225 North 13th Avenue
Post Office Box 988
Laurel, Mississippi 39441-0988

delivering value

2001 ANNUAL REPORT

Sanderson Farms®

delivering value
quality products

Sanderson Farms enjoys a long tradition of delivering value to its customers with fresh, high-quality products. We are very proud of our proven reputation in the market as a leading provider of a wide range of chicken products and processed and prepared food items. We believe it is important to have access to and participate in all aspects of the market with a common focus on superior product quality, exceptional customer service and a strong brand identity. Our goal is to help each of our customers, whether a food service distributor, retail restaurant or grocery store, to build and grow their businesses with quality chicken products. We do extensive market research and testing and continue to add exciting new items to our product line to meet the ever-changing tastes and preferences of our customers.


Handling Instructions

delivering value

customer service

Sanderson Farms' philosophy of quality and superior customer service has been a hallmark of our success for over 50 years. Customer satisfaction has always been a top priority and we believe that our most valuable assets as a company are the relationships we enjoy with many customers of long-standing. Sanderson Farms products are sold to consumers through grocery stores nationwide, and we also supply many of the country's leading casual dining chains with the highest quality chicken and unique prepared food products. We ship over a billion pounds of chicken products annually across the United States and, through further distribution channels, around the world. No matter where they buy our products, our customers always know they can count on Sanderson Farms to deliver value.

At Sanderson Farms, we believe that our success as a company is measured in part by our ability to be a responsible community citizen. Although our facilities now reach across Mississippi, through Louisiana, to Texas, an important tradition throughout the Company is to foster a close relationship between Sanderson Farms and the communities in which we live and work. Our philosophy has always been based on the premise that if we give back to the community and the community does well, everyone benefits. As a food company, we are very proud of our role as a significant contributor to numerous philanthropic efforts toward hunger relief. Whether donating chicken to a food bank or serving Sanderson Farms Gumbo in a soup kitchen, our primary objective is to continue to enrich lives and make a positive and meaningful contribution to local communities. As in every other aspect of our business, delivering value to our communities is an important tradition at Sanderson Farms, and we remain committed to making a difference.

delivering value
community service

	October 31 2001	2000
	(In thousands, except per share data)	
The Fiscal Year		
Net sales	$ 706,002	$ 605,911
Net income (loss)	$ 27,784	$ (5,571)
Basic and diluted earnings (loss) per share	$ 2.04	$ (.41)
Dividends per share	$ .20	$ .20
Weighted average shares outstanding		
Basic	13,596	13,726
Diluted	13,640	13,726
At Fiscal Year-End		
Working capital	$ 76,969	$ 71,334
Total assets	$ 288,971	$ 281,856
Long-term debt, less current maturities	$ 77,212	$ 107,491
Stockholders' equity	$ 144,339	$ 120,015

who we are

Sanderson Farms

Sanderson Farms, Inc. is engaged in the production, processing, marketing and distribution of fresh and frozen chicken and other prepared food items. The Company sells its chicken products primarily under the Sanderson Farms® brand name to retailers, distributors and fast food operators in the southeastern, southwestern and western United States. Through its Foods Division, the Company also sells, under the Sanderson Farms® name, over 200 processed and prepared frozen entrees and other specialty food products to distributors, food service establishments and retailers.

The common shares of Sanderson Farms, Inc. are traded on the Nasdaq National Market under the symbol SAFM.

| JOE F. SANDERSON, JR. |

Sanderson Farms experienced significant growth and success in fiscal 2001. Our solid financial and operating results for the fiscal year reflect a more favorable market environment and overall improvement in poultry prices compared with the prior year. More importantly, through the focused and consistent execution of our operating strategy, we met our primary objective to deliver exceptional value to both our customers and our shareholders.

Fiscal 2001 was highlighted by record net sales of $706.0 million, a 16.5% increase compared with net sales of $605.9 million for the prior year. This growth resulted from a 9.6% increase in poultry pounds sold, as well as a 8.9% gain in the average sales prices of poultry products. In addition to our top-line growth, our operating income for fiscal 2001 was $51.1 million, a significant improvement of $51.7 million over fiscal 2000. For fiscal 2001 we also reported net income of $27.8 million, or $2.04 per diluted share, compared with a net loss of $5.6 million, or ($0.41) per diluted share, for fiscal 2000.

Following a year of historically low market prices, we entered fiscal 2001 on a more promising note as the market environment in which our industry operates began to improve. As the year progressed this trend continued and Sanderson Farms was well positioned to take advantage of more consistent price improvement in the overall poultry market. For fiscal 2001, a simple average of the Georgia Dock prices for whole birds increased 7.3% compared with the previous year; however, this was somewhat offset by a decrease in the average market prices for boneless breast meat in fiscal 2001 compared with the prior year. During fiscal 2001, we also benefited from improved market prices for wings and leg quarters of 66.8% and 27.9%, respectively.

Our growth is testimony to the strength of the Sanderson Farms brand and our excellent reputation in our markets. In fresh chicken we continued to significantly grow our volume in both branded and non-branded chill pack sales. Our Foods Division also improved its bottom line and made a valuable contribution to our success in fiscal 2001. Sanderson Farms now has over 200 processed and prepared food items that are sold nationally and regionally to distributors, national food service accounts, retailers and club stores. To maintain our competitive advantage in the markets we serve, we will continue to build brand awareness and deliver the highest quality products and unmatched service to our customers.

