



FORM 10-K

SANDERSON FARMS INC - SAFM

Filed: January 24, 1997 (period: October 31, 1996)

Annual report which provides a comprehensive overview of the company for the past year

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

/ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended October 31, 1996

/ 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	64-0615843
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
225 North 13th Avenue	
Laurel, Mississippi	39440
(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: 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 December 31, 1996: approximately \$93,280,714.

Number of Shares outstanding of the Registrant's common stock as of December 31, 1996: 14,363,080 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 1997 Annual Meeting of Stockholders are incorporated by reference into Part III.

INTRODUCTORY

Definitions. Except where the context indicates otherwise, the following terms have the following respective meanings when used in this Annual Report. "Registrant" and "Company" mean Sanderson Farms, Inc. and its subsidiaries and predecessor organizations. "Fiscal year" means the fiscal year ended October 31, 1996, 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, the letters used in the Commission's Regulation S-K) as effective on the date hereof, which specifies the information required to be included in Annual Reports to the Commission. 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 the specified period, given as of the date of this Report, which is January 23, 1997.

PART I

Item 1. Business

Source: SANDERSON FARMS INC, 10-K, January 24, 1997

(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, through its wholly-owned subsidiary, Sanderson Farms, Inc. (Foods Division), the Registrant is engaged in the processing, marketing and distribution of processed and prepared food items.

The Registrant sells ice pack, chill pack and frozen chicken, in whole, cut-up and boneless form, primarily under the Miss Goldy brand name to retailers, distributors, and fast food operators principally in the southeastern, southwestern and western United States. During its fiscal year ended October 31, 1996, the Registrant processed 191.1 million chickens, or approximately 644.1 million dressed pounds. According to 1996 industry statistics, the Registrant was the 13th largest processor of dressed chickens in the United States based on estimated average weekly processing.

The Registrant's chicken operations presently encompass four hatcheries, three feed mills, five processing plants and one by-products plant. The Registrant has contracts with operators of approximately 417 grow-out farms that provide it with sufficient housing capacity for its current operations. The Registrant also has contracts with operators of 134 breeder farms.

The Registrant sells over 200 processed and prepared food items nationally and regionally, primarily to distributors, national food service accounts, retailers and club stores. These food items include frozen entrees, such as chicken and dumplings, lasagna, seafood gumbo, and shrimp creole and specialty products, such as chicken patties and corn dogs. The Registrant also sells a retail entree line of six different two-pound frozen entrees including chicken primavera, lasagna with meat, seafood gumbo and mexican casserole with beef. This product line is designed as a convenient, quality product for the family.

Since the Registrant completed the initial public offering of its common stock through the sale of 1,150,000 shares to an underwriting syndicate managed by Smith Barney, Harris Upham & Co. Incorporated and Morgan Keegan & Co. Inc. in May 1987, the Registrant has significantly expanded its operations to increase production capacity, product lines and marketing flexibility. Through 1995, this expansion included the expansion of the Registrant's Hammond, Louisiana processing facility, the construction of new waste water facilities at the Hammond, Louisiana and Collins and Hazlehurst, Mississippi processing facilities, the addition of second shifts at the Hammond, Louisiana, Laurel, Mississippi, Hazlehurst, Mississippi, and Collins, Mississippi processing facilities, expansion of freezer and production capacity at its prepared foods facility in Jackson, 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 facilities, and the construction and start-up of its Pike County, Mississippi, production and processing facilities, including a hatchery, a feed mill, a processing plant, a waste water treatment facility and a water treatment facility. In addition, since 1987, the Registrant completed the expansion and renovation of the hatchery at its Hazlehurst, Mississippi production facilities, and completed the renovation and expansion of its Collins, Mississippi by-products facility, allowing for the elimination of a smaller by-products facility at the Laurel, Mississippi plant.

Capital expenditures for fiscal 1996 were funded by working capital, borrowings under a revolving credit agreement, and the proceeds of the Bonds (as defined below). Effective July 29, 1996, the Registrant amended and restated its revolving credit agreement to, among other things, increase the revolving credit available to the Registrant thereunder to \$125.0 million from \$100.0 million. On November 16, 1995, the Registrant entered into a loan agreement with the Robertson County, Texas Industrial Development Corporation (the "Issuer") pursuant to which the Issuer loaned to the Registrant the proceeds of the issuance of \$7.2 million Variable Rate Demand Industrial Development Bonds (Sanderson Farms, Inc. Project) Series 1995 (the "Bonds"), for use by the Registrant in the construction of its feed manufacturing facility to be located in Robertson County, Texas. The Bonds are secured by a letter of credit issued pursuant to the Registrant's revolving credit agreement. The Registrant anticipates that capital expenditures for fiscal 1997 will be funded by internally generated working capital, borrowings under the revolving credit agreement, and the proceeds of the Bonds.

During fiscal 1996, the Registrant completed the double shifting of its Pike County, Mississippi processing facility. The Registrant currently has additional processing capacity available to it through the double shifting of the second line at its Collins, Mississippi processing facility. During 1995 the Company announced that it would construct a new state-of-the-art poultry complex consisting of a feedmill, hatchery, processing plant and wastewater treatment facility in Brazos and Robertson Counties, Texas. At full capacity this facility will have the capacity to process 1.2 million birds per week and will employ approximately 1,400 people. Construction of the new facility began during the fall of 1995 with initial operations expected to begin in the Spring of 1997. The first eggs were set in the hatchery and feed production begins at the feed mill in January 1997. In addition, the Registrant continually evaluates internal and external expansion opportunities to continue its growth in poultry and/or related food products.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

Not applicable.

(c) NARRATIVE DESCRIPTION OF BUSINESS
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 food items.

The Registrant sells chill pack, ice pack and frozen chicken, both whole and cut-up, primarily under the Miss Goldy brand name to retailers, distributors and fast food operators principally in the southeastern, southwestern and western United States. During its fiscal year ended October 31, 1996, the Registrant processed approximately 191.1 million chickens, or approximately 644.1 million dressed pounds. In addition, the Registrant purchased and further processed 51.7 million pounds of poultry products during fiscal 1996. According to 1996 industry statistics, the Registrant was the 13th 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 Pike County, Mississippi, and Bryan, Texas, is engaged in the production of chickens to the broiler stage. Sanderson Farms, Inc. (Processing Division), which has facilities in Laurel, Collins, Hazlehurst and Pike County, Mississippi, Hammond, Louisiana, and Bryan, Texas, is engaged in the processing, sale and distribution of chickens.

