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SANDERSON FARMS INC  
Form 10-K/A  
December 31, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A  
(Amendment No. 1)

(Mark One)

/X / Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended October 31, 2002

/ / 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 : 0-16567

SANDERSON FARMS, INC.  
(Exact name of registrant as specified in its charter)

|  |   |
|--|---|
| Mississippi<br>(State or other jurisdiction of<br>incorporation or organization)<br>225 North 13th Avenue<br>Laurel, Mississippi<br>(Address of principal executive offices) | 64-0615843<br>(IRS Employer<br>Identification No.)<br><br>39440<br>(Zip Code) |
|--|---|

Registrant's telephone number, including area code: (601) 649-4030 Securities registered pursuant to Section 12(b) of the Act: None Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$1.00 per share par value

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.

X Yes  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 [ ].

Aggregate market value (based on the closing sales price in the NASDAQ National Market System) of the voting stock held by non-affiliates of the Registrant as of November 29, 2002: approximately \$111,959,484.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

X Yes  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 National Market System on the last

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business day of the Registrant's most recently completed second fiscal quarter:  
\$134,242,781.

Number of Shares outstanding of the Registrant's common stock as of November 30, 2002: 13,017,026 shares of common stock, \$1.00 per share par value.

Portions of the Registrant's definitive proxy statement filed or to be filed in connection with its 2003 Annual Meeting of Stockholders are incorporated by reference into Part III.

### EXPLANATORY NOTE

The Registrant amends its Annual Report on Form 10-K for the fiscal year ended October 31, 2002 to correct errors that resulted when the Form 10-K was converted to the Edgar format. The only revisions reflected in this amendment relate to: (i) the "Accounts receivable, less allowance of \$663,000 in 2002 and \$303,000 in 2001" and "Prepaid expenses" line items in the Registrant's Consolidated Balance Sheets and (ii) Column C of Schedule II--Valuation and Qualifying Accounts. This amendment refiles the entire Item 8 -- Financial Statements and Supplementary Data, including Schedule II, both of which have been corrected as indicated above and are reproduced below

### PART II

#### Item 8. Financial Statements and Supplementary Data.

##### Sanderson Farms, Inc. and Subsidiaries CONSOLIDATED BALANCE SHEETS

|  | October 31<br>2002 | 2001             |
|--|--------------------|------------------|
|  | -----              |                  |
|  | (In thousands)     |                  |
| <b>Assets</b>  |                    |                  |
| <b>Current assets:</b>   |                    |                  |
| Cash and cash equivalents  | \$ 9,542           | \$ 24,175        |
| Accounts receivable, less allowance of \$663,000 in 2002 and \$303,000 in 2001 | 41,073             | 40,187           |
| Inventories  | 57,964             | 52,350           |
| Refundable income taxes  | 2,764              | 0                |
| Prepaid expenses   | 12,121             | 9,452            |
|  | -----              | -----            |
| Total current assets   | 123,464            | 126,164          |
| <b>Property, plant and equipment:</b>  |                    |                  |
| Land and buildings   | 134,076            | 130,366          |
| Machinery and equipment  | 255,590            | 248,621          |
|  | -----              | -----            |
| Accumulated depreciation   | (233,183)          | (216,801)        |
|  | -----              | -----            |
| Other assets   | 563                | 621              |
|  | -----              | -----            |
| <b>Total assets</b>  | <b>\$280,510</b>   | <b>\$288,971</b> |
|  | =====              | =====            |

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Liabilities and Stockholders' Equity

Current liabilities:

|  |           |           |
|--|-----------|-----------|
| Accounts payable   | 25,258    | \$ 20,309 |
| Accrued expenses   | 26,511    | 25,708    |
| Current maturities of long-term debt   | 3,243     | 3,178     |
|  | -----     | -----     |
| Total current liabilities  | 55,012    | 49,195    |
| Long-term debt, less current maturities  | 49,969    | 77,212    |
| Claims payable   | 2,600     | 2,400     |
| Deferred income taxes  | 17,038    | 15,825    |
| Stockholders' equity:  |           |           |
| Preferred Stock:   |           |           |
| Series A Junior Participating Preferred Stock, \$100<br>par value: authorized shares-500,000; none issued<br>Par value to be determined by the Board of Directors:<br>authorized shares-4,500,000; none issued |           |           |
| Common Stock, \$1 par value: authorized shares-100,000,000;<br>issued and outstanding shares-13,051,026 in 2002 and<br>13,564,955 in 2001  | 13,051    | 13,565    |
| Paid-in capital  | 0         | 2,945     |
| Retained earnings  | 142,840   | 127,829   |
|  | -----     | -----     |
| Total stockholders' equity   | 155,891   | 144,339   |
|  | -----     | -----     |
| Total liabilities and stockholders' equity   | \$280,510 | \$288,971 |
|  | =====     | =====     |

See accompanying notes.

