SANDERSON FARMS INC
Form 10-Q
May 28, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q

(MARK ONE)

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

For the quarterly period ended April 30, 2009

OR

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

For the transition period from __________to__________

Commission file number 1-14977

Sanderson Farms, Inc.

(Exact name of registrant as specified in its charter)

Mississippi	64-0615843
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
127 Flynt Road, Laurel, Mississippi	39443
(Address of principal executive offices)	(Zip Code)

(601) 649-4030

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. Common Stock, $1 Par Value Per Share: 20,323,808 shares outstanding as of April 30, 2009.

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SANDERSON FARMS, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SANDERSON FARMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	April 30, 2009 (Unaudited)	October 31, 2008 (Note 1)
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 36,179	$ 4,261
Accounts receivable, net	61,597	63,516
Inventories	143,895	137,015
Refundable income taxes	7,362	31,033
Deferred income taxes	1,568	15,885
Prepaid expenses and other current assets	21,678	15,853
Total current assets	272,279	267,563
Property, plant and equipment	732,103	722,815
Less accumulated depreciation	(331,050)	(311,485)
	401,053	411,330
Other assets	2,186	2,265
Total assets	$ 675,518	$ 681,158
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 81,148	$ 77,565
Current maturities of long-term debt	968	1,219
Total current liabilities	82,116	78,784
Long-term debt, less current maturities	200,122	225,322
Claims payable	2,800	3,000
Deferred income taxes	20,813	20,085
Stockholders equity:		
Preferred Stock:		
Series A Junior Participating Preferred Stock, $100 par value: authorized 500,000 shares, none issued;		
Par value to be determined by the Board of Directors: authorized 4,500,000 shares; none issued		
Common Stock, $1 par value: authorized 100,000,000 shares; issued and outstanding shares 20,323,808 and 20,288,643 at April 30, 2009 and October 31, 2008, respectively	20,324	20,289
Paid-in capital	30,904	28,859
Retained earnings	318,439	304,819

Total stockholders equity	369,667	353,967
Total liabilities and stockholders equity	$ 675,518	$ 681,158

See notes to condensed consolidated financial statements.

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2009	2008	2009	2008
	(In thousands, except per share amounts)			
Net sales	$ 426,759	$ 433,876	$ 815,643	$ 796,442
Cost and expenses:				
Cost of sales	370,774	409,250	754,686	746,389
Selling, general and administrative	12,884	14,146	24,798	27,951
	383,658	423,396	779,484	774,340
OPERATING INCOME	43,101	10,480	36,159	22,102
Other income (expense):				
Interest income	4	23	11	95
Interest expense	(2,489)	(1,806)	(5,700)	(3,854)
Other	0	24	(3)	41
	(2,485)	(1,759)	(5,692)	(3,718)
INCOME BEFORE INCOME TAXES	40,616	8,721	30,467	18,384
Income tax expense	14,400	2,504	11,000	5,945
NET INCOME	$ 26,216	$ 6,217	$ 19,467	$ 12,439
Earnings per share:				
Basic	$ 1.29	$ .31	$ .96	$ .61
Diluted	$ 1.27	$ .30	$ .95	$ .61
Dividends per share	$ .14	$ .14	$ .28	$ .28
Weighted average shares outstanding:				
Basic	20,317	20,269	20,306	20,254
Diluted	20,581	20,469	20,577	20,443

See notes to condensed consolidated financial statements.

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

	Six Months Ended April 30, 2009	Six Months Ended April 30, 2008
	(In thousands)	
Operating activities		
Net income	$ 19,467	$ 12,439
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	21,764	20,543
Non-cash stock compensation	1,872	1,855
Deferred income taxes	15,045	220
Change in assets and liabilities:		
Accounts receivable, net	1,919	(6,857)
Refundable income taxes	23,671	0
Inventories	(6,880)	(53,440)
Prepaid expenses and other assets	(5,850)	(8,147)
Accounts payable, accrued expenses and other liabilities	458	17,745
Total adjustments	51,999	(28,081)
Net cash provided by (used in) operating activities	71,466	(15,642)
Investing activities		
Capital expenditures	(11,471)	(28,169)
Net proceeds from sale of property and equipment	88	191
Net cash used in investing activities	(11,383)	(27,978)
Financing activities		
Principal payments on long-term debt	(451)	(145)
Net borrowings from (repayments on) revolving line of credit	(25,000)	50,000
Net proceeds from exercise of stock options and management share purchase plan	208	744
Tax benefit on exercised stock options	0	63
Dividends paid	(2,922)	(2,906)
Net cash provided by (used in) financing activities	(28,165)	47,756
Net change in cash and cash equivalents	31,918	4,136
Cash and cash equivalents at beginning of period	4,261	2,623
Cash and cash equivalents at end of period	$ 36,179	$ 6,759

Supplemental disclosure of non-cash financing activity:		
Dividends payable	$ (2,925)	$ (2,910)

See notes to condensed consolidated financial statements.