The Registrant conducts its processed and prepared foods business through its wholly-owned subsidiary, Sanderson Farms, Inc. (Foods Division), which has a facility in Jackson, Mississippi. The Foods Division is engaged in the processing, marketing and distribution of over 200 processed and prepared food items, which it sells nationally and regionally, principally to distributors, national food service accounts, retailers and club stores.

Products

The Registrant has the ability to produce a wide range of processed chicken products and processed and prepared food items thereby allowing it to take advantage of marketing opportunities as they arise.

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 labelling the product to specific customer requirements and cutting 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 chickens by reducing customer handling and cutting labor and capital costs, reducing the shrinkage associated with cutting, and ensuring consistently sized portions.

With respect to chill pack products, additional value can be achieved by deep chilling and packaging whole chickens in bags or combinations of fresh chicken parts in various sized individual trays under the Registrant's brand name, which then may be weighed and prepriced, based on each customer's needs. The 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 quick 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.

Value added products usually generate higher sale prices per pound, exhibit less finished price volatility and generally result in higher and more consistent profit margins over the long-term than non-value added product forms. Selling fresh chickens as a prepackaged brand name product has been a significant step in the development of the value added, higher margin consumer business. The Registrant evaluates daily the potential profitability of all product lines and attempts to maximize its profits on a short-term basis by making strategic changes in its product mix to meet customer demand.

The following table sets forth, for the periods indicated, the contribution, as a percentage of sales of chicken products, of value added and non-value added chicken products.

<TABLE>

	Fiscal Year Ended October 31,				
	1992	1993	1994	1995	1996
Value added	96.3%	97.2%	98.3%	98.2%	98.2%
Non-value added	3.7%	2.8%	1.7%	1.8%	1.8%
Total Registrant chicken sales	100.0%	100.0%	100.0%	100.0%	100.0%

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

	Fiscal Year Ended October 31,				
	1992	1993	1994	1995	1996
Registrant processed chicken:					
Value added:					
Chill pack(1)	24.3%	20.9%	18.2%	19.3%	18.6%
Fresh bulk pack(1)	42.2	49.6	56.2	51.6	49.9
Frozen	9.2	8.8	10.2	13.5	17.0
Subtotal	75.7	79.3	84.6	84.4	85.5
Non-value added:					
Ice pack	2.1	1.8	0.9	0.7	0.9
Frozen	.8	0.4	0.6	0.8	0.7
Subtotal	2.9	2.2	1.5	1.5	1.6
Total Company processed chicken	78.6	81.5	86.1	85.9	87.1

Processed and prepared foods	20.9	18.4	13.8	14.1	12.9
Other(2)	.5	0.1	0.1	0.0	0.0
Total	100.0%	100.0%	100.0%	100.0	%100.0%

- (1) Vacuum pack poultry products have been restated in 1993 and included in 1994, 1995 and 1996 as fresh bulk pack, which includes ice pack and vacuum pack products. The vacuum pack products were classified as chill pack products in the 1993 Form 10-K.
- (2) Consists of sales of poultry products that the Registrant purchases from other poultry processors for resale, as necessary, to meet customer demand.

Sales and Marketing

The Registrant's chicken products are sold primarily to retailers (including national and regional supermarket chains and local supermarkets), distributors and fast food operators located principally in the southeastern, southwestern and western United States. The Registrant also sells its chicken products to governmental agencies and to customers who resell the products outside of the continental United States. This wide range of customers, together with the Registrant's broad 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.

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 and by customer service representatives at each of its five processing complexes 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 market prices reported by the United States Department of Agriculture. Consistent with the industry, the Registrant's profitability is impacted by such market prices, which may fluctuate substantially and exhibit cyclical characteristics. The Registrant adds a markup to base prices, which depends upon value added, volume, product mix and other factors. While base prices may change weekly, the Registrant's markup is 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 customers.

The Registrant uses television, radio and newspaper advertising, coupon promotion, point of purchase material and other marketing techniques to develop consumer awareness of and brand recognition for its Miss Goldy products. The Registrant has achieved a high level of public awareness and acceptance of its products through television advertising featuring a celebrity as the Registrant's spokesperson. Brand awareness is an important element of the Registrant's marketing philosophy, and it intends to continue brand name merchandising of its products.

The Registrant's processed and prepared food items are sold nationally and regionally, primarily to distributors, national food service accounts, retailers and club stores. Sales of such products are handled by independent food brokers located throughout the United States, primarily in the southeast and southwest United States, and by sales personnel of the Registrant. Processed and prepared food items are distributed from the Registrant's plant in Jackson, 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, 1996, the Registrant maintained contracts with 28 pullet farm operators 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 vehicles to breeder farms that are maintained, as of October 31, 1996, by 106 independent contractors under the Registrant's supervision. Eggs produced by independent contract breeders are transported to Registrant's hatcheries in Registrant's vehicles.

The Registrant owns and operates four hatcheries located in Mississippi where eggs are incubated and hatched in a process requiring 21 days. In addition, the first eggs were set in the Registrant's new hatchery in Brazos County, Texas, in January 1997. Once hatched, the day-old chicks are vaccinated against common poultry diseases and are transported by Registrant vehicles to independent contract grow-out farms. As of October 31, 1996, the Registrant's hatcheries were capable of producing an aggregate of approximately 4.2 million chicks per week. The new hatchery in Brazos County, Texas, will have the capacity to produce an additional 1.3 million chicks per week at full capacity.

Grow-out. The Registrant places its chicks on 417 grow-out farms, as of October 31, 1996, located in Mississippi and Louisiana where broilers are grown to an age of approximately six to seven 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 growers.

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 on the open market the primary feed ingredients, including 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 is critical to the conversion rate, and accordingly, the Registrant formulates and produces its own feed. As of October 31, 1996, the Registrant operated three feed mills, all of which are located in Mississippi. In addition, feed production begins at the Registrant's new feed mill in Robertson County, Texas, in January 1997. The Registrant's annual feed requirements for fiscal 1996 were approximately 897,000 tons, and it has the capacity to produce approximately 936,000 tons of finished feed annually under current configurations.

