SANDERSON FARMS INC
Form 10-K
December 18, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended October 31, 2012**

¨ **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	**(IRS Employer**

incorporation or organization)	**Identification No.)**
127 Flynt Road	
Laurel, Mississippi	**39443**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (601) 649-4030

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class:	**Name of exchange on which registered:**
Common stock, $1.00 par value per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes þ No

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. þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K þ

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant computed by reference to the closing sales price of the common equity in The NASDAQ Stock Market on the last business day of the Registrant s most recently completed second fiscal quarter: $956,095,584.

Number of shares outstanding of the Registrant s common stock as of December 12, 2012: 22,968,832 shares of common stock, $1.00 per share par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement filed or to be filed in connection with its 2013 Annual Meeting of Stockholders are incorporated by reference into Part III.

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INTRODUCTORY NOTE

Definitions. This Annual Report on Form 10-K is filed by Sanderson Farms, Inc., a Mississippi corporation. Except where the context indicates otherwise, the terms Registrant, Company, Sanderson Farms, we, us, or our refer to Sanderson Farms, Inc. and its subsidiaries and predec organizations. The use of these terms to refer to Sanderson Farms, Inc. and its subsidiaries collectively does not suggest that Sanderson Farms and its subsidiaries have abandoned their separate identities or the legal protections given to them as separate legal entities. Fiscal year means the fiscal year ended October 31, 2012, which is the year for which this Annual Report is filed.

Presentation and Dates of Information. Except for Item 4A herein, the Item numbers and letters appearing in this Annual Report correspond with those used in Securities and Exchange Commission Form 10-K (and, to the extent that it is incorporated into Form 10-K, those used in SEC Regulation S-K) as effective on the date hereof, which specifies the information required to be included in Annual Reports to the SEC. Item 4A (Executive Officers of the Registrant) has been included by the Registrant in accordance with General Instruction G(3) of Form 10-K and Instruction 3 of Item 401(b) of Regulation S-K. The information contained in this Annual Report is, unless indicated to be given as of a specified date or for a specified period, given as of the date of this Report, which is December 18, 2012.

PART I

Item 1. Business

(a) GENERAL DEVELOPMENT OF THE REGISTRANT S BUSINESS

The Registrant was incorporated in Mississippi in 1955, and is a fully-integrated poultry processing company engaged in the production, processing, marketing and distribution of fresh and frozen chicken products. In addition, the Registrant is engaged in the processing, marketing and distribution of prepared chicken through its wholly-owned subsidiary, Sanderson Farms, Inc. (Foods Division).

The Registrant sells ice pack, chill pack, bulk pack and frozen chicken, in whole, cut-up and boneless form, primarily under the Sanderson Farms® brand name to retailers, distributors, and casual dining operators principally in the southeastern, southwestern, northeastern and western United States, and to customers who resell frozen chicken into export markets. During its fiscal year ended October 31, 2012 the Registrant processed 448 million chickens, or over 2.9 billion dressed pounds. According to 2012 industry statistics, the Registrant was the 3RD largest processor of dressed chickens in the United States based on estimated average weekly processing.

The Registrant s chicken operations presently encompass 8 hatcheries, 7 feed mills and 9 processing plants, which include the facilities at its new Kinston, North Carolina complex. The Registrant began manufacturing feed at the new North Carolina feed mill in November 2010 and began operations at the new hatchery during the last week of October 2010. The registrant started processing chickens at the Kinston complex in January 2011 and reached near full capacity during March 2012.

The Registrant has contracts with operators of approximately 617 grow-out farms that provide it with sufficient housing capacity for its current operations. The Registrant also has contracts with operators of 187 breeder farms.

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

Since the Registrant completed the initial public offering of its common stock in May 1987, the Registrant has significantly expanded its operations to increase production capacity, product lines and marketing flexibility. Through 1997, this expansion included the expansion of the Registrant s Hammond, Louisiana processing facility, the construction of new wastewater facilities at the Hammond, Louisiana and Collins and Hazlehurst, Mississippi processing facilities, the addition of second shifts at the Hammond, Louisiana, Laurel, Hazlehurst, and Collins, Mississippi processing facilities, expansion of freezer and production capacity at its prepared chicken facility in Flowood, Mississippi, the expansion of freezer capacity at its Laurel, Mississippi, Hammond, Louisiana and Collins, Mississippi processing facilities, the addition of deboning capabilities at all of the Registrant s poultry processing

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facilities, and the construction and start-up of its McComb, Mississippi and Bryan, Texas production and processing facilities, including a hatchery, a feed mill, a processing plant, and a wastewater treatment facility for each complex, and the expansion and renovation of the hatchery at its Hazlehurst, Mississippi production facilities.

In the fourth quarter of fiscal 2005, the Registrant began initial operations at a new poultry processing complex in southern Georgia. The complex consists of a feed mill, hatchery, processing plant and wastewater treatment facility. This plant has the capacity to process 1.25 million head of chickens per week.

On August 6, 2007, the Company began initial operations at a new poultry processing complex in Waco and McLennan County, Texas. The complex consists of a hatchery, processing plant and wastewater treatment facility. This complex shares a feed mill located in Robertson County, Texas with our Bryan, Texas complex. The plant has the capacity to process 1.25 million head of chickens per week.

In January 2011, the Company began initial operations at a new poultry processing complex in Kinston, North Carolina. The Kinston facilities comprise a state-of-the-art poultry complex consisting of a hatchery, feed mill, processing plant, and waste water facility with the capacity to process 1.25 million chickens per week for the retail chill pack market. The facility reached near full capacity during March 2012.

On March 29, 2010, the Company announced intentions to construct a potential second new poultry complex in North Carolina, subject to various contingencies including, among others, obtaining an acceptable economic incentive package from the state and local governments. On August 28, 2012, the Company announced the selection of Nash County, North Carolina, as the site of the new complex, subject to various contingencies. On November 13, 2012, The Company announced that Nash County, North Carolina, will not be the site of the new complex due to various timing issues, but that alternative sites were under consideration. Construction of the new complex remains on hold until a new site can be selected and pending improvements in market fundamentals, including the global supply and price of corn and other feed grains. Before the complex can open we will need to identify a site, obtain permits, enter into construction contracts and complete construction. See The construction and potential benefits of our new facilities are subject to risks and uncertainties in the Risk Factors Section of this Annual Report.

The Company changed its marketing strategy in 1997 to move away from the small bird markets serving primarily the fast food industry to concentrate its production in the retail and big bird deboning markets serving the retail grocery and food service industries. This market shift resulted in larger average bird weights of the chickens processed by the Company, and substantially increased the number of pounds processed by the Company. In addition, the Registrant continually evaluates internal and external expansion opportunities to continue its growth in poultry and/or related food products.

Capital expenditures for fiscal 2012 were funded by cash on hand at November 1, 2011, and cash provided by operations during fiscal 2012. The Company also has available to it a $500.0 million revolving credit facility. On October 4, 2012, the Company and the lenders amended the revolving credit facility. The amendment sets the annual capital expenditure limitation at $55.0 million for fiscal years 2012, 2013, 2014, and 2015, plus, for each year, up to $10.0 million permitted to be spent in the preceding fiscal year but not actually spent therein. The capital expenditure limitation for fiscal 2012, with the permitted carry over, was $65.0 million. The amendment also permits the Company to spend up to $125.0 million each in capital expenditures on the construction of two new poultry complexes, which expenditures are in addition to the annual limits. Under the facility, the Company may not exceed a maximum debt to total capitalization ratio of 55% from the date of the agreement through October 30, 2014, and 50% thereafter. The Company has a one-time right, at any time during the life of the agreement, to increase the maximum debt to total capitalization ratio then in effect by 5% in connection with the construction of either of two new poultry complexes at locations to be determined by the Company, but within the United States, for the four fiscal quarters beginning on the first day of the fiscal quarter during which the Company gives written notice of its intent to exercise this right. The Company did not exercise this right in fiscal 2012. The amendment also sets a minimum net worth requirement that at October 31, 2012, was $400.0 million. The total committed credit under the amended facility remains at $500.0 million. The credit remains unsecured and, unless extended, will expire on February 23, 2016.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

Not applicable.

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(c) NARRATIVE DESCRIPTION OF REGISTRANT S BUSINESS

General

The Registrant is engaged in the production, processing, marketing and distribution of fresh and frozen chicken and the preparation, processing, marketing and distribution of processed and prepared chicken items.

The Registrant sells chill pack, ice pack, bulk pack and frozen chicken, in whole, cut-up and boneless form, primarily under the Sanderson Farms® brand name to retailers, distributors and casual dining operators principally in the southeastern, southwestern, northeastern and western United States. During its fiscal year ended October 31, 2012, the Registrant processed approximately 448 million chickens, or over 2.9 billion dressed pounds. In addition, the Registrant purchased and further processed 4.8 million pounds of poultry products during fiscal 2012. According to 2012 industry statistics, the Registrant was the 3RD largest processor of dressed chicken in the United States based on estimated average weekly processing.

The Registrant conducts its chicken operations through Sanderson Farms, Inc. (Production Division) and Sanderson Farms, Inc. (Processing Division), both of which are wholly-owned subsidiaries of Sanderson Farms, Inc. The production subsidiary, Sanderson Farms, Inc. (Production Division), which has facilities in Laurel, Collins, Hazlehurst and McComb, Mississippi; Bryan, Waco, and Robertson County, Texas; Adel, Georgia and Kinston, North Carolina, is engaged in the production of chickens to the broiler stage. Sanderson Farms, Inc. (Processing Division), which has facilities in Laurel, Collins, Hazlehurst and McComb, Mississippi; Hammond, Louisiana; Bryan and Waco, Texas; Moultrie, Georgia and Kinston, North Carolina, is engaged in the processing, sale and distribution of chickens.

The Registrant conducts its prepared chicken business through its wholly-owned subsidiary, Sanderson Farms, Inc. (Foods Division), which has a facility in Flowood, Mississippi. The Foods Division is engaged in the processing, marketing and distribution of approximately 75 prepared chicken items, which it sells nationally and regionally, principally to distributors and national food service accounts.

Products

The Registrant has the ability to produce a wide range of processed chicken products and prepared chicken items.

Processed chicken is first saleable as an ice packed, whole chicken. The Registrant adds value to its ice packed, whole chickens by removing the giblets, weighing, packaging and labeling the product to specific customer requirements and cutting and deboning the product based on customer specifications. The additional processing steps of giblet removal, close tolerance weighing and cutting increase the value of the product to the customer over whole, ice packed chickens by reducing customer handling and cutting labor and capital costs, reducing the shrinkage associated with cutting, and ensuring consistently sized portions.

The Registrant adds additional value to the processed chicken by deep chilling and packaging whole chickens in bags or combinations of fresh chicken parts, including boneless product, in various sized, individual trays under the Registrant s brand name, which then may be weighed and pre-priced, based on each customer s needs. This chill pack process increases the value of the product by extending shelf life, reducing customer weighing and packaging labor, and providing the customer with a wide variety of products with uniform, well designed packaging, all of which enhance the customer s ability to merchandise chicken products.

To satisfy some customers merchandising needs, the Registrant freezes the chicken product, which adds value by meeting the customers handling, storage, distribution and marketing needs and by permitting shipment of product overseas where transportation time may be as long as 25 days.

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The following table sets forth, for the periods indicated, the contribution, as a percentage of net sales dollars, of each of the Registrant s major product lines.

	Fiscal Year Ended October 31,				
	2008	2009	2010	2011	2012
Registrant processed chicken:					
Value added:					
Chill pack	31.2%	31.1%	28.5%	32.5%	33.1%
Fresh bulk pack	46.1	50.3	54.5	48.5	49.0
Frozen	13.7	10.1	9.8	12.4	13.1
Subtotal	91.0	91.5	92.8	93.4	95.2
Non-value added:					
Ice pack	.7	.8	.8	1.2	1.2
Frozen	.0	.0	.0	.0	.0
Subtotal	.7	.8	.8	1.2	1.2
Total Company processed chicken	91.7	92.3	93.6	94.6	96.4
Prepared chicken	8.3	7.7	6.4	5.4	3.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Market Segments and Pricing

The three largest market segments in the chicken industry are big bird deboning, chill pack and small birds.

The following table sets forth, for each of the Company s poultry processing plants, the general market segment in which the plant participates, the weekly capacity of each plant at full capacity expressed in number of head processed, and the average industry size of birds processed in the relevant market segment.

Plant Location	Market Segment	Capacity Per Week	Industry Bird Size
Laurel, Mississippi	Big Bird Deboning	625,000	8.14
Hazlehurst, Mississippi	Big Bird Deboning	625,000	8.14
Hammond, Louisiana	Big Bird Deboning	625,000	8.14
McComb, Mississippi	Chill Pack Retail	1,250,000	6.11
Bryan, Texas	Chill Pack Retail	1,250,000	6.11
Collins, Mississippi	Big Bird Deboning	1,250,000	8.14
Moultrie, Georgia	Chill Pack Retail	1,250,000	6.11
Waco, Texas	Big Bird Deboning	1,250,000	8.14
Kinston, North Carolina	Chill Pack Retail	1,250,000	6.11

The Company s Kinston, North Carolina facility, which began initial operations in January 2011 will, at full capacity, process 1.25 million head of chill pack chickens per week. The Kinston, North Carolina facility reached near full capacity during March 2012.