Sanderson Farms, Inc. and Subsidiaries  
CONSOLIDATED STATEMENTS OF INCOME

|   | 2002                             | Years Ended O<br>2001 |
|---|----------------------------------|-----------------------|
|   | -----                            | -----                 |
|   | (In thousands, except per share) |                       |
| Net sales   | \$743,665                        | \$706,0               |
| Cost and expenses:  |                                  |                       |
| Cost of sales   | 663,161                          | 626,6                 |
| Selling, general and administrative   | 30,527                           | 28,2                  |
|   | -----                            | -----                 |
|   | 693,688                          | 654,9                 |
|   | -----                            | -----                 |
| Operating income (loss)   | 49,977                           | 51,0                  |
| Other income (expense):   |                                  |                       |
| Interest income   | 185                              | 3                     |
| Interest expense  | (3,681)                          | (6,7                  |
| Other   | (1)                              |                       |
|   | -----                            | -----                 |
|   | (3,497)                          | (6,3                  |
|   | -----                            | -----                 |
| Income (loss) before income taxes and cumulative effect<br>of accounting change | 46,480                           | 44,7                  |

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|  |          |        |
|--|----------|--------|
| Income tax expense (benefit)   | 17,640   | 16,9   |
|  | -----    | -----  |
| Income (loss) before cumulative effect<br>of accounting change               | 28,840   | 27,7   |
|  | =====    | =====  |
| Cumulative effect of accounting change (net of income<br>taxes of \$140,000) | 0        |        |
|  | -----    | -----  |
| Net income (loss)  | \$28,840 | \$27,7 |
|  | =====    | =====  |
| Basic net income (loss) per share:   |          |        |
| Income (loss) before cumulative<br>effect of accounting change               | \$ 2.18  | \$ 2.  |
| Cumulative effect of accounting change                                       | 0        |        |
|  | -----    | -----  |
| Net income (loss) per share  | \$ 2.18  | \$ 2.  |
|  | =====    | =====  |
| Diluted net income (loss) per share:   |          |        |
| Income (loss) before cumulative<br>effect of accounting change               | \$ 2.15  | \$ 2.  |
| Cumulative effect of accounting change                                       | 0        |        |
|  | -----    | -----  |
| Net income (loss) per share  | \$ 2.15  | \$ 2.  |
|  | =====    | =====  |
| Weighted average shares outstanding:   |          |        |
| Basic  | 13,200   | 13,5   |
|  | =====    | =====  |
| Diluted  | 13,429   | 13,6   |
|  | =====    | =====  |

See accompanying notes.

Sanderson Farms, Inc. and Subsidiaries  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

|  | Common Stock<br>Shares | Common Stock<br>Amount | Paid-In<br>Capital | Retained<br>Earnings | St  |
|--|------------------------|------------------------|--------------------|----------------------|-----|
| (In thousands, except shares and per share a |                        |                        |                    |                      |     |
| Balance at November 1, 1999                  | 13,932,455             | \$13,932               | \$5,835            | \$111,077            | \$1 |
| Net loss for year                            |                        |                        |                    | (5,571)              |     |
| Cash dividends (\$.20 per share)             |                        |                        |                    | (2,740)              |     |
| Purchase and retirement of<br>common stock   | (299,500)              | (299)                  | (2,219)            |                      |     |
|  |                        |                        |                    | -----                |     |
| Balance at October 31, 2000                  | 13,632,955             | 13,633                 | 3,616              | 102,766              | 1   |
| Net income for year                          |                        |                        |                    | 27,784               |     |
| Cash dividends (\$.20 per share)             |                        |                        |                    | (2,721)              |     |
| Purchase and retirement of<br>common stock   | (68,000)               | (68)                   | (671)              |                      |     |

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|  |            |          |         |           |     |
|--|------------|----------|---------|-----------|-----|
| Balance at October 31, 2001                | 13,564,955 | 13,565   | 2,945   | 127,829   | 1   |
| Net income for year                        |            |          |         | 28,840    |     |
| Cash dividends (\$.40 per share)           |            |          |         | (5,245)   |     |
| Purchase and retirement of<br>common stock | (736,079)  | (736)    | (5,320) | (8,584)   | (   |
| Issuance of common stock                   | 222,150    | 222      | 2,375   |           |     |
| Balance at October 31, 2002                | 13,051,026 | \$13,051 | \$ 0    | \$142,840 | \$1 |

See accompanying notes.