Feed grains are commodities subject to volatile price changes caused by weather, size of harvest, transportation and storage costs and the agricultural policies of the United States and foreign governments. On October 31, 1996, the Registrant had approximately 396,500 bushels of corn storage capacity at its feed mills, which was sufficient to store all of its weekly requirements for corn. The Registrant purchases its corn and other feed supplies at current prices from suppliers and, to a limited extent, direct 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 can be expected to have a direct and material effect upon the Registrant's profitability. Although the Registrant sometimes purchases grains in forward markets, it cannot eliminate the potentially adverse effect of grain price increases.

Processing. Once the chicks 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 Pike County, Mississippi processing plant, which currently operates two processing lines on a double shift basis, is currently processing approximately 1.2 million chickens per week. The Registrant's Collins, Mississippi processing plant, which is currently operating one of its two lines on a double shift basis and one line on a single shift basis, is currently processing approximately 950,000 chickens per week. The Registrant's Laurel and Hazlehurst, Mississippi and Hammond, Louisiana processing plants currently operate on a double shift basis, and have the capacity to process an aggregate of approximately 1,875,000 chickens per week. The Registrant also has the capabilities to produce deboned product at all five processing facilities. At October 31, 1996, all five of these deboning facilities were operating on a double shifted basis resulting in a combined

capacity to process approximately 3.5 million pounds of product per week at all deboning facilities.

Sanderson Farms, Inc. (Foods Division). The facilities of Sanderson Farms, Inc. (Foods Division) are located in Jackson, 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. The Registrant could increase significantly its production of processed and prepared food items without incurring significant capital expenditures or delays.

Executive Offices; Other Facilities. The Registrant's corporate offices are located in Laurel, Mississippi. As of October 31, 1996, the Registrant operated one by-products plant, and five automotive maintenance shops which service approximately 407 Registrant over-the-road and farm vehicles. In addition, the Registrant has one child care facility located near its Collins, Mississippi, processing plant currently serving over 172 children.

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 wholesome, high quality products.

From the corporate offices, 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 five processing plants and the processed and prepared food 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 ("F.D.A."), the United States Department of Agriculture ("U.S.D.A."), 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 U.S.D.A. The Sanderson Farms, Inc. (Foods Division) processing plant operates under the U.S.D.A.'s Total Quality Control Program which is a strict self-inspection plan written in cooperation with and monitored by the U.S.D.A. The F.D.A. inspects the production of 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 and is not anticipated to have a materially adverse effect in the future. 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.

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.

Sources of Supply

During fiscal 1996, the Registrant purchased its pullets and its cockerels from seven (7) major breeders. The Registrant has found the genetic cross of the breeds supplied by these companies to produce chickens most suitable to the Registrant's purposes. The Registrant has no written contracts with these breeders 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 suppliers 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, cooking ingredients and packaging materials. The Registrant purchases these materials from a number of different 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 Miss Goldy which it uses in connection with the distribution of its 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 Miss Goldy label. The Registrant also has registered with the United States Patent and Trademark Office seven other trademarks which are used in connection with the distribution of chicken and other products and for other competitive purposes.

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 foods and two pound frozen entree products.

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.

Employees and Labor Relations

As of October 31, 1996, the Registrant had 5,526 employees, including 761 salaried and 4,765 hourly employees. A collective bargaining agreement with the United Food and Commercial Workers International Union covering 641 hourly employees who work at the Registrant's processing plant in Hammond, Louisiana will expire on November 30, 1998. The 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 475 hourly employees who work at the Registrant's processing plant in Hazlehurst, Mississippi was negotiated and signed by the union and the Registrant effective July 15, 1995. This Agreement will expire on June 30, 1999. This 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 1,147 hourly employees who work at the Registrant's processing plant in Collins, Mississippi was negotiated and signed by the union and the Registrant effective September 9, 1995, and will expire on December 30, 1999. This collective bargaining agreement also has a grievance procedure and no strike-no lockout clauses that should assist in maintaining stable labor relations at the Collins, Mississippi processing plant.

(d) FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

The Registrant engages in no material foreign operations, and no material portion of its revenues was derived from customers in foreign countries.

Item 2. Properties.

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, three of which are renewable annually through 2061, 2063, 2075 and 2073, respectively. Certain infrastructure improvements associated with a processing plant are leased under a lease which expires in 2012 and is thereafter renewable annually through 2091. All of the foregoing leases are capital leases.

There are no material encumbrances on the major operating facilities owned by the Registrant, except that the plant of Sanderson Farms, Inc. (Foods Division) is encumbered by a mortgage which collateralizes a note with an outstanding principal balance of \$1,452,055 on December 31, 1996, which bears interest at the rate of 5% per annum and is payable in equal annual installments through 2009. In addition, under the terms of the revolving credit agreement effective July 29, 1996, and under the \$20 million long-term fixed rate loan agreement effective in February 1993, the Registrant may not pledge any additional assets as collateral other than fixed assets up to 15% of its tangible assets.

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.

Item 3. Legal Proceedings.

There are no material pending legal proceedings, other than routine litigation incidental to the Registrant's business, to which the Registrant is a party or of which its property is the subject, and no such proceedings are known by the Registrant to be contemplated by governmental authorities.

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

No matters were submitted to a vote of the Registrant's security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the Fiscal Year.

Item 4A. Executive Officers of the Registrant.

Name	Age	Office	Executive Officer Since
Joe Frank Sanderson	71	Chairman of the Board	1955 (1)
Joe F. Sanderson, Jr.	49	President and Chief Executive Officer	1984 (2)
D. Michael Cockrell	39	Treasurer and Chief Financial Officer	1994 (3)
James A. Grimes	48	Secretary and Chief Accounting Officer	1994 (4)
Lampkin Butts	45	Vice President - Sales	1996 (5)

(1) Joe Frank Sanderson, a founder of the Registrant, has served as Chairman of the Board for more than five years. Prior to November 1, 1989, Mr. Sanderson also served as Chief Executive Officer and Treasurer of the Registrant.

(2) Joe F. Sanderson, Jr. has served as President and Chief Executive Officer of the Registrant since November 1, 1989. From January 1984, to November 1989, Mr. Sanderson served as Vice-President, Processing and Marketing of the Registrant.

