

A close-up photograph of several skewers of grilled food. Each skewer contains pieces of white chicken, green zucchini, and red bell pepper. The food is served on a green plate with a silver rim. The background is a woven brown surface.

Responsible Choices

Responsible Leadership

Sanderson  
Farms®

2009 ANNUAL REPORT



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



Sanderson Farms, Inc. is engaged in the production, processing, marketing and distribution of fresh, frozen, further processed and partially cooked chicken. The Company sells its fresh chicken products primarily under the Sanderson Farms® brand name to retailers, distributors and casual dining operators located principally in the southeastern, northeastern and western United States. Through its foods division, the Company also sells, under the Sanderson Farms® name, further processed and partially cooked chicken to distributors and food service establishments.



## Financial

# Highlights

OCTOBER 31,

2009

2008

*(In thousands, except per share data)***THE FISCAL YEAR**

Net sales	\$1,789,508	\$1,723,583
Net income (loss)	\$ 82,319	\$ (43,129)
Basic earnings (loss) per share	\$ 4.05	\$ (2.13)
Diluted earnings (loss) per share	\$ 3.99	\$ (2.13)
Dividends per share	\$ 0.57	\$ 0.56
Weighted average shares outstanding		
Basic	20,317	20,269
Diluted	20,613	20,269

**AT FISCAL YEAR-END**

Working capital	\$ 162,663	\$ 188,779
Total assets	\$ 636,176	\$ 681,158
Long-term debt, less current maturities	\$ 103,123	\$ 225,322
Stockholders' equity	\$ 430,708	\$ 353,967

*Note: The forward looking statements warning that appears in our Annual Report on Form 10-K under Item 7, "Cautionary statements regarding risks and uncertainties that may affect future performance" also applies to forward looking statements made in this annual report.*

# To Our Shareholders:

Fiscal 2009 was a successful year for Sanderson Farms. In spite of the economic downturn and its profound impact on both consumers and businesses, the Company returned to profitability, we broke ground on our new poultry complex in North Carolina, and we strengthened our balance sheet. Our financial and operating performance for the year reflects the ability and focus of our managers, employees and contract producers who manage our operations the same way regardless of market conditions. The challenges of the past year compelled us to place an even greater emphasis on what has defined Sanderson Farms through over fifty years in business - an unrelenting focus on remaining true to our core values and honoring our responsibility to our customers, our communities, our environment and our shareholders.

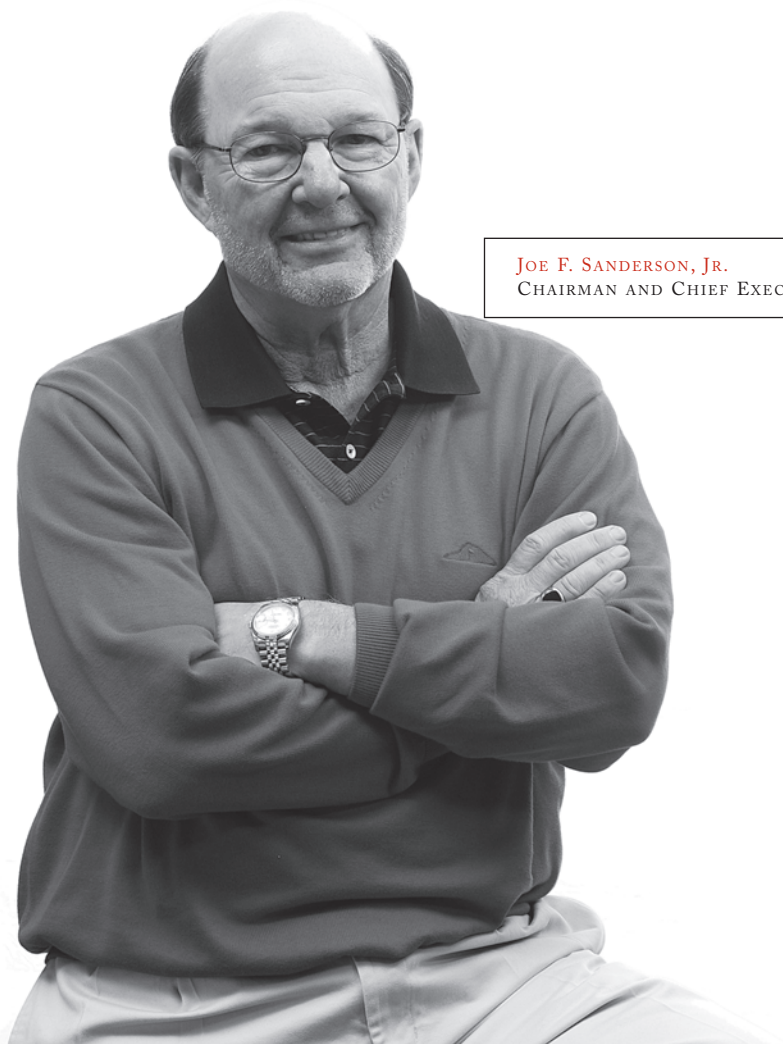
Our results for fiscal 2009 include record sales of over \$1.789 billion, exceeding the previous year's record sales of \$1.724 billion. Our revenue growth reflects the additional production from our Waco, Texas, facility, offset by production cuts earlier in the year, and improved overall chicken markets. Consumer demand for chicken products at the retail level was relatively stable throughout the year, but demand from food service customers remained weak, reflecting the considerable slowdown in restaurant traffic across the country.