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SANDERSON FARMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
April 30, 2009

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. Operating results for the three and six months ended April 30, 2009 are not necessarily indicative of the results that may be expected for the year ending October 31, 2009.

The consolidated balance sheet at October 31, 2008 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended October 31, 2008.

NOTE 2 INVENTORIES

Inventories consisted of the following:

	April 30, 2009	October 31, 2008
	(In thousands)	
Live poultry-broilers and breeders	$ 89,329	$ 69,715
Feed, eggs and other	19,461	24,460
Processed poultry	20,903	30,477
Processed food	8,406	6,956
Packaging materials	5,796	5,407
	$ 143,895	$ 137,015

Inventories of live poultry increased primarily as a result of the $35.0 million live inventory adjustment at October 31, 2008 to record the Company s live broiler inventory at estimated market value, which was lower than the cost plus the estimated cost to complete that inventory at that date. The Company recorded its live broiler inventory on hand at April 30, 2009 at cost because the estimated market value of the products that will be produced from the live inventory was higher than the inventory s cost plus the estimated cost to complete that inventory.

The decrease in feed, eggs and other at April 30, 2009 when compared to October 31, 2008 reflects lower feed grain prices.

The decrease in processed poultry inventories resulted primarily from fewer units of export product in inventory at April 30, 2009 as compared to October 31, 2008, which resulted from the timing of export sales, and lower feed grain prices.

NOTE 3 STOCK COMPENSATION PLANS

Refer to Note 8 of our October 31, 2008 audited financial statements for further information on our employee benefit plans and stock compensation plans. Total stock based compensation expense applicable to the Company s restricted stock grants for the six months ended April 30, 2009 and April 30, 2008 was $1,827,000 and $1,855,000, respectively. During the six months ended April 30, 2009, participants in the Company s Management Share Purchase Plan purchased a total of 11,800 shares of restricted stock at an average price of $36.04 per share and the Company issued 2,916 matching restricted shares.

On January 29, 2009, the Company entered into performance share agreements that grant certain officers and key employees the right to receive a target number of 60,500 shares of the Company s common stock, subject to the Company s achievement of certain performance measures. The Company also has performance share agreements in place with certain officers and key employees that were entered into in fiscal 2007 and 2006. The aggregate target number of shares specified in performance share agreements outstanding as of April 30, 2009 totaled 229,412. No compensation costs have been recorded as of April 30, 2009 on any of these performance shares because achievement of performance measures is not considered probable.

Also on January 29, 2009 the Company granted 60,500 shares of restricted stock to key management employees. The restricted stock had a grant date fair value of $38.24 per share and vests four years from the date of the grant.

On February 19, 2009, the Company granted 18,326 shares of restricted stock to its non-employee directors. The restricted stock had a grant date fair value of $29.14 per share and vests one to three years from date of grant.

NOTE 4 EARNINGS PER SHARE

Basic net income per share was calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share was calculated by dividing net income by the weighted-average number of common shares outstanding during the period plus the dilutive effects of stock options and restricted stock outstanding. Restricted stock and employee stock options representing 263,806 and 270,800 common shares were included in the calculation of diluted net income per share for the three and six months ended April 30, 2009. Restricted stock and employee stock options representing 200,511 and 188,716 common shares were included in the calculation of diluted net income per share for the three and six months ended April 30, 2008.

NOTE 5 NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No.157 Fair Value Measurements (SFAS 157). This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America and expands disclosure about fair value measurements. This pronouncement applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value. Accordingly, this statement does not require any new fair value measurements. The Company adopted SFAS No. 157 effective November 1, 2008 for its financial assets and liabilities. The adoption had no material effect on the Company s consolidated financial position, results of operations or cash flows. The Company will adopt SFAS 157 for its non-financial assets and liabilities that are recognized at fair value on a non-recurring basis on November 1, 2009 and is currently evaluating the impact of its adoption.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Liabilities including an Amendment of FASB Statement No. 115 (SFAS 159). This standard provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007. Accordingly, the Company adopted SFAS No. 159 during the first quarter of fiscal 2009. We did not elect the fair value option under SFAS 159 and accordingly the adoption had no material effect on the Company s consolidated financial position, results of operations or cash flows.

In April, the FASB issued FSP No. FAS107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP essentially expands the disclosure about fair value of financial instruments that were previously required only annually to also be required for interim period reporting. In addition, the FSP requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. For the Company, these additional disclosures will be required beginning in the third quarter of fiscal 2009. The Company is currently evaluating the requirements of these additional disclosures.

