

SANDERSON FARMS INC

Form 10-Q/A

June 29, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
FORM 10-Q/A  
(Amendment No. 1)**

(MARK ONE)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the quarterly period ended January 31, 2006

**OR**

**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

64-0615843

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

127 Flynt Road, Laurel, Mississippi

39443

(Address of principal executive offices)

(Zip Code)

(601) 649-4030

(Registrant's telephone number, including area code)

225 N. 13<sup>th</sup> Avenue, Laurel, Mississippi, 39440

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Large Accelerated filer  Accelerated filer  Non-accelerated filer

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, \$1 Per Share Par Value 20,067,383 shares outstanding as of January 31, 2006.

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**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-Q/A amends certain items of the Quarterly Report on Form 10-Q of Sanderson Farms, Inc. (the Company or the Registrant ) for the fiscal quarter ended January 31, 2006 as filed with the Securities and Exchange Commission on February 28, 2006 (the Quarterly Report ) and presents only the items of the Quarterly Report that are being amended. This Form 10-Q/A does not reflect events occurring after the filing of the original Quarterly Report or modify or update those disclosures affected by subsequent events.

The amendments include the following:

Part I, Item 1, Financial Statements, is being amended to revise Note 6 to the Condensed Consolidated Financial Statements (Unaudited), Hurricane Receivable ;

Part I, Item 1 is also being amended to add Note 8, Other Matters ;

Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations is 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 and

Part I, Item 2 is also being amended to revise the disclosure concerning receivables resulting from Hurricane Katrina.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

SANDERSON FARMS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	January 31, 2006 (Unaudited)	October 31, 2005 (Note 1)
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,249	\$ 34,616
Accounts receivable, net	41,544	38,833
Receivable from insurance companies	12,894	14,892
Inventories	89,811	84,713
Prepaid expenses	15,825	11,599
Total current assets	162,323	184,653
Property, plant and equipment	530,872	508,912
Less accumulated depreciation	(255,761)	(249,586)
	275,111	259,326
Other assets	2,105	1,812
Total assets	\$ 439,539	\$ 445,791
Current liabilities:		
Accounts payable and accrued expenses	\$ 65,994	\$ 72,616
Current maturities of long-term debt	4,413	4,406
Total current liabilities	70,407	77,022
Long-term debt, less current maturities	16,373	6,511
Claims payable	2,900	2,900
Deferred income taxes	13,890	13,705
Stockholders' equity:		
Preferred Stock:		
Series A Junior Participating Preferred Stock, \$100 par value: authorized 500,000 shares; none issued, Par value to be determined by the Board of Directors: authorized 4,500,000 shares; none issued		
Common Stock, \$1 par value: authorized 100,000,000 shares; issued and outstanding shares 20,067,383 and 20,063,070 at January 31, 2006 and October 31, 2005, respectively	20,067	20,063
Paid-in capital	10,393	22,657
Unearned compensation	0	(13,607)
Retained earnings	305,509	316,540
Total stockholders' equity	335,969	345,653

Total liabilities and stockholders' equity	\$ 439,539	\$ 445,791
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See notes to condensed consolidated financial statements.

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SANDERSON FARMS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended January 31,	
	2006	2005
Net sales	\$ 222,114	\$ 233,290
Cost and expenses:		
Cost of sales	222,765	203,755
Selling, general and administrative	13,384	13,027
	236,149	216,782
<b>OPERATING INCOME (LOSS)</b>	<b>(14,035)</b>	<b>16,508</b>
Other income (expense):		
Interest income	124	199
Interest expense	(76)	(318)
Other	39	4
	87	(115)
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(13,948)</b>	<b>16,393</b>
Income tax expense (benefit)	(5,342)	6,352
<b>NET INCOME (LOSS)</b>	<b>\$ (8,606)</b>	<b>\$ 10,041</b>
Earnings (loss) per share:		
Basic	\$ (.43)	\$ .50
Diluted	\$ (.43)	\$ .50
Dividends per share	\$ .12	\$ .10
Weighted average shares outstanding:		
Basic	20,064	19,962
Diluted	20,064	20,115

See notes to condensed consolidated financial statements.