SANDERSON FARMS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Years Ended October 31 |          |
|---|------------------------|----------|
|   | 2002                   | 2001     |
|   | (In thousands)         |          |
| Operating activities  |                        |          |
| Net income (loss)   | \$28,840               | \$27,784 |
| Adjustments to reconcile net income (loss) to net cash<br>provided by operating activities: |                        |          |
| Cumulative effect of accounting change  | 0                      | 0        |
| Depreciation and amortization   | 24,710                 | 25,722   |
| Provision for losses on accounts receivable   | 360                    | 44       |
| Deferred income taxes   | 1,340                  | (178)    |
| Change in assets and liabilities:   |                        |          |
| Accounts receivable   | (1,246)                | (3,193)  |
| Inventories   | (5,614)                | (2,088)  |
| Prepaid expenses and refundable income taxes  | (5,560)                | 2,791    |
| Other assets  | (141)                  | (205)    |
| Accounts payable  | 4,949                  | 2,802    |
| Accrued expenses and claims payable   | 1,003                  | 11,173   |
| Total adjustments   | 19,801                 | 36,868   |
| Net cash provided by operating activities   | 48,641                 | 64,652   |
| Investing activities  |                        |          |
| Capital expenditures  | (19,704)               | (14,587) |
| Net proceeds from sale of property and equipment  | 896                    | 86       |
| Net cash used in investing activities   | (18,808)               | (14,501) |
| Financing activities  |                        |          |
| Net change in revolving credit  | (24,000)               | (28,000) |
| Principal payments on long-term debt  | (2,958)                | (2,954)  |
| Principal payments on capital lease obligation  | (220)                  | (205)    |

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|   |          |          |
|---|----------|----------|
| Dividends paid                                    | (5,245)  | (2,721)  |
| Purchase and retirement of common stock           | (14,640) | (739)    |
| Net proceeds from common stock issued             | 2,597    | 0        |
|   | -----    | -----    |
| Net cash used in financing activities             | (44,466) | (34,619) |
|   | -----    | -----    |
| Net change in cash and cash equivalents           | (14,633) | 15,532   |
| Cash and cash equivalents                         |          |          |
| at beginning of year                              | 24,175   | 8,643    |
|   | -----    | -----    |
| Cash and cash equivalents                         |          |          |
| at end of year                                    | 9,542    | \$24,175 |
|   | =====    | =====    |
| Supplemental disclosure of cash flow information: |          |          |
| Income taxes paid (refunded), net                 | \$18,675 | \$12,372 |
|   | =====    | =====    |
| Interest paid                                     | \$ 3,993 | \$ 6,920 |
|   | =====    | =====    |

See accompanying notes.

### Sanderson Farms, Inc. and Subsidiaries

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Significant Accounting Policies

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

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

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

**Use of Estimates:** The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Cash Equivalents:** The Company considers all highly liquid investments with maturities of ninety days or less when purchased to be cash equivalents.

**Inventories:** Processed food and poultry inventories and inventories of feed,

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eggs, medication and packaging supplies are stated at the lower of cost (first-in, first-out method) or market.

Live poultry inventories of broilers are stated at the lower of cost or market and breeders at cost less accumulated amortization. The costs associated with breeders, including breeder chicks, feed, medicine and grower pay, are accumulated up to the production stage and amortized over nine months using the straight-line method.

**Property, Plant and Equipment:** Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is provided by the straight-line and units of production methods over the estimated useful lives of 19 to 39 years for buildings and 3 to 7 years for machinery and equipment.

**Impairment of Long-Lived Assets:** The Company continually reevaluates the carrying value of its long-lived assets for events or changes in circumstances which indicate that the carrying value may not be recoverable. As part of this reevaluation, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposal. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized through a charge to operations.

**Income Taxes:** Deferred income taxes are accounted for using the liability method and relate principally to cash basis temporary differences and depreciation expense accounted for differently for financial and income tax purposes. Effective November 1, 1988, the Company changed from the cash to the accrual basis of accounting for its farming subsidiary. The Taxpayer Relief Act of 1997 (the "Act") provides that the taxes on the cash basis temporary differences as of that date are payable over 20 years beginning in fiscal 1998 or in full in the first fiscal year in which the Company fails to qualify as a "Family Farming Corporation." The Company will continue to qualify as a "Family Farming Corporation" provided there are no changes in ownership control, which management does not anticipate during fiscal 2003.

**Stock Based Compensation:** The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees."

**Earnings Per Share:** Basic earnings per share is based upon the weighted average number of common shares outstanding during the year. Diluted earnings per share includes any dilutive effects of options, warrants, and convertible securities.

**Fair Value of Financial Instruments:** The carrying amounts for cash and temporary cash investments approximate their fair values. The carrying amounts of the Company's borrowings under its credit facilities and long-term debt also approximate the fair values based on current rates for similar debt.