NOTE 6 OTHER MATTERS

The Company is involved in various claims and litigation incidental to its business. Although the outcome of these matters cannot be determined with certainty, management, upon the advice of counsel, is of the opinion that the final outcome should not have a material effect on the Company s consolidated results of operations or financial position. The Company recognizes the costs of legal defense for the legal proceedings to which it is a party in the periods incurred. A determination of the amount of reserves required, if any, for these matters is made after considerable analysis of each individual case. Because the outcome of these proceedings cannot be determined with any certainty, no estimate of the possible loss or range of loss resulting from the cases can be made. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed probable due to changes in the Company s assumptions, the effectiveness of legal strategies, or other factors beyond the Company s control. Future results of operations may be materially affected by the creation of or changes to reserves or by accruals of losses to reflect any adverse determinations of these legal proceedings.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Sanderson Farms, Inc.

We have reviewed the condensed consolidated balance sheet of Sanderson Farms, Inc. and subsidiaries as of April 30, 2009, and the related condensed consolidated statements of income for the three-month and six-month periods ended April 30, 2009 and 2008 and the condensed consolidated statements of cash flows for the six-month periods ended April 30, 2009 and 2008. These financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Sanderson Farms, Inc. and subsidiaries as of October 31, 2008, and the related consolidated statements of operations, stockholders equity, and cash flows for the year then ended not presented herein, and in our report dated December 18, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of October 31, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

New Orleans, Louisiana
May 27, 2009

Item 2. Management s Discussion And Analysis Of Financial Condition And Results Of Operations

General

The following Discussion and Analysis should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of the Company s Annual Report on Form 10-K for its fiscal year ended October 31, 2008.

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

(1) Changes in the market price for the Company s finished products and feed grains, both of which may fluctuate substantially and exhibit cyclical characteristics typically associated with commodity markets.

(2) Changes in economic and business conditions, monetary and fiscal policies or the amount of growth, stagnation or recession in the global or U.S. economies, either of which may affect the value of inventories, the collectability of accounts receivable or the financial integrity of customers, and the ability of the end user or consumer to afford protein.

(3) Changes in the political or economic climate, trade policies, laws and regulations or the domestic poultry industry of countries to which the Company or other companies in the poultry industry ship product, and other changes that might limit the Company s or the industry s access to foreign markets.

(4) Changes in laws, regulations, and other activities in government agencies and similar organizations applicable to the Company and the poultry industry and changes in laws, regulations and other activities in government agencies and similar organizations related to food safety.

(5) Various inventory risks due to changes in market conditions.

(6) Changes in and effects of competition, which is significant in all markets in which the Company competes, and the effectiveness of marketing and advertising programs. The Company competes with regional and national firms, some of which have greater financial and marketing resources than the Company.

(7) Changes in accounting policies and practices adopted voluntarily by the Company or required to be adopted by accounting principles generally accepted in the United States.

(8) Disease outbreaks affecting the production performance and/or marketability of the Company s poultry products.

(9) Changes in the availability and cost of labor and growers.

Readers are cautioned not to place undue reliance on forward-looking statements made by or on behalf of Sanderson Farms. Each such statement speaks only as of the day it was made. The Company undertakes no obligation to update or to revise any forward-looking statements. The factors described above cannot be controlled by the Company. When used in this quarterly report, the words believes , estimates , plans , expects , should , outlook , and anticipates expressions as they relate to the Company or its management are intended to identify forward-looking statements.

The Company s poultry operations are integrated through its 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 prices for its finished products and feed grains, both of which may fluctuate substantially and exhibit cyclical characteristics typically associated with commodity markets. Other costs, excluding feed grains, related to the profitability of the Company s poultry operations, including hatching egg production, hatching, growing, and processing cost, are responsive to efficient cost containment programs and management practices.

The Company s prepared chicken product line includes over 75 institutional and consumer packaged chicken items that it sells nationally, primarily to distributors and food service establishments. A majority of the prepared chicken items are made to the specifications of food service users.

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On January 12, 2006, the Company announced that sites in Waco and McLennan County, Texas had been selected for the construction of a new poultry complex, consisting of a processing plant, hatchery and wastewater treatment facility. The processing plant began processing chickens on August 6, 2007, and was originally planned to reach full production of approximately 1.25 million head of chickens per week during the fourth quarter of fiscal 2008. However, because of recent poor market fundamentals, moving the plant to full capacity was delayed until the second half of fiscal 2009. The plant is currently processing 1.20 million head of chicken per week, which is 96% of full capacity.