Those plants that target the big bird deboning market grow a relatively large bird. The dark meat from these birds is sold primarily as frozen leg quarters in the export market or as fresh whole legs to further processors. This dark meat is sold primarily at spot commodity prices, which prices exhibit fluctuations typical of commodity markets. The white meat produced by these plants is generally sold as fresh deboned breast meat, chicken tenders and whole or cut wings, and is likewise sold at spot commodity market prices for wings, tenders and boneless breast meat. As of October 31, 2012, the Company had the capacity to process 4.375 million head per week in its big bird deboning plants, and its results are materially impacted by fluctuations in the commodity market prices for leg quarters, boneless breast meat, chicken tenders and wings.

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The Urner Barry spot market price for leg quarters, boneless breast meat, chicken tenders and whole wings for the past five calendar years is set forth below:

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Those plants that target the chill pack retail grocery market grow a medium sized bird and cut and package the product in various sized individual trays to customers specifications. The trays are weighed and pre-priced primarily for customers to resell through retail grocery outlets. While the Company sells some of its chill pack product under store brand names, most of its chill pack production is sold under the Company s Sanderson Farms® brand name. The Company has long term contracts (one to three years) with most of its chill pack customers, and the pricing of this product is based on a formula that uses the Georgia Dock whole bird price as its base. The Georgia Dock whole bird price is published each week by the Georgia Department of Agriculture and is based on its survey of prices and market conditions during the preceding week. As of October 31, 2012, the Company had the capacity to process 5.0 million head per week at its chill pack plants, and its results are materially impacted by fluctuations in the Georgia Dock price.

The Georgia Dock price for whole birds as published by the Georgia Department of Agriculture for the last five calendar years is set forth below:

Those companies with plants dedicated to the small bird market grow and process a relatively small chicken and market the finished product primarily to fast food and food service companies at negotiated flat prices, cost plus formulas or spot market prices. Based on benchmarking services used by the industry, this market segment has been the least profitable of the three primary market segments over most of the last ten years. The Company has no product dedicated to the small bird market.

Sales and Marketing

The Registrant s chicken products are sold primarily to retailers (including national and regional supermarket chains and local supermarkets) and distributors located principally in the southeastern, southwestern, northeastern and western United States. The Registrant also sells its chicken products to casual dining operators and to United States based customers who resell the products outside of the continental United States. This wide range of customers, together with the Registrant s product mix, provides the Registrant with flexibility in responding to changing market conditions in its effort to maximize profits. This flexibility also assists the Registrant in its efforts to reduce its exposure to market volatility, although its ability to do so is limited.

Sales and distribution of the Registrant s chicken products are conducted primarily by sales personnel at the Registrant s general corporate offices in Laurel, Mississippi, by customer service representatives at each of its processing complexes and one prepared chicken plant and through independent food brokers. Each complex has individual on-site distribution centers and uses the Registrant s truck fleet, as well as contract carriers, for distribution of its products.

Generally, the Registrant prices much of its chicken products based upon weekly and daily market prices reported by the Georgia Department of Agriculture and by private firms. Consistent with the industry, the Registrant s profitability is impacted by such market prices, which may fluctuate substantially and exhibit cyclical and seasonal characteristics. The Registrant will adjust base prices depending upon value added, volume, product mix and other factors. While base prices may change weekly and daily, the Registrant s adjustments are generally negotiated from time to time with the Registrant s customers. The Registrant s sales are generally made on an as-ordered basis, and the Registrant maintains few long-term sales contracts with its non-chill pack customers.

From time to time, the Registrant may use television, radio and newspaper advertising, point of purchase material and other marketing techniques to develop consumer awareness of and brand recognition for its Sanderson Farms® products. The Registrant has achieved a high level of public awareness and acceptance of its products in its core markets. Brand awareness is an important element of the Registrant s marketing philosophy, and it intends to continue brand name merchandising of its products. During calendar 2004, the Company launched an advertising

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campaign designed to distinguish the Company s fresh chicken products from competitors products. The campaign noted that the Company s product is a natural product free from salt, water and other additives that some competitors inject into their fresh chicken.

The Registrant s prepared chicken items are sold nationally and regionally, primarily to distributors and national food service accounts. Sales of such products are handled by sales personnel of the Registrant and by independent food brokers. Prepared chicken items are distributed from the Registrant s plant in Flowood, Mississippi, through arrangements with contract carriers.

Production and Facilities

General. The Registrant is a vertically-integrated producer of fresh and frozen chicken products, controlling the production of hatching eggs, hatching, feed manufacturing, growing, processing and packaging of its product lines.

Breeding and Hatching. The Registrant maintains its own breeder flocks for the production of hatching eggs. The Registrant s breeder flocks are acquired as one-day old chicks (known as pullets or cockerels) from primary breeding companies that specialize in the production of genetically designed breeder stock. As of October 31, 2012, the Registrant maintained contracts with 49 independent contract pullet producers for the grow-out of pullets (growing the pullet to the point at which it is capable of egg production, which takes approximately six months). Thereafter, the mature breeder flocks are transported by Registrant s vehicles to breeder farms that are maintained, as of October 31, 2012, by 138 independent contractors under the Registrant s supervision. Eggs produced by independent contract breeder producers are transported to Registrant s hatcheries in Registrant s vehicles.

The Registrant owns and operates eight hatcheries located in Mississippi, Texas, Georgia and North Carolina where eggs are incubated, vaccinated and hatched in a process requiring 21 days. The chicks are vaccinated against common poultry diseases and are transported by Registrant s vehicles to independent contract grow-out farms. As of October 31, 2012, the Registrant s hatcheries were capable of producing an aggregate of approximately 10.2 million chicks per week.

Grow-out. The Registrant places its chicks on the farms of 617 independent contract broiler producers, as of October 31, 2012, located in Mississippi, Texas, Georgia and North Carolina where broilers are grown to an age of approximately seven to nine weeks. The farms provide the Registrant with sufficient housing capacity for its operations, and are typically family-owned farms operated under contract with the Registrant. The farm owners provide facilities, utilities and labor; the Registrant supplies the day-old chicks, feed and veterinary and technical services. The farm owner is compensated pursuant to an incentive formula designed to promote production cost efficiency.

Historically, the Registrant has been able to accommodate expansion in grow-out facilities through additional contract arrangements with independent contract producers.

Feed Mills. An important factor in the grow-out of chickens is the rate at which chickens convert feed into body weight. The Registrant purchases the primary feed ingredients on the open market. Ingredients include corn and soybean meal, which historically have been the largest cost components of the Registrant s total feed costs. The quality and composition of the feed are critical to the conversion rate, and accordingly, the Registrant formulates and produces its own feed. As of October 31, 2012, the Registrant operated seven feed mills, four of which are located in Mississippi, one in Texas, one in Georgia and one in North Carolina. The Company s new feed mill in North Carolina began operations in November 2010. The Registrant s annual feed requirements for fiscal 2012 were approximately 3,564,000 tons, and it has the capacity to produce approximately 4,212,000 tons of finished feed annually under current configurations.

Feed grains are commodities subject to volatile price changes caused by weather, size of the harvest, transportation and storage costs, domestic and export demand and the agricultural and energy policies of the United States and foreign governments. On October 31, 2012, the Registrant had the capacity to store approximately 2,989,000 bushels of corn at its feed mills, which was sufficient to store all of its weekly requirements for corn. Generally, the Registrant purchases its corn and other feed ingredients at current prices from suppliers and, to a limited extent, directly from farmers. Feed grains are available from an adequate number of sources. Although the Registrant has not experienced, and does not anticipate problems in securing adequate supplies of feed grains, price fluctuations of feed grains have a direct and material effect upon the Registrant s profitability. Although the Registrant attempts to manage the risk of volatile price changes in grain markets by sometimes purchasing grain at current prices for future delivery, it cannot eliminate the potentially adverse effect of grain price increases.

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Processing. Once broilers reach processing weight, they are transported to the Registrant s processing plants. These plants use modern, highly automated equipment to process and package the chickens. The Registrant s McComb, Mississippi processing plant operates two processing lines on a double shift basis and had the capacity to process approximately 1,250,000 chickens per week on October 31, 2012. The Registrant s Collins, Mississippi processing plant operates two processing lines on a double shift basis and had the capacity to process approximately 1,250,000 chickens per week on October 31, 2012. The Registrant s Bryan, Texas processing plant operates two processing lines on a double shift basis and had the capacity to process approximately 1,250,000 chickens per week on October 31, 2012. The Registrant s Laurel and Hazlehurst, Mississippi and Hammond, Louisiana processing plants operate on a double shift basis and collectively had the capacity to process approximately 1,875,000 chickens per week on October 31, 2012. The Registrant s Moultrie, Georgia processing plant operates two processing lines on a double shift basis and had the capacity to process approximately 1,250,000 chickens per week on October 31, 2012. The Registrant s Waco, Texas processing plant operates two processing lines on a double shift basis and had the capacity to process approximately 1,250,000 chickens per week on October 31, 2012. The Registrant s Kinston, North Carolina processing plant, which began initial operations in January 2011, operates two processing lines on a double shift basis and had the capacity to process approximately 1,250,000 chickens per week on October 31, 2012. At October 31, 2012, the Company s deboning facilities were operating on a double shifted basis and had the capacity to produce approximately 10.1 million pounds of big bird boneless breast product and 7.6 million pounds of chill pack boneless breast product each week.

Sanderson Farms, Inc. (Foods Division). The facilities of Sanderson Farms, Inc. (Foods Division) are located in Flowood, Mississippi in a plant with approximately 75,000 square feet of refrigerated manufacturing and storage space. The plant uses highly automated equipment to prepare, process and freeze food items.

Executive Offices; Other Facilities. The Registrant s laboratory and corporate offices are located on separate sites in Laurel, Mississippi. The office building houses the Company s corporate offices, meeting facilities and computer equipment and constitutes the corporate headquarters. As of October 31, 2012, the Registrant operated 11 automotive maintenance shops, which service approximately 824 Registrant over-the-road and farm vehicles. In addition, the Registrant has one child care facility located near its Collins, Mississippi processing plant, serving over 165 children on October 31, 2012.

Quality Control

The Registrant believes that quality control is important to its business and conducts quality control activities throughout all aspects of its operations. The Registrant believes these activities are beneficial to efficient production and in assuring its customers receive wholesome, high quality products.

From its company owned laboratory in Laurel, Mississippi, the Director of Technical Services supervises the operation of a modern, well-equipped laboratory which, among other things, monitors sanitation at the hatcheries, quality and purity of the Registrant s feed ingredients and feed, the health of the Registrant s breeder flocks and broilers, and conducts microbiological tests of live chickens, facilities and finished products. The Registrant conducts on-site quality control activities at each of the nine processing plants and the prepared chicken plant.

Regulation

The Registrant s facilities and operations are subject to regulation by various federal and state agencies, including, but not limited to, the Federal Food and Drug Administration (FDA), the United States Department of Agriculture (USDA), the Environmental Protection Agency, the Occupational Safety and Health Administration and corresponding state agencies. The Registrant s chicken processing plants are subject to continuous on-site inspection by the USDA. The Sanderson Farms, Inc. (Foods Division) prepared chicken plant operates under the USDA s Total Quality Control Program, which is a strict self-inspection plan written in cooperation with and monitored by the USDA. The FDA inspects the production at the Registrant s feed mills.

Compliance with existing regulations has not had a material adverse effect upon the Registrant s earnings or competitive position in the past. Management believes that the Registrant is in substantial compliance with existing laws and regulations relating to the operation of its facilities and does not know of any major capital expenditures necessary to comply with such statutes and regulations.

The Registrant takes extensive precautions to ensure that its flocks are healthy and that its processing plants and other facilities operate in a healthy and environmentally sound manner. Events beyond the control of the Registrant, however, such as an outbreak of disease in its flocks or the adoption by governmental agencies of more stringent regulations, could materially and adversely affect its operations.

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Competition

The Registrant is subject to significant competition from regional and national firms in all markets in which it competes. Some of the Registrant s competitors have greater financial and marketing resources than the Registrant.

The primary methods of competition are price, product quality, number of products offered, brand awareness and customer service. The Registrant has emphasized product quality and brand awareness through its advertising strategy. See Business Sales and Marketing . Although poultry is relatively inexpensive in comparison with other meats, the Registrant competes indirectly with the producers of other meats and fish, since changes in the relative prices of these foods may alter consumer buying patterns.