Continued improvement in our operating performance and marketing execution were our primary focus as we entered fiscal 2001, and both were important factors driving our success during the year. Our state-of-the-art processing facilities utilize the most advanced technology and techniques available, allowing the Company to deliver the highest quality products and efficient service to our customers. With the completion of the expansion and double shifting of our Brazos, Texas, processing plant at the end of fiscal 2000, we were able to increase the number of chickens processed in fiscal 2001. In the summer of 2001 our operations reached full capacity: growing, processing and marketing approximately 5,325,000 birds per week, fully realizing maximum utilization of our assets under current configurations. Sanderson Farms processed over 261 million chickens, or 1.2 billion dressed pounds in fiscal 2001, positioning the Company as the seventh largest processor of dressed chickens in the United States. This achievement also reflects the benefits of our strategic market shift to increase the average live weight of chickens and focus our production and processing on more profitable products and market segments. This strategic shift will be completed during the first quarter of fiscal 2002 when we finish the conversion of our Hazlehurst Processing Plant from a small bird plant to a big bird plant. Our goal is to ensure that we have the right marketing strategy and the most efficient operations in place to execute and meet the demands of the marketplace we serve.

Our sales and marketing programs continued to gain momentum during fiscal 2001, and have made significant progress toward meeting our targeted product mix. We will continue our focus on our marketing programs and our operations during fiscal 2002, with special emphasis on our Foods Division. Our poultry operations and marketing efforts made significant strides over the last two years, while our Foods Division has continued to contribute high margins to our bottom line.

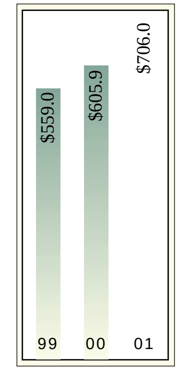
We believe our success over the past year affirms that we have the right marketing plan, the right operating strategy, and the ability to leverage these attributes to take advantage of improved market conditions. We clearly recognize that it also takes many talented and dedicated people working together to accomplish the milestones that Sanderson Farms has achieved this past year. We thank all of our employees and growers for their tireless efforts and many contributions.

While our success and achievements during the past year were significant, I am compelled to say that the importance of these achievements was put into perspective by the tragic occurrence of September 11 that touched all our lives, and will continue to do so well into the future. Like all Americans, we at Sanderson Farms were deeply saddened by the losses of that day, and we cannot even imagine the loss felt by the families who will never again see a parent, husband, wife, brother, sister or child. Nor can we fully appreciate the anxiety of those families who now have loved ones far away from home fighting a war for all of us. We recognize that much of our success as a Company over the years is because we are able to operate in and enjoy the freedom of our great nation. I am proud that your Board of Directors decided to make a significant contribution to the USO in support of the men and women serving in our armed forces and deployed around the world to protect our freedom. You should also be proud of your Board's decision to make a significant contribution to the Red Cross in the aftermath of September 11. Our prayers will remain with both our men and women defending our freedom at home and abroad, and the families, friends and co-workers of those directly affected by the events of this past year.

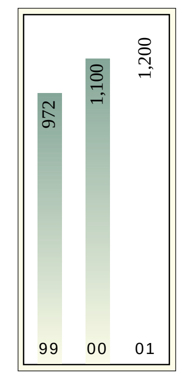
As we look ahead, our past achievements inspire us to continue to stay on course with a firm commitment to be at the top of our industry and deliver even greater value to our customers, employees and shareholders. Thank you for the trust you have placed in us through your investment in Sanderson Farms, and we hope that you will continue to be a part of our future.

Sincerely,

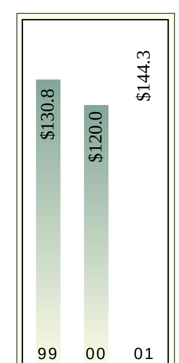
Joe F. Sanderson, Jr.
Chairman, President and Chief Executive Officer



NET SALES
(in millions)



POUNDS PROCESSED
(in millions)



STOCKHOLDERS' EQUITY
(in millions)

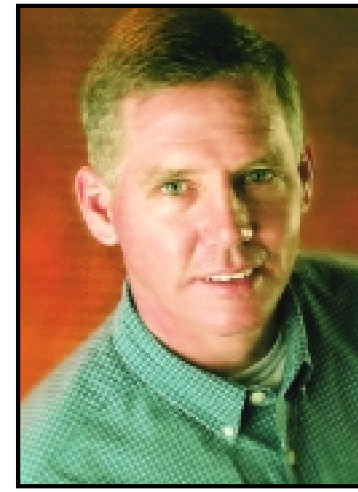
SANDERSON FARMS DELIVERED AN outstanding operating performance in fiscal 2001 while maintaining a strong financial position. Our conservative approach to financial management has always been a hallmark of our success, and we are very proud of our accomplishments over the past year. Just as we expect our operations to perform at the very top of our industry, we are also highly focused on our financial performance and strive to maintain a position that is among the best and strongest in the poultry industry. Furthermore, we believe that having the financial flexibility to pursue our growth strategy represents an important competitive advantage for Sanderson Farms.

At our fiscal year-end, our balance sheet reflects stockholders' equity of $144.3 million, compared to $120.0 million at the end of fiscal 2000, and net working capital of $77.0 million. While we have grown significantly over the last decade and more than tripled our poultry production capacity, we never abandoned our philosophy of conservative financial management during this process. We are particularly pleased that our improved cash flows from operations in fiscal 2001 allowed us to reduce our long-term debt by over $30 million during the year. As a result, long-term debt totaled $77.2 million and our debt to total capitalization ratio was 35.8 percent as of October 31, 2001. Because of our strong cash position at the end of the fiscal year, our net debt to total capitalization ratio stood at a strong 28.0 percent. Our interest expense for the year was $6.8 million, compared with $8.2 million in the prior fiscal year. Substantially all of the Company's debt is unsecured, carries favorable interest rates and provides us with significant flexibility to pursue additional growth opportunities as they present themselves.