(3) D. Michael Cockrell became Treasurer and Chief Financial Officer of the Registrant effective November 1, 1993. 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) James A. Grimes became Secretary of the Registrant effective November 1, 1993. Mr. Grimes also serves as Chief Accounting Officer, which position he has held since 1985.

- (5) Lampkin Butts became Vice President - Sales of the Registrant effective November 1, 1996. Prior to that time, Mr. Butts served the Registrant in various capacities since 1973.

Executive officers of the Company serve at the pleasure of the Board of Directors. There are no understandings or agreements relating to any person's service or prospective service as an executive officer of the Registrant. Joe F. Sanderson, Jr. is the son of Joe Frank Sanderson. Joe Frank Sanderson and Joe F. Sanderson, Jr. are also Directors of the Registrant.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

The Company's common stock is traded on the NASDAQ National Market System under the symbol SAFM. The number of stockholders of record as of December 31, 1996, was 594.

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

Fiscal Year 1996	Stock Price		Dividends
	High	Low	
First Quarter	\$11.25	\$10.125	\$.05
Second Quarter	\$12.75	\$10.50	\$.05
Third Quarter	\$14.25	\$10.625	\$.05
Fourth Quarter	\$13.50	\$10.875	\$.05

Fiscal Year 1995	Stock Price		Dividends
	High	Low	
First Quarter	\$14.875	\$11.875	\$.05
Second Quarter	\$14.00	\$11.125	\$.05
Third Quarter	\$12.75	\$10.00	\$.05
Fourth Quarter	\$12.25	\$10.50	\$.05

All dividends and stock prices have been adjusted to reflect a 3 for 2 stock split effected in the form of a stock dividend in February 1995.

On December 31, 1996, the closing sales price for the common stock was \$16.75 per share.

Item 6. Selected Financial Data.

	Year Ended October 31				
	1996	1995	1994	1993	1992
	(In thousands, except per share data)				
Net sales	\$ 455,100	\$392,896	\$371,502	\$269,059	\$210,057
Operating Income	1,189	21,239	28,184	20,767	8,033
Net income (loss)	(2,443)	10,856	15,479	11,938	5,253
Earnings per share(1)	(.18)	0.80	1.14	.88	.39
Working capital	60,826	47,605	45,843	42,548	33,371
Total assets	237,226	193,197	181,709	169,006	126,339
Long-term debt, less current maturities	90,102	54,806	56,176	60,253	29,826
Stockholders' equity	118,250	114,319	106,187	93,431	84,216
Cash dividends declared per share(1)	\$.20	\$.20	\$.20	\$.20	\$.20

QUARTERLY FINANCIAL DATA

Fiscal Year 1996

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(In thousands, except per share data) (Unaudited)				
Net sales	103,754	110,719	116,419	124,208
Operating income (loss)	(274)	(3,233)	330	4,366
Net income (loss)	(798)	(2,734)	(743)	1,832
Earnings (loss) per share(1) \$	(.06)	(.20)	(.05)	.13

Fiscal Year 1995

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(In thousands, except per share data) (Unaudited)				
Net sales	\$87,569	\$92,449	\$101,195	\$111,683
Operating income	3,764	3,583	4,690	9,202
Net income	1,780	1,703	2,305	5,068
Earnings per share(1)	\$.13	\$.13	\$.17	\$.37

(1) All per share numbers have been adjusted to reflect a 3 for 2 stock split effected in the form of a stock dividend in February 1995.

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 contains certain forward-looking statements about the business, financial condition and/or prospects of the Company. The actual performance of the Company could differ materially from that indicated by the forward-looking statements because of various risks and uncertainties, including, without limitation, 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, as described below; changes in competition and economic conditions; various inventory risks due to changes in market conditions; changes in governmental rules and regulations applicable to the Company and the poultry industry; and other risks described below. These risks and uncertainties can not 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.

GENERAL

The Company's poultry operations are integrated through its control of all functions relative to the production of its chicken products, including hatching eggs 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 finished products and feed grains, both of which may fluctuate substantially and exhibit cyclical characteristics typically associated with commodity markets. Other costs, excluding feed, related to the profitability of the Company's poultry operations, and including hatching eggs production, hatching, growing, and processing costs, are responsive to efficient cost containment programs and management practices. Over the past three fiscal years, these other production costs have averaged approximately 60.3% of the Company's total 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 sales, 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. 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 labelling the product. The Company believes that one of its major's strengths is its ability to change its product mix to meet the customer demands.

The Company's processed and prepared foods product line includes over 200 institutional and consumer packaged food items that it sells nationally and regionally, primarily to distributors, food service establishments and retailers. A majority of the prepared food items are made to the specifications of food service users.

The new poultry complex under construction in Brazos and Robertson Counties, Texas, consists of a feed mill, hatchery and processing plant. The first eggs were set in the hatchery and feed production begins at the feed mill during January 1997. The processing plant is anticipated to start initial operations during March 1997 with an initial single shift processing capacity of 650,000 birds per week. The new shift at the Texas complex will increase the Company's overall processing capacity under current configurations to 4,700,000 birds per week.

Poultry prices per pound, as measured by the Georgia dock price, fluctuated during the three years ended October 31, 1996, as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 1996				
High	\$.6000	\$.5825	\$.6650	\$.6675*
Low	\$.5825	\$.5500*	\$.5675	\$.6525
Fiscal 1995				
High	\$.5300	\$.5200	\$.5675	\$.6150*
Low	\$.5125*	\$.5125*	\$.5125*	\$.5775
Fiscal 1994				
High	\$.5525	\$.5625	\$.6025*	\$.5650
Low	\$.5250*	\$.5300	\$.5650	\$.5375

*Year High/Low

Market prices for whole birds, as measured by the Georgia dock price, remained strong through the Thanksgiving holiday at \$.6600 per pound. Market prices for whole birds decreased after the Thanksgiving holiday to \$.6450 per pound at the end of December 1996.

