SANDERSON FARMS INC
Form 10-Q
February 26, 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 January 31, 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	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: 20,308,588 shares outstanding as of January 31, 2009.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

SANDERSON FARMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	January 31, 2009 (Unaudited)	October 31, 2008 (Note 1)
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 509	$ 4,261
Accounts receivable, net	65,305	63,516
Inventories	137,121	137,015
Refundable income taxes	39,658	31,033
Deferred income taxes	925	15,885
Prepaid expenses and other current assets	22,594	15,853
Total current assets	266,112	267,563
Property, plant and equipment	729,903	722,815
Less accumulated depreciation	(322,268)	(311,485)
	407,635	411,330
Other assets	2,226	2,265
Total assets	$ 675,973	$ 681,158
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 61,851	$ 77,565
Current maturities of long-term debt	968	1,219
Total current liabilities	62,819	78,784
Long-term debt, less current maturities	245,273	225,322
Claims payable	2,600	3,000
Deferred income taxes	20,015	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 20,308,588 and 20,288,643 at January 31, 2009 and October 31, 2008, respectively	20,309	20,289
Paid-in capital	29,811	28,859
Retained earnings	295,146	304,819

Total stockholders equity	345,266	353,967
Total liabilities and stockholders equity	$ 675,973	$ 681,158

See notes to condensed consolidated financial statements.

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

	Three Months Ended January 31, 2009	Three Months Ended January 31, 2008
	(In thousands, except per share amounts)	
Net sales	$ 388,884	$ 362,566
Cost and expenses:		
Cost of sales	383,912	337,139
Selling, general and administrative	11,914	13,805
	395,826	350,944
OPERATING INCOME (LOSS)	(6,942)	11,622
Other income (expense):		
Interest income	7	72
Interest expense	(3,211)	(2,048)
Other	(3)	17
	(3,207)	(1,959)
INCOME (LOSS) BEFORE INCOME TAXES	(10,149)	9,663
Income tax expense (benefit)	(3,400)	3,441
NET INCOME (LOSS)	$ (6,749)	$ 6,222
Earnings (loss) per share:		
Basic	$ (.33)	$ .31
Diluted	$ (.33)	$ .30
Dividends per share	$ .14	$ .14
Weighted average shares outstanding:		
Basic	20,296	20,239
Diluted	20,296	20,416

See notes to condensed consolidated financial statements.

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

	Three Months Ended January 31,	
	2009	2008
	(In thousands)	
Operating activities		
Net income (loss)	$ (6,749)	$ 6,222
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,949	10,168
Non-cash stock compensation	866	968
Deferred income taxes	14,890	0
Change in assets and liabilities:		
Accounts receivable, net	(1,789)	8,179
Refundable income taxes	(8,625)	0
Inventories	(106)	(32,873)
Prepaid expenses and other assets	(6,754)	(4,792)
Accounts payable, accrued expenses and other liabilities	(19,037)	5,605
Total adjustments	(9,606)	(12,745)
Net cash used in operating activities	(16,355)	(6,523)
Investing activities		
Capital expenditures	(7,205)	(10,193)
Net proceeds from sale of property and equipment	2	169
Net cash used in investing activities	(7,203)	(10,024)
Financing activities		
Principal payments on long-term debt	(301)	(145)
Net borrowings from revolving line of credit	20,000	25,000
Net proceeds from exercise of stock options and management share purchase plan	107	469
Dividends paid	0	0
Net cash provided by financing activities	19,806	25,324
Net change in cash and cash equivalents	(3,752)	8,777
Cash and cash equivalents at beginning of period	4,261	2,623
Cash and cash equivalents at end of period	$ 509	$ 11,400

Supplemental disclosure of non-cash financing activity:

Dividends payable	$ (2,924)	$ (2,905)

See notes to condensed consolidated financial statements.

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

	January 31, 2009	October 31, 2008
	(In thousands)	
Live poultry-broilers and breeders	$ 86,537	$ 69,715
Feed, eggs and other	19,610	24,460
Processed poultry	15,822	30,477
Processed food	9,615	6,956
Packaging materials	5,537	5,407
	$ 137,121	$ 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 January 31, 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 Company s cost of its live broiler inventory on January 31, 2009 also reflects the planned reduction in the number of live chickens in inventory due to current unfavorable market conditions and lower grain prices.

The decrease in feed, eggs and other at January 31, 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 January 31, 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 three months ended January 31, 2009 and January 31, 2008 was $866,000 and $968,000, respectively.