On April 24, 2008, the Company announced that sites in Kinston, North Carolina had been selected for construction of a new feed mill, poultry processing plant, hatchery and wastewater treatment facility. These facilities will comprise 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. On June 26, 2008 the Company announced that this new complex would be placed on hold until such time that market fundamentals improve.

EXECUTIVE OVERVIEW OF RESULTS

Overall market conditions improved during the second quarter of fiscal 2009 as compared to the first quarter of fiscal 2009 and the second quarter of fiscal 2008. Market prices for leg quarters and boneless breast meat have improved significantly from their lows during December 2008 in response to production cuts, and the average costs of feed grains, while still relatively high, have remained below the prices reached during the summer of 2008. Demand for fresh chicken in retail grocery stores remains strong, and is reflected in the Georgia Dock price. While demand for boneless breast meat from food service customers remains weak, market prices have moved up in response to production cuts. The Company expects market prices for corn and soybean meal to remain volatile for the remainder of fiscal 2009 and to be higher during the second half of the year than during the first half, but expects its feed costs during the third and fourth quarters of fiscal 2009 to be lower than the same quarters of fiscal 2008.

RESULTS OF OPERATIONS

Net sales for the second quarter of fiscal 2009 were $426.8 million as compared to $433.9 million during the second quarter of fiscal 2008, a decrease of $7.1 million or 1.6%. Net sales of poultry products during the second quarters of fiscal 2009 and fiscal 2008 were $392.6 million and $397.8 million, respectively, a decrease of $5.2 million or 1.3%. The decrease in the net sales of poultry products resulted from a decrease in the pounds of poultry products sold of 4.7% and was partially offset by an increase in the average sales price of poultry products sold of 3.5%. The reduction in the pounds of poultry products sold during the three months ended April 30, 2009 as compared to the three months ended April 30, 2008 resulted from a planned reduction in the average live weight and number of chickens processed, which reductions were in response to weak demand for poultry products, as well as other proteins, from food service customers who market and sell product for consumption away from home. This reduction was partially offset by an increase in production at the Company s Waco, Texas facility. The increase in the average sales price of poultry products reflects relatively strong demand from retail grocery store customers, offset by continued weakness in demand for chicken from food service customers. A simple average of the Georgia Dock price for whole chickens was 6.1% higher during the three months ended April 30, 2009 as compared to the three months ended April 30, 2008. In addition, jumbo wing prices hit historic highs and averaged 43.0% higher during the second quarter of fiscal 2009 as compared to the same quarter a year ago. However, average bulk leg quarter prices decreased 18.1% during the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008. The average Urner Barry market price for boneless breast meat during the three months ended April 30, 2009 decreased 5.0% as compared to the same period a year ago, reflecting the soft demand for that product from food service customers. Net sales of prepared chicken products for the second quarter of fiscal 2009 and fiscal 2008 were $34.2 million and $36.1 million, respectively, or a decrease of 5.3%. This decrease resulted from a decrease in the pounds of prepared chicken products sold of 7.1%, partially offset by an increase in the average sales price of prepared chicken products of 2.0%.

Net sales for the six months ended April 30, 2009 were $815.6 million as compared to $796.4 million for the six months ended April 30, 2008, an increase of $19.2 million or 2.4%. Net sales of poultry products increased $29.1 million and resulted from an increase in the pounds of poultry products sold of approximately 6.6%, partially offset by a decrease in the Company s average sales price of 2.5%. The additional pounds of poultry products sold resulted from an increase in the number of chickens produced of 3.9% which was partially offset by a decrease in the average live weight of chickens produced of 4.2%. The additional number of chickens processed was primarily the result of the additional production at the Company s new Waco processing division, which began operations during the fourth quarter of fiscal 2007 and is currently operating at 96% of full capacity of 1,250,000 head per week. In addition, the Company had a planned decrease in the average live weight and number of chickens produced during the first six months of fiscal 2009 in response to the difficult market environment during the last six months of fiscal 2008 and the first quarter of fiscal 2009. During the first half of fiscal 2009 as compared to the first half of fiscal 2008 poultry prices were mixed when compared to the same period a year ago. A simple average of the Georgia dock prices for whole birds increased by 9.3%. In addition prices for jumbo wings and tenders increased 24.0% and 15.0%, respectively. However, market prices for boneless breast and bulk leg quarters decreased 6.9% and 21.3%, respectively, during the first six months of fiscal 2009 as compared to the first six months of fiscal 2008. Net sales of prepared chicken products decreased $9.9 million or 13.7% during the first half of fiscal 2009 as compared to the first half of fiscal 2008. Pounds sold of prepared chicken products decreased 17.6% during the first half of fiscal 2009 as compared to the same period during fiscal 2008, and the average sales price of prepared chicken products increased 4.8%. The Company made changes at the prepared chicken plant to increase that facility s capacity to produce individually frozen poultry products and cooked poultry products in fiscal 2008.

