100% chicken. Naturally.™

Sanderson Farms®

2003 ANNUAL REPORT

Company Profile

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 casual dining operators in the southeastern, southwestern and western United States. Through its foods division, the Company also sells, under the Sanderson Farms® name, 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.

Financial Highlights

	October 31 2003	October 31 2002
(In thousands, except per share data)		
THE FISCAL YEAR		
Net sales	**$ 872,235**	$ 743,665
Net income	**$ 54,061**	$ 28,840
Basic earnings per share	**$ 4.17**	$ 2.18
Diluted earnings per share	**$ 4.12**	$ 2.15
Dividends per share	**$ .92**	$ .40
Weighted average shares outstanding		
Basic	**12,975**	13,200
Diluted	**13,126**	13,429
AT FISCAL YEAR-END		
Working capital	**$ 82,236**	$ 68,452
Total assets	**$ 298,905**	$ 280,510
Long-term debt, less current maturities	**$ 21,604**	$ 49,969
Stockholders' equity	**$ 197,099**	$ 155,891

Letter to Shareholders

Fiscal 2003 was an outstanding year for Sanderson Farms. The Company achieved success during fiscal 2003 in all major aspects of our operations. Our ability to focus and execute on the key areas for success in our business – delivering value to customers with a favorable product mix, efficiently managing our operations and maintaining a strong financial position – allowed us to achieve these record results. More importantly, we delivered another year of improved earnings to our shareholders.

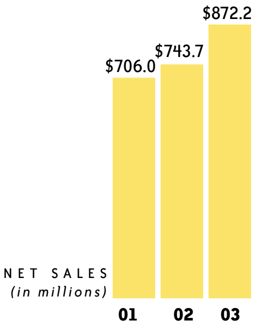
We are pleased to report record sales of $872.2 million for fiscal 2003, a 17.3% increase compared with net sales of $743.7 million for fiscal 2002. For the year, we reported net income of $54.1 million, or $4.12 per diluted share, compared with net income of $28.8 million, or $2.15 per diluted share, for fiscal 2002. During the first and second quarters of fiscal 2003, the Company recognized a total of $7.6 million, net of income taxes, or $0.58 per diluted share, for Sanderson Farms' share in the settlement of class action lawsuits against vitamin suppliers and a methionine supplier for overcharges. The Company recognized a total of $3.1 million, net of income taxes, or $0.23 per diluted share, related to the same issue in fiscal 2002.

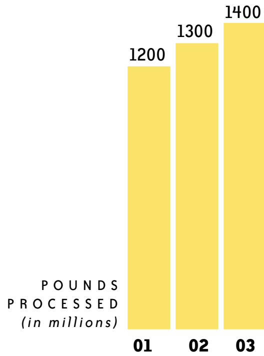
Our favorable financial and operating results also reflect the overall improvement in the chicken market compared with the conditions we experienced in fiscal 2002. Our average sales prices for poultry products during fiscal 2003 were 6.0% higher than the prior year. These improved prices more than offset the higher costs we incurred during the year for corn and soybean meal, our primary feed ingredients. Income from operations for the year was a record $90.5 million, reflecting the inherent strength of our operations, greater volumes and our advantageous product mix.

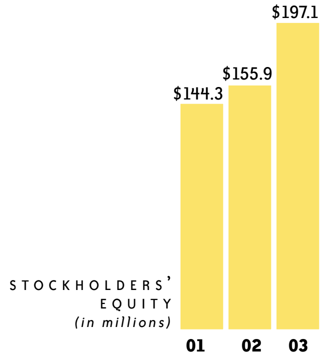
Fiscal 2003 was in many ways a validation of our marketing strategy and our growth plan over the last decade that has tripled the size of the Company. While our goal has never been to be the biggest producer, our financial and operating performance has continued to position Sanderson Farms at the top of our industry. Consistent execution of our growth strategy and our ability to adapt to changing market conditions have allowed us to reach this goal.

One of our inherent strengths has always been our ability to deliver a favorable product mix that meets the ever-changing demands of consumers. Even as we continue to grow, we always strive to balance our product mix and improve our ability to serve our target markets. Our goal is to continually develop new products to meet today's lifestyles with an emphasis on quality, convenience and innovation. Today, the Sanderson Farms brand represents the finest, 100% natural fresh chicken available and over 100 processed and prepared food items. Our results and continued growth are rooted in our relationships with our customers, which include a wide array of retail grocery stores, food service accounts, club stores and national distributors. Our sales programs continued to gain momentum in fiscal 2003, particularly in the second half of the year, and we intend to work hard to carry that momentum into 2004. We believe our fresh chicken and innovative product offerings, coupled with our ability to operationally execute at the highest level, will ultimately drive our long-term success.

Even as we continue to expand the reach of the Sanderson Farms® brand, we remain focused on two important keys to our success – the highest quality chicken on the market, and our relationships with our customers. At Sanderson Farms, every single customer presents us with an opportunity to deliver value. As we continue to pursue our goals, we strive to ensure that we meet and exceed our customers' expectations.







Our favorable reputation in the marketplace reflects the commitment to quality and dedication to customer service that are synonymous with the Sanderson Farms® brand.

Our operations continued to run at near full capacity throughout fiscal 2003, allowing us to process over 271 million chickens, or 1.4 billion dressed pounds, setting another record for the Company. With our continued growth in production, Sanderson Farms now ranks as the sixth largest processor of dressed chickens in the United States. Our operating achievements reflect the benefits of our strategic market shift over the past three years to increase the average live weight of chickens and focus our production and processing on higher-margin products. As a result of the volume increases realized from the plant conversions and additional efficiency improvements, we reduced our overall plant costs and improved our live grow-out operations. We further leveraged the success of our operating strategy with the conversion of our Hammond, Louisiana, processing facility to a larger live weight plant during the first fiscal quarter of 2003. During fiscal 2004, we will complete the conversion of our Hammond facility to a big bird plant, processing a bird similar in size to those processed by our Laurel and Hazlehurst, Mississippi, plants. We expect that the additional pounds provided in that conversion, together with the additional pounds generated as a result of the annualization of the additional head processed at our Collins, Mississippi, facility beginning in May 2003, will allow us to increase our production by just over 4.0% during fiscal 2004.