One customer accounted for more than 10% of the Registrant s consolidated sales for the years ended October 31, 2012, 2011 and 2010. Sales to that customer accounted for 13.0%, 10.6% and 12.0% of the Company s consolidated net sales in 2012, 2011 and 2010, respectively. The Company does not believe the loss of any single customer would have a material adverse effect on the Company because it could sell poultry earmarked for any single customer to alternative customers at market prices.

Sources of Supply

During fiscal 2012, the Registrant purchased its pullets and cockerels from a single major breeder. The Registrant has found the genetic breeds or cross breeds supplied by this company produce chickens most suitable to the Registrant s purposes. The Registrant has no written contracts with this breeder for the supply of breeder stock. Other sources of breeder stock are available, and the Registrant continually evaluates these sources of supply.

Should breeder stock from its present supplier not be available for any reason, the Registrant believes that it could obtain adequate breeder stock from other suppliers.

Other major raw materials used by the Registrant include feed grains and other feed ingredients, cooking ingredients and packaging materials. The Registrant purchases these materials from a number of vendors and believes that its sources of supply are adequate for its present needs. The Registrant does not anticipate any difficulty in obtaining these materials in the future.

Seasonality

The demand for the Registrant s chicken products generally is greatest during the spring and summer months and lowest during the winter months.

Trademarks

The Registrant has registered with the United States Patent and Trademark Office the trademark Sanderson Farms®, which it uses in connection with the distribution of its prepared chicken and premium grade chill pack products. The Registrant considers the protection of this trademark to be important to its marketing efforts due to consumer awareness of and loyalty to the Sanderson Farms® label. The Registrant also has registered with the United States Patent and Trademark Office seven other trademarks that are used in connection with the distribution of chicken and other products and for other competitive purposes.

The Registrant, over the years, has developed important non-public proprietary information regarding product related matters. While the Registrant has internal safeguards and procedures to protect the confidentiality of such information, it does not generally seek patent protection for its technology.

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Employee and Labor Relations

As of October 31, 2012, the Registrant had 11,313 employees, including 1,271 salaried and 10,042 hourly employees. A collective bargaining agreement with the United Food and Commercial Workers International Union covering 479 hourly employees who work at the Registrant s processing plant in Hammond, Louisiana expires on November 30, 2013. This collective bargaining agreement has a grievance procedure and no strike-no lockout clauses that should assist in maintaining stable labor relations at the Hammond plant.

A collective bargaining agreement with the Laborers International Union of North America, Professional Employees Local Union #693, AFL-CIO, covering 447 hourly employees who work at the Registrant s processing plant in Hazlehurst, Mississippi expires on December 31, 2014. The current collective bargaining agreement has a grievance procedure and no strike-no lockout clauses that should assist in maintaining stable labor relations at the Hazlehurst plant.

A collective bargaining agreement with the Laborers International Union of North America, Professional Employees Local Union #693, AFL-CIO, covering 988 hourly employees who work at the Registrant s processing plant in Collins, Mississippi expires on January 10, 2013. The current collective bargaining agreement has a grievance procedure and no strike-no lockout clauses that should assist in maintaining stable labor relations at the Collins plant. Negotiations are ongoing to reach a new agreement with these employees.

The production, maintenance and clean-up employees at the Company s Bryan, Texas poultry processing facility are represented by the United Food and Commercial Workers Union Local #408, AFL-CIO. A collective bargaining agreement covering 1,317 employees expires on December 31, 2014. The collective bargaining agreement has a grievance procedure and no strike-no lockout clause that should assist in maintaining stable labor relations at the Bryan, Texas processing facility.

(d) FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

All of the Company s operations are domiciled in the United States. All of the Company s products sold in the Company s fiscal years 2012, 2011 and 2010 were produced in the United States and all long-lived assets of the Company are domiciled in the United States.

The Company sells certain of its products to customers who resell the product in foreign markets. These foreign markets are primarily Russia, Eastern Europe, China, Mexico and the Caribbean. These export sales for fiscal years 2012, 2011 and 2010 totaled approximately $318.7 million, $253.8 million and $191.4 million, respectively. The Company s export sales are facilitated through independent food brokers located in the United States and the Company s internal sales staff.

(e) AVAILABLE INFORMATION

Our address on the World Wide Web is http://www.sandersonfarms.com. The information on our web site is not a part of this document. Our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and all amendments to those reports and the Company s corporate code of conduct are available, free of charge, through our web site as soon as reasonably practicable after they are filed with the SEC. Information concerning corporate governance matters is also available on the website.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the following factors, which could materially affect our business, financial condition or results of operations in future periods. The risks described below are not the only risks facing our Company. Additional risks not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations in future periods.

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Industry cyclicality can affect our earnings, especially due to fluctuations in commodity prices of feed ingredients and chicken.

Profitability in the poultry industry is materially affected by the commodity prices of feed ingredients, chicken, and, to a lesser extent, alternative proteins. These prices are determined by supply and demand factors, and supply and demand factors in respect of feed ingredients and chicken may not correlate. For example, grain prices during 2011 were high, while prices for chicken products did not increase proportionally, and the Company lost money. During 2012, grain prices remained high, but market prices for chicken also increased, and the Company was profitable. As a result, the poultry industry is subject to wide fluctuations that are called cycles. Typically we do well when chicken prices are high and feed prices are low. We do less well, and sometimes have losses, when chicken prices are low and feed prices are high. It is very difficult to predict when these cycles will occur. All we can safely predict is that they do and will occur.

Various factors can affect the supply of corn and soybean meal, which are the primary ingredients of the feed we use. In particular, global weather patterns, including adverse weather conditions that may result from climate change, the global level of supply inventories and demand for feed ingredients, currency fluctuations and the agricultural and energy policies of the United States and foreign governments all affect the supply of feed ingredients. Weather patterns often change agricultural conditions in an unpredictable manner. A sudden and significant change in weather patterns could affect supplies of feed ingredients, as well as both the industry s and our ability to obtain feed ingredients, grow chickens or deliver products. For example, historic drought conditions in the Midwestern United States in 2012 have had, and are expected to continue to have, a significant adverse effect on the supply and price of feed grains. In recent years, demand for corn from ethanol producers has also resulted in sharply higher costs for corn and other grains.

Increases in the prices of feed ingredients will result in increases in raw material costs and operating costs. Because prices for our products are related to the commodity prices of chickens, which depend on the supply and demand dynamics of fresh chicken, we typically are not able to increase our product prices to offset these increased grain costs. We periodically enter into contracts to purchase feed ingredients at current prices for future delivery to manage our feed ingredient costs. This practice could reduce, but does not eliminate, the risk of increased operating costs from commodity price increases. In addition, if we are unsuccessful in our grain buying strategy, we could actually pay a higher cost for feed ingredients than we would if we purchased at current prices for current delivery.

Prepared chicken and poultry inventories, and inventories of feed, eggs, medication, packaging supplies and live chickens, are stated on our balance sheet at the lower of cost (first-in, first-out method) or market. Our cost of sales is calculated during a period by adding the value of our inventories at the beginning of the period to the cost of growing, processing and distributing products produced during the period and subtracting the value of our inventories at the end of the period. If the market prices of our inventories are below the accumulated cost of those inventories at the end of a period, we would record adjustments to write down the carrying value of the inventory from cost to market value. These write-downs would directly increase our cost of sales by the amount of the write-downs. This risk is greatest when the costs of feed ingredients are high and the market value for finished poultry products is declining.

For example, for the fiscal year ended October 31, 2011, we recorded a charge of $9 million to lower the value of live broiler inventories on hand at that date from cost to estimated market value because the estimated market price for the products to be produced from those live chickens when sold was estimated to be below the estimated cost to grow, process and distribute those chickens. The $9 million adjustment to inventory on October 31, 2011 effectively absorbed into fiscal 2011 a portion of the costs to grow, process and distribute chickens that we would have otherwise incurred in the first quarter of fiscal 2012, thereby benefitting fiscal 2012. Any similar adjustments that we make in the future could be material, and could materially adversely affect our financial condition and results of operations. The Company made no similar adjustment during fiscal 2012.

Outbreaks of avian disease, such as avian influenza, or the perception that outbreaks may occur, can significantly restrict our ability to conduct our operations.

We take reasonable precautions to ensure that our flocks are healthy and that our processing plants and other facilities operate in a sanitary and environmentally sound manner. Nevertheless, events beyond our control, such as the outbreak of avian disease, even if it does not affect our flocks, could significantly restrict our ability to conduct our operations or our sales. An outbreak of disease could result in governmental restrictions on the import and export of fresh and frozen chicken, including our fresh and frozen chicken products, or other products to or from our suppliers, facilities or customers, or require us to destroy one or more of our flocks. This could result in the cancellation of orders by our customers and create adverse publicity that may have a material adverse effect on our business, reputation and prospects. In addition, world-wide fears about avian disease, such as avian influenza, have, in the past, depressed demand for fresh chicken, which adversely impacted our sales.

In previous years there has been substantial publicity regarding a highly pathogenic Asian strain of avian influenza, or AI, known as H5N1, which has affected Asia since 2002 and which has been found in Europe, the Middle East and Africa. It is widely believed that this strain of AI is spread by migratory birds, such as ducks and geese. There have also been some cases where this strain of AI is believed to have passed from birds to humans as humans came into contact with live birds that were infected with the disease.

Although the highly pathogenic Asian strain of AI has not been identified in North America, there have been outbreaks of both low and high pathogenic strains of avian influenza in North America, including in the U.S. in 2002 and 2004 and in Mexico in 2005 and 2012. In addition, low pathogenic strains of the AI virus were detected in wild birds in the United States in 2006. Although these outbreaks have not generated the same level of concern, or received the same level of publicity or been accompanied by the same reduction in demand for poultry products in certain countries as that associated with the highly pathogenic Asian strain, they have nevertheless impacted our sales. Accordingly, even if the Asian strain does not spread to North America, we cannot assure you that it will not materially adversely affect domestic or international demand for poultry produced in North America, and, if it were to spread to North America, we cannot assure you that it would not significantly affect our operations or the demand for our products, in each case in a manner having a material adverse effect on our business, reputation or prospects.

A decrease in demand for our products in the export markets could materially and adversely affect our results of operations.

Nearly all of our customers are based in the United States, but some of our customers resell poultry products in the export markets. Our chicken products are sold in Russia and other former Soviet countries, China and Mexico, among other countries. Approximately 13% of our gross sales in fiscal 2012 were to export markets, including $86.1 million to Russia, $65.5 million to Mexico and $51.0 million to China. Any disruption to the export markets, such as trade embargos, tariffs, import bans, duties or quotas could materially impact our sales or create an oversupply of chicken in the United States. This, in turn, could cause domestic poultry prices to decline. Any quotas or bans in the future could materially and adversely affect our sales and our results of operations.

On January 19, 2010, Russia banned imports of U.S. poultry, citing its concerns about the practice in the United States of treating poultry meat with chlorinated water during processing. On February 5, 2010, China announced that it would impose anti-dumping duties on U.S. chicken products beginning on February 13, 2010. The duty applicable to Sanderson Farms products was 64.5%. On April 28, 2010, China imposed countervailing duties on United States chicken products, raising the duty applicable to Sanderson Farms products by 6.1% to 70.6%. The total duties were later lowered to 59.2%. Following the imposition of the Russian embargo and the Chinese duty, we and our customers who resell our frozen chicken product to Russia and China were able, for a period of time, to sell those products in alternative markets without a significant price disadvantage. However, our customers who resell or previously resold our frozen chicken products in China are now selling a portion of those products in China and paying the applicable duty. This lowers their return and the price they are willing to pay us, reducing our revenues and profits. We do not know whether or when China might lift the anti-dumping duties. A challenge to China s anti-dumping determination was filed by the U.S. Government with the World Trade Organization (WTO) and is currently pending. In the case of Russia, an agreement between the governments of the United States and Russia was reached in July 2010 pursuant to which poultry meat processed pursuant to the standards demanded by Russia and incorporated into the agreement may be shipped to Russia.

On August 6, 2012, Mexico imposed anti-dumping duties on chicken drumstick and thigh importations from the United States, establishing the duty applicable to Sanderson Farms products at 25.7%. However, Mexico suspended the implementation of the duties amidst concerns that food inflation may occur as a result. While we do not know whether or when Mexico might impose the anti-dumping duties, their implementation could reduce our

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revenues and profits. On October 2, 2012, pursuant to the North American Free Trade Agreement (NAFTA), the U.S. poultry industry, including Sanderson Farms, Inc., filed a complaint challenging the anti-dumping determination issued by Mexico. The complaint is currently pending.

The poultry industry is highly competitive. Some of our competitors have greater financial and marketing resources than we have.

In general, the competitive factors in the U.S. poultry industry include:

- price;
- product quality;
- brand identification;
- breadth of product line and
- customer service.