Sanderson Farms incurred significantly lower capital expenditures in fiscal 2001 than in prior years. The majority of these expenditures, which totaled $14.6 million for the year, were primarily for general maintenance to the Company's existing processing facilities. This compares with $16.6 million in capital expenditures in fiscal 2000, and $28.6 million in fiscal 1999. While we have no further major expansion plans on the horizon, we will continue to make the necessary investments in our infrastructure to ensure that our operations have the flexibility to meet the demands of the market. We expect that our capital expenditures for fiscal 2002 will be approximately $19.4 million and will be funded by internally generated working capital and cash flows from operations.

During fiscal 2001 we repurchased a total of 68,000 shares of our common stock in open market transactions and negotiated purchases at a cost of $739,000 pursuant to the stock buyback plan approved by our Board of Directors. We continue to believe that the repurchase of the Company's common shares represents a very good use of our corporate funds and reflects our confidence in Sanderson Farms' future. Both the stock buyback program and the significant debt reduction we realized in fiscal 2001 reflect the strength of our business strategy and our commitment to prudent financial management. As a result, we believe we have established a solid foundation for growth in fiscal 2002 and have set a strategic direction that is in the best interest of Sanderson Farms and our shareholders.

| MIKE COCKRELL |



We look forward to the exciting opportunities ahead for Sanderson Farms as we enter fiscal 2002 with a solid financial position and a strong operating position. As always, our goal will be to continue to deliver value for our shareholders and to reward them for their investment and confidence in our Company.

Sincerely,

D. Michael Cockrell
Treasurer and Chief Financial Officer

	Years Ended October 31				
	2001	2000	1999	1998	1997
	(In thousands, except per share data)				
Net sales	$706,002	$605,911	$559,031	$521,394	$481,789
Operating income (loss)	51,094	(588)	23,008	31,822	7,467
Income (loss) before extraordinary gain and cumulative effect of accounting change	27,784	(5,337)	10,546	15,256	558
Net income (loss)	27,784	(5,571)	10,546	15,256	1,234
Basic and diluted earnings (loss) per share before extraordinary gain and cumulative effect of accounting change	2.04	(.39)	.75	1.06	.04
Basic and diluted earnings (loss) per share	2.04	(.41)	.75	1.06	.09
Working capital	76,969	71,334	67,272	59,665	66,751
Total assets	288,971	281,856	283,510	265,671	264,893
Long-term debt, less current maturities	77,212	107,491	104,651	95,695	118,782
Stockholders' equity	144,339	120,015	130,844	129,482	116,771
Cash dividends declared per share	$ .20	$ .20	$ .20	$ .20	$ .20

QUARTERLY FINANCIAL DATA

	Fiscal Year 2001			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data) (Unaudited)			
Net sales	$152,081	$163,583	$ 183,692	$ 206,646
Operating income	2,339	10,068	16,668	22,019
Net income	384	5,018	9,559	12,823
Basic and diluted earnings per share	$ .03	$ .37	$ .70	$ .94

	Fiscal Year 2000			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data) (Unaudited)			
Net sales	$137,008	$139,781	$ 158,422	$ 170,700
Operating income (loss)	(345)	(5,172)	(6,558)	11,487
Net income (loss)	(1,416)	(4,497)	(5,628)	5,970
Basic and diluted earnings (loss) per share	$ (.10)	$ (.33)	$ (.41)	$ .44

Cautionary Statement Regarding Risks and Uncertainties That May Affect Future Performance

This Annual Report contains certain forward-looking statements about the business, financial condition and prospects of the Company. The actual performance of the Company could differ materially from that indicated by the forward-looking statements because of various risks and uncertainties, including, without limitation, changes in the market price for the Company's finished products and for feed grains, both of which may fluctuate substantially and exhibit cyclical characteristics typically associated with commodity markets, as described below; changes in competition and economic conditions; various inventory risks due to changes in market conditions; changes in governmental rules and regulations applicable to the Company and the poultry industry; and other risks described below. These risks and uncertainties cannot be controlled by the Company. When used in this Annual 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.

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 65.4% 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 200 institutional and consumer packaged food items that it sells nationally, primarily to distributors, food service establishments and retailers. 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, 2001 as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 2001				
High	$ .6150*	$ .6200	$ .6250	$ .6650*
Low	$ .6150*	$ .6175	$ .6450	$ .6500
Fiscal 2000				
High	$ .5850	$ .5800	$ .5975	$ .6200*
Low	$ .5800	$ .5725*	$ .5725	$ .6000
Fiscal 1999				
High	$ .6825*	$ .6275	$ .6150	$ .6150
Low	$ .6275	$ .5750*	$ .5825	$ .5850

*Year High/Low

During fiscal 2000 compared to fiscal 1999, the average market prices for whole chickens and boneless breast meat decreased approximately 4.0% and 15.0% respectively. In addition, slightly higher average feed grain costs and bad debt expense of $1.2 million during fiscal 2000 from the bankruptcy filing by AmeriServe Food Distribution, Inc. ("AmeriServe") reduced the Company's operating margin. Fiscal 2001 brought significant increases in the average sales price of whole birds, wings and leg quarters with only modest decreases in market prices for boneless breast meat. In addition, the average cost of feed grains, while higher than the fiscal 2000 average, remained at relatively favorable levels during fiscal 2001. The overall favorable market conditions during fiscal 2001 were enhanced by the ongoing improvements to the Company's operations and marketing changes implemented over the past several years.