Cost of sales during the second quarter of fiscal 2009 decreased $38.5 million or 9.4% as compared to the same quarter during fiscal 2008. Cost of sales of poultry products decreased $35.8 million or 9.5% during the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008, which decrease was the result of a decrease in pounds of poultry products sold and lower feed grain costs. A simple average of the Company s cost of corn and soybean meal purchased by the Company during the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008 reflected decreases of 22.8% and 14.2%, respectively. The Company believes that grain prices will remain lower for the remainder of fiscal 2009 as compared to record high prices the Company and industry incurred during the final two quarters of fiscal 2008. Cost of sales of the Company s prepared chicken products decreased $2.7 million or 8.1% due to the lower market prices for boneless breast meat, which are a major component of the Company s prepared food products, and a decrease in the pounds of prepared food products sold of 7.1% during the three months ended April 30, 2009 as compared to the three months ended April 30, 2008.

Cost of sales for the six months ended April 30, 2009 increased $8.3 million or 1.1% as compared to the six months ended April 30, 2008. Cost of sales of poultry products increased $18.5 million or 2.7% during the first half of fiscal 2009 as compared to the first half of fiscal 2008 and resulted from the additional pounds of poultry products sold of 6.6%, offset in part by lower feed grain prices . A simple average of the Company s cost of corn and soybean meal purchased by the Company during the first half of fiscal 2009 as compared to the first half of fiscal 2008 reflected decreases of 11.2% and 4.3%, respectively. The Company believes that grain prices will remain lower for the remainder of fiscal 2009 as compared to record high prices the Company and industry incurred during the final two quarters of fiscal 2008. Cost of sales of the Company s prepared chicken products decreased $10.2 million or 15.6% due to decrease in the pounds of prepared food products sold of 17.6% during the first six months of fiscal 2009 as compared to the first six months of fiscal 2008.

Selling, general and administrative costs for the three and six months ended April 30, 2009 were $12.9 million and $24.8 million, as compared to $14.1 million and $28.0 million, respectively, for the three and six months ended April 30, 2008. The decrease in selling, general and administrative costs of $1.2 million and $3.2 million, respectively, for the three and six months ended April 30, 2009 as compared to the same periods during fiscal 2008 resulted primarily from a planned decrease in advertising expenditures.

On October 31, 2008, the Company recorded a charge of $35.0 million to lower the value of live broiler inventories on hand from cost to estimated market value because the estimated market price for the products to be produced from those live chickens when sold was below the estimated cost to grow, process and distribute those chickens. As of January 31, 2009 and April 30, 2009 market fundamentals had improved such that the estimated market price of the products to be produced from the Company s live broiler inventories was higher than the estimated cost to grow, process and distribute those chickens and, accordingly, the Company recorded its live broiler inventories on January 31, 2009 and on April 30, 2009 at cost. The $35 million adjustment to inventory on October 31, 2008 effectively absorbed into the fourth fiscal quarter of 2008 a portion of the costs to grow, process and distribute chicken that were incurred and would have otherwise been recognized in the first quarter of fiscal 2009.

The second quarter of fiscal 2009 resulted in an operating income of $43.1 million as compared to an operating income for the second quarter of fiscal 2008 of $10.5 million. For the six months ended April 30, 2009 and 2008 the Company s operating income was $36.2 million and $22.1 million, respectively. The increase in operating income for the three and six months ended April 30, 2009 were the result of lower feed costs and an overall improvement in the market prices for poultry products, as described above.

Interest expense during the three and six months ended April 30, 2009 was $2.5 million and $5.7 million, respectively, as compared to $1.8 million and $3.9 million for the same periods during fiscal 2008. The increase in interest expense resulted from higher average outstanding debt during the first half of fiscal 2009 as compared to the first half of fiscal 2008, which was partially offset by lower interest rates. The Company capitalized no interest costs during the first six months of fiscal 2009 or fiscal 2008.

The Company s effective tax rate during the three and six months ended April 30, 2009 was 35.5% and 36.1%, respectively. For the three and six months ended April 30, 2008, the Company s effective tax rate was 28.7% and 32.3%, respectively. The Company s effective tax rate differs from the statutory federal rate due to state income taxes, certain nondeductible expenses for federal income tax purposes and tax credits available as a result of Hurricane Katrina and state credits unrelated to the hurricane.

Net income for the three months ended April 30, 2009 and April 30, 2008 was $26.2 million or $1.27 per share and $6.2 million or $.30 per share, respectively. Net income for the first six months of fiscal 2009 was $19.5 million or $.95 per share as compared to $12.4 million or $.61 per share during the first six months of fiscal 2008.