Looking ahead, we remain confident that we will continue to improve both our operating performance and sales execution. Just as we did at the beginning of fiscal 2003, we have identified sales and operating opportunities in all areas of our business that, if realized, would allow us to partially offset the increased operating costs we expect to incur as a result of higher grain prices. Based on egg sets and breeder placements, the USDA is projecting only a modest increase in chicken production during 2004. Additionally, both the supply and prices of competing meats are expected to have a favorable effect on the chicken market over the next year.

As noted at the beginning of this letter, fiscal 2003 was a record year for Sanderson Farms. We are proud of our accomplishments and the Company's demonstrated ability to turn its recent growth into value for our customers and our shareholders. More importantly, we are grateful to the many extraordinary people who are part of the Sanderson Farms family. Our employees, customers and growers all play an important role each and every day in the Company's success. We enter fiscal 2004 with great enthusiasm, yet we do not intend to rest on our past achievements. We remain committed to reaffirming your trust and confidence in Sanderson Farms. On behalf of everyone at Sanderson Farms, thank you for the support your investment provides.

Sincerely,

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

100%

Today Sanderson Farms ranks among the top six poultry producers in the United States. As a leader in our industry, we take pride in offering the highest quality chicken products available today. In every market we serve throughout the United States, our chicken receives the same care and attention. Sanderson Farms® brand chicken is always 100% natural, without any added salt, phosphates or broths. We offer additional value by packaging and labeling our products to meet our customers' specific merchandising needs. In addition, we sell over 100 prepared food items that reflect the same quality with added innovation and convenience suited for today's lifestyles. In packaging our chicken and frozen foods, we make sure each piece is of the absolute finest, most wholesome quality available. No matter where they buy our products, when consumers see the Sanderson Farms® label, they know they are getting delicious, natural, 100% chicken.

Sanderson Farms® brand chicken is
always 100% natural, without
any added salt, phosphates or broths.

natural

Sanderson Farms®
100% CHICKEN. NATURALLY.®
Boneless, Skinless
BREAST
FILLETS
with Rib Meat

100%

Sanderson Farms has always delivered value to its customers with fresh, high-quality products. We are very proud to be recognized in the market as a leading provider of a wide range of chicken products and processed and prepared food items. Sanderson Farms ships over one billion pounds of products annually from coast to coast in the United States and abroad. Consumers can find our products where they eat and shop for food, from casual dining restaurants, retailers, and club stores to their favorite local grocery store. No matter where our products are sold, the Sanderson Farms® brand always means 100% delicious. We have built our reputation in the marketplace with an unrelenting focus on superior product quality, exceptional customer service and a strong brand identity. Our customers always know they can count on Sanderson Farms to deliver value.

delicious

No matter where our products
are sold, the Sanderson Farms®
brand always means 100% delicious.

100%

Sanderson Farms enjoys a long-standing tradition of providing fresh, quality products and unmatched service. We also recognize that much of our success is based on our ability to anticipate and meet the changing demands of the marketplace. Customer satisfaction has always been a top priority, and we believe that our most valuable assets are the strong relationships we enjoy with our many customers of long standing. We strive constantly to revise and offer a product line that reflects the changing taste preferences of consumers, and provides the assurance of always serving their families fresh, high-quality chicken. Our customers know the Sanderson Farms® brand stands for quality, trust and convenience. Whether it is fresh chicken for a summer cookout or a holiday dinner, or prepared food items for busy working families, Sanderson Farms has the products people want.

Our customers know the
Sanderson Farms® name stands
for quality, trust and convenience.

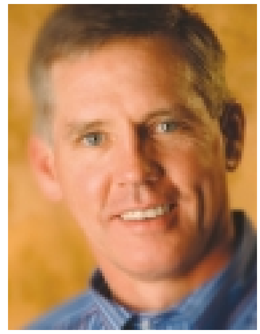
satisfaction

Message from the Chief Financial Officer

Sanderson Farms' record financial performance in fiscal 2003 reflects not only solid execution of our business strategy, but also our disciplined approach to financial management. The Company again delivered impressive year-over-year improvement in revenues and earnings, and has continued to maintain a financial position that is among the strongest in the poultry industry. A key asset that distinguishes Sanderson Farms in the marketplace has been our ability to capitalize on the strength of our balance sheet. While we have focused on effectively managing our operations and enhancing our competitive ability, we also have worked hard to strengthen our balance sheet so that we are well positioned to withstand the cycles that are characteristic of our business. We are pleased to report that the Company's financial position and liquidity improved substantially over the fiscal year, demonstrating our ability to meet our key financial objectives. More importantly, we have the financial flexibility to continue to pursue our growth strategy, as well as the ability to capitalize on new market opportunities as they present themselves.

At fiscal year-end, Sanderson Farms' balance sheet reflects stockholders' equity of $197.1 million, compared with $155.9 million at the end of fiscal 2002, and net working capital of $82.2 million. The current ratio was a healthy 2.3 to 1. Our ability to more efficiently manage our operations, increase productivity and fully leverage our assets led to another year of improved cash flow from operations. More importantly, with the build-up in our cash position, we reduced our long-term debt by more than $28.0 million over the last year. As of October 31, 2003, our total debt was $26.0 million and our debt to total capitalization ratio was 11.6 percent, compared with 25.4 percent a year ago. Our net debt totaled $4.0 million, resulting in a net debt to total capitalization ratio of only 2.0 percent. Our interest expense for the year was a modest $2.5 million, a 32.5 percent decrease compared with $3.7 million in the prior fiscal year.

In light of our strong cash flow during fiscal 2003, the Company's Board of Directors declared a special dividend of $0.50 per share that was paid in October 2003. In addition, the Board increased our regular quarterly dividend to $0.12 per quarter from $0.10 per quarter. We are very pleased that our significant progress over the past year has enabled the Board to take these actions and provided this opportunity to reward our shareholders.



During fiscal 2003, we spent approximately $23.4 million on planned capital projects. Of that total, $5.0 million was related to the conversion of the Hammond, Louisiana, facility to a larger bird plant during the first fiscal quarter of 2003. We expect that our capital expenditures for fiscal 2004 will be approximately $27.3 million, and will be funded by internally generated working capital and cash flow from operations. This $27.3 million includes approximately $8.4 million in operating leases, and just over $4.0 million to begin construction of a new general corporate office building. Without operating leases and the new office building, our capital expenditures would be a maintenance level budget of approximately $15.0 million.