**Impact of Recently Issued Accounting Standards:** Effective in fiscal 2001, The Company adopted FASB No. 133, "Accounting for Derivative Instruments and Hedging Activities", which required all derivatives to be recorded on the balance sheet at fair value. The adoption of this statement had no effect on the consolidated earnings and financial position of the Company.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting the Costs of Start-Up Activities," which requires that costs related to start-up activities be expensed as incurred. Prior to October 31, 1999, the Company capitalized its start-up costs. The Company adopted the provisions of the Statement of Position 98-5, "Reporting the Costs of Start-Up Activities," which required that costs related to start-up activities be expensed as incurred in its consolidated financial statements in the first quarter of fiscal 2000. The effect of adoption of SOP 98-5 during fiscal 2000 was to record a charge for the cumulative effect of an accounting

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change of \$234,000 (net of income taxes of \$140,000) or \$.02 per basic and diluted earnings per share.

### 2. Inventories

Inventories consisted of the following:

|                                    | October 31     |          |
|------------------------------------|----------------|----------|
|                                    | 2002           | 2001     |
|                                    | (In thousands) |          |
| Live poultry-broilers and breeders | \$33,392       | \$30,649 |
| Feed, eggs and other               | 7,389          | 6,597    |
| Processed poultry                  | 8,423          | 5,894    |
| Processed food                     | 4,507          | 4,918    |
|                                    | -----          | -----    |
| Packaging materials                | 4,253          | 4,292    |
|                                    | -----          | -----    |
|                                    | \$57,964       | \$52,350 |
|                                    | =====          | =====    |

### 3. Long-term Credit Facilities and Debt

Long-term debt consisted of the following:

|   | October 31     |          |
|---|----------------|----------|
|   | 2002           | 2001     |
|   | (In thousands) |          |
| Revolving credit agreement with banks<br>(weighted average rate of 5.1% at<br>October 31, 2002)   | \$20,000       | \$44,000 |
| Term loan with an insurance company,<br>accruing interest at 7.49%; due in<br>annual principal installments of \$2,850,000  | 2,900          | 5,750    |
| Term loan with an insurance company,<br>accruing interest at 6.65%; due in annual<br>principal installments of \$2,857,000,<br>beginning in July 2004   | 20,000         | 20,000   |
| Note payable, accruing interest at 5%;<br>due in annual installments of \$161,400,<br>including interest, maturing in 2009  | 957            | 1,065    |
| 6% Mississippi Business Investment Act<br>bond-capital lease obligation, due<br>November 1, 2012  | 3,055          | 3,275    |
| Robertson County, Texas, Industrial<br>Revenue Bonds accruing interest<br>at a variable rate, 2.4% at October<br>31, 2002; with optional annual principal<br>installments of \$900,000, due<br>November 1, 2005 | 6,300          | 6,300    |
|   | -----          | -----    |
|   | 53,212         | 80,390   |
| Less current maturities of long-term debt   | 3,243          | 3,178    |



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|          |          |
|----------|----------|
| -----    | -----    |
| \$49,969 | \$77,212 |
| =====    | =====    |

The Company has a \$100.0 million (\$80.0 million available at October 31, 2002) revolving credit agreement with four banks, which extends to fiscal 2005. Borrowings are at prime or below and may be prepaid without penalty. A commitment fee of .25% is payable quarterly on the unused portion of the revolver. Covenants related to the revolving credit and the term loan agreements include requirements for maintenance of minimum consolidated net working capital, tangible net worth, debt to total capitalization and current ratio. The agreements also establish limits on dividends, assets that can be pledged and capital expenditures.

Property, plant and equipment with a carrying value of approximately \$4,127,933 million is pledged as collateral to a note payable and the capital lease obligation.

The aggregate annual maturities of long-term debt at October 31, 2002 are as follows (in thousands):

| Fiscal Year | Amount   |
|-------------|----------|
| 2003        | \$ 3,243 |
| 2004        | 6,264    |
| 2005        | 11,285   |
| 2006        | 11,306   |
| 2007        | 11,333   |
| Thereafter  | 9,781    |
|             | -----    |
|             | \$53,212 |
|             | =====    |

4. Income Taxes

Income tax expense (benefit) consisted of the following:

|  | Years Ended October 31 |          |           |
|--|------------------------|----------|-----------|
|  | 2002                   | 2001     | 2000      |
|  | -----                  |          |           |
|  | (In thousands)         |          |           |
| Current:   |                        |          |           |
| Federal  | \$14,670               | \$15,518 | \$(3,600) |
| State  | 1,630                  | 1,450    | (44)      |
|  | -----                  | -----    | -----     |
|  | 16,300                 | 16,968   | (3,644)   |
| Deferred:  |                        |          |           |
| Federal  | 1,226                  | (264)    | 325       |
| State  | 114                    | 284      | 15        |
|  | -----                  | -----    | -----     |
|  | 1,340                  | 20       | 340       |
|  | -----                  | -----    | -----     |
|  | 17,640                 | 16,988   | (3,304)   |
| Less income tax expense applicable to cumulative effect of accounting change | 0                      | 0        | 140       |
|  | -----                  | -----    | -----     |