Competitive factors vary by major markets. In the food service market, competition is based on consistent quality, product development, service and price. In the U.S. retail grocery market, we believe that competition is based on product quality, brand awareness, price and customer service. Our success depends in part on our ability to manage costs and be efficient in the highly competitive poultry industry.

The loss of our major customers could have a material adverse effect on our results of operations.

Our sales to our top ten customers represented approximately 46.8% of our net sales during the 2012 fiscal year. Our non-chill pack customers, with whom we generally do not have long-term contracts, could significantly reduce or cease their purchases from us with little or no advance notice, which could materially and adversely affect our sales and results of operations.

We must identify changing consumer preferences and develop and offer food products to meet their preferences.

Consumer preferences evolve over time and the success of our food products depends on our ability to identify the tastes and dietary habits of consumers and to offer products that appeal to their preferences. We introduce new products and improved products from time to time and incur significant development and marketing cost. If our products fail to meet consumer preference, then our strategy to grow sales and profits with new products will be less successful.

Inclement weather, such as excessive heat or storms, could hurt our flocks, which could in turn have a material adverse effect on our results of operations.

Extreme weather in the Gulf South and Mid-Atlantic regions where we operate, such as extreme temperatures, hurricanes or other storms, could impair the health or growth of our flocks or interfere with our hatching, production or shipping operations. Some scientists believe that climate change could increase the frequency and severity of adverse weather events. Extreme weather, regardless of its cause, could affect our business due to power outages; fuel shortages; damage to infrastructure from powerful winds, rising water or extreme temperatures; disruption of shipping channels; less efficient or non-routine operating practices necessitated by adverse weather or increased costs of insurance coverage in the aftermath of such events, among other things. Any of these factors could materially and adversely affect our results of operations. We may not be able to recover through insurance all of the damages, losses or costs that may result from weather events, including those that may be caused by climate change.

We rely heavily on the services of key personnel.

We depend substantially on the leadership of a small number of executive officers and other key employees. We have employment agreements with only three of these persons (our Chairman of the Board and Chief Executive

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Officer, our President and Chief Operating Officer, and our Treasurer and Chief Financial Officer), and those with whom we have no agreement would not be bound by non-competition agreements or non-solicitation agreements if they were to leave us. The loss of the services of these persons could have a material adverse effect on our business, results of operations and financial condition. In addition, we may not be able to attract, retain and train the new management personnel we need for our new complexes, or do so at the pace necessary to sustain our significant company growth.

We depend on the availability of, and good relations with, our employees and contract growers.

We have approximately 11,313 employees, approximately 28.6% of which are covered by collective bargaining agreements. In addition, we contract with over 800 independent contract poultry producers in Mississippi, Texas, North Carolina and Georgia for the grow-out of our breeder and broiler stock and the production of broiler eggs. Our operations depend on the availability of labor and contract growers and maintaining good relations with these persons and with labor unions. If we fail to maintain good relations with our employees or with the unions, we may experience labor strikes or work stoppages. If we do not attract and maintain contracts with our growers, including new growers for our new poultry complexes, our production operations could be negatively impacted and/or our growth could be restrained.

Failure of our information technology infrastructure or software could adversely affect our day-to-day operations and decision making processes and have an adverse effect on our performance.

We depend on accurate and timely information and numerical data from key software applications to aid our day-to-day business, financial reporting and decision-making and, in many cases, proprietary and custom-designed software is necessary to operate equipment in our feed mills, hatcheries and processing plants. We have put in place disaster recovery plans for our critical systems. However, any disruption caused by the failure of these systems, the underlying equipment or communication networks could delay or otherwise adversely impact our day-to-day business and decision making, could make it impossible for us to operate critical equipment, and could have a materially adverse effect on our performance, if our disaster recovery plans do not mitigate the disruption. Disruptions could be caused by a variety of factors, such as catastrophic events or weather, power outages, or cyber-attacks on our systems by outside parties.

Immigration legislation and enforcement may affect our ability to hire hourly workers.

Immigration reform continues to attract significant attention in the public arena and the United States Congress. If new immigration legislation is enacted at the federal level or in states in which we do business, such legislation may contain provisions that could make it more difficult or costly for us to hire United States citizens and/or legal immigrant workers. In such case, we may incur additional costs to run our business or may have to change the way we conduct our operations, either of which could have a material adverse effect on our business, operating results and financial condition. Also, despite our past and continuing efforts to hire only United States citizens and/or persons legally authorized to work in the United States, increased enforcement efforts with respect to existing immigration laws by governmental authorities may disrupt a portion of our workforce or our operations at one or more of our facilities, thereby negatively impacting our business. Officials with the Bureau of Immigration and Customs Enforcement have informally indicated an intent to focus their enforcement efforts on red meat and poultry processors.

If our poultry products become contaminated, we may be subject to product liability claims and product recalls.

Poultry products may be subject to contamination by disease-producing organisms, or pathogens, such as Listeria monocytogenes, Salmonella and generic E. coli. These pathogens are generally found in the environment and, as a result, there is a risk that they, as a result of food processing, could be present in our processed poultry products. These pathogens can also be introduced as a result of improper handling by our customers, consumers or third parties after we have shipped the products. We control these risks through careful processing and testing of our finished product, but we cannot entirely eliminate them. We have little, if any, control over proper handling once the product has been shipped. Nevertheless, contamination that results from improper handling by our customers, consumers or third parties, or tampering with our products by those persons, may be blamed on us. Any publicity regarding product contamination or resulting illness or death could adversely affect us even if we did not cause the contamination and could have a material adverse effect on our business, reputation and future prospects. We could be required to recall our products if they are contaminated or damaged and product liability claims could be asserted against us.

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We are exposed to risks relating to product liability, product recalls, property damage and injuries to persons, for which insurance coverage is expensive, limited and potentially inadequate.

Our business operations entail a number of risks, including risks relating to product liability claims, product recalls, property damage and injuries to persons. We currently maintain insurance with respect to certain of these risks, including product liability and recall insurance, property insurance, workers compensation insurance and general liability insurance, but in many cases such insurance is expensive and difficult to obtain. We cannot assure you that we can maintain on reasonable terms sufficient coverage to protect us against losses due to any of these events.

We would be adversely affected if we expand our business by acquiring other businesses or by building new processing plants, but fail to successfully integrate the acquired business or run a new plant efficiently.

We regularly evaluate expansion opportunities such as acquiring other businesses or building new processing plants. Significant expansion involves risks such as additional debt, integrating the acquired business or new plant into our operations and attracting and retaining growers. In evaluating expansion opportunities, we carefully consider the effect that financing the opportunity will have on our financial condition. Successful expansion depends on our ability to integrate the acquired business or efficiently run the new plant. If we are unable to do this, expansion could adversely affect our operations, financial results and prospects.

Governmental regulation is a constant factor affecting our business.

The poultry industry is subject to federal, state, local and foreign governmental regulation relating to the processing, packaging, storage, distribution, advertising, labeling, quality and safety of food products. Unknown matters, new laws and regulations, or stricter interpretations of existing laws or regulations may materially affect our business or operations in the future. Our failure to comply with applicable laws and regulations could subject us to administrative penalties and civil remedies, including fines, injunctions and recalls of our products. Our operations are also subject to extensive and increasingly stringent regulations administered by the Environmental Protection Agency, which pertain to the discharge of materials into the environment and the handling and disposition of wastes. Failure to comply with these regulations can have serious consequences, including civil and administrative penalties and negative publicity.

On December 9, 2011, the United States Department of Agriculture, Grain Inspection, Packers and Stockyard Administration, or GIPSA, published new and amending regulations under the Packers and Stockyard Act, or PSA, which apply to all stages of a live poultry dealer s poultry grow-out, including the pullet, breeder and broiler stages. The new regulations took effect on February 7, 2012. Among other things, the new regulations purport to extend the jurisdiction of GIPSA under the PSA to cover a poultry dealer s relationship with its pullet and breeder growers rather than simply broiler growers, as has been the case since the adoption of the PSA of 1921. The new regulations impose certain notice requirements when a poultry company determines to suspend the delivery of birds to a grower, impose requirements regarding additional capital investment by growers, impose new requirements of a poultry company when a grower has breached its agreement with the processor, and impose new rules applicable to grower contracts that provide for arbitration to resolve disputes between a grower and the poultry company. The Company amended its grower agreements in 2012 to comply with the new rules. It is uncertain how GIPSA will interpret the new rules and whether the new rules signal a change in the manner in which GIPSA will exercise its jurisdiction over poultry growing agreements.

Our stock price may be volatile.

The market price of our common stock could be subject to wide fluctuations in response to factors such as the following, many of which are beyond our control:

market cyclicality and fluctuations in the price of feed grains and chicken products, as described above;

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- quarterly variations in our operating results, or results that vary from the expectations of securities analysts and investors;

- changes in investor perceptions of the poultry industry in general, including our competitors; and

- general economic and competitive conditions.

In addition, purchases or sales of large quantities of our stock could have an unusual effect on our market price.

Anti-takeover provisions in our charter and by-laws, as well as certain provisions of Mississippi law, may make it difficult for anyone to acquire us without approval of our board of directors.

Our articles of incorporation and by-laws contain provisions that may discourage attempts to acquire control of our company without the approval of our board of directors. These provisions, among others, include a classified board of directors, advance notification requirements for stockholders to nominate persons for election to the board and to make stockholder proposals, and special stockholder voting requirements. These measures, and any others we may adopt in the future, as well as applicable provisions of Mississippi law, may discourage offers to acquire us and may permit our board of directors to choose not to entertain offers to purchase us, even offers that are at a substantial premium to the market price of our stock. Our stockholders may therefore be deprived of opportunities to profit from a sale of control of our company, and as a result, may adversely affect the marketability and market price of our common stock.

Deteriorating national or global economic conditions could negatively impact our business.

Our business may be adversely affected by deteriorating national or global economic conditions, including rising inflation, unfavorable currency exchange rates and interest rates, the lack of availability of credit on reasonable terms, changes in consumer spending rates and habits, and a tight energy supply and rising energy costs. With respect to changes in government policy, our business could be negatively impacted if efforts and initiatives of the governments of the United States and other countries to manage and stimulate the economy fail or result in worsening economic conditions. Deteriorating economic conditions could negatively impact consumer demand for protein generally or our products specifically, consumers ability to afford our products, or consumer habits with respect to how they spend their food dollars.

The recent disruptions in credit and other financial markets caused by deteriorating national and international economic conditions could, among other things, make it more difficult for us, our customers or our growers or prospective growers to obtain financing and credit on reasonable terms, cause lenders to change their practice with respect to the industry generally or our company specifically in terms of granting credit extensions and terms, impair the financial condition of our customers, suppliers or growers making it difficult for them to meet their obligations and supply raw material, or impair the financial condition of our insurers, making it difficult or impossible for them to meet their obligations to us.

The construction and potential benefits of our new facilities are subject to risks and uncertainties.

In August 2009, we began construction of a poultry complex in Kinston, North Carolina. The budget for the project was approximately $121.4 million. The Kinston, North Carolina, complex began initial operations during January 2011 and was at near full capacity in March 2012. In March 2010 we announced plans for a second potential new poultry complex in North Carolina, subject to various contingencies, including our obtaining an acceptable economic incentive package from the State of North Carolina and the local government. On February 24, 2011 we placed this second North Carolina complex on hold until market fundamentals improve, including the global supply and price of feed grains. In August 2012, we announced the selection of Nash County, North Carolina, as the site for the new complex, subject to various contingencies. On November 13, 2012, we announced that Nash County, North Carolina, will not be the site for the new complex due to various timing issues, but that we were actively seeking alternative sites. Once we proceed with a new complex, our ability to complete its construction on a timely basis and within budget is subject to a number of risks and uncertainties described below. In addition, the new complex may not generate the benefits we expect if demand for the products to be produced by them is different from what we expect.

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In order to begin construction of a new facility, we will need to take a significant number of steps and obtain a number of approvals, none of which we can assure you will be obtained. In particular we need to:

- identify a site and purchase or lease such site;
- obtain a number of licenses and permits; and
- enter into construction contracts.

Additionally, we must attract and enter into contracts with a sufficient number of growers for the new complex, and our growers must obtain financing on reasonable terms. If we are unable to identify a site for the second new complex and obtain the necessary licenses and permits, proceed with or complete construction as planned, attract growers or achieve the expected benefits of both our new facilities, our business could be negatively impacted.

