different, with varying degrees of healthiness, and feed of dissimilar quantity and quality. Plaintiffs further allege contamination of and damage to their real property. Plaintiffs alleged that they were fraudulently and negligently induced into housing, feeding and providing water for the Company's breeder flocks and gathering, grading, packaging and storing the hatch eggs produced from said flocks for the Company. Plaintiffs seek unspecified amount of compensatory and punitive damages, as well as various forms of equitable relief.

On September 5, 2002, the Company filed its Motion to Dismiss and/or Transfer Jurisdiction and/or to Compel Arbitration and/or for Change of Venue. A hearing of this motion was completed on November 18, 2003. Prior to completion of the hearing, the Company filed a request with the American Arbitration Association ( AAA ) to arbitrate the claims made in this lawsuit. On June 7, 2004, the Chancery Court of Jefferson Davis County, Mississippi entered an Order denying all of the relief requested by the Company in its motion dated September 5, 2002. On June 29, 2004, the Company filed a Notice of Appeal and/or, in the Alternative, Petition to Appeal from Interlocutory Order and Motion for Stay Pursuant to M.R.A.P.5(c) with the Mississippi Supreme Court, requesting appellate review of the Chancery Court's Order. On August 11, 2004, the Mississippi Supreme Court entered its Order accepting jurisdiction under the Notice of Appeal portion of the Company's June 29, 2004 filing, but dismissed the Alternative Petition for Interlocutory Appeal portion of the same filing as moot. The court also agreed to consolidate this case with the broiler grower lawsuit described above. The Mississippi Supreme Court continued the stay previously entered, holding in abeyance the trial court proceedings pending a ruling by it on the consolidated appeals of both grower lawsuits. On October 6, 2005, the court decided this matter, together with the grower suit discussed above, in favor of the Company. The plaintiffs have indicated they plan to request a rehearing before the court and have until January 18, 2006 to file such a request.



**Table of Contents**

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.

**Table of Contents****QUARTERLY FINANCIAL DATA**

	<b>Fiscal Year 2005</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter(1)</b>
	<b>(In thousands, except per share data) (Unaudited)</b>			
Net sales	\$233,290	\$259,176	\$264,650	\$249,069
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

	<b>Fiscal Year 2004</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	<b>(In thousands, except per share data) (Unaudited)</b>			
Net sales	\$226,441	\$272,710	\$293,923	\$259,223
Gross profit	42,643	69,215	71,912	26,190
Net income	18,986	33,437	33,944	5,061
Diluted earnings per share	\$ .95	\$ 1.67	\$ 1.69	\$ .25

(1) 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  
Valuation and Qualifying Accounts  
Schedule II

<b>COL. A</b>	<b>COL. B</b>	<b>COL. C</b>	<b>COL. D</b>	<b>COL. E</b>	<b>COL. F</b>
<b>Classification</b>	<b>Balance at Beginning of Period</b>	<b>Charged to Costs and Expenses</b>	<b>Charged to Other Accounts</b>	<b>Deductions Describe(1)</b>	<b>Balance at End of Period</b>
			<b>(In Thousands)</b>		
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
--------	----------	--------	------	----------

Year ended October 31, 2003

Deducted from accounts receivable:

Allowance for doubtful accounts

Totals	\$ 663	\$ 727	\$ 0	\$ 1,390
--------	--------	--------	------	----------

(1) Uncollectible  
accounts written  
off, net of  
recoveries

**Table of Contents**

PART IV

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

(a)1. FINANCIAL STATEMENTS:

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

Consolidated Balance Sheets October 31, 2005 and 2004

Consolidated Statements of Income Years ended October 31, 2005, 2004 and 2003

Consolidated Statements of Stockholders Equity Years ended October 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows Years ended October 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements October 31, 2005

(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:

<b>Exhibit Number</b>	<b>Description</b>
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.)

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
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.
10.6 + ***	Amendment One dated October 22, 2002 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates.
10.7 + ***	Amendment Two dated December 2, 2003 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates.
10.8 + ***	Amendment Three dated February 11, 2004 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates.
10.9 + ***	Amendment Four dated January 1, 2003 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates.
10.10 + ***	Amendment Five dated March 28, 2005 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates.
10.11 +	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.)
10.12 +	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.)
10.13 +	Sanderson Farms, Inc. Bonus Award Program effective November 1, 2004. (Incorporated by reference to Exhibit 10 to the Registrant's Current Report on Form 8-K filed December 8, 2004.)

Edgar Filing: SANDERSON FARMS INC - Form 10-K/A

- 10.14 + 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.)
- 10.15 + 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.)
- 10.16 + 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

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
	Form 8-K on March 1, 2005.)
10.17 +	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.)
10.18 +	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.)
10.19 +	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.)
10.20 +	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.)
10.21	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.)
10.22	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.)
10.23	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.)
10.24	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.)
10.25	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.)
10.26	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.)

Edgar Filing: SANDERSON FARMS INC - Form 10-K/A

- 10.27 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.)
- 10.28 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



**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
	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.)
10.29	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.)
10.30	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.)
10.31	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.)
10.32	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.)
10.33	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.)
10.34	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.)
10.35	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.)
10.36	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.)
10.37	Bond Purchase Loan Agreement between Moultrie-Colquitt County Development Authority, as Issuer, and Sanderson Farms, Inc. (Processing Division), as Purchaser. (Incorporated by reference

Edgar Filing: SANDERSON FARMS INC - Form 10-K/A

to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.)

- 10.38 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.)
- 10.39 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.)

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
10.40	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.)
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.

\*\*\* Filed previously.

+ 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 Trust and Savings Bank 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 amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

SANDERSON FARMS, INC.

By: /s/ D. Michael Cockrell  
Treasurer and Chief Financial  
Officer

Date: June 28, 2006

33

---

**Table of Contents**

**EXHIBITS:**

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

<b>Exhibit Number</b>	<b>Description</b>
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 + \*\*\* Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates, amended and restated effective November 1, 1997.
- 10.6 + \*\*\* Amendment One dated October 22, 2002 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates.
- 10.7 + \*\*\* Amendment Two dated December 2, 2003 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates.

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
10.8 + ***	Amendment Three dated February 11, 2004 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates.
10.9 + ***	Amendment Four dated January 1, 2003 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates.
10.10 + ***	Amendment Five dated March 28, 2005 to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates.
10.11 +	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.)
10.12 +	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.)
10.13 +	Sanderson Farms, Inc. Bonus Award Program effective November 1, 2004. (Incorporated by reference to Exhibit 10 to the Registrant's Current Report on Form 8-K filed December 8, 2004.)
10.14 +	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.)
10.15 +	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.)
10.16 +	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.)
10.17 +	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.)
10.18 +	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.)
10.19 +	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.)
10.20 +	

Edgar Filing: SANDERSON FARMS INC - Form 10-K/A

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.)

- 10.21 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.)
- 10.22 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



**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
	on Form 10-K for the year ended October 31, 1991.)
10.23	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.)
10.24	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.)
10.25	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 Nationale 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.)
10.26	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.)
10.27	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.)
10.28	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.)
10.29	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.)
10.30	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.)
10.31	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;

Edgar Filing: SANDERSON FARMS INC - Form 10-K/A

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.)

- 10.32 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.)
- 10.33 Eighth Amendment to Credit Agreement dated as of July 31, 2003, by and among Sanderson Farms,

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
	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.)
10.34	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.)
10.35	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.)
10.36	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.)
10.37	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.)
10.38	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.)
10.39	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.)
10.40	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.)
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.

\*\*\* Filed  
previously.

+ Management  
contract or  
compensatory  
plan or  
arrangement.