As we enter fiscal 2004, we intend to continue to pursue a strategic direction that will meet our primary objective as a public company – to deliver greater value to our shareholders. An integral part of this strategy is maintaining a strong financial position and providing a secure foundation for the future. As always, we appreciate your support and the confidence in Sanderson Farms that your investment represents.

Sincerely,

Mike Cockrell

D. Michael Cockrell
Treasurer and Chief Financial Officer

Selected Financial Data

	YEAR ENDED OCTOBER 31				
	2003	2002	2001	2000	1999
(In thousands, except per share data)					
Net sales	**$872,235**	$ 743,665	$ 706,002	$ 605,911	$ 559,031
Operating income (loss)	**90,522**	49,977	51,094	(588)	23,008
Net income (loss)	**54,061**	28,840	27,784	(5,571)	10,546
Basic earnings (loss) per share	**4.17**	2.18	2.04	(.41)	.75
Diluted earnings (loss) per share	**4.12**	2.15	2.04	(.41)	.75
Working capital	**82,236**	68,452	76,969	71,334	67,272
Total assets	**298,905**	280,510	288,971	281,856	283,510
Long-term debt, less current maturities	**21,604**	49,969	77,212	107,491	104,651
Stockholders' equity	**197,099**	155,891	144,339	120,015	130,844
Cash dividends declared per share	**$ .92**	$ .40	$ .20	$ .20	$ .20

Selected Financial Data

	FISCAL YEAR 2003			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
(In thousands, except per share data) *(Unaudited)*				
Net sales	$ 184,188	$ 201,184	$ 232,151	$ 254,712
Operating income	9,404	21,322	25,726	34,070
Net income	5,337	12,816	15,408	20,500
Diluted earnings per share	$ .40	$ .98	$ 1.17	$ 1.58

	FISCAL YEAR 2002			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
(In thousands, except per share data) *(Unaudited)*				
Net sales	$ 164,527	$ 175,413	$ 202,694	$ 201,031
Operating income	9,497	13,382	15,910	11,188
Net income	5,295	7,708	9,285	6,552
Diluted earnings per share	$ .39	$ .58	$ .70	$ .49

Management's Discussion and Analysis

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. For a more complete cautionary statement concerning the risks and uncertainties of forward-looking statements, please see "General" under Item 2 of the Company's Form 10-Q for the quarter ended July 31, 2003.

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 64.4% 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 100 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.

Management's Discussion and Analysis

Poultry prices per pound, as measured by the Georgia dock price, fluctuated during the three years ended October 31, 2003 as follows:

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Fiscal 2003				
High	$ .6250	$ .6400	$ .6775	$ .6925*
Low	$ .6125*	$ .6250	$ .6350	$ .6800
Fiscal 2002				
High	$ .6500*	$ .6300	$ .6425	$ .6425
Low	$ .6275	$ .6250*	$ .6250*	$ .6275
Fiscal 2001				
High	$ .6150*	$ .6200	$ .6250	$ .6650*
Low	$ .6150*	$ .6175	$ .6450	$ .6500

*Year High/Low

During fiscal 2002, the Company continued to see improvements in the Company's sales program and operating performance. These improvements, however, were offset by overall lower prices for poultry products and higher grain prices during fiscal 2002 as compared to fiscal 2001. Grain prices continued to increase during fiscal 2003 and were substantially higher for the full year ended October 31, 2003 as compared to the full year ended October 31, 2002. However, the Company benefitted from favorable market prices for its poultry products during the second half of fiscal 2003 and from proceeds received during the year related to the vitamin and methionine lawsuits. All in all, fiscal 2003 was a record setting year in sales and net income for Sanderson Farms.

RESULTS OF OPERATIONS

Fiscal 2003 Compared to Fiscal 2002

During fiscal 2003 net sales were $872.2 million, an increase of 17.3% when compared to net sales of $743.7 million for fiscal 2002. Net sales of poultry products increased $105.8 million, or 16.2%, and net sales of prepared food products increased $22.7 million, or 25.3%. The increase in net sales of poultry products resulted from favorable market prices for poultry products and an increase in the pounds of poultry products sold of 9.6%. The additional volume of poultry products resulted from an increase in the live weight of chickens processed of 5.3%, an increase in the number of chickens processed of 2.4% and an improved processing yield. Overall market prices during fiscal 2003 for the Company's poultry products were higher when compared to fiscal 2002. The Company's average sale price of poultry products increased 6.1% during fiscal 2003 as compared to fiscal 2002. A simple average of the Georgia dock whole bird prices was 2.4% higher for the year ended October 31, 2003, as compared to the year ended October 31, 2002. In addition, market prices for boneless breast, breast tenders and bulk leg quarters were 17.2%, 17.9% and 12.8% higher, respectively. Net sales of prepared food products increased $22.7 million, or 25.3%, primarily from an increase in pounds of prepared food products sold of 26.0%.

The Company's cost of sales for fiscal 2003 increased $78.3 million, or 11.8%, as compared to cost of sales for fiscal 2002. This increase is primarily due to increases in the pounds of poultry and prepared food

Management's Discussion and Analysis

products sold and increases in the cost of feed grains. Cost of sales of poultry products increased $53.2 million, or 9.1%. However, the average cost of sales of poultry products per pound decreased .4% as the Company benefitted from proceeds from lawsuits against vitamin and methionine suppliers and improved performance from the Company's poultry operations. A simple average of corn and soy meal cash market prices for the year ended October 31, 2003, as compared to the year ended October 31, 2002, reflected increases of 6.9% and 11.2%, respectively. During fiscal 2003 and fiscal 2002 the Company's cost of sales were reduced by $12.4 million and $5.0 million, respectively, from proceeds related to lawsuits against vitamin and methionine suppliers. Cost of sales of prepared food products increased $25.1 million, or 32.4%, due to an increase in the volume of prepared food products sold and increased cost of chicken products.