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|  |          |          |            |
|--|----------|----------|------------|
| Income tax expense (benefit) applicable to income (loss) before cumulative effect of accounting change | \$17,640 | \$16,988 | \$ (3,164) |
|  | =====    |          |            |

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

|   | October 31,    |          |
|---|----------------|----------|
|   | 2002           | 2001     |
|   | -----          |          |
|   | (In thousands) |          |
| Deferred tax liabilities:                                     |                |          |
| Cash basis temporary differences                              | \$2,994        | \$ 3,193 |
| Property, plant and equipment                                 | 14,986         | 13,937   |
| Prepaid and other assets                                      | 1,066          | 278      |
|   | -----          | -----    |
| Total deferred tax liabilities                                | 19,046         | 17,408   |
| Deferred tax assets:  |                |          |
| Accrued expenses and accounts receivable                      | 3,736          | 3,156    |
| State net operating loss and credit carryforwards             | 0              | 282      |
|   | -----          | -----    |
| Total deferred tax assets                                     | 3,736          | 3,438    |
|   | -----          | -----    |
| Net deferred tax liabilities                                  | \$15,310       | \$13,970 |
|   | =====          | =====    |
| Current deferred tax assets<br>(included in prepaid expenses) | \$ 1,728       | \$ 1,855 |
| Long-term deferred tax liabilities                            | 17,038         | 15,825   |
|   | -----          | -----    |
| Net deferred tax liabilities                                  | \$15,310       | \$13,970 |
|   | =====          | =====    |

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

|   | Years ended    |          |            |
|---|----------------|----------|------------|
|   | October 31     |          |            |
|   | 2002           | 2001     | 2000       |
|   | -----          |          |            |
|   | (In thousands) |          |            |
| Income taxes (benefit) at statutory rate                    | \$16,268       | \$15,670 | \$ (3,018) |
| State income taxes (benefit)                                | 1,511          | 1,754    | (19)       |
| State income tax credit                                     | 0              | (627)    | 0          |
| Increase in deferred taxes<br>for change in income tax rate | 0              | 367      | 0          |
| Other, net  | (139)          | (176)    | (267)      |
|   | -----          | -----    | -----      |
| Income tax expense (benefit)                                | \$17,640       | \$16,988 | \$ (3,304) |
|   | =====          | =====    | =====      |

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### 5. Employee Benefit Plans

The Company has an Employee Stock Ownership Plan ("ESOP") covering substantially all employees. Contributions to the ESOP are determined at the discretion of the Company's Board of Directors. Total contributions to the ESOP were \$2,500,000 and \$2,300,000 in fiscal 2002 and 2001, respectively. The Company did not make a contribution to the ESOP in fiscal 2000.

The Company has a 401(k) Plan which covers substantially all employees after six months of service. Participants in the Plan may contribute up to the maximum allowed by IRS regulations. Effective July 1, 2000, the Company matches 100% of employee contributions to the 401(k) Plan up to 3% of each employee's compensation and 50% of employee contributions between 3% and 5% of each employee's compensation. The Company's contributions to the 401(k) Plan totaled \$1,463,000 in fiscal 2002, \$1,411,000 in fiscal 2001 and \$457,000 in fiscal 2000.

### 6. Stock Option Plan

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options because the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options.

Under the Company's Stock Option Plan, 750,000 shares of Common Stock have been reserved for grant to key management personnel. Options granted in fiscal 2002, 2001 and 2000 have ten-year terms and vest over four years beginning one year after the date of grant.

Pro forma information regarding net income (loss) and earnings (loss) per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 3.5% in fiscal 2002 and 5.0% in fiscal 2001 and 6.6% in fiscal 2000; dividend yields of 2.0% for fiscal 2002 and fiscal 2001 and 2.7% for fiscal 2000; volatility factors of the expected market price of the Company's Common Stock of .325 for fiscal 2002, .350 for fiscal 2001 and .302 for fiscal 2000; and a weighted-average expected life of the options of four years.

The weighted-average fair value of options granted was \$4.73 in fiscal 2002, \$3.24 in fiscal 2001 and \$1.94 in fiscal 2000. The pro forma effect of the estimated fair value of the options granted was insignificant to the Company's net income (loss) and net income (loss) per share in fiscal 2002, 2001, and 2000.