For the year ended October 31, 1995, the Company experienced lower poultry prices and higher feed costs as compared to the year ended October 31, 1994. Although market prices for poultry products were higher during fiscal 1996 as compared to fiscal 1995, the costs of feed grains were significantly higher and reduced margins. During the final months of fiscal 1996 and continuing into fiscal 1997, the cost of feed grains have steadily decreased. The Company expects the lower prices for feed grains and the strong market prices for poultry products the industry experienced during November and December 1996 to increase margins during the first quarter of fiscal 1997 as compared to the first quarter of fiscal 1996. The Company is unable to predict how long current conditions will continue or to what extent cyclical pressures will affect operations.

RESULTS OF OPERATIONS:

Fiscal 1996 Compared to Fiscal 1995

Net sales for fiscal 1996 increased to \$455.1 million, an increase of \$62.2 million, or 15.8%. The increase in net sales resulted from an increase in the net sales price of 3.7% and an increase in the pounds of products sold of 11.8%. Net sales of poultry products increased \$55.7 million, or 16.4%, during fiscal 1996 as compared to fiscal 1995. This increase in net sales of poultry products was the result of an increase in the average sales price of poultry products of 4.2% and a corresponding increase in the pounds of poultry products sold of 11.7%. The increase in pounds of poultry products sold was attributable primarily to the addition during the second quarter of fiscal 1996 of a second shift to the first line and the addition during the third quarter of fiscal 1996 of a second shift to the second line of the Company's Pike County, Mississippi, processing plant. Net sales of prepared food products increased \$6.5 million, or 12.2%, during fiscal 1996 as compared to fiscal 1995, due primarily to an increase in the pounds of prepared food products sold of 12.8%.

During fiscal 1996, cost of sales increased \$80.9 million, or 22.7%, as compared to fiscal 1995. Cost of sales of poultry products increased \$74.6 million, or 24.1%, during the year ended October 31, 1996, as compared to the year ended October 31, 1995. The additional pounds of poultry products sold and a substantial increase in the cost of feed grains were responsible for the increase in cost of sales of poultry products during fiscal 1996. A simple average of the corn and soybean meal cash market prices reflected an increase of 46.5% and 43.8%, respectively, during fiscal 1996 as compared to fiscal 1995. During fiscal 1996, cost of sales of prepared food products increased \$6.3 million, or 13.8%, as compared to the previous fiscal year.

Selling, general and administrative expenses in fiscal 1996 increased \$1.4 million, or 8.7%, as compared to fiscal 1995 primarily as a result of increased administrative cost associated with the new poultry complex in Brazos and Robertson Counties, Texas. Measured as a percentage of net sales, selling, general and administrative expenses for fiscal 1996 and 1995 were 3.8% and 4.0%, respectively.

Interest expense increased approximately \$.6 million during the year ended October 31, 1996, as compared to the year ended October 31, 1995. Interest cost of approximately \$.8 million was capitalized during fiscal 1996 as a result of additional borrowings incurred in connection with the construction of the new poultry complex in Brazos and Robertson Counties, Texas.

During fiscal 1996, the Company recorded a tax benefit of approximately 23.9%. For the preceding fiscal year the Company's effective tax rate was 38.1%. The change in the effective rate is principally from non-deductible expenses as a percentage of pretax income (loss) being higher in fiscal 1996 as compared to fiscal 1995.

Fiscal 1995 Compared to Fiscal 1994

For the year ended October 31, 1995, net sales increased to \$392.9 million, an increase of \$21.4 million, or 5.8%. The increase in net sales resulted from an increase in the pounds of product sold of 7.2%, while the average sales price of products decreased by 1.3%. During fiscal 1995, net sales of poultry products increased 6.5% as compared to fiscal 1994. The increase in the net sales of poultry products resulted from an increase in the pounds of poultry products sold of 7.8% and a decrease in the average sale price of poultry products of 1.2% during fiscal 1995 as compared to fiscal 1994. For the year ended October 31, 1995 as compared to the year ended October 31, 1994, net sales of prepared foods products increased approximately 1.2%. This increase in the net sales of prepared foods products resulted from an increase in the average sale price of prepared foods products of 3.3%, which was partially offset by a decrease in the pounds of prepared foods products sold of 2.1%.

Cost of sales for fiscal 1995 as compared to fiscal 1994 increased \$26.6 million, or 8.1%. Costs of sales of poultry products increased \$26.9 million, or 9.5%, due to the increase in pounds of poultry products sold and higher average feed grain prices. A simple average of corn cash market prices for fiscal 1995 reflected an increase of 2.0% as compared to fiscal 1994. Cost of sales of prepared food products sold decreased \$.3 million, or .6%, during the year ended October 31, 1995 as compared to the year ended October 31, 1994 primarily due to the decrease in pounds of prepared food products sold.

Selling, general and administrative expenses during fiscal 1995 as compared to fiscal 1994 increased \$1.7 million, or 12.3%. Measured as a percentage of net sales, selling, general and administrative expenses for fiscal 1995 were 4.0% as compared to 3.8% during fiscal 1994.

Interest expense during fiscal 1995 was approximately \$3.8 million as compared to approximately \$3.7 million during fiscal 1994.

The Company's effective tax rate increased in fiscal 1995 to approximately 38.1% as compared to approximately 37.7% for fiscal 1994, primarily from state income taxes.

LIQUIDITY AND CAPITAL RESOURCES

As of October 31, 1996, the Company's current ratio was 4.5 to 1 and its working capital was \$60.8 million, as compared to a current ratio of 4.6 to 1 and working capital of \$47.6 million at October 31, 1995. During the year ended October 31, 1996, the Company invested \$46.2 million on planned capital projects, including \$35.3 million on the new poultry complex in Texas.

The fiscal 1996 capital budget, as of October 31, 1996, was increased to \$48.3 million from \$46.1 million as of November 1, 1995. The increase of \$2.2 million pertains to items not approved at the beginning of fiscal 1996 pending justification, field trail and alternate costing.

The capital budget for fiscal 1997 is approximately \$34.2 million, which includes approximately \$29.2 million pertaining to the new poultry processing plant and hatchery under construction in Brazos County, Texas, and the new feed mill under construction in Robertson county, Texas. Also included in the budget for the year ended October 31, 1997, is approximately \$.5 million relating to fiscal 1996 budget items that were not completed or started during fiscal 1996. Other major capital projects for fiscal 1997 include renovations, changes and additions to existing processing facilities to allow

better product flow and product mix for more market flexibility.