Selling, general and administrative expenses for fiscal 2003 were $40.3 million, an increase of $9.8 million, or 32.0%, as compared to selling, general and administrative expenses during fiscal 2002 of $30.5 million. The increase during fiscal 2003 resulted from increased expenses related to the Company's phantom stock options, bonus award program, employee stock ownership plan, bad debt reserves and certain marketing and administrative costs. The Company plans a renewal of its fresh chicken advertising program in most of its markets beginning in January 2004. This program will cost approximately $12.0 million.

During fiscal 2003 the Company's operating income was $ 90.5 million, an increase of $40.5 million as compared to $50.0 million for fiscal 2002. During fiscal 2003 as compared to fiscal 2002, the Company benefitted from higher market prices for poultry products, improvements in the operating performance and marketing execution of both the Company's poultry and prepared foods operations and proceeds from vitamin and methionine litigation. These factors more than offset increases in the average cost of feed grains during fiscal 2003 as compared to fiscal 2002. Overall market prices for poultry products were lower during the first half of fiscal 2003 as compared to the same period during fiscal 2002. During the third and fourth quarters of fiscal 2003 as compared to the same quarters in fiscal 2002, market prices for the Company's poultry products improved significantly, and were reflected in the increase in the Company's average sale price of poultry products during fiscal 2003 as compared to fiscal 2002 of 6.1%. The Company's average sales price of its poultry products during the third and fourth quarter of fiscal 2003 were 7.5% and 21.0% higher than the third and fourth quarter of fiscal 2002. This improved market environment during the second half of the Company's fiscal year was in part a result of the stabilization of the export market for poultry products, including the Russian market. Higher market prices for competing meats such as beef and pork also contributed to improved market conditions. The Company anticipates this trend will continue during the first quarter of fiscal 2004 as compared to the first quarter of fiscal 2003, however, the Company also anticipates higher feed costs during at least the first half of fiscal 2004 due to the tight supply of soybean meal. During fiscal 2003 and fiscal 2002, the Company's operating income included $12.4 million and $5.0 million, respectively, from vitamin and methionine litigation. The Company does not expect to receive any additional proceeds from vitamin and methionine litigation during fiscal 2004.

Interest expense during the fiscal year ended October 31, 2003, was approximately $2.5 million as compared to $3.7 million for the year ended October 31, 2002. This reduction in interest expense during fiscal 2003 as compared to fiscal 2002 resulted from less debt outstanding.

The Company's effective tax rate for the fiscal year ended October 31, 2003, and October 31, 2002, was 38.7% and 38.0%, respectively. The increase pertains to lower state tax credits available as a percentage of taxable income.

Management's Discussion and Analysis

Net income for fiscal 2003 was $54.1 million as compared to $28.8 million during fiscal 2002. Included in the Company's net income are proceeds from vitamin and methionine litigation of $7.6 million, or $.58 per diluted share, during fiscal 2003, and $3.1 million, or $.23 per diluted share, during fiscal 2002.

Fiscal 2002 Compared to Fiscal 2001

For the fiscal year ended October 31, 2002, net sales were $743.7 million, a 5.3% increase compared with net sales of $ 706.0 million for the prior year. Net sales of poultry products increased $24.2 million or 3.8%. This increase in the net sales of poultry products resulted from an increase in the pounds of poultry product sold of 10.9%, which was partially offset by a decrease in the average sales price of poultry products of 6.3%. The increase in the pounds of poultry products sold during fiscal 2002 as compared to fiscal 2001 resulted from an increase in the average live weight of chickens produced of 8.2%. Overall market prices for poultry products were significantly lower during fiscal 2002 as compared to fiscal 2001 as leg quarters, wings and breast tenders were 23.9%, 33.1% and 19.1% lower, respectively. The softness in leg quarter prices resulted from the Russian embargo of United States poultry meat on March 10, 2002. Shipments to Russia resumed during the fourth quarter of fiscal 2002. However, these shipments resumed only on a limited basis during the remainder of fiscal 2002. Net sales of prepared food products increased $13.0 million, or 16.9%, during fiscal 2002 as compared to fiscal 2001. The increase reflects an increase in the pounds of prepared food products sold of 12.0% and an increase in the average sales price of prepared food products sold of 4.4%.

Cost of sales of poultry products during the same period increased $24.1 million, or 4.3%. The increase in cost of sales of poultry products reflects a decrease in the average cost of sales per pound of poultry products of 5.9% as the Company benefitted from improved operating performance, lower energy costs and the awards mentioned above. Cash market prices for corn and soy meal during fiscal 2002 as compared to fiscal 2001 increased 9.0%, and decreased 0.9%, respectively. However, during the fourth quarter of fiscal 2002 as compared to the fourth quarter of fiscal 2001 the cash market prices for corn and soy meal increased 25.4% and 4.9%, respectively. Cost of sales of prepared food products during fiscal 2002 as compared to fiscal 2001 increased $12.4 million or 19.0% due to an increase in pounds of prepared food products sold of 12.0%, an increase in the cost of raw materials and a change in the mix of products sold.

Selling, general and administrative expenses for fiscal 2002 increased $2.3 million compared to fiscal 2001. This increase was primarily due to expenses associated with the Company's employee incentive plan, an increase in allowance for doubtful accounts and increased contributions to the Company's Employee Stock Ownership Plan.

The Company's operating income during fiscal 2002 as compared to fiscal 2001 was approximately the same despite the challenging market environment the poultry industry experienced during fiscal 2002. The Company's operating income for fiscal 2002 was approximately $50.0 million as compared to operating income during fiscal 2001 of $51.1 million. The fiscal 2002 operating income reflects improved plant efficiency and live grow-out performance and the $5.0 million in awards from the lawsuits against vitamin and methionine suppliers. Excluding these awards, the Company's operating income for fiscal 2002 was $45.0 million.

As in fiscal 2001, the Company continued to decrease its outstanding debt during fiscal 2002. The Company decreased its debt during fiscal 2002 by $27.2 million, which, along with lower interest rates,

Management's Discussion and Analysis

resulted in significantly lower interest expense. Interest expense for fiscal 2002 was $3.7 million as compared to $6.8 million for fiscal 2001, a decrease of $3.1 million, or 45.6%.

The Company's effective tax rates for fiscal 2002 and fiscal 2001 were 38.0% and 37.9%, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital at October 31, 2003 was $82.2 million and its current ratio was 2.3 to 1. This compares to working capital of $68.4 million and a current ratio of 2.2 to 1 as of October 31, 2002. During fiscal 2003 the Company spent approximately $23.4 million on planned capital projects and $5.2 million to repurchase 219,000 shares of its common stock under its existing stock repurchase plan.