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

|                                 | Shares   | Weighted-Average<br>Exercise Price |
|---------------------------------|----------|------------------------------------|
|                                 | -----    | -----                              |
| Outstanding at November 1, 1999 | 582,000  | \$12.90                            |
| Granted                         | 141,000  | 7.47                               |
| Forfeited                       | (84,000) | 11.60                              |

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|                                 |           |         |
|---------------------------------|-----------|---------|
|                                 | -----     |         |
| Outstanding at October 31, 2000 | 639,000   | 11.83   |
| Granted                         | 71,500    | 11.10   |
| Forfeited                       | (87,500)  | 11.11   |
| Outstanding at October 31, 2001 | 623,000   | 11.81   |
| Granted                         | 322,886   | 18.05   |
| Exercised                       | (222,150) | 11.79   |
| Forfeited                       | (2,000)   | 7.47    |
|                                 | -----     | -----   |
| Outstanding at October 31, 2002 | 721,736   | \$14.41 |
|                                 | =====     | =====   |

The exercise price of the options outstanding as of October 31, 2002 ranged from \$7.19 to \$18.55 per share. At October 31, 2002, the weighted average remaining contractual life of the options outstanding was 8 years and 305,537 options were exercisable.

In fiscal 2000, the Company granted 141,000 "phantom shares" to certain key management personnel. Upon exercise of a phantom share, the holder will receive a cash payment or an equivalent number of shares of the Company's Common Stock, at the Company's option, equal to the excess of the fair market value of the Company's Common Stock over the phantom share award value of \$7.47 per share. The phantom shares have a ten-year term and vest over four years beginning one year after the date of grant. Compensation expense of \$421,000 and \$555,000 is included in selling, general and administrative expense in the accompanying consolidated statement of income for fiscal 2002 and fiscal 2001, respectively. No compensation expense was recognized applicable to the phantom shares in fiscal 2000 because the award value exceeded the fair market value of the Company's Common Stock.

### 7. Shareholder Rights Agreement

On April 22, 1999, the Company adopted a shareholder rights agreement (the "Agreement") with similar terms as the previous one. Under the terms of the Agreement a one share purchase ("right") was declared as a dividend for each share of the Company's Common Stock outstanding on May 4, 1999. The rights do not become exercisable and certificates for the rights will not be issued until ten business days after a person or group acquires or announces a tender offer for the beneficial ownership of 20% or more of the Company's Common Stock. Special rules set forth in the Agreement apply to determine beneficial ownership for members of the Sanderson family. Under these rules, such a member will not be considered to beneficially own certain shares of Common Stock, the economic benefit of which is received by any member of the Sanderson family, and certain shares of Common Stock acquired pursuant to employee benefit plans of the Company.

The exercise price of a right has been established at \$75. Once exercisable, each right would entitle the holder to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value \$100 per share. The rights may be redeemed by the Board of Directors at \$.01 per right prior to an acquisition, through open market purchases, a tender offer or otherwise, of the beneficial ownership of 20% or more of the Company's Common Stock, or by two-thirds of the Directors who are not the acquirer, or an affiliate of the acquirer prior to the acquisition of 50% or more of the Company's Common Stock by such acquirer. The rights expire on May 4, 2009.

### 8. Other Matters

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On April 5, 2000, thirteen individuals claiming to be former hourly employees of the Company's processing subsidiary (Sanderson Farms, Inc. (Processing Division) (the "Processing Division")) filed a lawsuit in the United States District Court for the Southern District of Texas claiming that the Processing Division violated requirements of the Fair Labor Standards Act. The Plaintiffs' lawsuit also purported to represent similarly situated workers who filed consents to be included as plaintiffs in the suit. A total of 109 individuals consented to join the lawsuit.

The lawsuit alleges that the Processing Division (1) failed to pay its hourly employees "for time spent donning and doffing sanitary and safety equipment, obtaining and sharpening knives and scissors, working in the plant and elsewhere before and after the scheduled end of the shift, cleaning safety equipment and sanitary equipment, and walktime," and (2) altered employee time records by using an automated time keeping system. Plaintiffs further claim that the Processing Division concealed the alteration of time records and seek on that account an equitable tolling of the statute of limitations beyond the three-year limitation period back to the date the automated time-keeping system was allegedly implemented.

Plaintiffs sought an unspecified amount of unpaid hourly and overtime wages plus an equal amount as liquidated damages, for present and former hourly employees who file consents to join in the lawsuit. There were 6,476 hourly workers employed at the Processing Division's plants as of October 31, 2002.

On April 24, 2001, the Court granted the Processing Division's summary judgment motion and entered a final judgment in favor of the Processing Division. Plaintiffs appealed that decision to the United States Fifth Circuit Court of Appeals. On March 7, 2002, the United States Fifth Circuit Court of Appeals affirmed the decision of the United States District Court granting the Processing Division's motion for summary judgment. The plaintiffs had 90 days from March 7, 2002 to request that the United States Supreme Court hear an appeal of this case, which time has expired.

On May 15, 2000, an employee of the Company's production subsidiary (Sanderson Farms, Inc. (Production Division) (the "Production Division")), filed suit against the Production Division in the United States District Court for the Southern District of Texas on behalf of live-haul drivers to recover an unspecified amount of overtime compensation and liquidated damages. Approximately 26 employees filed consents to join in this lawsuit.