During the three months ended January 31, 2009, participants in the Company s Management Share Purchase Plan purchased a total of 5,961 shares of restricted stock at an average price of $34.56 per share and the Company issued 1,473 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 January 31, 2009 totaled 299,412. No compensation costs have been recorded as of January 31, 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.

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On February 19, 2009, the Company granted 18,326 shares of restricted stock to its outside, independent 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 (loss) per share was calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income 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 277,793 common shares were not included in the calculation of diluted net loss per share for the three months ended January 31, 2009, because the effect was antidilutive. Restricted stock and employee stock options representing 176,963 common shares were included in the calculation of diluted net income per share for the three months ended January 31, 2009.

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 measurement. 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.

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 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Sanderson Farms, Inc.

We have reviewed the condensed consolidated balance sheet of Sanderson Farms, Inc. and subsidiaries as of January 31, 2009, and the related condensed consolidated statements of operations and cash flows for the three-month periods ended January 31, 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
February 26, 2009

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

General

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

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 fiscal 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 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

The results for the first quarter of fiscal 2009 reflect mixed market prices for poultry products and higher costs for corn and soybean meal in broiler flocks sold during the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008. While consumer demand for chicken products in retail grocery stores remained relatively stable, the slowdown in restaurant traffic has continued to adversely affect sales to our food service customers reflecting depressed demand for any protein consumed away from home. The Company believes that until consumer demand improves, any market price improvement will have to come from adjustments to the supply of chicken. The Company anticipates that feed costs will be lower for the remainder of the fiscal 2009 as compared to the same period during fiscal 2008 as grain prices are also being affected by the economy and reduced demand.

RESULTS OF OPERATIONS

During the first quarter of fiscal 2009 the Company s net sales were $388.9 million as compared to $362.6 million during the first quarter of fiscal 2008, an increase of $26.3 million or 7.3%. Net sales of poultry products during the first quarter of fiscal 2009 and fiscal 2008 were $360.7 million and $326.5 million, respectively, an increase of $34.2 million or 10.5%. The increase in the net sales of poultry products resulted from an increase in the pounds of poultry products sold of 20.1%, partially offset by a decrease in the average sales price of poultry products sold of 8.0%. The additional pounds of poultry products sold resulted from a 6.4% increase in the number of chickens processed due to the increased production at the Company s new poultry complex in Waco, Texas, which was operating close to full production by the end of the first quarter of fiscal 2009 and was operating well below full production during the first fiscal quarter of 2008, and fewer units of leg quarters in inventory at January 31, 2009 as compared to January 31, 2008. These factors were somewhat offset by the Company s planned reductions in the live weight of chickens and the number of chickens processed for the food service market, 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. The decrease in the average sales price of poultry products reflects the mixed market price for poultry products and the additional pounds of leg quarters sold during the first quarter of fiscal 2009 as compared to the first quarter of 2008, which have a lower average sales price than other products. A simple average of the Georgia dock price for whole chickens was 12.7% higher during the three months ended January 31, 2009 as compared to the three months ended January 31, 2008, reflecting relatively stable demand for chicken in retail grocery stores. In addition, wing prices hit historic highs and averaged 10.6% higher during the first quarter of fiscal 2009 as compared to the same quarter a year ago. However, average bulk leg quarter prices decreased 24.8% during the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008, as the difficult worldwide economic issues began to affect the Company s export customers access to credit at the end of calendar 2008. The average Urner Barry market price for boneless breast meat during the three months ended January 31, 2009 decreased 9.2% as compared to the same period a year ago, reflecting the soft market for any protein consumed away from home. Net sales of prepared chicken products for the first quarter of fiscal 2009 and fiscal 2008 were $28.2 million and $36.1 million, respectively, or a decrease of 22.0%. This decrease resulted from a decrease in the pounds of prepared chicken products sold of 27.4%, partially offset by an increase in the average sales price of prepared chicken products of 7.3%.

Cost of sales during the first quarter of fiscal 2009 were $383.9 million as compared to $337.1 million during the first quarter of fiscal 2008, an increase of $46.8 million or 13.9%. Cost of sales of poultry products for the three months ended January 31, 2009 and 2008 was $358.8 million and $304.5 million, respectively, an increase of $54.3 million or 17.8%. This increase resulted from the increase in the pounds of poultry products sold, described above, and increased grain costs in broiler flocks sold during the three months ended January 31, 2009 as compared to the same period last year. A simple average of the Company s cost of corn and soybean meal delivered during the first fiscal quarter increased 4.5% and 9.2%, respectively. Although grain prices for the first quarter of fiscal 2009 were higher than the first quarter of fiscal 2008, the Company believes that grain prices will be lower for the remainder of fiscal 2009 as compared to record high prices the Company and industry incurred during the final three quarters of fiscal 2008. Cost of sales of the Company s prepared chicken products decreased $7.5 million or 23.1% due to the reduction in pounds sold of prepared chicken products of 27.4%.