Our operations performed well in our industry as we processed over 397.0 million chickens, or 2.43 billion dressed pounds, in fiscal 2009 compared with 2.44 billion pounds during fiscal 2008. We also benefitted from a ten percent reduction in feed costs per processed pound of chicken in fiscal 2009, contributing to the margin improvement in our business.

LAMPKIN BUTTS  
PRESIDENT AND CHIEF OPERATING OFFICER



"Our latest expansion plans will  
enhance our ability to drive revenues  
and earnings and continue to  
build value for our shareholders."



JOE F. SANDERSON, JR.  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER





# Responsibility



Joe Frank Sanderson, one of the co-founders of the Company, once said, “We can be only as successful as the communities in which we operate.” Because we still believe that to be true, Sanderson Farms is committed to enhancing the quality of life in the communities that are home to our expanding base of operations. Whether through local public schools, charities or business organizations, we believe it is our responsibility to do what we can to improve the economic and social vitality of the communities where our employees live and work. We meet this obligation through both financial support at the corporate level and the time spent by our employees as volunteers in their respective communities. Many of our neighbors and community partners faced financial hardship over the past year as the economic downturn affected nearly everyone. As the demand for essential social services escalated across the country, we did what we could to help, including providing assistance with donations of chicken products to food banks near every Sanderson Farms’ location.

# to Community

We consider it our responsibility to be a valued corporate partner and enhance the quality of life in the communities where our employees live and work.

While the first quarter of fiscal 2009 marked a difficult start to the year, we returned to profitability in the second quarter and posted our strongest quarterly profit ever in the third quarter of fiscal 2009. We remained profitable during our fourth fiscal quarter despite deteriorating market conditions. For the year, we were pleased to reward our shareholders with net income of \$82.3 million, or \$3.99 per share, and an increased dividend rate.

Poultry market prices were mixed in fiscal 2009 compared with the prior year. For the year, the Georgia dock price averaged \$0.86 per pound, representing approximately a four percent increase over fiscal 2008. The Georgia dock price is primarily an indicator of the supply and demand dynamics for poultry products sold in retail grocery stores. While market prices for products produced at our big bird deboning plants faced significant pressure due to the decline in demand from our food service customers, the balance of supply and demand for the retail grocery market was relatively steady for most of the year. This balance reflects the fact that while consumers are definitely eating out less often, they continue to shop for bargains in the grocery store.

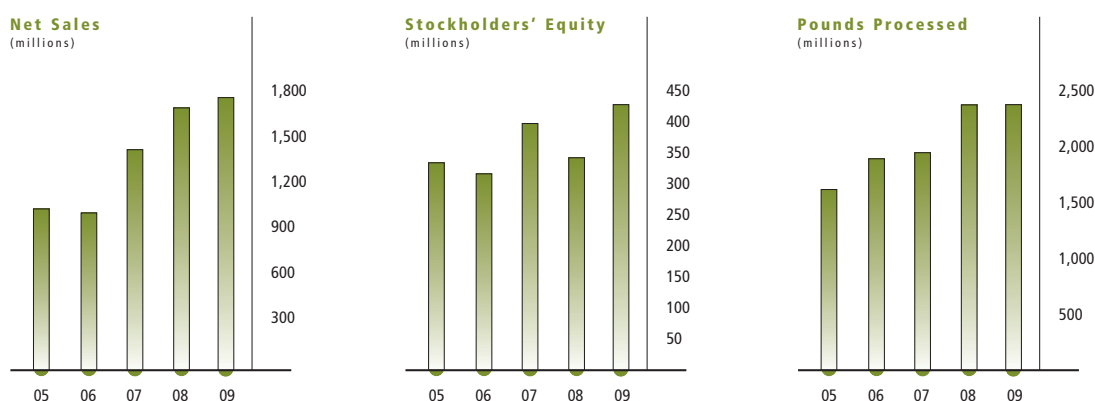
Boneless breast meat prices improved through the year, but were about one percent lower for fiscal 2009 compared with the prior year, reflecting the mixed demand trends. We expect demand from food service customers to remain soft until the nation's job market improves and consumers begin dining out again on a more consistent basis. The bright spot for chicken products in fiscal 2009 was noted in jumbo wing prices, which averaged \$1.32 per pound, up 41 percent from the average of \$0.94 per pound for fiscal 2008.