Previously, the United States Department of Labor ("DOL") filed a similar suit against the Production Division in the United States District Court for the Southern District of Mississippi, Hattiesburg Division, on behalf of live-haul employees at the Production Division's Laurel, Mississippi facility. Both lawsuits were brought under the Fair Labor Standards Act and seek recovery of overtime compensation, together with an equal amount as liquidated damages, for live-haul employees (i.e., live-haul drivers, chicken catchers, and loader-operators) employed by the Production Division. The lawsuits assert that additional overtime compensation and liquidated damages may be owed to certain employees. The lawsuits also seek an injunction to prevent the withholding of overtime compensation to live-haul employees in the future.

On January 18, 2001, the United States District Court for the Southern District of Texas granted the Production Division's request to move the suit pending before that court to the Southern District of Mississippi, Hattiesburg Division. The Production Division later filed its motion with the United States District Court for the Southern District of Mississippi to have the two cases consolidated, which motion was granted. On February 4, 2002, the Production Division reached a settlement with the Department of Labor that fully and

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completely compromised and settled the claims of all live-haul employees in the Production Division, other than certain Production Division employees represented in a collective bargaining agreement in Texas. The settlement, approved by the court on March 11, 2002, and pursuant to which the Production Division paid during its second fiscal quarter (accrued during its first fiscal quarter) approximately \$450,000 in back pay and interest to the involved current and former employees in the Production Division's Mississippi and Texas operations, terminates the private rights of these employees under the Fair Labor Standards Act with respect to the claims made in this suit. With respect to approximately 74 employees represented under a collective bargaining agreement in Texas, the court entered its Order Granting Joint Motion for Court Approval of Settlement on November 4, 2002. The final settlement of this matter will become effective upon a ruling by the court on the plaintiff's request for award of attorney's fees. The court is scheduled to hear arguments on the attorney's fees issue on January 7, 2003. The Production Division will pay approximately \$188,000 in back pay to the Texas employees as part of the settlement, and this amount is accrued and reflected in the Company's accompanying consolidated financial statements.

Substantially similar lawsuits to those described above have been filed against other integrated poultry companies. In addition, organizing activity conducted by the representatives or affiliates of the United Food and Commercial Workers Union against the poultry industry has encouraged worker participation in these and the other lawsuits.

On September 26, 2000, three current and former contract growers filed suit against the Company in the Chancery Court of Lawrence County, Mississippi. The plaintiffs filed suit on behalf of "all Mississippi residents to whom, between on or about November 1981 and the present, the Company induced into growing chickens for it and paid compensation under the so-called 'ranking system'." Plaintiffs allege that the Company "has defrauded plaintiffs by unilaterally imposing and utilizing the so-called 'ranking system' which wrongfully places each grower into a competitive posture against other growers and arbitrarily penalizes each less successful grower based upon criteria which were never revealed, explained or discussed with plaintiffs." Plaintiffs further allege that they are required to accept chicks that are genetically different and with varying degrees of healthiness, and feed of dissimilar quantity and quality. Finally, plaintiffs allege that they are ranked against each other although they possess dissimilar facilities, equipment and technology. Plaintiffs seek an unspecified amount in compensatory and punitive damages, as well as varying forms of equitable relief.

The Company is vigorously defending and will continue to vigorously defend this action. On November 22, 2002, the Court denied the Company's motions to compel arbitration, challenging the jurisdiction of the Chancery Court of Lawrence County, Mississippi, and seeking to have the case dismissed pursuant to rule 5(c) of the Mississippi Rules of Civil Procedure. The Company then filed its motion for interlocutory appeal on these issues with the Mississippi State Supreme Court. On December 6, 2002, the Mississippi State Supreme Court agreed to hear this motion and stayed the action in the Chancery Court pending disposition of this motion. This matter is pending. As with the wage and hour and donning and doffing lawsuits discussed above, substantially similar lawsuits have been filed against other integrated poultry companies.

On August 2, 2002, three contract egg producers filed suit against the Company in the Chancery Court of Jefferson Davis County, Mississippi. The Plaintiffs filed suit on behalf of "all Mississippi residents who, between June 1993 and the present, [the Company] fraudulently and negligently induced into housing, feeding and providing water for [the Company's] breeder flocks and gathering, grading, packaging and storing the hatch eggs generated by said flocks and who have been compensated under the payment method established by the [Company]." Plaintiffs alleged that the Company "has defrauded Plaintiffs by unilaterally

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imposing and utilizing a method of payment which wrongfully and arbitrarily penalizes each grower based upon criteria which are under the control of the [Company] and which were never revealed, explained or discussed with each Plaintiff." Plaintiffs allege that they were required to accept breeder hens and roosters which are genetically different, with varying degrees of healthiness, and feed of dissimilar quantity and quality. Plaintiffs further allege contamination of and damage to their real property. Plaintiffs alleged that they were "fraudulently and negligently induced into housing, feeding and providing water for the Company's breeder flocks and gathering, grading, packaging and storing the hatch eggs produced from said flocks" for the Company. Plaintiffs seek an unspecified amount of compensatory and punitive damages, as well as various forms of equitable relief. The Company will vigorously defend this lawsuit.