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SANDERSON FARMS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Three Months Ended January 31, 2006                  2005 (In thousands)	
Operating activities		
Net income (loss)	\$ (8,606)	\$ 10,041
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,461	6,267
Non-cash stock compensation	726	0
Change in assets and liabilities:		
Accounts receivable, net	(2,712)	6,983
Receivable from insurance companies	1,998	0
Inventories	(5,098)	2,727
Other assets	(5,473)	1,139
Accounts payable and accrued expenses	(5,507)	(11,559)
Total adjustments	(9,605)	5,557
Net cash provided by (used in) operating activities	(18,211)	15,598
Investing activities		
Capital expenditures	(22,819)	(15,476)
Net proceeds from sale of property and equipment	598	7
Net cash used in investing activities	(22,221)	(15,469)
Financing activities		
Principal payments on long-term debt	(131)	(125)
Net borrowings from revolving line of credit	10,000	0
Net proceeds from issuance of common stock (22,872 shares in 2006 and 10,125 shares in 2005)	648	232
Dividends paid	(2,452)	(1,997)
Net cash provided by (used in) financing activities	8,065	(1,890)
Net change in cash and cash equivalents	(32,367)	(1,761)
Cash and cash equivalents at beginning of period	34,616	75,910
Cash and cash equivalents at end of period	\$ 2,249	\$ 74,149

See notes to condensed consolidated financial statements.

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SANDERSON FARMS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
 January 31, 2006

**NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. Operating results for the three-month period ended January 31, 2006 are not necessarily indicative of the results that may be expected for the year ending October 31, 2006. The consolidated balance sheet at October 31, 2005 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended October 31, 2005.

**NOTE 2 INVENTORIES**

Inventories consisted of the following:

	January 31, 2006	October 31, 2005
(In thousands)		
Live poultry-broilers and breeders	\$ 50,508	\$ 42,662
Feed, eggs and other	11,089	10,983
Processed poultry	16,860	19,881
Processed food	6,520	6,905
Packaging materials	4,834	4,282
	<b>\$ 89,811</b>	<b>\$ 84,713</b>

**NOTE 3 STOCK COMPENSATION PLANS**

The following describes major changes to benefit plans that have occurred since October 31, 2005. Refer to Notes 8 and 9 of our October 31, 2005 audited financial statements for further information on our employee benefit plans and stock compensation plans.

During the quarter ended January 31, 2006, the Company granted 40,050 shares of restricted stock to certain officers, directors and key employees. The restricted stock had a grant date fair value of \$35.25 per share and vests four years from the date of grant. Also, during the quarter, participants in the Company's Management Share Purchase Plan purchased a total of 18,559 shares of restricted

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stock at an average price of \$31.02 and the Company issued 4,620 matching restricted shares. Total stock based compensation expense applicable to the Company's restricted stock grants was \$726,000 for the quarter ended January 31, 2006.

During the quarter ended January 31, 2006, the Company entered into performance share agreements that grant certain officers and key employees the right to receive shares of the Company's common stock, subject to the Company's achievement of certain performance measures. The performance share agreements specify a target number of shares that a participant can receive based upon the Company's average return on equity and average return on sales, as defined, during a three-year performance period beginning November 1, 2005. If the Company's average return on equity and average return on sales exceed certain threshold amounts for the three-year performance period, participants will receive 50% to 150% of the target number of shares, depending upon the Company's level of performance. The target number of shares specified in the performance share agreements executed during the quarter ended January 31, 2006 totaled 73,950. No compensation cost was recognized for the performance shares during the quarter ended January 31, 2006 because achievement of the applicable performance measures is not considered probable.