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Liquidity and Capital Resources

The Company s working capital at April 30, 2009 was $190.2 million and its current ratio was 3.3 to 1. This compares to working capital of $188.8 million and a current ratio of 3.4 to 1 as of October 31, 2008. During the six months ended April 30, 2009, the Company spent approximately $11.5 million on planned capital projects.

The Company s capital budget for fiscal 2009 is approximately $17.8 million at April 30, 2009 and will be funded by cash on hand, internally generated working capital, cash flows from operations and, if needed, borrowings under the Company s revolving line of credit. The Company had $155.5 million available under the revolving line of credit as of April 30, 2009.

On April 24, 2008, the Company announced that sites in Kinston, North Carolina had been selected for construction of a new feed mill, poultry processing plant, hatchery and waste water facility. These facilities will comprise 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. On June 26, 2008, the Company announced that construction and start-up of the new Kinston, North Carolina complex would be placed on hold until such time that market fundamentals improve.

On May 1, 2008, the Company entered into a new revolving credit facility to, among other things, increase the available credit to $300.0 million, increase the capital expenditure limits to allow construction of the Kinston, North Carolina facility, and to change the covenant requiring a minimum debt to total capitalization ratio to 50% during fiscal 2008, 55% during fiscal 2009 and not to exceed 50% for fiscal 2010 and thereafter. The credit remains unsecured and, unless extended, will expire May 1, 2013. As of April 30, 2009 the Company had $136.3 million outstanding under the revolving credit facility.

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

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting standards generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions, and the differences could be material.

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

Allowance for Doubtful Accounts

In the normal course of business, the Company extends credit to its customers on a short-term basis. Although credit risks associated with our customers are considered minimal, the Company routinely reviews its accounts receivable balances and makes provisions for probable doubtful accounts. In circumstances where management is aware of a specific customer s inability to meet its financial obligations to the Company, a specific reserve is recorded to reduce the receivable to the amount expected to be collected. If circumstances change (i.e., higher than expected defaults or an unexpected material adverse change in a major customer s ability to meet its financial obligations to us), our estimates of the recoverability of amounts due us could be reduced by a material amount, and the allowance for doubtful accounts and related bad debt expense would increase by the same amount.

Inventories

Processed food and poultry inventories and inventories of feed, eggs, medication and packaging supplies are stated at the lower of cost (first-in, first-out method) or market. If market prices for poultry or feed grains move substantially lower, the Company would record adjustments to write down the carrying values of processed poultry and feed inventories to fair market value, which would increase the Company s costs of sales.

Live poultry inventories of broilers are stated at the lower of cost or market and breeders at cost less accumulated amortization. The cost associated with broiler inventories, consisting principally of chicks, feed, medicine and payments to the growers who raise the chicks for us, are accumulated during the growing period. The cost associated with breeder inventories, consisting principally of breeder chicks, feed, medicine and grower payments are accumulated during the growing period. Capitalized breeder costs are then amortized over nine months using the straight-line method. Mortality of broilers and breeders is charged to cost of sales as incurred. If market prices for chicken, feed or medicine or if grower payments increase (or decrease) during the period, the Company could have an increase (or decrease) in the market value of its inventory as well as an increase (or decrease) in costs of sales. Should the Company decide that the nine month amortization period used to amortize the breeder costs is no longer appropriate as a result of operational changes, a shorter (or longer) amortization period could increase (or decrease) the costs of sales recorded in future periods. High mortality from disease or extreme temperatures would result in abnormal charges to cost of sales to write-down live poultry inventories.

Long-Lived Assets

Depreciable long-lived assets are primarily comprised of buildings and machinery and equipment. Depreciation is provided by the straight-line method over the estimated useful lives, which are 15 to 39 years for buildings and 3 to 12 years for machinery and equipment. An increase or decrease in the estimated useful lives would result in changes to depreciation expense.

The Company continually evaluates the carrying value of its long-lived assets for events or changes in circumstances that indicate that the carrying value may not be recoverable. As part of this evaluation, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposal. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized to reduce the carrying value of the long-lived asset to the estimated fair value of the asset. If the Company s assumptions with respect to the future expected cash flows associated with the use of long-lived assets currently recorded change, then the Company s determination that no impairment charges are necessary may change and result in the Company recording an impairment charge in a future period. The Company did not identify any indicators of impairment during the current fiscal period.

Accrued Self Insurance

Insurance expense for workers compensation benefits and employee-related health care benefits are estimated using historical experience and actuarial estimates. Stop-loss coverage is maintained with third party insurers to limit the Company s total exposure. Management regularly reviews the assumptions used to recognize periodic expenses. Any resulting adjustments to accrued claims are reflected in current operating results. If historical experience proves not to be a good indicator of future expenses, if management were to use different actuarial assumptions, or if there is a negative trend in the Company s claims history, there could be a significant increase or decrease in cost of sales depending on whether these expenses increased or decreased, respectively.