On July 12, 1996, the Company sold 750,000 shares of its common stock at \$13 per share to the Sanderson Farms, Inc. Employee Stock Option Plan (the "ESOP") in a private placement. The net proceeds from the sale were \$9,171,000 plus a \$500,000 note receivable from the plan. The proceeds from the sale of the stock to the ESOP, additional long-term borrowings under the Revolving Credit Agreement and the Robertson County Industrial Revenue Bonds and funds from operations provided the funds for the capital investment during fiscal 1996. The capital requirements for fiscal 1997 will be funded by working capital, proceeds of the Industrial Revenue Bonds and additional borrowing under the Revolving Credit Agreement.

Item 8. Financial Statements and Supplementary Data.

Sanderson Farms, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	October 31	
	1996	1995
	(In thousands)	
Assets		
Current assets:		
Cash and temporary cash investments	\$ 4,879	\$ 447
Accounts receivables, less allowance of \$167,000 in 1996 and \$130,000 in 1995	27,661	22,624
Inventories (Note 2)	39,060	33,275
Refundable income taxes	1,148	0
Prepaid expenses	5,616	4,619
Total current assets	78,364	60,965
Property, plant and equipment (Note 3):		
Land and buildings	81,689	76,529
Machinery and equipment	151,861	140,678
Construction in process	37,380	8,997
	270,930	226,204
Accumulated depreciation	(112,974)	(94,873)
	157,956	131,331
Other assets	906	901
Total assets	\$237,226	\$193,197
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,968	\$ 4,205
Accrued expenses	9,470	7,372
Accrued income taxes	0	1,557
Current maturities of long-term debt	3,100	226
Total current liabilities	17,538	13,360
Long-term debt, less current maturities (Note 3)	90,102	54,806
Deferred income taxes (Note 4)	11,336	10,712
Stockholders' equity (Note 6):		
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 14,363,080 in 1996 and 13,613,080 in 1995		
	14,363	13,613
Paid-in capital	11,292	2,871
Retained earnings	92,595	97,835
Total stockholders' equity	118,250	114,319
Total liabilities and stockholders' equity	\$237,226	\$ 193,197

See accompanying notes.

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

	Common Stock		Paid-in	Retained	Total
	Shares	Amount	Capital	Earnings	Stockholders'
	Equity				
	(In thousands, except shares)				
Balance at October 31, 1993	9,075,427	9,075	7,410	76,946	93,431
Net income for year				15,479	15,479
Cash dividends (\$.20 per share)				(2,723)	(2,723)
Balance at October 31, 1994	9,075,427	9,075	7,410	89,702	106,187
Net income for year				10,856	10,856
Cash dividends (\$.20 per share)				(2,723)	(2,723)
Stock split (3 for 2) effected in the form of stock dividend	4,537,653	4,538	(4,538)		
Redemption of fractional shares			(1)		(1)
Balance at October 31, 1995	13,613,080	13,613	2,871	97,835	114,319
Net loss for year				(2,443)	(2,443)
Cash dividends (\$.20 per share)				(2,797)	(2,797)
Common Stock issued to ESOP	750,000	750	8,421		9,171
Balance at October 31, 1996	14,363,080	\$14,363	\$11,292	\$92,595	\$118,250

See accompanying notes.

SANDERSON FARMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended October 31		
	1996	1995	1994
	(In thousands)		
Operating activities			
Net income (loss)	\$(2,443)	\$10,856	\$15,479
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	19,744	18,439	15,604
Provision for losses on accounts receivable	172	54	36
Deferred income taxes	150	950	1,500
Change in assets and liabilities:			
Increase in accounts receivable	(5,209)	(3,692)	(2,008)
Increase in inventories	(5,785)	(3,900)	(2,950)
Increase in prepaid expenses	(1,671)	(974)	(331)
Increase in other assets	(240)	(93)	(269)
Increase (decrease) in accounts payable	763	1,368	(519)
Increase in accrued expenses	541	1,907	2,829
Total adjustments	8,465	14,059	13,892
Net cash provided by operating activities	6,022	24,915	29,371
Investing activities			
Net proceeds from sale of property and equipment	96	286	15
Capital expenditures	(46,230)	(24,934)	(22,444)
Net cash used in investing activities	(46,134)	(24,648)	(22,429)
Financing activities			
Long-term borrowings	2,406	-0-	-0-
Net change in revolving credit	36,000	(1,000)	(4,000)
Principal payments on long-term debt	(236)	(77)	(73)
Principal payments on capital lease	-0-	(144)	-0-
Dividends paid	(2,797)	(2,723)	(2,723)
Net proceeds from common stock issued to ESOP	9,171	-0-	-0-
Redemption of fractional shares	-0-	(1)	-0-
Net cash provided by (used in) financing activities	44,544	(3,945)	(6,796)
Net increase (decrease) in cash and temporary cash investments	4,432	(3,678)	146
Cash and temporary cash investments at beginning of year	447	4,125	3,979
Cash and temporary cash investments at end of year	\$4,879	\$ 447	\$4,125
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$1,991	\$ 5,807	\$6,736
Cash paid for interest	\$4,600	\$ 3,492	\$3,945

See accompanying notes.

/TABLE

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 operations are significantly affected by market price fluctuations of its principal products sold and of its principal ingredients, corn and other grains. During fiscal 1996, corn prices were historically high, which adversely affected cost of goods sold.

The Company sells to retailers, distributors and fast food operators in the southern and western United States. Management periodically performs credit evaluations of its customers' financial condition and generally does not require collateral. Credit losses have consistently been within management's expectations.

Use of Estimates: The preparation of the consolidated financial statements in conformity with generally accepted accounting principles 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.

Temporary Cash Investments: Temporary cash investments are stated at cost which approximates market. Included are investment agreements for securities purchased under agreements to resell with a maturity of one day.

Inventories: Processed food and poultry inventories and inventories of feed, egg, 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 are accumulated up to the production stage and amortized over the productive lives 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.

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 could no longer use cash basis accounting for its farming subsidiary because of tax law changes. The taxes on the cash basis temporary differences as of that date will not be payable under current tax laws provided there are no changes in ownership control and future annual revenues of the farming subsidiary exceed 1988 revenues. Management does not anticipate the payment of such taxes related to these cash bases timing differences during fiscal 1997. (See Note 4).