**NOTE 4 EARNINGS PER SHARE**

Basic net income (loss) per share was calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share for the three months ended January 31, 2005 was calculated by dividing net income by the weighted-average number of common shares outstanding during the period plus the dilutive effects of stock options outstanding. There were 153,000 weighted average dilutive shares outstanding for the three months ended January 31, 2005. Restricted stock and employee stock options representing 88,924 common shares were excluded from the calculation of diluted net loss per share for the three months ended January 31, 2006 because the effect was antidilutive. There were no restricted stock outstanding during the three months ended January 31, 2005.

**NOTE 5 NEW REVOLVING CREDIT FACILITY**

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 facility include requirements for maintenance of minimum consolidated net working capital, tangible net worth, debt to total capitalization and current ratio. As of January 31, 2006, the Company is in compliance with all covenants. The agreement also establishes limits on dividends, assets that can be pledged and capital expenditures. The Company had \$190.0 million available to borrow under the line of credit at January 31, 2006.

**NOTE 6 HURRICANE RECEIVABLE**

The Company's financial statements for the first fiscal quarter ended January 31, 2006, reflect a receivable from the Company's insurance carriers of \$12.9 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 \$26.3 million, net of the applicable deductible of \$2,750,000. The Company received \$5.0 million during the first quarter of fiscal 2006 from the insurance carriers as an initial draw on the claim. During the first quarter of fiscal 2006 and the fourth quarter of fiscal 2005, operating income was reduced by unrecognized lost profits and expenses of approximately \$3.0 million and \$5.1 million, respectively. The unrecognized lost profits and expenses of \$8.1 million during the first quarter of fiscal 2006 and the fourth quarter of fiscal 2005 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 \$8.1 million of unrecognized lost profits and expenses, \$2.0 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 and the quarter ended January 31, 2006. 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 \$8.1 million is \$6.1 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 \$3.3 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 \$2.8 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 January 31, 2006, 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.

#### NOTE 7 NEW ACCOUNTING PRONOUNCEMENTS

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

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In December 2004, the FASB issued SFAS Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, restricted stock and performance-based shares to be recognized in the income statement based on their fair values. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. In the first quarter of fiscal 2006, the Company adopted SFAS No. 123(R) using the modified prospective method. Under the modified prospective method, compensation cost will be recognized for all share-based payments granted after the adoption of SFAS No. 123(R) and for all awards granted to employees prior to the adoption date of SFAS No. 123R that remain unvested on the adoption date. Accordingly, no restatements were made to prior periods. The adoption of SFAS No. 123(R) was not significant to the Company's operations or financial position for the fiscal 2006 first quarter. Prior to adoption of SFAS No. 123(R), the Company accounted for share-based payments to employees using APB 25's intrinsic value method and, as such, generally recognized no compensation cost for employee stock options. Under APB 25, the Company recorded unearned compensation in the shareholders' equity section of its balance sheet upon the grant of restricted stock and amortized the unearned compensation over the vesting period. Based upon the provisions of SFAS No. 123(R), the Company was required to reverse the previously recorded unearned compensation and to accrue stock based compensation expense as it is earned.

**NOTE 8 OTHER MATTERS**

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 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.

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 in each of the grower lawsuits indicated that they planned to request a rehearing before the court and had until January 18, 2006 to file such a request. However, that deadline passed with no such request being filed. As a result, the Mississippi Supreme Court entered its final mandate in this matter on January 24, 2006, and this matter is now final.

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.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Sanderson Farms, Inc.

We have reviewed the condensed consolidated balance sheet of Sanderson Farms, Inc. and subsidiaries as of January 31, 2006, and the related condensed consolidated statements of operations and cash flows for the three-month periods ended January 31, 2006 and 2005. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Sanderson Farms, Inc. as of October 31, 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended not presented herein, and in our report dated December 22, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of October 31, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

New Orleans, Louisiana

February 27, 2006



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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**General**

The following Discussion and Analysis should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of the Company's Annual Report on Form 10-K for its fiscal year ended October 31, 2005.