Results of Operations

Fiscal 2001 Compared to Fiscal 2000

The Company's net sales during fiscal 2001 were $706.0 million, an increase of $100.1million or 16.5% over fiscal 2000 net sales of $605.9 million. This increase in the Company's net sales resulted from an increase in pounds of poultry products sold of 9.6% and an increase in the average sales price of poultry products of 8.9%. The increase in the pounds of poultry products sold resulted from an increase in the number of chickens processed primarily from the expansion of the Brazos, Texas processing plant during the second half of fiscal 2000 and an increase in the average live weight of chickens processed. During fiscal 2001 the Company benefited from improved market prices for wings and leg quarters of 66.8% and 27.9%, respectively. In addition, a simple average of the Georgia Dock prices for whole birds for fiscal 2001 increased 7.3% as compared to fiscal 2000. These improvements were partially offset by lower average market prices for boneless breast meat. Net sales of prepared food products decreased $1.6 million or 2.0%, which is the net result of a decrease in the pounds of prepared food products sold of 4.5% partially offset by an increase in the average sale price of prepared food products of 2.6%.

During fiscal 2001 as compared to fiscal 2000, cost of sales increased $46.6 or 8.0%. Cost of sales of poultry products increased $47.5 million or 9.2% during fiscal 2001 as compared to fiscal 2000. The increase in the Company's cost of sales resulted from the increase in the pounds of poultry products sold of 9.6%, and to a lesser extent, increases in the average cost of feed grains. Corn and soybean meal cash market prices for fiscal 2001 as compared to fiscal 2000 increased 3.0% and 2.2%, respectively. Cost of sales of prepared food products during the fiscal year ended October 31, 2001 as compared to the fiscal year ended October 31, 2000 decreased approximately $900,000 or 1.4% as the Company eliminated less profitable prepared food sales.

Selling, general and administrative expenses for fiscal 2001 increased $1.9 million, or 7.0%, as compared to fiscal 2000. This increase resulted from contributions during fiscal 2001 to the Company's Employee Stock Ownership Plan and increased contributions to the Company's 401(k) Plan. The Company did not make contributions to the Employee Stock Ownership Plan in fiscal 2000 because of operating losses. Also, the increase reflects a charge during fiscal 2001 for the employee incentive program. These increases were partially offset by a planned reduction in the Company's advertising expenditures during fiscal 2001 as compared to fiscal 2000 and a nonrecurring bad debt expense of $1.2 million during the second quarter of fiscal 2000 resulting from the bankruptcy filing by AmeriServe on February 1, 2000.

The Company's operating income for fiscal 2001 was $51.1 million as compared to an operating loss for fiscal 2000 of $588,000, an improvement of $52.5 million. The improvement in the Company's operating income reflects a continued strong performance by our prepared foods division, a significant increase in market prices for leg quarters and wings, and marketing changes the Company implemented over the past several years as well as ongoing improvements to the Company's operations.

During fiscal 2001 the Company was able to reduce its outstanding debt by approximately $31.2 million. As a result, interest expense for fiscal 2001 was $6.8 million as compared to $8.2 million for fiscal 2000, a decrease of $1.4 million, most of which decrease came in the fourth fiscal quarter. During the fourth quarter of fiscal 2001 as compared to the fourth quarter of fiscal 2000 the Company's interest expense decreased $1.0 million. The Company expects interest expense to be significantly lower during the first quarter of fiscal 2002 as compared to the first quarter of fiscal 2001.

The Company's effective tax rates for fiscal 2001 and fiscal 2000 were 37.9% and 37.2%, respectively.

Fiscal 2000 Compared to Fiscal 1999

The Company's net sales for fiscal 2000 were $605.9 million compared to $559.0 million during fiscal 1999, an increase of $46.9 million. A majority of the increase in net sales was derived from an increase in pounds of poultry products sold of 10.0%. The additional pounds of poultry products sold resulted primarily from an increase in the average live weight of chickens processed. However, the effect of the increase in pounds of poultry products sold on net sales was partially offset by a decrease in the average sales price per pound of poultry products of 2.3%. During fiscal 2000 as compared to fiscal 1999, a simple average of the Georgia dock whole bird prices reflected a decrease of 4.0%. In addition to the price decrease for whole birds, average boneless breast meat prices were approximately 15.0% lower during fiscal 2000 as compared to fiscal 1999. Net sales of prepared food products during fiscal 2000 increased $10.0 million or 14.7% as compared to net sales during fiscal 1999. This increase resulted from an increase in the pounds of prepared food products sold of 8.8% and an increase in the average sales price of prepared food products of 5.4%.

Cost of sales for fiscal 2000 as compared to fiscal 1999 increased $66.0 million or 12.8%. Cost of sales of poultry products increased $58.3 million or 12.8%. This increase in the cost of sales of poultry products was the result of an increase in the pounds of poultry products sold of 10.0%, an increase in the processing cost of poultry products related to the Company's increased presence in the chill pack market and higher cost of soybean meal. Corn and soybean meal cash market prices reflected a decrease of 3.1% and an increase of 17.9%, respectively. Cost of sales of prepared food products during fiscal 2000 as compared to fiscal 1999 increased $7.7 million or 13.2% due primarily to the increase in the pounds of prepared food products sold.

Selling, general and administrative expenses for the year ended October 31, 2000 increased $4.5 million as compared to the year ended October 31, 1999. This increase reflects the additional advertising and marketing costs related to the Company's change of certain of its production from the fast food market to the chill pack market. In addition, the Company recorded additional bad debt expense of $1.2 million during the second quarter of fiscal 2000 resulting from the bankruptcy filing by AmeriServe on February 1, 2000.

The Company's operating loss for fiscal 2000 was $588,000 as compared to operating income during fiscal 1999 of $23.0 million. The Company's operating margin during fiscal 2000 as compared to fiscal 1999 was adversely affected by lower prices for poultry products and the additional bad debt expense from the bankruptcy filing by AmeriServe. The Company expects the current weakness in the poultry market to continue through the first quarter of fiscal 2001.

Interest expense for the year ended October 31, 2000 was $8.2 million as compared to the year ended October 31, 1999 of $6.4 million, an increase of $1.8 million.