We cannot assure you that we will be able to complete such steps on a timely basis, or at all, or on terms that are reasonable or consistent with our expectations.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The Registrant s principal properties are as follows:

Use	Location (City, State)
Poultry processing plant, hatchery and feedmill	Laurel, Mississippi
Poultry processing plant, hatchery and feedmill	McComb, Mississippi
Poultry processing plant, hatchery and feedmill	Hazlehurst and Gallman, Mississippi
Poultry processing plant, hatchery and feedmill	Bryan and Robertson Counties, Texas
Poultry processing plant, hatchery and feedmill	Moultrie and Adel, Georgia
Poultry processing plant and hatchery	Waco and McLennan County, Texas
Poultry processing plant	Hammond, Louisiana
Poultry processing plant, hatchery, child care facility and feedmill	Collins, Mississippi
Poultry processing plant, hatchery and feedmill	Kinston and Lenoir County, North Carolina
Prepared food plant	Flowood, Mississippi
Corporate general offices and technical laboratory	Laurel, Mississippi

The Registrant owns substantially all of its major operating facilities with the following exceptions: one processing plant and feed mill complex is leased on an annual renewal basis through 2063 with an option to purchase at a nominal amount at the end of the lease term. One processing plant complex is leased under four leases, which are renewable annually through 2061, 2063, 2075 and 2073, respectively. Certain infrastructure improvements associated with a processing plant are leased under a lease that expired in 2012 and is thereafter renewable annually through 2091. The lease has been renewed for 2013. All of the foregoing leases are capital leases.

There are no material encumbrances on the major operating facilities owned by the Registrant, except that, under the terms of the Company s revolving credit agreement, the Registrant may not pledge any additional assets as collateral other than fixed assets not to exceed $5.0 million at any one time.

Management believes that the Company s facilities are suitable for its current purposes, and believes that current renovations and expansions will enhance present operations and allow for future internal growth.

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Item 3. Legal Proceedings

On February 16, 2012, two of our former employees sued us and seven of our current and former employees in the United States District Court for the Middle District of Georgia for damages allegedly caused to them by our alleged violations of the federal and State of Georgia s Racketeer Influenced and Corrupt Organizations (RICO) Acts. The plaintiffs filed the lawsuit on behalf of all hourly-paid workers legally authorized to be employed in the United States who have been employed at our processing plant located in Moultrie, Georgia since 2008.

The plaintiffs allege in their complaint that the Company conspired to knowingly hire undocumented immigrants at the Moultrie plant to save Sanderson millions of dollars in labor costs because illegal aliens will work for extremely low wages, will typically not complain about workplace conditions and injuries, and because of their vulnerable situation, will accede to managers demands to work harder than American citizens and legal aliens. The action is brought as a class action lawsuit on behalf of all persons legally authorized to be employed in the United States who have been employed at the Moultrie plant as hourly wage earners in the four years before the filing of the case, and the plaintiffs seek certification of that class. The plaintiffs are suing for money damages, injunctive relief and revocation of our license to conduct business in the State of Georgia.

On September 13, 2012, the Court entered an Order granting a motion to dismiss the Complaint but provided the plaintiffs an opportunity to amend the Complaint on one of the alleged violations. Consequently, an Amended Complaint was filed by the plaintiffs on October 5, 2012. A motion to dismiss the Amended Complaint has been filed, and the plaintiffs have filed their response in opposition to that motion.

Based on our present knowledge, we consider the claims made in the amended lawsuit to be baseless.

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. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed reasonably estimable and 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 reserves or by accruals of losses to reflect any adverse determinations in these legal proceedings.

Item 4. Mine Safety Disclosures.

Not Applicable

Item 4A. Executive Officers of the Registrant.

Name	Age	Office	Executive Officer Since
Joe F. Sanderson, Jr.	**65**	Chairman of the Board of Directors and Chief Executive Officer	1984(1)
Lampkin Butts	**61**	President and Chief Operating Officer, Director	1996(2)
Mike Cockrell	**55**	Treasurer and Chief Financial Officer, Director	1993(3)
Tim Rigney	**48**	Secretary and Chief Accounting Officer	2012(4)

(1) Joe F. Sanderson, Jr. has served as Chief Executive Officer of the Registrant since November 1, 1989, and as Chairman of the Board since January 8, 1998. Mr. Sanderson served as President from November 1, 1989, to October 21, 2004. From January 1984 to November 1989, Mr. Sanderson served as Vice-President, Processing and Marketing of the Registrant.

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(2) Lampkin Butts was elected President and Chief Operating Officer of the Registrant effective October 21, 2004. From November 1, 1996 to October 21, 2004, Mr. Butts served as Vice President Sales and was elected to the Board of Directors on February 19, 1998. Prior to that time, Mr. Butts served the Registrant in various capacities since 1973.

(3) Mike Cockrell became Treasurer and Chief Financial Officer of the Registrant effective November 1, 1993, and was elected to the Board of Directors on February 19, 1998. Prior to that time, for more than five years, Mr. Cockrell was a member and shareholder of the Jackson, Mississippi law firm of Wise Carter Child & Caraway, Professional Association.

(4) Tim Rigney became Secretary of the Registrant effective November 1, 2012. Mr. Rigney also began service as Chief Accounting Officer on that date. Prior to that time, Mr. Rigney served the Registrant in various capacities since 1990.

James A. Grimes, age 64, retired as the Registrant s Secretary and Chief Accounting Officer effective October 31, 2012. He had served as Chief Accounting Officer since 1985 and as Secretary since 1993.

The Company entered into employment agreements with Messrs. Sanderson, Butts and Cockrell dated as of September 15, 2009. The term of the agreements ends when the officer s employment terminates under the provisions of the agreement. The agreements provide for severance payments to be paid to the officers if their employment is terminated in certain circumstances, as well as provisions prohibiting them from engaging in certain competitive activity with the Company during their employment and for the two years after their employment with the Company terminates for any reason other than poor performance.

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PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company s common stock is traded on the NASDAQ Stock Market LLC under the symbol SAFM.

The number of stockholders of record as of November 30, 2012 was 3,106.

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

	Stock Price		
Fiscal Year 2012	**High**	**Low**	**Dividends**
First Quarter	$ 52.29	$ 47.32	$ .17
Second Quarter	$ 55.01	$ 47.54	$ .17
Third Quarter	$ 54.94	$ 36.50	$ .17
Fourth Quarter	$ 45.47	$ 37.22	$ .17

	Stock Price		
Fiscal Year 2011	**High**	**Low**	**Dividends**
First Quarter	$ 44.48	$ 38.59	$ .17
Second Quarter	$ 48.47	$ 40.88	$ .17
Third Quarter	$ 48.64	$ 40.73	$ .17
Fourth Quarter	$ 51.60	$ 38.69	$ .17

On December 12, 2012 the closing sales price for the common stock was $49.53 per share.

During its fourth fiscal quarter, the Company repurchased shares of its common stock as follows:

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[3]**
Aug. 1, 2012 Aug. 31, 2012	0	$ 00.00	0	1,000,000
Sept. 1, 2012 Sept. 30, 2012	1,382	$ 44.37	1,382	1,000,000
Oct. 1, 2012 Oct. 31, 2012	4,768	$ 45.30	4,768	1,000,000
Total	6,150	$ 45.09	6,150	1,000,000

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 February 16, 2012, the Company s Board of Directors approved a share repurchase program under which the Company may purchase up to 1 million shares of its common stock in open market transactions or negotiated purchases, subject to market conditions, share price and other considerations. The authorization will expire on February 16, 2014. Unlike the Company s previous share repurchase programs, the Company s repurchase of vested restricted stock to satisfy tax withholding obligations of its Stock Incentive Plan participants will not be made under the 2012 general repurchase plan.

3 Does not include vested restricted shares that may yet be repurchased under the Stock Incentive Plan as described in Note 1.

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Item 6. Selected Financial Data.

	Year Ended October 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share data)				
Net sales	$ 2,386,105	$ 1,978,085	$ 1,925,445	$ 1,789,508	$ 1,723,583
Operating income (loss)	96,316	(188,380)	209,841	136,610	(65,663)
Net income (loss)	53,944	(127,077)	134,820	82,319	(43,129)
Basic earnings (loss) per share	2.35	(5.74)	6.07	3.94	(2.13)
Diluted earnings (loss) per share	2.35	(5.74)	6.07	3.94	(2.13)
Working capital	262,193	324,296	238,166	162,663	188,779
Total assets	896,453	948,521	841,620	636,176	681,158
Long-term debt, less current maturities	150,212	273,670	62,075	103,123	225,322
Stockholders equity	550,075	506,900	645,713	430,708	353,967
Cash dividends declared per share	$ .68	$ .68	$ .62	$ .57	$ .56

Various factors affecting the comparability of the information included in the table above are discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE PERFORMANCE

This Annual 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, including, but not limited to, the risk that market values of live and processed poultry inventories might be lower than the cost of such inventories, requiring a downward adjustment to record the value of such inventories at the lower of cost or market as required by generally accepted accounting principles.

(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.

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

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

(10) The loss of any of the Company s major customers.

(11) Inclement weather that could hurt Company flocks or otherwise adversely affect its operations, or changes in global weather patterns that could impact the supply and price of feed grains.

(12) Failure to respond to changing consumer preferences.

(13) Failure to successfully and efficiently start up and run a new plant or integrate any business the Company might acquire.

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 annual report, the words believes , estimates , plans , expects , should outlook , and anticipates and similar expressions as they relate to the Company or its management are intended to identify forward-looking statements. Examples of forward-looking statements include statements of the Company s belief about future demand for its products, future production levels, and future grain costs.

GENERAL

The Company s poultry operations are integrated through its control of all functions relative to the production of its chicken products, including hatching egg production, hatching, feed manufacturing, raising chickens to marketable age (grow-out), processing and marketing. Consistent with the poultry industry, the Company s profitability is substantially impacted by the market price for its finished products and feed grains, both of which may fluctuate substantially and exhibit cyclical characteristics typically associated with commodity markets. Other costs, excluding feed grains, related to the profitability of the Company s poultry operations, including hatching egg production, hatching, growing, and processing cost, are responsive to efficient cost containment programs and management practices. Over the past three fiscal years, these other normal production costs have averaged approximately 49% of the Company s total normal production costs.

The Company believes that value-added products are subject to less price volatility and generate higher, more consistent profit margin than whole chickens ice packed and shipped in bulk form. To reduce its exposure to market cyclicality that has historically characterized commodity chicken market prices, the Company has increasingly concentrated on the production and marketing of value-added product lines with emphasis on product quality, customer service, and brand recognition. However, the Company cannot eliminate its exposure to fluctuations in commodity market prices for chicken since market prices for value added products also exhibit cyclicality. The Company adds value to its poultry products by performing one or more processing steps beyond the stage where the whole chicken is first saleable as a finished product, such as cutting, deep chilling, packaging and labeling the product.

The Company s prepared chicken product line includes approximately 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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Whole bird prices per pound, as measured by the Georgia Dock price, fluctuated during the three years ended October 31 as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 2012				
High	$ .9075	$ .9325	$ .9475	$ .9625*
Low	$ .8900*	$ .9075	$ .9350	$ .9475
Fiscal 2011				
High	$ .8625	$ .8650	$ .8750	$ .8900*
Low	$ .8500*	$ .8500*	$ .8650	$ .8750
Fiscal 2010				
High	$ .8325	$ .8525	$ .8800*	$ .8800*
Low	$ .8200*	$ .8325	$ .8550	$ .8650

* Year High/Low

Sanderson Farms began operations at its new feed mill, poultry processing plant and hatchery on separate sites in Kinston and Lenoir County, North Carolina during the first quarter of fiscal 2011. The Kinston facilities comprise a state-of-the-art poultry complex with the capacity, at full production, to process 1,250,000 birds per week for the retail chill pack market. The facility reached near full capacity during March 2012.

On March 29, 2010, the Company announced intentions to construct a potential second new poultry complex in North Carolina, subject to various contingencies including, among others, obtaining an acceptable economic incentive package from the state and local governments. On August 28, 2012, the Company announced the selection of Nash County, North Carolina, as the site of the new complex, subject to various contingencies. On November 13, 2012, the Company announced that Nash County, North Carolina, will not be the site of the new complex due to various timing issues, but that alternative sites are under consideration. Construction of a new complex remains on hold until a new site can be selected and pending improvements in market fundamentals, including the global supply and price of corn and other feed grains. Before the complex can open we will need to identify a site, obtain permits, enter into construction contracts and complete construction. See The construction and potential benefits of our new facilities are subject to risks and uncertainties in the Risk Factors Section of this Annual Report.

On February 23, 2011, the Company entered into a new revolving credit facility to, among other things, increase the available credit to $500.0 million from $300.0 million. On October 4, 2012, the Company and the lenders amended the revolving credit facility. The amendment sets the annual capital expenditure limitation at $55.0 million for fiscal years 2012, 2013, 2014, and 2015, plus, for each year, up to $10.0 million permitted to be spent in the preceding fiscal year but not actually spent therein. The capital expenditure limitation for fiscal 2012, with the permitted carry over, was $65.0 million. The amendment also permits the Company to spend up to $125.0 million each in capital expenditures on the construction of two new poultry complexes, which expenditures are in addition to the annual limits. Under the facility, the Company may not exceed a maximum debt to total capitalization ratio of 55% from the date of the agreement through October 30, 2014, and 50% thereafter. The Company has a one-time right, at any time during the life of the agreement, to increase the maximum debt to total capitalization ratio then in effect by 5% in connection with the construction of either of two new poultry complexes at locations to be determined by the Company, but within the United States, for the four fiscal quarters beginning on the first day of the fiscal quarter during which the Company gives written notice of its intent to exercise this right. The Company did not exercise this right in fiscal 2012. The amendment also sets a minimum net worth requirement that at October 31, 2012, was $400.0 million. The total committed credit under the amended facility remains at $500.0 million. The credit remains unsecured and, unless extended, will expire on February 23, 2016.