The Company's capital budget for fiscal 2004 is approximately $27.3 million. The fiscal 2004 capital budget includes cost of renovations and changes and additions to existing processing facilities to allow better product flows and product mix for more product flexibility, $4.5 million to begin construction of a new General Office and $4.5 million for an operating lease to replace an existing aircraft. The Company expects that working capital and cash flows from operations will be sufficient in fiscal 2004 to fund the anticipated capital expenditures. However, if needed, the Company has available $100 million under its revolving credit agreement as of October 31, 2003.

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.

Management suggests that the Company's Summary of Significant Accounting Policies, as described in Note 1 of the Notes to the Consolidated Financial Statements, be read in conjunction with this Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company believes the critical accounting policies and estimates that most impact the Company's Consolidated Financial Statements are 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.

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.

Management's Discussion and Analysis

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 grower payments, 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. 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 composed of buildings and machinery and equipment. Depreciation is provided by the straight-line method over the estimated useful lives, which are 19 to 39 years for buildings and 3 to 7 years for machinery and equipment. An increase or decrease in the estimated useful lives would result in changes to depreciation expense.

The Company continually reevaluates the carrying value of its long-lived assets, for events or changes in circumstances, 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 to reduce the carrying value of the long-lived asset to the estimated fair value of the asset.

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. However, actual expenses could differ significantly from these estimates.

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. Any audit adjustments affecting permanent differences could have an impact on the Company's effective tax rate.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51." Interpretation No. 46 requires consolidation of entities when an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Currently, entities are generally consolidated by an enterprise when it has a controlling financial interest through ownership of a majority voting interest in the entity. The consolidation requirements of this pronouncement will be effective for the

Management's Discussion and Analysis

first reporting period ending after December 15, 2003. The Company is in the process of evaluating the implications of Interpretation No. 46.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market Risk

The Company is a purchaser of certain commodities, primarily corn and soybean meal. As a result, the Company's earnings are affected by changes in the price and availability of such feed ingredients. As market conditions dictate, the Company from time to time will lock in future feed ingredient prices using forward purchase agreements with suppliers. The Company does not use such instruments for trading purposes and is not a party to any leverage derivatives.

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, 2003. Management believes the potential effects of near-term changes in interest rates on the Company's fixed rate debt are not material.

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

Consolidated Balance Sheets

(In thousands)	October 31 2003	October 31 2002
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 22,224**	$ 9,542
Accounts receivable, less allowance of $1,390,000 in 2003 and $663,000 in 2002	**46,195**	41,073
Inventories	**61,753**	57,964
Refundable income taxes	**0**	2,764
Prepaid expenses	**13,001**	12,121
Total current assets	**143,173**	123,464
Property, plant and equipment:		
Land and buildings	**135,865**	134,076
Machinery and equipment	**240,369**	255,590
	376,234	389,666
Accumulated depreciation	**(221,010)**	(233,183)
	155,224	156,483
Other assets	**508**	563
Total assets	**$ 298,905**	$ 280,510
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 19,033**	$ 25,258
Accrued expenses	**37,540**	26,511
Current maturities of long-term debt	**4,364**	3,243
Total current liabilities	**60,937**	55,012
Long-term debt, less current maturities	**21,604**	49,969
Claims payable	**2,600**	2,600
Deferred income taxes	**16,665**	17,038
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, $1 par value: authorized shares-100,000,000; issued and outstanding shares-13,013,876 in 2003 and 13,051,026 in 2002	**13,014**	13,051
Paid-in capital	**1,949**	0
Retained earnings	**182,136**	142,840
Total stockholders' equity	**197,099**	155,891
Total liabilities and stockholders' equity	**$ 298,905**	$ 280,510

See accompanying notes.

Consolidated Statements of Income

	Years Ended October 31		
	2003	2002	2001
(In thousands, except per share data)			
Net sales	**$872,235**	$ 743,665	$ 706,002
Cost and expenses:			
Cost of sales	**741,420**	663,161	626,693
Selling, general and administrative	**40,293**	30,527	28,215
	781,713	693,688	654,908
Operating income	**90,522**	49,977	51,094
Other income (expense):			
Interest income	**80**	185	377
Interest expense	**(2,484)**	(3,681)	(6,753)
Other	**43**	(1)	54
	(2,361)	(3,497)	(6,322)
Income before income taxes	**88,161**	46,480	44,772
Income tax expense	**34,100**	17,640	16,988
Net income	**$ 54,061**	$ 28,840	$ 27,784
Earnings per share:			
Basic	**$ 4.17**	$ 2.18	$ 2.04
Diluted	**4.12**	2.15	2.04
Dividends per share	**$ .92**	$ .40	$ .20
Weighted average shares outstanding:			
Basic	**12,975**	13,200	13,596
Diluted	**13,126**	13,429	13,640

See accompanying notes.

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Total Stockholders' Equity
(In thousands, except shares and per share amounts)					
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 ($.20 per share)				(2,721)	(2,721)
Purchase and retirement of common stock	(68,000)	(68)	(671)		(739)
Balance at October 31, 2001	13,564,955	13,565	2,945	127,829	144,339
Net income for year				28,840	28,840
Cash dividends ($.40 per share)				(5,245)	(5,245)
Purchase and retirement of common stock	(736,079)	(736)	(5,320)	(8,584)	(14,640)
Issuance of common stock	222,150	222	2,375		2,597
Balance at October 31, 2002	13,051,026	13,051	0	142,840	155,891
Net income for year				54,061	54,061
Cash dividends ($.42 per share)				(5,449)	(5,449)
Special cash dividends ($.50 per share)				(6,508)	(6,508)
Purchase and retirement of common stock	(219,000)	(219)	(2,133)	(2,808)	(5,160)
Issuance of common stock	181,850	182	4,082		4,264
Balance at October 31, 2003	**13,013,876**	**$ 13,014**	**$1,949**	**$ 182,136**	**$197,099**

See accompanying notes.