The Company adopted the AICPA Statement of Position 98-5, "Reporting the Costs of Start-up Activities" in the first quarter of fiscal 2000. The effect of adopting SOP 98-5 was to record a charge for the cumulative effect of an accounting change of $234,000 (net of income taxes of $140,000).

The effective tax rate for the years ended October 31, 2000 and October 31, 1999 were 37.2% and 37.8%, respectively.

Liquidity and Capital Resources

The Company's working capital at October 31, 2001 was $77.0 million and its current ratio was 2.6 to 1. This compares to working capital of $71.3 million and a current ratio of 2.9 to 1 as of October 31, 2000. During fiscal 2001 the Company spent approximately $14.6 million on planned capital projects and $739,000 to repurchase 68,000 shares of its common stock under its existing stock repurchase plan.

The Company's capital budget for fiscal 2002 is approximately $19.4 million. The fiscal 2002 capital budget includes cost of renovations, changes and additions to existing processing facilities to allow better product flows and product mix for more product flexibility. The Company expects that working capital and cash flows from operations will be sufficient in fiscal 2002 to fund the anticipated capital expenditures. However, if needed the Company has available $46.0 million under its revolving credit agreement as of October 31, 2001.

Quantitative and Qualitative Disclosure About Market Risk

Market Risk

The Company's interest expense is sensitive to changes in the general level of U.S. interest rates. The Company maintains certain of its debt as fixed rate in nature to mitigate the impact of fluctuations in interest rates. The fair value of the Company's fixed rate debt approximates the carrying amount at October 31, 2001. Management believes the potential effects of near-term changes in interest rates on the Company's fixed rate debt is not material.

The Company is a party to no other market risk sensitive instruments requiring disclosure.

	October 31 2001	October 31 2000
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 24,175	$ 8,643
Accounts receivable, less allowance of $303,000 in 2001 and $460,000 in 2000	40,187	37,038
Inventories	52,350	50,262
Refundable income taxes	0	3,783
Prepaid expenses	9,452	8,308
Total current assets	126,164	108,034
Property, plant and equipment:		
Land and buildings	130,366	128,738
Machinery and equipment	248,621	240,106
	378,987	368,844
Accumulated depreciation	(216,801)	(195,689)
	162,186	173,155
Other assets	621	667
Total assets	$ 288,971	$ 281,856
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 20,309	$ 17,507
Accrued expenses	25,708	15,135
Current maturities of long-term debt	3,178	4,058
Total current liabilities	49,195	36,700
Long-term debt, less current maturities	77,212	107,491
Claims payable	2,400	1,800
Deferred income taxes	15,825	15,850
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-13,564,955 in 2001 and 13,632,955 in 2000	13,565	13,633
Paid-in capital	2,945	3,616
Retained earnings	127,829	102,766
Total stockholders' equity	144,339	120,015
Total liabilities and stockholders' equity	$ 288,971	$ 281,856

See accompanying notes.

	Years Ended October 31		
	2001	2000	1999
	(In thousands, except per share data)		
Net sales	$706,002	$ 605,911	$ 559,031
Cost and expenses:			
Cost of sales	626,693	580,136	514,162
Selling, general and administrative	28,215	26,363	21,861
	654,908	606,499	536,023
Operating income (loss)	51,094	(588)	23,008
Other income (expense):			
Interest income	377	213	266
Interest expense	(6,753)	(8,195)	(6,384)
Other	54	69	56
	(6,322)	(7,913)	(6,062)
Income (loss) before income taxes and cumulative effect of accounting change	44,772	(8,501)	16,946
Income tax expense (benefit)	16,988	(3,164)	6,400
Income (loss) before cumulative effect of accounting change	27,784	(5,337)	10,546
Cumulative effect of accounting change (net of income taxes of $140,000)	0	(234)	0
Net income (loss)	$ 27,784	$ (5,571)	$ 10,546
Basic and diluted net income (loss) per share:			
Income (loss) before cumulative effect of accounting change	$ 2.04	$ (.39)	$ .75
Cumulative effect of accounting change	0	(.02)	0
Net income (loss) per share	$ 2.04	$ (.41)	$ .75
Weighted average shares outstanding:			
Basic	13,596	13,726	14,068
Diluted	13,640	13,726	14,121

See accompanying notes.

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	(In thousands, except shares and per shares amount)				
Balance at November 01, 1998	14,373,580	$ 14,374	$ 11,770	$ 103,338	$ 129,482
Net income for year				10,546	10,546
Cash dividends ($.20 per share)				(2,807)	(2,807)
Issuance of common stock	36,875	36	378		414
Purchase and retirement of common stock	(478,000)	(478)	(6,438)		(6,916)
Principal payments received on note receivable from ESOP			125		125
Balance at October 31, 1999	13,932,455	13,932	5,835	111,077	130,844
Net loss for year				(5,571)	(5,571)
Cash dividends ($.20 per share)				(2,740)	(2,740)
Purchase and retirement of common stock	(299,500)	(299)	(2,219)		(2,518)
Balance at October 31, 2000	13,632,955	13,633	3,616	102,766	120,015
Net income for year				27,784	27,784
Cash dividends ($.20 per share)				(2,721)	(2,721)
Purchase and retirement of common stock	(68,000)	(68)	(671)		(739)
Balance at October 31, 2001	13,564,955	$ 13,565	$ 2,945	$ 127,829	$ 144,339

See accompanying notes.