Stock Based Compensation: The Company grants stock options for a fixed number of shares to employees with an exercise price equal to or above the fair value of the shares at the date of the grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and, accordingly, recognizes no compensation expense for the stock option grants.

Earnings Per Share: Earnings per share are based upon the weighted average number of shares outstanding during each year, including shares issuable under the stock option plan when dilutive. The weighed average shares outstanding used in the calculation of earnings per share were 13,842,588 in 1996 and 13,613,080 in 1996 and 1995.

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: In March 1995, the FASB issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed," which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimate to be generated by those assets are less than the assets' carrying amount. Statement 121 also addresses the accounting for long-lived assets that are expected to be disposed. The Company will adopt Statement 121 in the first

quarter of fiscal 1997 and, based upon current circumstances, does not believe the effect of adoption will be material.

<TABLE>

2. Inventories

Inventories consisted of the following:

	October 31	
	1996	1995
	(In thousands)	
Live poultry broilers and breeders	\$23,505	\$18,484
Feed, eggs and other	5,412	4,974
Processed poultry	3,951	3,999
Processed food	3,908	3,578
Packaging materials	2,284	2,240
	\$39,060	\$33,275

3. Long-term Credit Facilities and Debt
 Long-term debt consisted of the following:

	October 31	
	1996	1995
	(In thousands)	
Revolving credit agreement with banks (weighted average rate of 6.4% at October 31, 1996)	\$65,000	\$29,000
Term loan with an insurance company, accruing interest at 7.49%; due in annual principal installments of \$2,850,000 beginning in February 1997	20,000	20,000
Note payable, accruing interest at 5%; due in annual installments of \$161,400, including interest, maturing in 2009	1,537	1,617
6% Mississippi Business Investment Act bond capital lease obligation	4,200	4,356
Robertson County, Texas, Industrial Revenue Bonds (variable rate, 3.85% at October 31, 1996)	2,406	-0-
Notes payable to an insurance company, accruing interest at 5%	59	59
	93,202	55,032
Less current maturities of long-term debt	3,100	226
	\$90,102	\$54,806

The Company has a \$125.0 million (\$52.8 million available at October 31, 1996) revolving credit agreement with five banks. The revolver extends to 1999, when the outstanding borrowings may be converted to a term loan payable in equal semiannual installments over four years. Borrowings are at prime or below and may be prepaid without penalty. A commitment fee of .20% is payable quarterly on the unused portion of the revolver. The Company intends to renew beyond one year of October 31, 1996 the amount of its borrowings at year-end under 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.

On November 16, 1995, the Company obtained \$7.2 million in industrial revenue bond financing to finance the construction of a feed mill in Robertson County, Texas. The banks participating in the revolving credit agreement provided a letter of credit in connection with the issuance of the Industrial Revenue Bonds. As of October 31, 1996, the Company has borrowed \$2.4 million of the \$7.2 million available.

Property, plant and equipment with a carrying value of approximately \$7,123,000 is pledged as collateral to a note payable and the capital lease obligation.

Interest costs of \$775,000 was capitalized in 1996.

The aggregate annual maturities of long-term debt at October 31, 1996 (assuming borrowings under the revolver will be converted to a term loan in 1999) are as follows (in thousands):

Fiscal Year	Amount
1997	\$ 3,100
1998	4,004
1999	20,268
2000	19,989
2001	19,398
Thereafter	26,443
	\$93,202

4. Income Taxes

Income tax expense consisted of the following:

	Years Ended October 31		
	1996	1995	1994
	(In thousands)		
Current:			
Federal	\$ (692)	\$5,110	\$7,150
State	(225)	630	704
	(917)	5,740	7,854
Deferred			
Federal	115	780	1,370
State	35	170	130
	150	950	1,500
	\$ (767)	\$6,690	\$9,354

/TABLE

<TABLE>

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

	October 31,	
	1996	1995
Deferred tax assets	(In thousands)	
(included in prepaid expenses):		
Accrued expenses	\$ 1,144	\$ 898
Alternative Minimum tax credit		
carry forward	230	0
Prepaid expenses	(138)	(13)
	\$ 1,236	\$ 762
Deferred tax liabilities:		
Cash basis temporary differences	\$ 3,900	\$ 3,900
Property, plant and equipment	7,436	6,812
	\$11,336	\$10,712

The differences between the consolidated income taxes and the amounts computed at the federal statutory rate are as follows:

	Years Ended October 31		
	1996	1995	1994
	(In thousands)		
Taxes at statutory rate	\$ (1,091)	\$ 6,012	\$ 8,666
State income taxes	(113)	671	769
State income tax credit	60	(140)	(218)
Other, net	377	147	137
	\$ (7,767)	\$ 6,690	\$ 9,354

5. Employee Benefit Plans

The Company had a defined contribution profit sharing plan covering all employees and an employee stock ownership plan that was restricted to salaried employees. During fiscal 1995, the profit sharing plan was merged into the Employee Stock Ownership Plan ("ESOP"). The resulting defined contribution employee stock ownership plan was expanded to cover all employees. The Company did not contribute to the ESOP during 1996. Total contributions under both plans were \$850,000 in 1995 and \$1,200,000 in 1994.

Under the Company's Stock Option Plan, 750,000 shares of Common Stock have been reserved for grant to key management personnel. Options to purchase an aggregate of 45,000 shares at \$10.67 per share, 82,500 shares at \$11.00 per share, 108,000 shares at \$11.25 per share and 124,000 shares at \$10.87 are outstanding at October 31, 1996. Options to purchase 102,000 shares are exercisable at October 31, 1996.

6. Shareholder Rights Agreement

On April 21, 1989, the shareholders of the Company approved a shareholders rights agreement (the "Agreement") under which one share purchase right ("right") was declared as a dividend for each share of the Company's Common Stock outstanding on May 31, 1989. 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 profit sharing plans of the Company.

The exercise price of a right has been established at \$35 3/8. 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 April 21, 1999.

7. Other Matters

No customer accounted for more than 10% of consolidated sales for the years ended October 31, 1996 1995 or 1994. Export sales were less than 10% of consolidated sales in each year presented.

The Company has commitments of approximately \$29.2 million to complete construction of the new complex in Brazos and Robertson Counties, Texas.