Consolidated Statements of Cash Flows

	YEARS ENDED OCTOBER 31		
(In thousands)	**2003**	2002	2001
OPERATING ACTIVITIES			
Net income	**$ 54,061**	$ 28,840	$ 27,784
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**24,485**	24,710	25,722
Provision for losses on accounts receivable	**727**	360	44
Deferred income taxes	**(920)**	1,340	(178)
Change in assets and liabilities:			
Accounts receivable	**(5,849)**	(1,246)	(3,193)
Inventories	**(3,789)**	(5,614)	(2,088)
Prepaid expenses and refundable income taxes	**2,431**	(5,560)	2,791
Other assets	**(135)**	(141)	(205)
Accounts payable	**(6,225)**	4,949	2,802
Accrued expenses and claims payable	**11,029**	1,003	11,173
Total adjustments	**21,754**	19,801	36,868
Net cash provided by operating activities	**75,815**	48,641	64,652
INVESTING ACTIVITIES			
Capital expenditures	**(23,430)**	(19,704)	(14,587)
Net proceeds from sale of property and equipment	**394**	896	86
Net cash used in investing activities	**(23,036)**	(18,808)	(14,501)
FINANCING ACTIVITIES			
Net change in revolving credit	**(20,000)**	(24,000)	(28,000)
Principal payments on long-term debt	**(7,014)**	(2,958)	(2,954)
Principal payments on capital lease obligation	**(230)**	(220)	(205)
Dividends paid	**(11,957)**	(5,245)	(2,721)
Purchase and retirement of common stock	**(5,160)**	(14,640)	(739)
Net proceeds from common stock issued	**4,264**	2,597	0
Net cash used in financing activities	**(40,097)**	(44,466)	(34,619)
Net change in cash and cash equivalents	**12,682**	(14,633)	15,532
Cash and cash equivalents at beginning of year	**9,542**	24,175	8,643
Cash and cash equivalents at end of year	**$ 22,224**	$ 9,542	$ 24,175
Supplemental disclosure of cash flow information:			
Income taxes paid	**$ 20,093**	$ 18,675	$ 12,372
Interest paid	**$ 2,569**	$ 3,993	$ 6,920

See accompanying notes.

Notes to Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

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

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

The Company sells to retailers, distributors and food service operators primarily in the southeastern, southwestern and western United States. Revenue is recognized when product is delivered to customers. Revenue on certain international sales is recognized upon transfer of title, which may occur after shipment. Management periodically performs credit evaluations of its customers' financial condition and generally does not require collateral. 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.

Advertising and Marketing Costs: The Company expenses advertising costs as incurred.

Notes to Consolidated Financial Statements

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." During fiscal 2003, the Company no longer qualified as a "Family Farming Corporation" and accordingly, recorded the taxes on the cash basis temporary differences of $2,994,000 as a current deferred tax liability.

Stock-Based Compensation: At October 31, 2003, the Company has a stock-based employee compensation plan, which is described more fully in Note 8. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price at least equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

	YEARS ENDED OCTOBER 31		
	2003	2002	2001
(In thousands)			
Net income, as reported	**$ 54,061**	$ 28,840	$ 27,784
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(60)**	(15)	(5)
Pro forma net income	**$ 54,001**	$ 28,825	$ 27,779
Earnings per share:			
Basic—as reported	**$ 4.17**	$ 2.18	$ 2.04
Basic—pro forma	**$ 4.17**	$ 2.18	$ 2.04
Diluted—as reported	**$ 4.12**	$ 2.15	$ 2.04
Diluted—pro forma	**$ 4.12**	$ 2.15	$ 2.04

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: In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation

Notes to Consolidated Financial Statements

of Accounting Research Bulletin No. 51." Interpretation No. 46 requires consolidation of entities when an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Currently, entities are generally consolidated by an enterprise when it has a controlling financial interest through ownership of a majority voting interest in the entity. The consolidation requirements of this pronouncement will be effective for the first reporting period ending after December 15, 2003. The Company is in the process of evaluating the implications of Interpretation No. 46.

2. INVENTORIES

Inventories consisted of the following:

	OCTOBER 31	
	2003	2002
(In thousands)		
Live poultry–broilers and breeders	**$ 35,938**	$ 33,392
Feed, eggs and other	**6,821**	7,389
Processed poultry	**8,939**	8,423
Processed food	**5,653**	4,507
Packaging materials	**4,402**	4,253
	$ 61,753	$ 57,964

3. PREPAID EXPENSES

Prepaid expenses consisted of the following:

	OCTOBER 31	
	2003	2002
(In thousands)		
Parts and supplies	**$ 5,323**	$ 5,279
Current deferred tax asset	**2,275**	1,728
Other prepaid expenses	**5,406**	5,114
	$ 13,001	$ 12,121

4. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	OCTOBER 31	
	2003	2002
(In thousands)		
Income taxes payable	**$ 7,243**	$ 0
Accrued bonuses	**11,419**	6,985
Accrued rebates	**3,600**	3,144
Workers' compensation claims	**3,540**	3,750
Accrued property taxes	**2,319**	2,004
Accrued wages	**3,332**	4,893
Accrued vacation	**2,214**	2,358
Other accrued expenses	**3,873**	3,377
	$ 37,540	$ 26,511

Notes to Consolidated Financial Statements

5. LONG-TERM CREDIT FACILITIES AND DEBT

Long-term debt consisted of the following:

(In thousands)	OCTOBER 31 2003	2002
Revolving credit agreement with banks (weighted average rate of 5.1% at October 31, 2002)	**$ 0**	$ 20,000
Term loan with an insurance company, accruing interest at 7.49%; final principal installment made in February 2003 of $2,850,000	**0**	2,900
Term loan with an insurance company, accruing interest at 7.05%; due in annual principal installments of $4,000,000, due in July 2007	**16,000**	20,000
Note payable, accruing interest at 5%; due in annual installments of $161,400, including interest, maturing in 2009	**843**	957
6% Mississippi Business Investment Act bond–capital lease obligation, due November 1, 2012	**2,825**	3,055
Robertson County, Texas, Industrial Revenue Bonds accruing interest at a variable rate, 1.2% at October 31, 2003; with optional annual principal installments of $900,000, due November 1, 2005	**6,300**	6,300
	25,968	53,212
Less current maturities of long-term debt	**4,364**	3,243
	$ 21,604	$ 49,969

The Company has a $100.0 million revolving credit agreement with four banks. As of October 31, 2003, all of the credit is available and the revolver extends until fiscal 2006. 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 $4,494,354 is pledged as collateral to a note payable and the capital lease obligation.