	Years Ended October 31		
	2001	2000	1999
		(In thousands)	
Operating activities			
Net income (loss)	$ 27,784	$ (5,571)	$10,546
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Cumulative effect of accounting change	0	374	0
Depreciation and amortization	25,722	26,432	24,736
Provision for losses on accounts receivable	44	1,413	124
Deferred income taxes	(178)	340	600
Change in assets and liabilities:			
Increase in accounts receivable	(3,193)	(1,874)	(5,678)
Increase in inventories	(2,088)	(2,628)	(4,755)
(Increase) decrease in prepaid expenses	2,791	(3,647)	263
(Increase) decrease in other assets	(205)	30	(422)
Increase in accounts payable	2,802	5,002	6,612
Increase (decrease) in accrued expenses and claims payable	11,173	463	(234)
Total adjustments	36,868	25,905	21,246
Net cash provided by operating activities	64,652	20,334	31,792
Investing activities			
Capital expenditures	(14,587)	(16,557)	(28,627)
Net proceeds from sale of property and equipment	86	217	474
Net cash used in investing activities	(14,501)	(16,340)	(28,153)
Financing activities			
Long-term borrowings	0	0	20,000
Net change in revolving credit	(28,000)	6,000	(7,000)
Principal payments on long-term debt	(2,954)	(2,950)	(3,844)
Principal payments on capital lease obligation	(205)	(195)	(185)
Principal payments received on note receivable from ESOP	0	0	125
Dividends paid	(2,721)	(2,740)	(2,807)
Purchase and retirement of common stock	(739)	(2,518)	(6,916)
Net proceeds from common stock issued	0	0	414
Net cash used in financing activities	(34,619)	(2,403)	(213)
Net increase in cash and cash equivalents	15,532	1,591	3,426
Cash and cash equivalents at beginning of year	8,643	7,052	3,626
Cash and cash equivalents at end of year	$ 24,175	$ 8,643	$ 7,052
Supplemental disclosure of cash flow information:			
Income taxes paid (refunded), net	$ 12,372	$ (67)	$ 10,459
Interest paid	$ 6,920	$ 8,728	$ 5,844

See accompanying notes.

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 fast food operators primarily in the southern and western United States. Revenue is recognized when product is shipped 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. 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.

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.

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 19 to 39 years for buildings and 3 to 7 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.

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. Effective November 1, 1988, the Company changed from the cash to the accrual basis of accounting for its farming subsidiary. The Taxpayer Relief Act of 1997 (the "Act") provides that the taxes on the cash basis temporary differences as of that date are payable over 20 years beginning in fiscal 1998 or in full in the first fiscal year in which the Company fails to qualify as a "Family Farming Corporation." The Company will continue to qualify as a "Family Farming Corporation" provided there are no changes in ownership control, which management does not anticipate during fiscal 2002.

Stock Based Compensation: The Company accounts for stock option grants in accordance with APB Opinion No. 25, “Accounting for Stock Issued to Employees.”

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, and convertible securities.

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: Effective in fiscal 2001, the Company adopted FASB No. 133, “Accounting for Derivative Instruments and Hedging Activities”, which required all derivatives to be recorded on the balance sheet at fair value. The adoption of this statement had no effect on the consolidated earnings and financial position of the Company.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5, “Reporting the Costs of Start-Up Activities,” which requires that costs related to start-up activities be expensed as incurred. Prior to October 31, 1999, the Company capitalized its start-up costs. The Company adopted the provisions of the Statement of Position 98-5, “Reporting the Costs of Start-Up Activities,” which required that costs related to start-up activities be expensed as incurred in its consolidated financial statements in the first quarter of fiscal 2000. The effect of adoption of SOP 98-5 during fiscal 2000 was to record a charge for the cumulative effect of an accounting change of $234,000 (net of income taxes of $140,000) or $.02 per basic and diluted earnings per share.

2. Inventories

Inventories consisted of the following:

	October 31	
	2001	2000
	(In thousands)	
Live poultry – broilers and breeders	$ 30,649	$ 30,004
Feed, eggs and other	6,597	6,651
Processed poultry	5,894	5,924
Processed food	4,918	3,785
Packaging materials	4,292	3,898
	$ 52,350	$ 50,262

3. Long-term Credit Facilities and Debt

Long-term debt consisted of the following:

	October 31 2001	October 31 2000
	(In thousands)	
Revolving credit agreement with banks (weighted average rate of 5.1% at October 31, 2001)	$ 44,000	$ 72,000
Term loan with an insurance company, accruing interest at 7.49%; due in annual principal installments of $2,850,000	5,750	8,600
Term loan with an insurance company, accruing interest at 6.65%; due in annual principal installments of $2,857,000, beginning in July 2004	20,000	20,000
Note payable, accruing interest at 5%; due in annual installments of $161,400, including interest, maturing in 2009	1,065	1,169
6% Mississippi Business Investment Act bond – capital lease obligation, due November 1, 2012	3,275	3,480
Robertson County, Texas, Industrial Revenue Bonds accruing interest at a variable rate, 2.4% at October 31, 2001; with optional annual principal installments of $900,000, due November 1, 2005	6,300	6,300
	80,390	111,549
Less current maturities of long-term debt	3,178	4,058
	$ 77,212	$ 107,491

The Company has a $90.0 million ($46.0 million available at October 31, 2001) revolving credit agreement with five banks, which extends to fiscal 2004. 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 agreements also establish limits on dividends, assets that can be pledged and capital expenditures.

Property, plant and equipment with a carrying value of approximately $4.7 million is pledged as collateral to a note payable and the capital lease obligation.