On October 9, 2008, the Company announced that it filed a Form S-3 shelf registration statement with the Securities and Exchange Commission to register for possible future sale shares of the Company s common and/or preferred stock at an aggregate offering price not to exceed $1.0 billion. The stock may be offered by the Company in amounts, at prices and on terms to be determined by the board of directors if and when shares are issued. The Company sold 2.3 million shares of its common stock pursuant to this registration statement on April 7, 2010 at $53.00 per share. The registration statement was set to expire on October 23, 2011, therefore, the Company filed a new registration statement on October 4, 2011 to register for possible future sale shares of the Company s common and/or preferred stock at an aggregate offering price not to exceed $1.0 billion. The stock may be offered by the Company in amounts, at prices and on terms to be determined by the board of directors if and when shares are issued.

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EXECUTIVE OVERVIEW OF RESULTS 2012

The Company s margins improved during fiscal 2012 as compared to fiscal 2011 reflecting improved market prices for poultry products partially offset by higher grain prices. While demand for fresh chicken in the retail grocery store and export markets has been stable, market prices for boneless breast meat remained under pressure during fiscal 2012, even in the face of lower production levels, reflecting continued weak demand from casual dining and food service customers. The Company expects demand from casual dining and food service customers to remain under pressure until employment numbers and consumer confidence improve. Beginning in July, the Company experienced historically high prices for both corn and soybean meal due to the impact on the quality and quantity of the 2012 corn and soybean crops of drought conditions in the Midwestern United States. Although market prices for feed grains have decreased from those highs in recent months, the Company believes grain costs will continue to be high and volatile through fiscal 2013. The Company has priced a significant portion of its grain needs for the first fiscal quarter of 2013. Had it priced the remaining needs at December 14, 2012 cash market prices, cost of feed grains would be approximately $120.1 million higher during fiscal 2013 as compared to fiscal 2012. In light of these costs, we reduced our egg sets beginning August 6, 2012, by two percent across all divisions in our Company to lessen the impact of the higher grain costs we are facing. This reduction was in addition to the four percent reduction started January 1, 2012, and we will run our plants at six percent below capacity until market conditions improve.

RESULTS OF OPERATIONS 2012

Net sales for fiscal 2012 were $2,386.1 million as compared to $1,978.1 million for fiscal 2011, an increase of $408.0 million or 20.6%. Net sales of poultry products for fiscal 2012 and fiscal 2011 were $2,297.0 million and $1,871.7 million, respectively, an increase of $425.3 million or 22.7%. The increase in net sales of poultry products resulted from a 16.2% increase in the average sales price of poultry products sold and a 5.6% increase in the pounds of poultry products sold. During fiscal 2012 the Company sold 2,951.8 million pounds of poultry products, up from 2,794.2 million pounds during fiscal 2011. The additional pounds of poultry products sold resulted from a 3.3% increase in the number of chickens sold, primarily attributable to the new Kinston complex, which began initial operation during the first quarter of fiscal 2011 and reached near full capacity during March 2012. The complex sold 318.4 million pounds, or 10.8% of the total poultry pounds sold by the Company during fiscal 2012, up from 129.1 million pounds of poultry, or 4.6% of the total poultry pounds sold during fiscal 2011. The additional pounds sold by the new complex in Kinston, North Carolina and slightly higher bird weights were partially offset by the planned reduction in eggs set of 4.0% on January 1, 2012 and 2.0% on August 6, 2012, as described above. Overall market prices for poultry products increased during fiscal 2012 as compared to fiscal 2011. Urner Barry market prices increased for boneless breast meat, bulk leg quarters, tenders and jumbo wings during fiscal 2012 compared to fiscal 2011 by 9.1%, 16.7%, 23.3% and 81.2%, respectively. The price for Georgia Dock whole birds is currently at its historical high and averaged 7.3% higher during fiscal 2012 as compared to the average during fiscal 2011. Net sales of prepared chicken products during fiscal 2012 and 2011 were $89.1 million and $106.4 million, respectively, or a decrease of 16.3%, resulting from a 1.6% decrease in the average sales price of prepared chicken products sold and a 15.0% decrease in the pounds of prepared chicken products sold from 54.8 million pounds sold during fiscal 2011 to 46.6 million pounds sold during fiscal 2012.

Cost of sales for fiscal 2012 was $2,212.7 million as compared to $2,085.2 million during fiscal 2011, an increase of $127.5 million or 6.1%. Cost of sales of poultry products sold during fiscal 2012 and fiscal 2011 were $2,128.4 million and $1,989.1 million, respectively, an increase of $139.3 million or approximately 7.0%. As illustrated in the table below, which excludes the impact of the $9.0 million live inventory adjustment at October 31, 2011 for comparison purposes, the increase in the cost of sales of poultry products sold resulted primarily from an increase in the pounds of poultry products sold of 5.6% and an increase in feed in broilers processed of $0.0054 or 1.4%.

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Poultry Cost of Sales

(In thousands, except percentages and per pound data)

Description	Year Ended October 31, 2012 Dollars	Year Ended October 31, 2012 Per Pnd	Year Ended October 31, 2011 Dollars	Year Ended October 31, 2011 Per Pnd	Incr/(Decr) Dollars	Incr/(Decr) Per Pnd
Beginning Inventory	$ 27,892	$ 0.5117	$ 14,255	$ 0.3004	$ 13,637	$ 0.2113
Feed in broilers processed	1,139,994	0.3853	1,065,737	0.3799	74,257	0.0054
All other cost of sales	1,001,692	0.3385	936,986	0.3340	64,706	0.0045
Less: Ending Inventory	32,196	0.5052	27,892	0.5117	4,304	(0.0065)
Total poultry cost of sales	$ 2,137,382(1)	$ 0.7241	$ 1,989,086	$ 0.7119	$ 148,296	$ 0.0122
Pounds:						
Beginning Inventory	54,508		47,456			
Poultry processed	2,958,885		2,805,218			
Poultry Sold	2,951,807		2,794,208			
Ending Inventory	63,729		54,508			

Note (1) Excludes the $9.0 million live inventory adjustment at October 31, 2011.

Other costs of sales of poultry products include labor, contract grower pay, packaging, freight and certain fixed costs, among other costs. These non-feed related costs of poultry products sold increased $0.0045 per pound processed or 1.3% during fiscal 2012 as compared to fiscal 2011. During fiscal 2012 costs of sales of the Company s prepared chicken products were $84.3 million as compared to $96.2 million during fiscal 2011, a decrease of $11.9 million or 12.3%, resulting primarily from the decrease in pounds sold of prepared chicken products of 15.0%.

The Company recorded the value of live broiler inventories on hand at October 31, 2012 at cost. When market conditions are favorable, the Company values the broiler inventories on hand at cost, and accumulates costs as the birds are grown to a marketable age subsequent to the balance sheet date. In periods where the Company estimates that the cost to grow live birds in inventory to a marketable age and then process and distribute those birds will be higher than the anticipated sales price, the Company will make an adjustment to lower the value of live birds to the market value. At October 31, 2011, the Company recorded a charge of $9.0 million to lower the value of live broiler inventories on hand from cost to market value, which resulted primarily from the significant increase in costs for corn and soybean meal and relatively low market prices for poultry products. No charge was required at October 31, 2012.

Selling, general and administrative costs during fiscal 2012 and fiscal 2011 were $77.1 million and $72.2 million, respectively, an increase of $4.9 million. The following table includes the components of selling, general and administrative costs for the twelve months ended October 31, 2012 and 2011.

Selling, General and Administrative Cost

(In thousands)

Description	2012	2011
ESOP expense	$ 3,800	$ 0
Uncollectable Accounts	412	0
Stock compensation expense	4,785	5,204
Start up expense	0	4,502
Administrative Salaries	24,227	22,357
Trainee cost	4,201	4,798
All other S,G & A	39,672	35,356

Total S,G & A	$ 77,097	$ 72,217

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During fiscal 2012 as compared to fiscal 2011, selling, general and administrative costs increased $4.9 million reflecting a $3.8 million contribution to the Company s Employee Stock Ownership Plan during fiscal 2012, higher wages and various other administrative costs, offset by a decrease of $4.5 million in start up costs at the Kinston, North Carolina Complex during the first quarter of fiscal 2011. The Company began operations at the new Kinston complex during January 2011, at which time all Kinston costs, excluding customer service department costs, were included in cost of sales.

The Company s operating income during fiscal 2012 was $96.3 million as compared to an operating loss during fiscal 2011 of $188.4 million. The improvement in the Company s operating margin resulted primarily from improved market prices of poultry products during fiscal 2012 as compared to fiscal 2011, as described above. In addition, the Company recorded a charge of $9.0 million during fiscal 2011 to lower the value of the Company s inventory of live broilers at October 31, 2011 from cost to market value. At October 31, 2012, market conditions did not warrant such an adjustment and the Company s inventory of live broilers was recorded at cost.

Interest expense during fiscal 2012 and fiscal 2011 was $9.2 million and $6.4 million, respectively. The increase in interest expense during fiscal 2012 as compared to 2011 resulted primarily from higher average outstanding debt during fiscal 2012 as compared to fiscal 2011. During the first quarter of fiscal 2011, the Company capitalized interest of $630,000 related to the construction of the new complex in Kinston, North Carolina. With the absence of a major construction project, the Company has not capitalized any interest since the first quarter of fiscal 2011.

The Company s effective tax rate for fiscal 2012 was 37.7% as compared to 34.6% during fiscal 2011. 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 certain state and federal tax credits.

The Company s net income during fiscal 2012 was $53.9 million or $2.35 per share as compared to a net loss during fiscal 2011 of $127.1 million or $5.74 per share.

EXECUTIVE OVERVIEW OF RESULTS 2011

During fiscal 2011, the Company s margins decreased primarily as a result of higher costs of feed grains in flocks sold and lower overall market prices for poultry products as compared to fiscal 2010. While demand for fresh chicken in the retail grocery store market was stable during fiscal 2011, demand from food service customers remained soft as the overall supply of poultry meat in the United States increased, resulting in overall lower market prices for poultry products during fiscal 2011 as compared to fiscal 2010. Although leading indicators pointed to fewer chickens being processed during the beginning of fiscal 2012, demand from food service customers remained weak due to negative overall economic conditions in the United States, poor employment data and low consumer confidence. The costs of corn and soybean meal increased significantly due to several factors, including lower than expected yields of both corn and soybeans during the 2010 crop year and uncertainty regarding size and quality of the 2011 crop.

RESULTS OF OPERATIONS 2011

Net sales during fiscal 2011 were $1,978.1 million as compared to $1,925.4 million during fiscal 2010. Net sales of poultry products during fiscal 2011 were $1,871.7 million as compared to $1,803.9 million during fiscal 2010, an increase of $67.8 million or 3.8%. The increase in net sales of poultry products resulted from an increase in the pounds of poultry products sold of 8.7%, offset by a decrease in the average sales price of poultry products of 4.6%. During fiscal 2011 the Company sold 2.79 billion pounds of poultry products, up from 2.57 billion pounds during fiscal 2010, an increase of 224.2 million pounds primarily as a result of the pounds sold from the new Kinston complex and an increase in the Company s average live weight of chickens. The new Kinston complex began initial operation during January 2011 and sold 129.1 million pounds of poultry through October 31, 2011, or 4.6% of the Company s total poultry pounds sold during fiscal 2011. Overall market prices for poultry products decreased during fiscal 2011 as compared to fiscal 2010 as a result of an increase in the supply of poultry products and sluggish demand from food service customers. Urner Barry market prices for boneless breast meat, tenders and jumbo wings decreased significantly during fiscal 2011 as compared to fiscal 2010 by 14.5%, 15.7% and 31.6%, respectively. However, the impact of these decreases was partially offset by improvements during fiscal 2011 in the average Urner Barry prices for bulk leg quarters and the average market price for Georgia Dock whole birds of 19.2% and 1.7%, respectively, as compared to fiscal 2010. Net sales of prepared chicken products during fiscal 2011 and 2010 were $106.4 million and $121.5 million, respectively, reflecting a decrease of 12.4%, resulting from a decrease in the average sales price of prepared chicken products sold of 2.6% and a decrease in the pounds of prepared chicken products sold of 10.1% from 61.0 million pounds during fiscal 2010 to 54.8 million pounds sold during fiscal 2011.