The aggregate annual maturities of long-term debt at October 31, 2003 are as follows (in thousands):

FISCAL YEAR	AMOUNT
2004	$ 4,364
2005	5,285
2006	5,306
2007	5,333
2008	1,355
Thereafter	4,325
	$ 25,968

Notes to Consolidated Financial Statements

6. INCOME TAXES

Income tax expense (benefit) consisted of the following:

	YEARS ENDED OCTOBER 31		
	2003	2002	2001
(In thousands)			
Current:			
Federal	**$ 29,940**	$ 14,670	$ 15,518
State	**5,080**	1,630	1,450
	35,020	16,300	16,968
Deferred:			
Federal	**(800)**	1,226	(264)
State	**(120)**	114	284
	(920)	1,340	20
	34,100	17,640	16,988

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

	OCTOBER 31	
	2003	2002
(In thousands)		
Deferred tax liabilities:		
Cash basis temporary differences	**$ 0**	$ 2,994
Property, plant and equipment	**17,515**	14,986
Prepaid and other assets	**910**	1,066
Total deferred tax liabilities	**18,425**	19,046
Deferred tax assets:		
Accrued expenses and accounts receivable	**4,035**	3,736
State net operating loss and credit carryforwarding	**0**	0
Total deferred tax assets	**4,035**	3,736
Net deferred tax liabilities	**$ 14,390**	$ 15,310
Current deferred tax assets (included in prepaid expenses)	**$ 2,275**	$ 1,728
Long-term deferred tax liabilities	**16,665**	17,038
Net deferred tax liabilities	**$ 14,390**	$ 15,310

Notes to Consolidated Financial Statements

The differences between the consolidated effective income tax rate and the federal statutory rate of 35% are as follows:

	YEARS ENDED OCTOBER 31		
	2003	2002	2001
(In thousands)			
Income taxes at statutory rate	**$ 30,856**	$ 16,268	$ 15,670
State income taxes	**3,224**	1,511	1,754
State income tax credit	**0**	0	(627)
Increase in deferred taxes for change in income tax rate	**0**	0	367
Other, net	**20**	(139)	(176)
Income tax expense (benefit)	**$ 34,100**	$ 17,640	$ 16,988

7. 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 $4,000,000, $2,500,000 and $2,300,000 in fiscal 2003, 2002 and 2001, respectively.

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 $1,551,000 in fiscal 2003, $1,463,000 in fiscal 2002 and $1,411,000 in fiscal 2001.

8. 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 2002 and 2001 have ten-year terms and vest over four years beginning one year after the date of grant. The Company did not grant any options during fiscal 2003.

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 3.5% in fiscal 2002 and 5.0% in fiscal 2001; dividend yields of 2.0% for fiscal 2002 and fiscal 2001; volatility factors of the expected market price of the Company's Common Stock of .325 for fiscal 2002 and .350 for fiscal 2001; and a weighted-average expected life of the options of four years.

Notes to Consolidated Financial Statements

The weighted-average fair value of options granted was $4.73 per option share in fiscal 2002 and $3.24 per option share in fiscal 2001. 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 2002 and 2001.

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

	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
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
Granted	322,886	18.05
Exercised	(222,150)	11.79
Forfeited	(2,000)	7.47
Outstanding at October 31, 2002	721,736	14.41
Granted	0	0.00
Exercised	(181,850)	12.85
Forfeited	(6,750)	18.55
Outstanding at October 31, 2003	533,136	$ 15.00

The exercise price of the options outstanding as of October 31, 2003, ranged from $7.19 to $18.55 per share. At October 31, 2003, the weighted average remaining contractual life of the options outstanding was 8 years and 232,606 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 at the time of exercise 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 $1,942,000, $421,000 and $555,000 for the phantom share plan is included in selling, general and administrative expense in the accompanying consolidated statement of income for fiscal 2003, 2002 and fiscal 2001, respectively.

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

	SHARES	EXERCISE PRICE
Outstanding at October 31, 2002	141,000	7.47
Granted	0	0.00
Forfeited	0	0.00
Exercised	(94,500)	7.47
Outstanding at October 31, 2003	46,500	7.47

9. 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 purchase right ("right") was declared as a

Notes to Consolidated Financial Statements

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. The rights expire on May 4, 2009.

10. OTHER MATTERS

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 State Supreme Court. On December 6, 2002, the Mississippi State 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 State Supreme Court. Substantially similar lawsuits have been filed against other integrated poultry companies.

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

Notes to Consolidated Financial Statements

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. Plaintiffs responded to this motion and the Company replied to the Plaintiffs' response. 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. In light of the approaching trial date of December 2, 2003, the Company filed a motion with the Mississippi State Supreme Court, on November 14, 2003 requesting, among other things, that the Supreme Court grant an Emergency Stay of the proceedings in the Chancery Court of Jefferson County and vacate the December 2, 2003 trial date. On November 20, 2003, the Supreme Court vacated the trial date and stayed the proceedings pending its response to the Company's motion. On December 4, 2003, the parties filed a joint request that the Supreme Court relax the stay only insofar as necessary to allow the Chancery Court to rule on the Company's Motion To Dismiss And/Or To Transfer Jurisdiction And/Or To Compel Arbitration And/Or For Change Of Venue, and thereafter that the Supreme Court grant a request for interlocutory appeal regarding the issues to be decided by the Chancery Court. The stay entered November 20, 2003, would remain in effect regarding all other proceedings in the Chancery Court, including discovery and trial, and all arbitration proceedings before the AAA would be stayed, pending the final decision of the Supreme Court on the interlocutory appeal. The Company will vigorously defend the claims by the contract egg producers whether before a panel of arbitrators appointed by the AAA or before the court.

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 brings 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 will aggressively defend the lawsuit. The Company has a policy of zero tolerance with respect to 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

Notes to Consolidated Financial Statements

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. The plaintiffs filed a response to that motion, and the Company filed its rebuttal to the plaintiffs' response on August 21, 2003. 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, court's order permits the Company to refile its dispositive motions after the plaintiffs file an amended complaint. This matter is pending.