Selling, general and administrative costs for the three months ended January 31, 2009 and 2008 were $11.9 million and $13.8 million, respectively, a decrease of $1.9 million. The reduction of $1.9 million relates to a planned decrease in the Company s advertising budget for fiscal 2009 as compared to fiscal 2008.

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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 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 at cost. The $35 million adjustment to inventory on October 31, 2008 effectively absorbed a portion of the costs to grow, process and distribute chicken that would have otherwise been incurred in the first quarter of fiscal 2009.

The operating loss during the first quarter of fiscal 2009 was $6.9 million as compared to an operating income of $11.6 million for the same quarter of fiscal 2008. The decrease of $18.5 million relates to the soft market for the Company s poultry products and higher cost of feed grains, described above.

Interest expense during the three months ended January 31, 2009 and 2008 was $3.2 million and $2.0 million, respectively. The increase in interest expense resulted from higher average outstanding debt during the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008, which was partially offset by lower interest rates. The Company capitalized no interest costs during the first quarter of fiscal 2009 or fiscal 2008.

The Company s effective tax rate during the first quarter of fiscal 2009 and fiscal 2008 was 33.5% and 35.6%, 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 investment credits unrelated to the hurricane. The difference between the effective tax rate for the first quarters of fiscal 2009 and 2008 primarily resulted from the economic stimulus legislation passed by Congress on October 30, 2008. This legislation extended the Katrina credit, which had previously expired on August 29, 2007, until August 29, 2009.

The Company reported a net loss for the first quarter of fiscal 2009 of $6.7 million or $.33 per share. For the first quarter of fiscal 2008 the Company reported net income of $6.2 million or $.30 per share.

Liquidity and Capital Resources

The Company s working capital at January 31, 2009 was $203.3 million and its current ratio was 4.2 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 three months ended January 31, 2009, the Company spent approximately $7.2 million on planned capital projects.

The Company s capital budget for fiscal 2009 is approximately $17.7 million at January 31, 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 has $110.5 million available under the revolving line of credit as of January 31, 2009. The fiscal 2009 capital budget includes approximately $1.4 million in operating leases. Without operating leases, the Company s capital budget for fiscal 2009 would be $16.3 million.

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 January 31, 2009 the Company had borrowed $181.3 million 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.

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Critical Accounting Policies and Estimates

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

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

Allowance for Doubtful Accounts

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

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.

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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 measurement. 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.

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. Generally, the Company purchases its corn, soybean meal and other feed ingredients for prompt delivery to its feed mills at market prices at the time of such purchases. The Company sometimes will purchase feed ingredients for deferred delivery that typically ranges from one month to twelve months after the time of purchase. 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. 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 purchase feed ingredients at prices 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 include:

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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.

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 January 31, 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 January 31, 2009. There have been no changes in the Company s internal control over financial reporting during the fiscal quarter ended January 31, 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.

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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.

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

Period	(a) Total Number of Shares Purchased[1]	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
November 1, 2008 November 30, 2008	0	$00.00	0	221,138
December 1, 2008 December 31, 2008	2,940	$33.81	2,940	218,198
January 1, 2009 January 31, 2009	0	$00.00	0	218,198
Total	2,940	$33.81	2,940	218,198

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 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 October 23, 2008. (Incorporated by reference to Exhibit 3 filed with the Registrant s Current Report on Form 8-K on October 28, 2008.)

Exhibit 10.1+ Sanderson Farms, Inc. Bonus Award Program effective November 1, 2008. (Incorporated by reference to Exhibit 10 filed with the Registrant s Current Report on Form 8-K on February 4, 2009.)

Exhibit 10.2*+ Form of Restricted Stock Agreement between the Registrant and its employees who are granted restricted stock.

Exhibit 10.3*+ Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares.

Exhibit 10.4*+ Amendment dated January 29, 2009 to the Employee Stock Ownership Plan of Sanderson Farms, Inc. and Affiliates.

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.

\+ Management contract or compensatory plan or arrangement.

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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: February 26, 2009	By: /s/ D. Michael Cockrell
	Treasurer and Chief Financial Officer
Date: February 26, 2009	By: /s/ James A. Grimes
	Secretary

INDEX TO EXHIBITS

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