The aggregate annual maturities of long-term debt at October 31, 2001 are as follows (in thousands):

Fiscal Year	Amount
2002	$ 3,178
2003	4,144
2004	50,264
2005	6,285
2006	6,306
Thereafter	10,213
	$80,390

4. Income Taxes

Income tax expense (benefit) consisted of the following:

	Years Ended October 31 2001	2000	1999
	(In thousands)		
Current:			
Federal	$ 15,518	$ (3,600)	$ 5,200
State	1,450	(44)	600
	16,968	(3,644)	5,800
Deferred:			
Federal	(264)	325	486
State	284	15	114
	20	340	600
	16,988	(3,304)	6,400
Less income tax expense applicable to cumulative effect of accounting change	0	140	0
Income tax expense (benefit) applicable to income (loss) before cumulative effect of accounting change	$ 16,988	$ (3,164)	$ 6,400

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

	October 31 2001	2000
	(In thousands)	
Deferred tax liabilities:		
Cash basis temporary differences	$ 3,193	$ 3,309
Property, plant and equipment	13,937	13,694
Prepaid and other assets	278	143
Total deferred tax liabilities	17,408	17,146
Deferred tax assets:		
Accrued expenses and accounts receivable	3,156	2,921
State net operating loss and credit carryforwards	282	275
Total deferred tax assets	3,438	3,196
Net deferred tax liabilities	$ 13,970	$ 13,950
Current deferred tax assets (included in prepaid expenses)	$ 1,855	$ 1,900
Long-term deferred tax liabilities	15,825	15,850
Net deferred tax liabilities	$ 13,970	$ 13,950

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

	Years Ended October 31		
	2001	2000	1999
		(In thousands)	
Income taxes (benefit) at statutory rate	$ 15,670	$ (3,018)	$ 5,762
State income taxes (benefit)	1,754	(19)	731
State income tax credit	(627)	0	(260)
Increase in deferred taxes for change in income tax rate	367	0	0
Other, net	(176)	(267)	167
Income tax expense (benefit)	$ 16,988	$ (3,304)	$ 6,400

5. 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 $2,300,000 and $840,000 in fiscal 2001 and 1999, respectively. The Company did not make a contribution to the ESOP in fiscal 2000.

The Company has a 401(k) Plan which covers substantially all employees after six months of service. Participants in the Plan may contribute up to the maximum allowed by IRS regulations. Effective July 1, 2000, 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 $1,411,000 in fiscal 2001 and $457,000 in fiscal 2000.

6. Stock Option Plan

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, 750,000 shares of Common Stock have been reserved for grant to key management personnel. Options granted in fiscal 2001 and fiscal 2000 have ten-year terms and vest over four years beginning one year after the date of grant. No options were granted in fiscal 1999.

Pro forma information regarding net income (loss) and earnings (loss) 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 with the following weighted average assumptions: risk-free interest rate of 5.0% in fiscal 2001 and 6.6% in fiscal 2000; dividend yields of 2.0% for fiscal 2001 and 2.7% for fiscal 2000; volatility factors of the expected market price of the Company's Common Stock of .350 for fiscal 2001 and .302 for fiscal 2000; and a weighted-average expected life of the options of four years.

The weighted-average fair value of options granted was $3.24 in fiscal 2001 and $1.94 in fiscal 2000. The pro forma effect of the estimated fair value of the options granted was insignificant to the Company's net income (loss) and net income (loss) per share in fiscal 2001, 2000, and 1999.

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

	Shares	Weighted-Average Exercise Price
Outstanding at November 1, 1998	696,000	$ 12.64
Exercised	(69,375)	10.82
Forfeited	(44,625)	12.92
Outstanding at October 31, 1999	582,000	12.90
Granted	141,000	7.47
Forfeited	(84,000)	11.60
Outstanding at October 31, 2000	639,000	11.83
Granted	71,500	11.10
Forfeited	(87,500)	11.11
Outstanding at October 31, 2001	623,000	11.81

The exercise price of the options outstanding as of October 31, 2001 ranged from $7.19 to $15.00 per share. At October 31, 2001, the weighted average remaining contractual life of the options outstanding was 7 years and 409,750 options were exercisable.

In fiscal 2000, the Company granted 141,000 "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 over the phantom share award value of $7.47 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 $555,000 is included in selling, general and administrative expense in the accompanying consolidated statement of income for fiscal 2001. No compensation expense was recognized applicable to the phantom shares in fiscal 2000 because the award value exceeded the fair market value of the Company's Common Stock.

7. Shareholder Rights Agreement

On April 22, 1999, the Company adopted a shareholder rights agreement (the "Agreement") with similar terms as the previous one. Under the terms of the Agreement a one share purchase ("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. The rights may be redeemed by the Board of Directors at $.01 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, or by two-thirds of the Directors who are not the acquirer, or an affiliate of the acquirer prior to the acquisition of 50% or more of the Company's Common Stock by such acquirer. The rights expire on May 4, 2009.

8. Other Matters

The Company self-insures for losses related to workers' compensation claims with excess coverage by underwriters on a per claim and aggregate basis. Claims payable are based upon estimates of the ultimate cost of reported claims by the Company's claims administrator and totaled $6,154,000 at October 31, 2001 and $5,193,000 at October 31, 2000, respectively. Claims payable of $3,754,000 at October 31, 2001 and $3,393,000 at October 31, 2000, respectively, are included in accrued expenses in the accompanying consolidated balance sheets because the amounts are expected to be paid within one year from the respective balance sheet dates. The ultimate cost for outstanding claims may vary significantly from current estimates.

No customer accounted for more than 10% of consolidated sales for the years ended October 31, 2001, 2000 and 1999. Export sales were less than 10% of consolidated sales in each year presented.

On April 5, 2000, thirteen individuals claiming to be former hourly employees of the Company filed a lawsuit in the United States District Court for the Southern District of Texas claiming that the Company violated requirements of the Fair Labor Standards Act. The Plaintiffs' lawsuit also purported to represent similarly situated workers who have filed or will file consents to join the suit. At filing, 109 individuals had consented to join the lawsuit.