Cost of sales during fiscal 2011 were $2,085.2 million as compared to $1,630.5 million during fiscal 2010, an increase of $454.7 million or 27.9%. Cost of sales of poultry products sold during fiscal 2011 and fiscal 2010 were $1,989.1 million and $1,519.4 million, respectively, reflecting an increase of $469.7 million or 30.9%. As illustrated in the table below, the increase in the cost of sales of poultry products sold resulted from an increase in feed in broilers processed of $0.1053 per pound or 38.3% and an increase in the pounds of poultry products sold of 8.7%.

Poultry Cost of Sales

(In thousands, except percentages and per pound data)

	Year Ended October 31, 2011		Year Ended October 31, 2010		Incr/(Decr)	
Description	**Dollars**	**Per Pnd**	**Dollars**	**Per Pnd**	**Dollars**	**Per Pnd**
Beginning Inventory	$ 14,255	$ 0.3004	$ 20,768	$ 0.3542	$ (6,513)	$ (0.0538)
Feed in broilers processed	1,065,737	0.3799	704,733	0.2746	361,004	0.1053
All other cost of sales	936,986	0.3340	808,113	0.3149	128,873	0.0191
Less: Ending Inventory	27,892	0.5117	14,255	0.3004	13,637	0.2113
Total poultry cost of sales	$ 1,989,086	$ 0.7119	$ 1,519,359	$ 0.5912	$ 469,727	$ 0.1207
Pounds:						
Beginning Inventory	47,456		58,626			
Poultry processed	2,805,218		2,566,643			
Poultry Sold	2,794,208		2,570,017			
Ending Inventory	54,508		47,456			

The cost of feed in broiler flocks processed during fiscal 2011 as compared to fiscal 2010 increased $361.0 million or $0.1053 per pound. Excluding feed in broiler flocks sold, all other costs of sales increased $128.9 million, or an increase of $0.0191 per pound processed compared to the same period a year ago. These other costs of sales of poultry products include labor, contract grower pay, packaging, freight and certain fixed costs, among other costs, including those same costs incurred at the new Kinston, North Carolina complex during fiscal 2011. The new Kinston complex had a higher average cost of sales per pound than similar Company complexes, excluding feed costs, until it reached full capacity during the second quarter of fiscal 2012. Higher per pound costs at Kinston were the primary factor for the increase per pound of all other cost of sales of $0.0191 during fiscal 2011 as compared to 2010. Costs of sales of the Company s prepared chicken products during fiscal 2011 were $96.2 million as compared to $111.2 million during fiscal 2010, a decrease of $15.0 million or 13.5% and is reflective of the decrease in pounds sold of prepared chicken products.

The Company recorded a charge of $9.0 million to lower the value of live broiler inventories on hand at October 31, 2011 from cost to market value, which resulted primarily from the significant increase in costs for corn and soybean meal. When market conditions are favorable, the Company values the broiler inventories on hand at cost, and accumulates costs as the birds are grown to a marketable age subsequent to the balance sheet date. However, the Company estimated that the cost to grow live birds in inventory on October 31, 2011 to a marketable age and then process and distribute those birds during November and December 2011 would be higher than the anticipated sales price during those months. Accordingly, the Company adjusted the value of live inventory from cost to estimated market value. The Company had no such charge at October 31, 2010 because the Company estimated the cost to grow, process and distribute live birds in inventory on October 31, 2010 was lower than the anticipated sales price of the finish product.

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For the twelve months ending October 31, 2011, cost of sales includes adjustments of $59.3 million to record live broiler inventory at market value. Of this amount, $50.3 million is considered a component of cost of sales as the related products have been sold, leaving a $9.0 million reserve at October 31, 2011. These adjustments were necessary because the projected cost at that time to complete, process and sell the broilers was expected to exceed the market value of finished product. No similar adjustments were recorded in fiscal 2010 and 2009.

Selling, general and administrative costs during fiscal 2011 and fiscal 2010 were $72.2 million and $85.1 million, respectively, a decrease of $12.9 million. The following table includes the components of selling, general and administrative costs for the twelve months ended October 31, 2011 and 2010.

Selling, General and Administrative Cost

(In thousands)

Description	2011	2010
ESOP expense	$ 0	$ 9,000
Bonus expense	0	8,352
Stock compensation expense	5,204	7,462
Start up expense	4,502	6,143
Advertising expense	751	637
Trainee cost	4,798	4,459
All other S,G & A	56,962	49,002
Total S,G & A	$ 72,217	$ 85,055

As illustrated in the table above, the decrease in selling, general and administrative costs for fiscal 2011 as compared to fiscal 2010 resulted from accruals during fiscal 2010 to the Company s Employee Stock Ownership Plan and Bonus Award Program. Contributions to these programs are based on profitability, and accordingly, no such accrual was recorded during fiscal 2011.

The Company s operating loss during fiscal 2011 was $188.4 million as compared to operating income during fiscal 2010 of $209.8 million, a reduction of $398.2 million. The reduction in the Company s operating margin during fiscal 2011 as compared to fiscal 2010 resulted primarily from higher cost of feed grains included in flocks sold and a decline in overall market prices of poultry products, as described above.

Interest expense during fiscal 2011 was $6.4 million as compared to interest expense during fiscal 2010 of $2.7 million, respectively. The Company capitalized $630,000 of interest costs during fiscal 2011 to the construction of the new complex in Kinston and Lenoir County, North Carolina, all of which was capitalized during November and December 2010 prior to the start up of operations in January 2011. During fiscal 2010 the Company capitalized approximately $1.9 million of interest cost to the construction of the new complex in Kinston and Lenoir County, North Carolina.

The Company s effective tax rate for fiscal 2011 was 34.6% as compared to 35.0% during fiscal 2010. 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 certain state and federal tax credits.

The Company s net loss during fiscal 2011 was $127.1 million or $5.74 per share as compared to a net income during fiscal 2010 of $134.8 million or $6.07 per share.

Liquidity and Capital Resources

The Company s working capital, calculated by subtracting current liabilities from current assets, at October 31, 2012 was $262.2 million and its current ratio, calculated by dividing current assets by current liabilities, was 2.9 to 1. The Company s working capital and current ratio at October 31, 2011 were $324.3 million and 3.8 to 1, respectively.

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These measures reflect the Company s ability to meet its short term obligations and are included here as a measure of the Company s short term liquidity. The Company s principal sources of liquidity during fiscal 2012 included cash on hand at October 31, 2011, cash flows from operations, and borrowings under the Company s revolving credit facility with nineteen banks. As described below, on February 23, 2011 the Company entered into a new revolving credit facility to, among other things, increase the line of credit to $500.0 million from $300.0 million, and to extend the term until 2016 from 2013. The revolving credit facility was amended on October 4, 2012, as described below. As of October 31, 2012, the Company had borrowed $110.0 million under the revolving credit facility and had $9.3 million outstanding in letters of credit. As of December 12, 2012, the Company had borrowed $110.0 million, leaving $380.7 million available under the new revolving credit facility.

The Company s cash position at October 31, 2012 and October 31, 2011 consisted of $27.8 million and $11.1 million, respectively, in cash and cash equivalents. The Company s ability to invest cash is limited by covenants in its revolving credit agreement to short term, conservative investments. All of the Company s cash at October 31, 2012 and October 31, 2011 was held in checking accounts and highly liquid, overnight investment accounts maintained at two banks. There were no restrictions on the Company s access to its cash and cash equivilents, and such cash and cash equivalents were available to the Company on demand to fund its operations.

Cash flows provided by (used in) operating activities during fiscal 2012 and fiscal 2011 were $205.3 million and ($204.0) million, respectively. The increase in cash flows from operating activities of $409.3 million resulted primarily from improved market prices for poultry products during fiscal 2012 as compared to fiscal 2011, the receipt of an $82.7 million federal income tax refund on February 27, 2012, and the absence during fiscal 2012 of the increase in inventory of live and processed chicken at the new Kinston, North Carolina complex that occurred during fiscal 2011.

Cash flows provided by (used in) operating activities during fiscal 2011 and fiscal 2010 were ($204.0) million and $178.4 million, respectively. The decrease in cash flows from operating activities of $382.4 million resulted primarily from higher prices for feed grains, lower overall market prices for poultry products, and funds required to pay for additional inventories of live and processed poultry at the new Kinston facility during fiscal 2011 as compared to fiscal 2010.

Cash flows provided by operating activities during fiscal 2010 and fiscal 2009 were $178.4 million and $162.9 million, respectively, an increase of $15.5 million. The increase in cash flows from operations of $15.5 million resulted primarily from an increase in cash received from customers as a result of the overall higher average prices for poultry products. Also, during fiscal 2009 the Company received refunds of prior year income taxes resulting from the fiscal 2008 net operating loss carryback.

Cash flows used in investing activities during fiscal 2012, 2011 and 2010 were $49.2 million, $62.8 million and $144.8 million, respectively. The Company s capital expenditures during fiscal 2012 of $49.2 million included $2.0 million for a new Company aircraft. The Company s capital expenditures during fiscal 2011 were $63.0 million and included $18.6 million to complete construction of the Company s new Kinston, North Carolina, complex. Capital expenditures during fiscal 2010 were $144.8 million and included $107.7 million for construction of the Company s new Kinston, North Carolina, complex. Excluding the Kinston complex, the Company s capital expenditures during fiscal 2011 and 2010 were $44.3 million and $37.1 million, respectively.

Cash flows provided by (used in) financing activities during fiscal 2012, 2011 and 2010 were ($139.4) million, $204.4 million and $31.6 million, respectively. During fiscal 2012 the Company reduced net outstanding borrowings under its revolving credit facility by $112.7 million and made the first of five $10.0 million annual installments on its $50 million outstanding term loan with Northwest Farm Credit Services, PCA, the final installment on which is due in 2016. During fiscal 2011 the Company borrowed $222.7 million under its revolving credit facility to fund operations, primarily higher inventories caused by grain cost and the Kinston, NC expansion, capital budgets and payment of dividends. On April 7, 2010 the Company sold 2.3 million shares of its common stock at $53.00 per share resulting in net proceeds from the secondary offering of $115.1 million. The Company used $40.0 million of the proceeds from the sale of the stock to pay off the outstanding draws under its revolving credit facility. The remaining proceeds of $75.2 million were used to finance a portion of the construction of the new retail poultry complex in Kinston, North Carolina and for general corporate purposes. A portion was also used during our fourth fiscal quarter of 2010 to purchase and retire 664,688 shares of common stock in open market transactions at a total cost of $28.4 million.

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As of December 12, 2012, the Company s capital budget, excluding leases, for fiscal 2013 is approximately $40.0 million. The 2013 capital budget will be funded by internally generated working capital, cash flows from operations and, as needed, draws under the Company s revolving credit facility. The Company had $380.7 million available under the revolving line of credit at October 31, 2012.

On October 9, 2008, the Company announced that it filed a Form S-3 shelf registration statement with the Securities and Exchange Commission to register, for possible future sale, shares of the Company s common and/or preferred stock at an aggregate offering price not to exceed $1.0 billion. The stock may be offered by the Company in amounts, at prices and on terms to be determined by the board of directors if and when shares are issued. The Company sold 2.3 million shares of its common stock pursuant to this registration statement on April 7, 2010 at $53.00 per share, as more fully described below. The registration statement was set to expire on October 23, 2011, therefore, the Company filed a new registration statement on October 4, 2011 to register, for possible future sale, shares of the Company s common and/or preferred stock at an aggregate offering price not to exceed $1.0 billion. The stock may be offered by the Company in amounts, at prices and on terms to be determined by the board of directors if and when shares are issued.

On March 29, 2010 the Company announced that it had commenced an underwritten registered public offering of 2,000,000 shares of its common stock under its shelf registration statement. In connection with this offering, the Company granted the underwriters a 30-day option to purchase up to an additional 300,000 shares of common stock to cover over-allotments, if any. On April 7, 2010 the Company announced the closing of its underwritten registered public offering of 2,300,000 shares of its common stock, including 300,000 shares issued in connection with the underwriters exercise of their over-allotment option. The offering price to the public was $53.00 per share. The Company also announced its intent to use the net proceeds from the offering, together with other funds, to finance the construction of its new retail poultry complex in Kinston, North Carolina and a potential new poultry complex to also be located in North Carolina. Pending such uses, net proceeds from the offering were used to reduce indebtedness and to invest in cash and cash equivalents. The Company has used some of the invested proceeds as working capital and for general corporate purposes.

On March 29, 2010, the Company announced intentions to construct a potential second new poultry complex in North Carolina, subject to various contingencies including, among others, obtaining an acceptable economic incentive package from the state and local governments. On August 28, 2012, the Company announced the selection of Nash County, North Carolina, as the site of the new complex, subject to various contingencies. On November 13, 2012, the Company announced that Nash County, North Carolina, will not be the site of the new complex due to various timing issues, and that alternative sites were being evaluated. Construction of a new complex remains on hold until a new site can be selected and pending improvements in market fundamentals, including the global supply and price of corn and other feed grains. Before the complex can open we will need to identify a site, obtain permits, enter into construction contracts and complete construction. See The construction and potential benefits of our new facilities are subject to risks and uncertainties in the Risk Factors Section of this Annual Report.