This Quarterly 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.
- (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*, *anticipates* and similar expressions as they relate to the Company or its management are intended to identify forward-looking statements.

The Company's poultry operations are integrated through its management 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 prices 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.

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

On January 12, 2006, Sanderson Farms, Inc. announced that sites in Waco and McLennan County, Texas have been selected for construction of a new poultry processing plant and wastewater treatment facility and hatchery. These facilities will comprise a state-of-the-art poultry complex with the capacity to process 1.2 million birds per week for the big bird deboning market. At full capacity, the complex will employ approximately 1,300 people, will require 150 contract growers, and will be equipped to process and sell 8.4 million pounds per week of dressed poultry meat at full production.

Sanderson Farms expects to invest approximately \$70.0 million in the new Texas complex, and anticipates that associated contract growers will invest an additional \$115.0 million in poultry production facilities. The Company expects to begin construction of the facilities this spring, with initial operation of the new complex scheduled to begin in May of 2007. Sanderson Farms will also expand its feed mill in Easterly, Texas, and use that feed milling capacity to satisfy the live production needs associated with the new complex.

### **EXECUTIVE OVERVIEW OF RESULTS**

The Company's financial results for the first quarter of fiscal 2006 reflect significantly lower prices for poultry products, the start-up of the second shift of the first line at the Company's new poultry processing complex in South Georgia and conversion of the Collins, Mississippi poultry processing plant to the big bird deboning market, increased cost of soybean meal and higher fuel and utility prices. In addition, during the first quarter of fiscal 2006, the Company continued to experience the negative impact of Hurricane Katrina.

### **RESULTS OF OPERATIONS**

Net sales for the first quarter of fiscal 2006 were \$222.1 million as compared to \$233.3 million for the first quarter of fiscal 2005, a decrease of \$11.2 million or 4.8%. The decrease in net sales during the first quarter of fiscal 2006 reflects a 9.7% decrease in the average sale price of the Company's poultry products, partially offset by an increase in the pounds of poultry products sold of 3.7%. 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 21.2%, 13.9% and 17.6%, respectively. The average market price for bulk leg quarters during the first quarter of fiscal 2006 were 10.7% lower than the same quarter in fiscal 2005. In addition, a simple average of the Georgia Dock prices for whole chickens decreased 3.2% when these same periods are compared. Net sales of prepared food products increased \$2.0 million, or 7.5% during the three months ended January 31, 2006 as compared to the three months ended January 31, 2005. This increase resulted from a 16.4% increase in the pounds of prepared food products sold and a decrease of 7.6% in the average sales price of prepared food products sold.

Cost of sales for the three months ended January 31, 2006, were \$222.8 million, an increase of \$19.0 million, or 9.3% as compared to the same three months ended January 31, 2005. Cost of sales of the Company's poultry products increased \$16.3 million, or 9.0%. The increase in the cost of sales of poultry products resulted from an increase in the pounds of poultry products sold at the Company's new poultry complex in South Georgia which will not reach operational efficiency until full capacity is obtained during the summer of fiscal 2006. The Company estimates that the cost of sales in the three months ended January 31, 2006 was affected by approximately \$3.5 million due to the start up nature of the new Georgia facility. Also, the Company's cost of sales was negatively impacted by an increase in the cost of corn and soybean meal during the first quarter of fiscal 2006 as compared to the first quarter of 2005. A simple average of the corn and soybean meal cash market prices during the first quarter of fiscal 2006 as compared to same quarter during fiscal 2005 reflect an increase of 2.6% and 14.6%, respectively. The Company's cost of sales was also higher during the quarter due to an increase in the pounds of prepared food products sold of 16.4%. The Company's prepared food products have a higher average cost of sales per pound than the Company's poultry products. Cost of sales of prepared food products increased \$2.7 million or 11.8%.