Sanderson Farms has continued its pattern of growth throughout the various cycles that characterize both our nation's economy and our industry. While we note our position as the fourth largest poultry producer in the United States, we are especially proud that we have achieved our growth while maintaining our position as one of the most efficient, low cost operators in our industry. We have followed a pattern of steady, manageable growth because we believe having additional pounds of product to



leverage into the marketplace allows us to meet our responsibility to deliver higher earnings to our shareholders. Keeping with this strategy, in July, our board of directors approved plans to proceed with the construction and start-up of a new poultry complex located in Kinston, North Carolina. Although we previously announced plans for this project during the prior year, we made the decision to postpone construction due to the more challenging market conditions and escalating grain prices we experienced in fiscal 2008. The budget for the project, which includes construction of a new feed mill, poultry processing plant and hatchery on separate sites in Kinston and Lenoir County, North Carolina, is expected to be approximately \$121.4 million.

The Kinston project will be a state-of-the-art poultry complex with the capacity to process 1.25 million birds per week for the retail chill pack market. At full capacity, the complex will employ approximately 1,500 people, will require 130 contract growers, and will be equipped to process and sell 6.7 million pounds per week of dressed poultry meat at full production. We commenced construction of the facilities in the summer of 2009, with initial operation of the new complex scheduled to begin during the first quarter of fiscal 2011.





A close-up photograph of a red wicker basket filled with several chicken sandwiches. Each sandwich consists of a golden-brown chicken patty, a slice of white cheese, a spread of green pesto, and a slice of tomato, all nestled in a soft, light-colored bun. The basket is set against a background of colorful, patterned fabric.

# Responsibility to

Sanderson Farms is proud of its reputation in the marketplace as a company that will do whatever it takes, whenever needed, to meet the needs of its customers. We have delivered value to our customers with fresh, high-quality chicken products for over 50 years, backed by an unrelenting focus on exceptional customer service. Today, more than 10,000 employees and over 770 independent contract producers are committed to offering our customers and consumers the very best chicken on the market. Sanderson Farms® brand chicken is always 100% natural, without any added salt, phosphates, carrageenan or broths. We take our responsibility to promote healthy eating even further by providing a variety of healthy, delicious recipes that consumers can prepare with our fresh chicken. For example, recipes from our exciting “Sack the Sodium” public relations campaign can be found on our web site, [www.sandersonfarms.com](http://www.sandersonfarms.com), featuring low sodium alternatives for tailgate menus.





We strive to exceed customer expectations  
and provide healthy, fresh,  
100% natural chicken.

SAFM  
9

Customers







We are pleased that better overall market conditions in fiscal 2009, our financial performance and a strong balance sheet have enabled us to make this investment in our future growth. We believe this expansion will enhance our ability to drive revenues and earnings, and allow us to continue our record of building long-term value for our shareholders. The additional capacity represented by the new complex will provide new marketing opportunities for the Company in the fresh retail grocery market. We look forward to working with the local communities in North Carolina that have graciously supported Sanderson Farms and this project.

While the past year presented us—along with most other companies—with considerable challenges, it also confirmed to us that the Sanderson Farms® brand remains strong. We continue to supply the freshest, highest quality, 100% natural chicken and provide the best customer service available in our industry. We take this responsibility seriously with a firm commitment throughout the Company to do whatever it takes to make sure our customers obtain an advantage by selling the Sanderson Farms® brand of fresh chicken in their chosen business.