Income Taxes

The Company determines its effective tax rate by estimating its permanent differences resulting from differing treatment of items for financial and income tax purposes. The Company is periodically audited by taxing authorities and considers any adjustments made as a result of the audits in considering the tax expense. Any audit adjustments affecting permanent differences could have an impact on the Company s effective tax rate.

Contingencies

The Company is a party to a number of legal proceedings as discussed in Item 3 of Part 1 of its Annual Report on Form 10-K for its fiscal year ended October 31, 2008 and in this quarterly report. We recognize the costs of legal defense in the periods incurred. A determination of the amount of reserves required, if any, for these matters is made after considerable analysis of each individual case. Because the outcome of these cases cannot be determined with any certainty, no estimate of the possible loss or range of loss resulting from the cases can be made. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed probable due to changes in the Company s assumptions, the effectiveness of legal strategies, or other factors beyond the Company s control. Future results of operations may be materially affected by the creation of or changes to reserves or by accruals of losses to reflect any adverse determination of these legal proceedings.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No.157 Fair Value Measurements (SFAS 157). This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America and expands disclosure about fair value measurements. This pronouncement applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value. Accordingly, this statement does not require any new fair value measurements. The Company adopted SFAS No. 157 effective November 1, 2008 for its financial assets and liabilities. We did not elect the fair value option under SFAS 159 and accordingly the adoption had no material effect on the Company s consolidated financial position, results of operations or cash flows. The Company will adopt SFAS 157 for its non-financial assets and liabilities that are recognized at fair value on a non-recurring basis on November 1, 2009 and is currently evaluating the impact of its adoption.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Liabilities including an Amendment of FASB Statement No. 115 (SFAS 159). This standard provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007. Accordingly, the Company adopted SFAS No. 159 during the first quarter of fiscal 2009. We did not elect the fair value option under SFAS 159 and accordingly the adoption had no material effect on the Company s consolidated financial position, results of operations or cash flows.

In April, the FASB issued FSP No. FAS107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP essentially expands the disclosure about fair value of financial instruments that were previously required only annually to also be required for interim period reporting. In addition, the FSP requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. For the Company, these additional disclosures will be required beginning in the third quarter of fiscal 2009. The Company is currently evaluating the requirements of these additional disclosures.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is a purchaser of certain commodities, primarily corn and soybean meal, for use in manufacturing feed for its chickens. As a result, the Company s earnings are affected by changes in the price and availability of such feed ingredients. Feed grains are subject to volatile price changes caused by factors described below that include demand, weather, size of harvest, transportation and storage costs and the agricultural policies of the United States and foreign governments. The price fluctuations of feed grains have a direct and material effect on the Company s profitability.

The Company generally will purchase feed ingredients for deferred delivery that typically range from one month to twelve months after the time of purchase. Once purchased, the Company can price its grain at market prices at any time prior to delivery of the grain. The grain purchases are made directly with our usual grain suppliers, which are companies in the regular business of supplying grain to end users, and do not involve options to purchase. The pricing of such purchases occur when senior management concludes that market factors indicate that prices at the time the grain is needed are likely to be higher than current prices, or where, based on current and expected market prices for the Company s poultry products, management believes it can price feed ingredients at levels that will allow the Company to earn a reasonable return for its shareholders. Market factors considered by management in determining whether or not and to what extent to buy grain for deferred delivery and to price grain include:

- Current market prices;
- Current and predicted weather patterns in the United States, South America, China and other grain producing areas, as such weather patterns might affect the planting, growing, harvesting and yield of feed grains;
- The expected size of the harvest of feed grains in the United States and other grain producing areas of the world as reported by governmental and private sources;
- Current and expected changes to the agricultural policies of the United States and foreign governments;
- The relative strength of United States currency and expected changes therein as it might impact the ability of foreign countries to buy United States feed grain commodities;
- The current and expected volumes of export of feed grain commodities as reported by governmental and private sources;
- The current and expected use of available feed grains for uses other than as livestock feed grains (such as the use of corn for the production of ethanol, which use is impacted by the price of crude oil and governmental policy); and

Current and expected market prices for the Company s poultry products.

The Company purchases physical grain, not financial instruments such as puts, calls or straddles that derive their value from the value of physical grain. Thus, the Company does not use derivative financial instruments as defined by SFAS 133, Accounting for Derivative Instruments and Hedging Activities. The Company does not enter into any derivative transactions or purchase any grain-related contracts other than the physical grain contracts described above.