On July 25, 2002, a current contract grower and her husband filed suit against the Company and Farmers State Bank, N.A. in the District Court of Milam County, Texas. The Plaintiffs alleged "a conspiracy to defraud Plaintiffs in connection with [the Company's] promotion of a get-rich-quick scheme portrayed to Plaintiffs as a good investment for Plaintiff's future." The Plaintiffs further alleged that the Company and Farmers State Bank "conspired to defraud Plaintiffs by convincing them to purchase farm land, execute loan documents for the construction of chicken barns, and then forcing them to sign contracts of adhesion that made Plaintiffs the domestic servants of the defendants." The Plaintiffs further alleged that the Company and Farmers State Bank violated the Texas Deceptive Trade Practices-Consumer Protection Act. Plaintiffs seek an unspecified amount in compensatory damages, treble damages, attorney's fees, pre- and post-judgement interest and all costs of court. The Plaintiffs also seek a Permanent Injunction enjoining the Farmers State Bank from foreclosing on or otherwise taking possession or control of Plaintiff's real estate and the improvements thereon and other equitable relief. On August 8, 2002, the court heard arguments on the Plaintiff's motion for permanent injunction and on the Company's motion to stay the proceeding with respect to its pending arbitration of the matter as required by the Egg Producers Contract entered into by and between one of the Plaintiffs and the Company. On August 19, 2002, the court granted the Company's motion to compel arbitration in this case with respect to the Company and its grower pursuant to the arbitration provision of the contract. The case before the District Court of Milam County, Texas will be stayed pending arbitration between the Company and its grower. No arbitration date has been set. The Company will vigorously defend this matter.

The Company is also a party to lawsuits against various vitamin and methionine suppliers arising out of alleged price fixing activities by the defendants. For more information about these lawsuits, please see the section of this Report entitled "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations."

The Company is also involved in various claims and litigation incidental to its business. Although the outcome of the matters referred to in the preceding sentence cannot be determined with certainty, management, upon the advice of counsel, is of the opinion that the final outcome should not have a material effect on the Company's consolidated results of operation or financial position.

Sanderson Farms, Inc. and Subsidiaries

Valuation and Qualifying Accounts

Schedule II

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| COL. A                             | COL. B                         | COL. C                        | COL. D                    | COL. E                  | COL. F                |
|------------------------------------|--------------------------------|-------------------------------|---------------------------|-------------------------|-----------------------|
| Classification                     | Balance at Beginning of Period | Charged to Costs and Expenses | Charged to Other Accounts | Deductions Describe (1) | Balance End of Period |
| (In Thousands)                     |                                |                               |                           |                         |                       |
| Year ended October 31, 2002        |                                |                               |                           |                         |                       |
| Deducted from accounts receivable: |                                |                               |                           |                         |                       |
| Allowance for doubtful accounts    |                                |                               |                           |                         |                       |
| Totals                             | \$303                          | \$360                         |                           | \$0                     | \$66                  |
| Year ended October 31, 2001        |                                |                               |                           |                         |                       |
| Deducted from accounts receivable: |                                |                               |                           |                         |                       |
| Allowance for doubtful accounts    |                                |                               |                           |                         |                       |
| Totals                             | \$460                          | \$44                          |                           | \$201                   | \$30                  |
| Year ended October 31, 2000        |                                |                               |                           |                         |                       |
| Deducted from accounts receivable: |                                |                               |                           |                         |                       |
| Allowance for doubtful Accounts    |                                |                               |                           |                         |                       |
| Totals                             | \$249                          | \$1,413                       |                           | \$1,202                 | \$46                  |

(1) Uncollectible accounts written off, net of recoveries

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

SANDERSON FARMS, INC.

/s/Joe F. Sanderson, Jr.  
 Chairman of the Board,  
 President and Chief Executive Officer

Date: December 30, 2002

CERTIFICATION

I, Joe F. Sanderson, Jr., certify that:



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1. I have reviewed this annual report on Form 10-K of Sanderson Farms, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 30, 2002

/s/ Joe F. Sanderson, Jr.  
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Joe F. Sanderson, Jr.  
President, Chief Executive Officer and  
Chairman of the Board (Principal  
Executive Officer)

### CERTIFICATION

I, D. Michael Cockrell, certify that:

1. I have reviewed this annual report on Form 10-K of Sanderson Farms, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 30, 2002

/s/ D. Michael Cockrell

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D. Michael Cockrell  
Treasurer, Chief Financial Officer and  
Director (Principal Financial Officer)