On February 23, 2011, the Company entered into a new revolving credit facility to, among other things, increase the available credit to $500.0 million from $300.0 million. On October 4, 2012, the Company and the lenders amended the revolving credit facility. The amendment sets the annual capital expenditure limitation at $55.0 million for fiscal years 2012, 2013, 2014, and 2015, plus, for each year, up to $10.0 million permitted to be spent in the preceding fiscal year but not actually spent therein. The capital expenditure limitation for fiscal 2012, with the permitted carry over, was $65.0 million. The amendment also permits the Company to spend up to $125.0 million each in capital expenditures on the construction of two new poultry complexes, which expenditures are in addition to the annual limits. Under the facility, the Company may not exceed a maximum debt to total capitalization ratio of 55% from the date of the agreement through October 30, 2014, and 50% thereafter. The Company has a one-time right, at any time during the life of the agreement, to increase the maximum debt to total capitalization ratio then in effect by 5% in connection with the construction of either of two new poultry complexes at locations to be determined by the Company, but within the United States, for the four fiscal quarters beginning on the first day of the fiscal quarter during which the Company gives written notice of its intent to exercise this right. The Company did not exercise this right in fiscal 2012. The amendment also sets a minimum net worth requirement that at October 31, 2012, was $400.0 million. The total committed credit under the amended facility remains at $500.0 million. The credit remains unsecured and, unless extended, will expire on February 23, 2016. As of October 31, 2012, the Company had borrowed $110.0 million under the revolving credit facility and had $9.3 million in outstanding letters of credit. As of December 13, 2012, the Company had borrowed $110.0 million under the revolving credit facility, leaving $380.7 million available under the revolving credit facility.

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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.

Contractual Obligations

Obligations under long-term debt, long-term capital leases, non-cancelable operating leases, purchase obligations relating to feed grains, other feed ingredients and packaging supplies and claims payable relating to the Company s workers compensation insurance policy at October 31, 2012 were as follows (in thousands):

		Payments Due By Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt	$ 150,000	$ 10,000	$ 20,000	$ 120,000	$ 0
Capital lease obligations	10,969	757	10,212	0	0
Interest on long-term debt	14,183	5,112	8,015	1,056	0
Operating leases	10,038	3,579	4,891	1,568	0
Purchase obligations:					
Feed grains, feed ingredients and packaging supplies	317,978	315,375	2,603	0	0
Construction contracts	0	0	0	0	0
Aircraft	685	685	0	0	0
Claims payable	13,894	9,894	4,000	0	0
Total	$ 517,747	$ 345,402	$ 49,721	$ 122,624	$ 0

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (GAAP) 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.

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 customers are considered minimal, the Company routinely reviews its accounts receivable balances and makes provisions for probable doubtful accounts based on an individual assessment of a customer s credit quality as well as subjective factors and trends, including the aging of receivable balances. 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 the Company), estimates of the recoverability of amounts due 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 and prepared inventories and inventories of feed, eggs, medication and packaging supplies are stated at the lower of cost (first-in, first-out method) or market. When market prices for poultry are low and feed grains are high, the Company may be required to write down the carrying values of processed poultry and live inventories to fair market value, which would increase the Company s cost 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

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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 chicks, 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 cost 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 cost 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.

The Company made an adjustment to the value of its live inventories at October 31, 2011. As with processed inventories, the value of live chickens, the costs for which are accumulated during the life of a flock as each flock is fed and cared for, must be recorded on the Company s financial statements at the lower of cost or market. Because of relatively low market prices for poultry during November and December 2011 and high feed grains, the projected cost to complete, process and sell broilers included in live inventory at October 31, 2011 was expected to exceed the market value for the finished product. Accordingly, the Company s results for the year ended October 31, 2011 include a charge of $9.0 million before income taxes to reduce the value of live inventories from cost to market. The Company s live broiler inventories are recorded at cost at October 31, 2012 because the estimated market value was higher than the estimated cost to complete those live broiler inventories. Breeders are generally not subject to lower of cost or market reserves due to their longer production lives.

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 reevaluates 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 reevaluation, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposal. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized to reduce the carrying value of the long-lived asset to the estimated fair value of the asset. 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.

Accrued Self Insurance

Insurance expense for workers compensation benefits and employee-related health care benefits are estimated using historical experience and actuarial estimates. The Company accrues expenses in its workers compensation and employee benefit plans for both known claims as well as claims incurred but not reported. 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. There are no material adjustments to expenses accrued in prior periods in current expenses. 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 computing the Company s income tax expense. Any audit adjustments affecting permanent differences could have an impact on the Company s effective tax rate.

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Deferred income taxes are accounted for using the liability method and relate principally to depreciation expense, stock based compensation programs and self-insurance programs accounted for differently for financial and income tax purposes.

Valuation allowances are recorded when it is more likely than not some portion or all of the deferred tax asset will not be realized.

Contingencies

The Company recognizes the costs of legal defense for the legal proceedings to which it is a party in the periods incurred. After a considerable analysis of each case, the Company determines the amount of reserves required, if any. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed reasonably estimable and 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 reserves or by accruals of losses to reflect any adverse determinations of these legal proceedings.

New Accounting Pronouncements

In May 2011, FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS . The amendments in this update generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS. This update is effective for annual and interim periods beginning after December 15, 2011. This update is not expected to have a material impact on the Company s consolidated financial position, results of operations or cash flows.

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Item 7A. Quantitative and Qualitative Disclosure 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 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 commits to purchase feed ingredients for deferred delivery from one month to six months after the time of the committment. The Company sometimes purchases its feed ingredients for prompt delivery to its feed mills at market prices at the time of such purchases. The grain purchases are made directly with our usual grain suppliers, which are companies in the business of regularly 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 commit to buy grain for deferred delivery 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
- 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 in ASC 815, Accounting for Derivatives for Instruments and Hedging Activities, or any market risk sensitive instruments of the type contemplated by Item 305 of Regulation S-K. The Company does not enter into any derivative transactions or purchase any grain-related contracts other than the physical grain contracts described above.

Although the Company does not use derivative financial instruments as defined in ASC 815 or purchase market risk sensitive instruments of the type contemplated by Item 305 of Regulation S-K, the commodities that the Company does purchase for physical delivery, primarily corn and soybean meal, are subject to price fluctuations that have a direct and material effect on the Company s profitability as mentioned above. During fiscal 2012, the Company purchased approximately 87.6 million bushels of corn and approximately 766,000 tons of soybean meal for use in manufacturing feed for its live chickens. Thus, a $1.00 change in the average market price paid per bushel for corn would have impacted the Company s cash outlays for corn by approximately $87.6 million in fiscal 2012. Likewise, a $10.00 change in the price paid per ton for soybean meal would impact the Company s cash outlays by approximately $7.66 million.

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Although changes in the market price paid for feed grains impact cash outlays at the time the Company purchases the grain, such changes do not immediately impact cost of sales. 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. Thus, there is a lag between the time cash is paid for feed ingredients and the time the cost of such feed ingredients is reported in cost of goods sold. For example, corn delivered to a feed mill and paid for one week might be used to manufacture feed the following week. However, the chickens that eat that feed might not be processed and sold for another 48-62 days, and only at that time will the costs of the feed consumed by the chicken become included in cost of goods sold.

During fiscal 2012, the Company s average feed cost per pound of broilers processed totaled $0.3853 per pound. Feed costs per pound of broilers processed consist primarily of feed grains, but also include other feed ingredients such as vitamins, fat and mineral feed supplements. The average feed cost per pound is influenced not only by the price of feed ingredients, but also by the efficiency with which live chickens convert feed into body weight. Factors such as weather, poultry husbandry, quality of feed ingredients and the quality and health of the bird, among others, affect the quantity of feed necessary to mature chickens to the target live weight and the efficiency of that process. Generally, however, a $1.00 change in the average price paid per bushel of corn fed to a chicken during its life would have impacted average feed cost per pound of broilers processed by $0.0296, based on the quantity of grain used during fiscal 2012. Similarly, a $10.00 change in the average price paid per ton of soybean meal would have influenced the average feed cost per pound of broilers processed by $0.0026 during the fiscal 2012.

The following table shows the impact of hypothetical changes in the price of corn and soybean meal on both the Company s cash flow and cost of goods sold, based on quantities actually purchased in fiscal 2012:

Feed Ingredient	**Quantity Purchased during Fiscal 2012**	**Hypothetical Price Change**	**Impact on Cash Outlay**	**Ultimate Impact on Feed Cost per Pound of broilers Processed**
Corn	87.6 million bushels	$1.00 per bushel	$ 87.6 million	$0.0296/lb processed
Soybean meal	766,000 tons	$10.00 per ton	$ 7.66 million	$0.0026/lb processed

The Company s interest expense is sensitive to changes in the general level of interest rates in the United States. The Company maintains certain of its debt as fixed rate in nature to mitigate the impact of fluctuations in interest rates. The fair value of the Company s fixed rate debt approximates the carrying amount at October 31, 2012. 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.

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Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Sanderson Farms, Inc.

We have audited the accompanying consolidated balance sheets of Sanderson Farms, Inc. and subsidiaries as of October 31, 2012 and 2011, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended October 31, 2012. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sanderson Farms, Inc. and subsidiaries at October 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sanderson Farms, Inc. s internal control over financial reporting as of October 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 18, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana

December 18, 2012

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Sanderson Farms, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	October 31, 2012	October 31, 2011
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 27,802	$ 11,075
Accounts receivable, less allowance of $1,785,000 in 2012 and $1,373,000 in 2011	98,022	94,021
Inventories	235,912	211,753
Refundable income taxes	4,467	88,512
Deferred income taxes	3,945	6,357
Prepaid expenses	27,639	26,240
Total current assets	397,787	437,958
Property, plant and equipment:		
Land and buildings	435,412	425,911
Machinery and equipment	549,786	513,624
	985,198	939,535
Accumulated depreciation	(489,885)	(434,030)
	495,313	505,505
Other assets	3,353	5,058
Total assets	$ 896,453	$ 948,521
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 82,755	$ 66,761
Accrued expenses	42,082	35,795
Current maturities of long-term debt	10,757	11,106
Total current liabilities	135,594	113,662
Long-term debt, less current maturities	150,212	273,670
Claims payable	4,000	3,300
Deferred income taxes	56,572	50,989
Stockholders equity:		
Preferred Stock:		
Series A Junior Participating Preferred Stock, $100 par value: authorized shares-500,000; none issued Par value to be determined by the Board of Directors: authorized shares-4,500,000; none issued		
Common Stock, $1 par value: authorized shares-100,000,000; issued and outstanding shares- 22,968,832 in 2012 and 22,871,588 in 2011	22,969	22,872
Paid-in capital	135,283	130,528
Retained earnings	391,823	353,500
Total stockholders equity	550,075	506,900
Total liabilities and stockholders equity	$ 896,453	$ 948,521

See accompanying notes.

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Sanderson Farms, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended October 31,		
	2012	2011	2010
	(In thousands, except per share data)		
Net sales	$ 2,386,105	$ 1,978,085	$ 1,925,445
Cost and expenses:			
Cost of sales	2,212,692	2,085,248	1,630,549
Live inventory adjustment	0	9,000	0
Selling, general and administrative	77,097	72,217	85,055
	2,289,789	2,166,465	1,715,604
Operating income (loss)	96,316	(188,380)	209,841
Other income (expense):			
Interest income	17	41	103
Interest expense	(9,201)	(6,413)	(2,708)
Other	(560)	510	19
	(9,744)	(5,862)	(2,586)
Income (loss) before income taxes	86,572	(194,242)	207,255
Income tax expense (benefit)	32,628	(67,165)	72,435
Net income (loss)	$ 53,944	$ (127,077)	$ 134,820
Earnings (loss) per share:			
Basic	$ 2.35	$ (5.74)	$ 6.07
Diluted	$ 2.35	$ (5.74)	$ 6.07
Dividends per share	$ .68	$ .68	$ .62

See accompanying notes.

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Sanderson Farms, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings	Total Stockholders Equity
	(In thousands, except shares and per share amounts)				
Balance at October 31, 2009	20,903,544	$ 20,904	$ 34,573	$ 375,231	$ 430,708
Net income for year				134,820	134,820
Cash dividends ($.62 per share)				(13,996)	(13,996)
Secondary offering of common stock	2,300,000	2,300	112,798		115,098
Purchase and retirement of common stock	(664,688)	(665)	(27,708)		(28,373)
Issuance of stock under stock compensation plans	115,824	116	(178)		(62)
Amortization of unearned compensation			7,518		7,518
Balance at October 31, 2010	22,654,680	$ 22,655	$ 127,003	$ 496,055	$ 645,713
Net loss for year &nbs					