The lawsuit alleges that the Company (1) failed to pay its hourly employees "for time spent donning and doffing sanitary and safety equipment, obtaining and sharpening knives and scissors, working in the plant and elsewhere before and after the scheduled end of the shift, cleaning safety equipment and sanitary equipment, and walktime," and (2) altered employee time records by using an automated time keeping system. Plaintiffs further claim that the Company concealed the alteration of time records and seek on that account an equitable tolling of the statute of limitations beyond the three-year limitation period back to the date the automated time-keeping system was allegedly implemented.

Plaintiffs seek an unspecified amount of unpaid hourly and overtime wages plus an equal amount as liquidated damages, for present and former hourly employees who file consents to join the lawsuit. There were 6,954 hourly workers employed at the Company's processing plants as of October 31, 2001.

On April 24, 2001, the Court entered a final judgement in favor of the Company on the Company's summary judgement motion. Plaintiffs appealed that decision to the United States Fifth Circuit Court of Appeals where it is currently pending.

On May 15, 2000, an employee of the Company filed suit against the Company in the United States District Court for the Southern District of Texas on behalf of live-haul drivers to recover an unspecified amount of overtime compensation and liquidated damages. Approximately 18 employees have filed consents to this lawsuit as of October 31, 2001.

Previously, the United States Department of Labor ("DOL") filed suit against the Company in the United States District Court for the Southern District of Mississippi, Hattiesburg Division. The lawsuit was brought under the Fair Labor Standards Act and seeks recovery of overtime compensation, together with an equal amount as liquidated damages, for thirty-two live-haul employees (i.e., live-haul drivers, chicken catchers, and loader-operators) employed by the Company. The lawsuit asserted that additional overtime compensation and liquidated damages may be owed to certain employees. The lawsuit also seeks an injunction to prevent the withholding of overtime compensation to live-haul employees in the future.

The Company is vigorously defending both suits, and has denied any and all liability. Numerous affirmative defenses have been asserted against the plaintiff(s) in these matters, including the Company's reliance upon, and compliance with, the DOL's longstanding policy and practice of treating live-haul workers as exempt under the Fair Labor Standards Act. Both cases are in the early stages of discovery.

Substantially similar lawsuits have been filed against other integrated poultry companies. In addition, organizing activity conducted by the representatives or affiliates of the United Food and Commercial Workers Union against the poultry industry has encouraged worker participation in this and the other lawsuits. The Company believes it has substantial defenses and is vigorously defending these lawsuits.

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 which 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 this action, and removed the case to the United States District Court for the Southern District of Mississippi. The plaintiffs filed a motion to remand, which was granted by the Court on August 2, 2001. The Company has invoked the arbitration provision present in the contracts signed by each of the plaintiffs. The Company's motion to compel arbitration is currently pending before the Court. The Company has also challenged subject matter jurisdiction of the Chancery Court. This case has a current trial setting of January 8, 2002.

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

The 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, 2001 and 2000 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 accessing 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, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Jackson, Mississippi
December 12, 2001

BOARD of DIRECTORS

Joe F. Sanderson, Jr.
Chairman of the Board, President and Chief Executive Officer, Sanderson Farms, Inc.

John H. Baker, III
Proprietor of John H. Baker Interests

Lampkin Butts
Vice President–Sales, Sanderson Farms, Inc.

Mike Cockrell
Treasurer and Chief Financial Officer, Sanderson Farms, Inc.

Phil K. Livingston
Retired Chairman and Chief Executive Officer, Deposit Guaranty National Bank of Louisiana, Hammond, Louisiana

Charles W. Ritter, Jr.
President, Attala Company

Hugh V. Sanderson
Manager of Customer Relations, Sanderson Farms, Inc.

Robert Buck Sanderson
Corporate Live Production Assistant, Sanderson Farms, Inc.

William R. Sanderson
Director of Marketing, Sanderson Farms, Inc.

Rowan H. Taylor
Retired Chairman, Mississippi Valley Title Insurance Company; Counsel for First American Title Insurance Company of Santa Ana, California

Donald W. Zacharias
President Emeritus, Mississippi State University

EXECUTIVE OFFICERS

Joe F. Sanderson, Jr.
Chairman, President and Chief Executive Officer

Lampkin Butts
Vice President–Sales

Mike Cockrell
Treasurer and Chief Financial Officer

James A. Grimes
Secretary and Chief Accounting Officer

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Independent Auditors
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188 East Capitol Street
Jackson, Mississippi 39201

Form 10-K
The Form 10-K, including the financial statements and schedules thereto, for the year ended October 31, 2001, as well as other information about Sanderson Farms, may be obtained without charge by writing to Mr. Mike Cockrell, Treasurer and Chief Financial Officer, at the Company's corporate offices, or by visiting the Company's web site at www.sandersonfarms.com.

MARKET AND DIVIDEND INFORMATION

The Company's common stock is traded on the NASDAQ National Market System under the symbol SAFM. As of January 8, 2002, Sanderson Farms had approximately 3,834 beneficial holders of its common stock. Of that total, 2,113 were stockholders of record.

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

	Stock Price		
	High	Low	Dividends
Fiscal Year 2001			
First Quarter	$10.44	$ 6.75	$ .05
Second Quarter	$11.50	$ 7.62	$ .05
Third Quarter	$13.89	$10.62	$ .05
Fourth Quarter	$14.26	$11.25	$ .05

	Stock Price		
	High	Low	Dividends
Fiscal Year 2000			
First Quarter	$11.25	$ 7.44	$ .05
Second Quarter	$ 8.94	$ 6.56	$ .05
Third Quarter	$ 9.06	$ 6.00	$ .05
Fourth Quarter	$ 8.12	$ 5.94	$ .05

On December 31, 2001, the closing sales price for the Company's common stock was $21.35 per share.