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The cost of feed grains is recognized in cost of sales, on a first-in-first-out basis, at the same time that the sales of the chickens that consume the feed grains are recognized.

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 April 30, 2009. Management believes the potential effects of near-term changes in interest rates on the Company s debt are not material.

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

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company s Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

An evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based on that evaluation, the Company s management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company s disclosure controls and procedures were effective as of April 30, 2009. There have been no changes in the Company s internal control over financial reporting during the fiscal quarter ended April 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various claims and litigation incidental to its business. Although the outcome of these matters cannot be determined with certainty, management, upon the advice of counsel, is of the opinion that the final outcome should not have a material effect on the Company s consolidated results of operation or financial position. The Company recognizes the costs of legal defense for the legal proceedings to which it is a party in the periods incurred. A determination of the amount of reserves required, if any, for these matters is made after considerable analysis of each individual case. Because the outcome of these proceedings cannot be determined with any certainty, no estimate of the possible loss or range of loss resulting from the cases can be made. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed probable due to changes in the Company s assumptions, the effectiveness of legal strategies, or other factors beyond the Company s control. Future results of operations may be materially affected by the creation of or changes to reserves or by accruals of losses to reflect any adverse determinations of these legal proceedings.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the Company s Form 10-K for the fiscal year ended October 31, 2008.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
February 1, 2009 February 28, 2009	1,500	$ 29.14	1,500	216,698
March 1, 2009 March 30, 2009	1,814	$ 37.55	1,814	214,884
April 1, 2009 April 30, 2009	0	$ 00.00	0	214,884
Total	3,314	$ 33.74	3,314	214,884

1 All purchases were made pursuant to the Company s Stock Incentive Plan under which participants may satisfy tax withholding obligations incurred upon the vesting of restricted stock by requesting the Company to withhold shares with a value equal to the amount of the withholding obligation.

2 On April 28, 2008, the Company announced that its Board of Directors had approved a plan

under which the Company may repurchase up to 225,000 shares of its common stock over the next four years.

Item 4. Submission of Matters to a Vote of Security Holders

At the 2009 Annual Meeting of Shareholders of Sanderson Farms, Inc. held February 19, 2009, the shareholders elected the following persons to the Company s Board of Directors to serve until the 2012 Annual Meeting of Shareholders, or until their successors are elected and qualified, by the votes indicated below:

NAME	FOR	WITHHELD
John H. Baker, III	18,664,982	1,062,067
John Bierbusse	18,872,383	854,666
Mike Cockrell	19,287,923	439,126
Rowan H. Taylor	18,724,440	1,002,609

By a vote of 19,470,275 for, 247,974 against, and 8,799 abstaining, the shareholders ratified the Board s selection of Ernst & Young LLP as the Company s independent auditors for the fiscal year ending October 31, 2009.

By a vote of 472,358 for, 16,547,006 against and 1,392,006 abstaining, the shareholders rejected a shareholder proposal regarding controlled atmospheric killing .

Item 6. Exhibits

The following exhibits are filed with this report.

Exhibit 3.1 Articles of Incorporation of the Registrant dated October 19, 1978. (Incorporated by reference to Exhibit 4.1 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)

Exhibit 3.2 Articles of Amendment, dated March 23, 1987, to the Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 4.2 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)

Exhibit 3.3 Articles of Amendment, dated April 21, 1989, to the Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 4.3 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)

Exhibit 3.4 Certificate of Designations of Series A Junior Participating Preferred Stock of the Registrant dated April 21, 1989. (Incorporated by reference to Exhibit 4.4 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)

Exhibit 3.5 Article of Amendment, dated February 20, 1992, to the Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 4.5 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)

Exhibit 3.6 Article of Amendment, dated February 27, 1997, to the Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 4.6 filed with the registration statement on Form S-8 filed by the Registrant on July 15, 2002, Registration No. 333-92412.)

Exhibit 3.7 Bylaws of the Registrant, amended and restated as of April 23, 2009. (Incorporated by reference to Exhibit 3 filed with the Registrant s Current Report on Form 8-K on April 28, 2009.)

Exhibit 15* Accountants Letter re: Unaudited Financial Information.

Exhibit 31.1* Certification of Chief Executive Officer.

Exhibit 31.2* Certification of Chief Financial Officer.

Exhibit 32.1** Section 1350 Certification.

Exhibit 32.2** Section 1350 Certification.

* Filed herewith.

** Furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SANDERSON FARMS, INC. (Registrant)
Date: May 27, 2009	By: /s/ D. Michael Cockrell Treasurer and Chief Financial Officer
Date: May 27, 2009	By: /s/ James A. Grimes Secretary, Corporate Controller and Chief Accounting Officer

INDEX TO EXHIBITS

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