Selling, general and administrative costs for the three months ended January 31, 2006 were \$13.4 million as compared to \$13.0 million during the three months ended January 31, 2005. The increase in selling, general and administrative costs of \$0.4 million resulted from amortization of restricted stock grants issued during the second quarter of fiscal 2005 and the first quarter of fiscal 2006. The increase in amortization of restricted stock was partially offset by

slightly lower advertising expenditures and expenses that were incurred during the first quarter of fiscal 2005 related to the start up of the new poultry complex in South Georgia later during fiscal

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2005. All costs of operating the new complex in South Georgia, except for certain sales related expenditures, are included in cost of sales during the three months ended January 31, 2006.

For the three months ended January 31, 2006, the Company's operating loss was \$14.0 million as compared to an operating income of \$16.5 million for the three months ended January 31, 2005. The reduction of \$30.5 million is the result of a significant reduction in poultry prices during the quarter, increased cost of soybean meal, higher fuel and utility prices and an estimated loss of \$3.0 million from Hurricane Katrina during the first quarter of fiscal 2006. The estimated loss of \$3.0 million from Hurricane Katrina resulted from unrecognized lost profits and certain expenses that were the direct result of the Company's efforts to minimize the effect of Hurricane Katrina. In addition, the Company's operations were negatively impacted by the start up of the second shift of the first line at the new poultry complex in South Georgia and the conversion of the Collins, Mississippi processing plant to a big bird deboning plant. The Collins, Mississippi plant was down for one week during the first quarter of fiscal 2006 to allow for the installation of required equipment changes.

Interest expense during the three months ended January 31, 2006 was \$76,000 as compared to \$318,000 during the three months ended January 31, 2005. The reduction in interest expense was due to the capitalization of \$227,000 of interest incurred during the first quarter of fiscal 2006 to the cost of construction of the new general offices in Laurel, Mississippi and the new feed mill under construction in Collins, Mississippi and lower outstanding debt.

The Company's effective tax rate for the three months ended January 31, 2006 and 2005 was 38.30% and 38.75%, respectively.

The Company's net loss was \$8.6 million or \$.43 per share for the first quarter of fiscal 2006 as compared to net income for the first quarter of fiscal 2005 of \$10.0 million, or \$.50 per share. During the first quarter of fiscal 2006 the Company incurred certain expenses and lost profits of \$3.0 million before income taxes from Hurricane Katrina. The Company intends to seek reimbursement for the unrecognized lost profits and incurred expense of \$3.0 million incurred during the first quarter of fiscal 2006. Negotiations with the Company's insurance carriers are expected to be completed during fiscal 2006.

**Liquidity and Capital Resources**

The Company's working capital at January 31, 2006 was \$91.9 million and its current ratio was 2.3 to 1. This compares to working capital of \$107.6 million and a current ratio of 2.4 to 1 as of October 31, 2005. During the three months ended January 31, 2006 the Company spent approximately \$22.8 million on planned capital projects, which include \$6.1 million on the new general offices in Laurel, Mississippi, \$3.2 million on the new feed mill under construction in Collins, Mississippi and \$3.4 million to increase the capacity of the Collins, Mississippi hatchery and to complete the conversion of the Collins, Mississippi poultry processing plant to the big bird deboning market. The Company's capital budget for fiscal 2006 is approximately \$74.1 million at January 31, 2006, and will be funded by cash on hand, internally generated working capital and cash flows from operations. If needed, the Company has \$190.0 million available under its revolving line of credit at January 31, 2006. The fiscal 2006 capital budget includes approximately \$8.0 million in operating leases and \$9.4 million to complete construction of the new corporate office building in Laurel, Mississippi. In addition, the fiscal 2006 capital budget includes \$22.5 million to build a feed mill in Collins, Mississippi, complete the conversion of the Collins, Mississippi processing facility to a big bird deboning plant, 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 \$29.4 million.