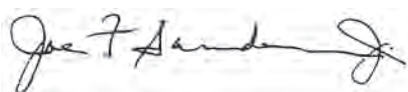
We have always been one of the most efficient producers of fresh chicken in our industry, and we consider it our responsibility to help our customers be the best, most efficient companies in theirs. We remain focused on operating at the top of our industry, regardless of economic concerns and the constant fluctuations in market prices. We understand the key areas for success in our business – efficient operations; a



favorable product mix and a disciplined growth strategy; exceptional customer service with the highest quality products available in our industry; and a strong, conservative financial position. Along with our success, we also understand our responsibility to look for ways to improve the way we do business. Like every year, we met with our managers and growers at the beginning of fiscal 2010 to identify further efficiencies and opportunities in our operations in the year ahead.

We are proud of our Company's accomplishments and our ability to meet the challenges of the past year. While market conditions remain uncertain until the economic recovery gains traction and people return to work, we are optimistic about our future. We sell a great, quality product that consumers can afford. Our operations are efficient and our managers continue to deliver outstanding service to our expanding customer base. Our balance sheet is strong. And we have demonstrated our commitment to continued growth with our investment in the new North Carolina facility. Above all, our confidence rests in the strength of our people - our board of directors, managers, employees, customers and contract producers who honor their commitment to Sanderson Farms and their responsibility to support our continued success. We close by thanking you, our fellow shareholders, for your investment in Sanderson Farms.

Sincerely,



JOE F. SANDERSON  
*Chairman and Chief Executive Officer*



LAMPKIN BUTTS  
*President and Chief Operating Officer*



Our ability to manage our operations efficiently and respect our environment has placed Sanderson Farms at the top of our industry.



As we continue to expand our base of operations, we are ever mindful of our responsibility to minimize our impact on the environment. The most important thing we do in this regard is continue our efforts to be the most efficient operator in our industry, and to constantly strive to be even better. Efficient poultry operations use less feed, less energy and fewer resources than less efficient operations. Our corporate culture fosters a focus on every large and small detail of our operations finding ways to improve efficiencies and thereby lessen our impact on the world in which we live. We take extensive precautions throughout each of our locations to ensure our plants and facilities operate in a healthy and environmentally sound manner,





# to Environment

and we are constantly evaluating new technologies and processes to help meet this responsibility. One example of this is the innovative approach to sourcing and discharging water through the land application system at our Moultrie, Georgia facility. Once the water is used in our processing plant, it is then screened, carefully tested and sprayed onto fields about seven miles from our plant using a complex arrangement of about 1,100 spray heads, or risers. Our efforts to create a clean, sustainable supply of water have been recognized by our peers as Moultrie Processing received the U.S. Poultry and Egg Association's 2009 Clean Water Award.



## Message from the Chief Financial Officer

We are proud to report a strong financial performance for Sanderson Farms in fiscal 2009, especially given the challenging economic environment we and others faced this past year. We continued to pursue a balanced operating strategy that has allowed us to achieve considerable, but manageable, growth and deliver favorable results, regardless of market conditions. At the same time, we have maintained a financial position that ranks among the strongest in our industry and continue to place maintaining a strong balance sheet at the center of every decision we make.

Sanderson Farms had a record top-line performance with \$1.789 billion in sales for fiscal 2009. Our cost of sales for the year decreased 5.6 percent compared with a year ago, reflecting lower feed grain costs. For the year, our feed grain costs comprised 47.3 percent of total cost of goods sold, compared with 50.1 percent the prior year. Our average sales price for poultry products during fiscal 2009 was 1.4 percent higher than last year.

Throughout the year, we worked hard to sustain a strong financial position, which we believe provides Sanderson Farms with a distinct competitive advantage in a cyclical industry. At the end of fiscal 2009, our balance sheet reflected \$636 million in assets, stockholders' equity of \$431 million and net working capital of \$163 million. Our strong financial performance during fiscal 2009 allowed us to pay down a significant amount of debt. Our total long-term debt at year-end was \$103 million compared with \$225 million a year ago, and our total debt-to-capitalization ratio was 18 percent compared with 39 percent at the end of fiscal 2008.

We expect our capital expenditures for fiscal 2010 to be approximately \$136.5 million, and to be funded by cash on hand, internally generated working capital, cash flows from operations and, as needed, liquidity provided by our revolving credit facility. Of this total, \$107.4 million is for the new Kinston, North Carolina, complex. The Company has a \$300 million unsecured revolving line of credit, of which \$251.8 million was available at October 31, 2009. Our depreciation and amortization during fiscal 2009 totaled \$43.2 million, and we expect approximately \$45 million for fiscal 2010.