The Company is also a party to lawsuits against various vitamin and methionine suppliers arising out of alleged price fixing activities by the defendants. For more information about these lawsuits, please see the section of this Report entitled "Management's Discussion and Analysis" on page 15.

Sanderson Farms, Inc. (Production Division) (the "Production Division") was a party to a lawsuit pending before the United States District Court for the Southern District of Texas brought against that division under the Fair Labor Standards Act seeking recovery of overtime compensation for live-haul drivers and employees employed by the Production Division. This matter was settled on November 4, 2002, pending a ruling by the court on the plaintiff's request for an award of attorney's fees. On September 4, 2003, the court determined the appropriate attorney's fees award, and the settlement of this issue became final. A complete description of this matter, together with the details of the settlement, is found in Item 3, Legal Proceedings, in the Company's Annual Report on Form 10-K filed for the Company's fiscal year ended October 31, 2002.

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.

Report of Independent Auditors

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, 2003 and 2002 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2003. 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2003, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

New Orleans, Louisiana
December 9, 2003

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

Gail Jones Pittman
President, Gail Pittman, Inc.

Charles W. Ritter, Jr.
President and Director, JRS, Inc., Kosciusko, Mississippi

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

Corporate Information

Corporate Offices
Sanderson Farms, Inc.
225 North 13th Avenue
Post Office Box 988
Laurel, Mississippi 39441-0988
(601) 649-4030

This Annual Report is filed by Sanderson Farms, Inc., a Mississippi corporation. Except where the context indicates otherwise, the terms "Company" and "Sanderson Farms" mean Sanderson Farms, Inc. and its subsidiaries and predecessor organizations. The use of these terms to refer to Sanderson Farms, Inc. and its subsidiaries collectively does not suggest that Sanderson Farms has abandoned their separate identities or the legal protections given to them as separate legal entities.

Transfer Agent
Mellon Investor Services
Suite 1900
200 Galleria Parkway
Atlanta, Georgia 30339
(770) 916-4186

Independent Auditors
Ernst & Young LLP
Suite 3900
701 Poydras Street
New Orleans, Louisiana 70139
(504) 581-4200

Form 10-K
The Company's Form 10-K, including the financial statements and schedules thereto, for the year ended October 31, 2003, as well as other information about Sanderson Farms, including corporate governance matters, 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 our web page at www.sandersonfarms.com.

Copies of the Company's Corporate Code of Conduct and Code of Ethics for Chief Executive Officer and Senior Financial Officers are available in the Investor Relations section of the website under the subsection "Corporate Governance."

Market and Dividend Information

The Company's common stock is traded on the NASDAQ National Market System under the symbol SAFM. As of January 6, 2004, Sanderson Farms had approximately 7,700 beneficial holders of its common stock. Of that total, 2,342 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 2003			
First Quarter	$ 21.31	$ 17.99	$ .10
Second Quarter	$ 20.39	$ 18.27	$ .10
Third Quarter	$ 30.57	$ 19.47	$ .10
Fourth Quarter	$ 35.14	$ 28.36	$ .62

	STOCK PRICE		
	HIGH	LOW	DIVIDENDS
FISCAL YEAR 2002			
First Quarter	$ 22.14	$ 13.55	$ .10
Second Quarter	$ 27.49	$ 20.93	$ .10
Third Quarter	$ 27.50	$ 18.20	$ .10
Fourth Quarter	$ 20.62	$ 15.83	$ .10

On December 31, 2003, the closing sales price for the common stock was $40.30 per share. The 2003 Fourth Quarter dividend of $.62 per share included a special dividend of $.50 per share.

Report of Independent Auditors

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, 2003 and 2002 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2003. 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2003, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

New Orleans, Louisiana
December 9, 2003

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

Gail Jones Pittman
President, Gail Pittman, Inc.

Charles W. Ritter, Jr.
President and Director, JRS, Inc., Kosciusko, Mississippi

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

Corporate Information

Corporate Offices
Sanderson Farms, Inc.
225 North 13th Avenue
Post Office Box 988
Laurel, Mississippi 39441-0988
(601) 649-4030

This Annual Report is filed by Sanderson Farms, Inc., a Mississippi corporation. Except where the context indicates otherwise, the terms "Company" and "Sanderson Farms" mean Sanderson Farms, Inc. and its subsidiaries and predecessor organizations. The use of these terms to refer to Sanderson Farms, Inc. and its subsidiaries collectively does not suggest that Sanderson Farms has abandoned their separate identities or the legal protections given to them as separate legal entities.

Transfer Agent
Mellon Investor Services
Suite 1900
200 Galleria Parkway
Atlanta, Georgia 30339
(770) 916-4186

Independent Auditors
Ernst & Young LLP
Suite 3900
701 Poydras Street
New Orleans, Louisiana 70139
(504) 581-4200

Form 10-K
The Company's Form 10-K, including the financial statements and schedules thereto, for the year ended October 31, 2003, as well as other information about Sanderson Farms, including corporate governance matters, 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 our web page at www.sandersonfarms.com.

Copies of the Company's Corporate Code of Conduct and Code of Ethics for Chief Executive Officer and Senior Financial Officers are available in the Investor Relations section of the website under the subsection "Corporate Governance."

Market and Dividend Information

The Company's common stock is traded on the NASDAQ National Market System under the symbol SAFM. As of January 6, 2004, Sanderson Farms had approximately 7,700 beneficial holders of its common stock. Of that total, 2,342 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 2003			
First Quarter	$ 21.31	$ 17.99	$ .10
Second Quarter	$ 20.39	$ 18.27	$ .10
Third Quarter	$ 30.57	$ 19.47	$ .10
Fourth Quarter	$ 35.14	$ 28.36	$ .62

	STOCK PRICE		
	HIGH	LOW	DIVIDENDS
FISCAL YEAR 2002			
First Quarter	$ 22.14	$ 13.55	$ .10
Second Quarter	$ 27.49	$ 20.93	$ .10
Third Quarter	$ 27.50	$ 18.20	$ .10
Fourth Quarter	$ 20.62	$ 15.83	$ .10

On December 31, 2003, the closing sales price for the common stock was $40.30 per share. The 2003 Fourth Quarter dividend of $.62 per share included a special dividend of $.50 per share.

Sanderson Farms

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