On January 12, 2006, Sanderson Farms, Inc. announced that sites in Waco and McLennan County, Texas have been selected for construction of a new poultry processing plant, wastewater treatment facility and hatchery. Sanderson Farms will also expand its feed mill in Easterly, Texas to satisfy the live production needs associated with the new complex. The Company expects to invest approximately \$70.0 million in the new complex during fiscal 2006 and fiscal 2007. The fiscal 2006 capital budget does not include any anticipated investment in the Waco facility because such investment will not be quantified until engineering is complete in the second quarter of fiscal 2006.

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.

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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.

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### **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.

The Company's Summary of Significant Accounting Policies, as described in Note 1 of the Notes to the Consolidated Financial Statements that are filed with the Company's latest report on Form 10-K, should be read in conjunction with this Management's Discussion and Analysis of Financial Condition and Results of Operations. Management believes that the critical accounting policies and estimates that are material to the Company's Consolidated Financial Statements are those described below.

#### **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. 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's financial statements for the first fiscal quarter ended January 31, 2006, reflect a receivable from the Company's insurance carriers of \$12.9 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 \$26.3 million, net of the applicable deductible of \$2,750,000. The Company received \$5.0 million during the first quarter of fiscal 2006 from the insurance carriers as an initial draw on the claim. During the first quarter of fiscal 2006 and the fourth quarter of fiscal 2005, operating income was reduced by unrecognized lost profits and expenses of approximately \$3.0 million and \$5.1 million, respectively. The unrecognized lost profits and expenses of \$8.1 million during the first quarter of fiscal 2006 and the fourth quarter of fiscal 2005 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 \$8.1 million of unrecognized lost profits and expenses, \$2.0 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 and the quarter ended January 31, 2006. 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 \$8.1 million is \$6.1 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 \$3.3 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 \$2.8 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 January 31, 2006, 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 straight-line method. Mortality of broilers and breeders is charged to cost of sales as incurred. If market prices for chickens, 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 evaluates 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 evaluation, 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



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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. The Company did not identify any indicators of impairment during the current fiscal 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 considering the 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 as discussed in Note 8 of our unaudited quarterly condensed consolidated financial statements filed with this report. We recognize 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. Further 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 determination of these legal proceedings.

### **New Accounting Pronouncements**

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

In December 2004, the FASB issued SFAS Statement No. 123 (revised 2004), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, restricted stock and performance-based shares to be recognized in the income statement based on their fair values. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. In the first quarter of fiscal 2006, the Company adopted SFAS No. 123(R) using the modified prospective method. Under the modified prospective method, compensation cost will be recognized for all share-based payments granted after the adoption of SFAS No. 123(R) and for all awards granted to employees prior to the adoption date of SFAS No. 123R that remain unvested on the adoption date. Accordingly, no restatements were made to prior periods. The adoption of SFAS No.

123(R) was not significant to the Company's operations or financial position for the fiscal 2006 first quarter.

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

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

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**PART II. OTHER INFORMATION**

**Item 6. Exhibits**

The following exhibits are filed with this report.

Exhibit 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.)

Exhibit 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.)

Exhibit 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.)

Exhibit 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.)

Exhibit 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.)

Exhibit 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.)

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Exhibit 3.7 Bylaws 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.)

Exhibit 10.1 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.)

Exhibit 10.2 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.)

Exhibit 10.3 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.)

Exhibit 10.4 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.)

Exhibit 10.5 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.)

Exhibit 15\* Accountants' Letter re: Unaudited Financial Information.

Exhibit 31.1\* Certification of Chief Executive Officer.

Exhibit 31.2\* Certification of Chief Financial Officer.

Exhibit 32.1\*\* Section 1350 Certification.

Exhibit 32.2\*\* Section 1350 Certification.

\* Filed herewith.

\*\* Furnished herewith.

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SIGNATURES

Pursuant to the requirements 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.

(Registrant)

Date: June 28, 2006

By: /s/ D. Michael Cockrell

Treasurer and Chief  
Financial Officer

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INDEX TO EXHIBITS

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