We announced on October 22, 2009, that our board of directors had authorized the officers to repurchase and retire up to one million shares of Sanderson Farms common stock. We currently have approximately 20.6 million fully diluted shares outstanding and we plan to use our expanded stock repurchase program to offset shares issued through our equity compensation programs. The expansion of our stock repurchase program highlights our board of director's confidence in the future of Sanderson Farms. We believe this program represents a good use of corporate funds while minimizing potential dilution related to our equity compensation programs. We also announced in September that our board had approved an increase in our annual dividend rate to 60 cents per share. This decision also reflects our confidence in the future and our focus on our shareholders.

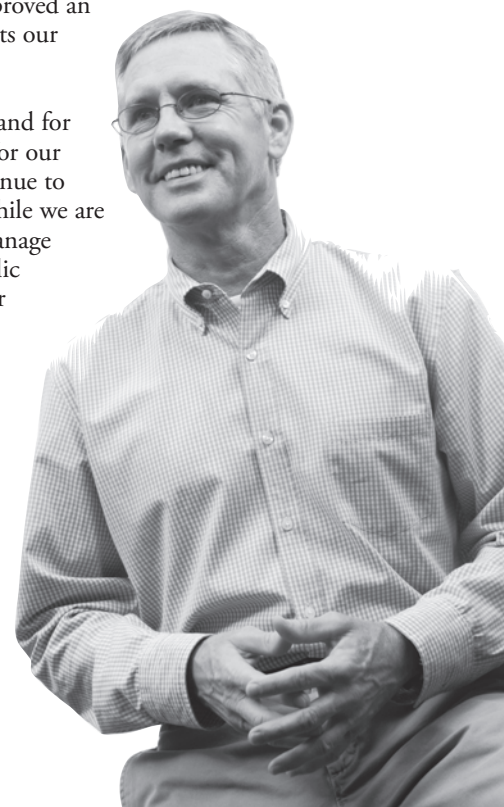
While we believe market forces will support a favorable balance of supply and demand for our industry over the long-term, we recognize there are still short-term challenges for our industry. The severe economic issues and uncertainties facing our nation will continue to have a significant influence on consumer discretionary spending in fiscal 2010. While we are mindful of these dynamics of our marketplace, our philosophy is to continue to manage Sanderson Farms for the long term. As always, our primary responsibility as a public company is to protect the interests of our shareholders and to reward them for their investment in Sanderson Farms.

Thank you for your continued support.

Sincerely,



Mike Cockrell  
Treasurer and Chief Financial Officer





## Board of Directors

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

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

Fred Banks, Jr.  
*Partner, Phelps Dunbar  
LLP*

John Bierbusse  
*Retired Manager of  
Research Administration  
A.G. Edwards, Inc.*

Lampkin Butts  
*President and Chief  
Operating Officer,  
Sanderson Farms, Inc.*

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

Toni D. Cooley  
*President of Systems  
Electro Coating, LLC*

Beverly Wade Hogan  
*President of Tougaloo  
College*

Robert C. Khayat  
*Retired Chancellor of the  
University of Mississippi*

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

Dianne Mooney  
*Retired Senior Vice  
President,  
Southern Living at Home*

Gail Jones Pittman  
*President, Gail Pittman,  
Inc.*

Charles W. Ritter, Jr.  
*Retired President and  
Director, the Attala  
Company, Kosciusko,  
Mississippi*

Rowan H. Taylor  
*Retired Chairman,  
Mississippi Valley Title  
Insurance Company*

## Executive Officers

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

Lampkin Butts  
*President and Chief  
Operating Officer*

Mike Cockrell  
*Treasurer and Chief  
Financial Officer*

James A. Grimes  
*Secretary and Chief  
Accounting Officer*

## Corporate Information

### Corporate Offices

Sanderson Farms, Inc.  
127 Flynt Road  
Post Office Box 988  
Laurel, Mississippi 39443  
(601) 649-4030  
[www.sandersonfarms.com](http://www.sandersonfarms.com)

### Transfer Agent

Mellon Investor Services  
480 Washington Boulevard  
Jersey City, NJ 07310-1900  
800-756-3353  
[www.bnymellon.com/shareowner/isd](http://www.bnymellon.com/shareowner/isd)

### Independent Registered Public Accounting Firm

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

### Form 10-K

The Annual Report on Form 10-K, including the financial statements, certain exhibits and the schedules thereto, for the year ended October 31, 2009, is included with this report. Other information about Sanderson Farms, including the exhibits incorporated by reference into the Form 10-K, 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](http://www.sandersonfarms.com).





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