Item 9. Changes in and Disagreements With Accountants
on Accounting and Financial Disclosure.

Not applicable.

PART III

Item 10. Directors and Executive
Officers of the Registrant.

As required by General Instruction G(3) to Form 10-K, reference is made to the information concerning the Directors of the Registrant and the nominees for election as Directors appearing in the Registrant's definitive proxy statement filed or to be filed with the Commission pursuant to Rule 14a-6(c). Such information is incorporated herein by reference to the definitive proxy statement.

Information concerning the executive officers of the Registrant is set forth in Item 4A of Part I of this Annual Report.

Item 11. Executive Compensation.

As required by General Instruction G(3) to Form 10-K, reference is made to the information concerning remuneration of Directors and executive officers of the Registrant appearing in the Registrant's definitive proxy statement filed or to be filed with the Commission pursuant to Rule 14a-6(c). Such information is incorporated herein by reference to the definitive proxy statement.

Item 12. Security Ownership of Certain
Beneficial Owners and Management.

As required by General Instruction G(3) to Form 10-K, reference is made to the information concerning beneficial ownership of the Registrant's Common Stock, which is the only class of the Registrant's voting securities, appearing in the Registrant's definitive proxy statement filed or to be filed with the Commission pursuant to Rule 14a-6(c). Such information is incorporated herein by reference to the definitive proxy statement.

Item 13. Certain Relationships
and Related Transactions.

PART IV

Item 14. Exhibits, Financial Statement
Schedules, and Reports on Form 8-K.

(a)1. FINANCIAL STATEMENTS:

The following consolidated financial statements of the Registrant are included in Item 8:

Consolidated Balance Sheets - October 31, 1996 and 1995

Consolidated Statements of Income - Years ended October 31, 1996, 1995 and 1994

Consolidated Statements of Stockholders' Equity - Years ended October 31, 1996, 1995 and 1994

Consolidated Statements of Cash Flows - Years ended October 31, 1996, 1995 and 1994

Notes to Consolidated Financial Statements - October 31, 1996

(a)2. FINANCIAL STATEMENT SCHEDULES:

The following consolidated financial statement schedules of the Registrant are included in Item 8:

Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted as they are not applicable or the required information is set forth in the Financial Statements or notes thereto.

(a)3(i). EXHIBITS:

The following exhibits are filed with this Annual Report or are incorporated herein by reference:

Exhibit Number	Brief Description
(1) 3-A	- Copy of Articles of Incorporation of the Registrant, as amended.
3-B	- Copy of Restated By-Laws of the Registrant as of January 8, 1997.
(1) 4	- Copy of Certificate of Designations of Series A Junior Participating Preferred Stock of the Registrant
(2) 10-A	- Copy of Agreement of Purchase and Sale of Assets dated March 10, 1986 among the Registrant, National Prepared Foods, Inc., Trend Line Corporation, Business Advisors and Investor, Inc., W.T. Hogg, Jr., W.T. Hogg, Jr. Trust for Grandchildren, Noreen Mary Hogg Case Trust Under Agreement December 20, 1972 and Sherri Ann Hogg Ford Trust Under Agreement December 20, 1972.
(2) 10-B	- Copy of Contract dated July 31, 1964 between the Registrant and the City of Laurel, Mississippi.
(2) 10-B-1	- Copy of Contract Amendment dated December 1, 1970 between the Registrant and the City of Laurel, Mississippi.
(2) 10-B-2	- Copy of Contract Amendment dated June 11, 1985 between the Registrant and the City of Laurel, Mississippi.
(2) 10-B-3	- Copy of Contract Amendment dated October 7, 1986 between the Registrant and the City of Laurel, Mississippi.
(8) 10-B-4	- Copy of Contract Amendment dated August 16, 1994 between the Registrant and the City of Laurel, Mississippi.
(2) 10-C	- Copy of Lease Agreement dated May 19, 1964 among the Town of Collins, Covington County, Mississippi and Mississippi Federated Cooperatives AAL.
(2) 10-C-1	- Copy of Assignment of Lease and Leasehold Estate, and Conveyance of Leaseholder Improvements and Other Properties, Reserving a Purchase Money Security Interest, dated December 21, 1981 between MFC Services (AAL) and Sanderson Farms, Inc. (Processing Division).
(2) 10-D	- Copy of Lease Agreement dated November 28, 1962 between the Board of Supervisors of Covington County, Mississippi acting for and on behalf of Supervisors Districts 1, 2, 3 and 5 of Covington County, Mississippi and Mississippi Federated Cooperatives, AAL.
(2) 10-D-1	- Copy of Contract dated October 2, 1972 between the Board of Supervisors of Covington County, Mississippi, acting for and on behalf of Covington County, Mississippi and MFC Services (AAL).
(2) 10-D-2	- Copy of Lease Agreement dated May 1, 1976 between Supervisors Districts One, Two, Three and Five of Covington County, Mississippi and MFC Services (AAL).
(2) 10-D-3	- Copy of Assignment of Leases and Leasehold Estate, and Conveyance of Leasehold Improvements and Other Properties, Reserving a Purchase Money Security Interest, dated December 21, 1981 between MFC Services (AAL) and

Sanderson Farms, Inc. (Processing Division).

(2) 10-E - Copy of Agreement dated December 1, 1986, between Sanderson Farms, Inc. (Hammond Processing Division) and United Food and Commercial Workers Local Union 210 affiliated with the United Food and Commercial Workers International Union.

(5) 10-E-1 - Copy of Agreement dated February 14, 1990 between Sanderson Farms, Inc. (Hammond Processing Division) and United Food and Commercial Workers Local Union 210, affiliated with the United Food and Commercial Workers International Union.

(8) 10-E-2 - Copy of Agreement effective November 6, 1994 between Sanderson Farms, Inc. (Hammond Processing Division) and United Food and Commercial Workers Local Union 210, affiliated with the United Food and Commercial Workers International Union.

(9) 10-E-3 - Copy of Agreement effective July 15, 1995 between Sanderson Farms, Inc. (Hazlehurst Processing Division) and Laborers' International Union of North America, Professional Employees Local Union #697, AFL-CIO.

(9) 10-E-4 - Copy of Agreement effective September 9, 1995 between Sanderson Farms, Inc. (Collins Processing Division) and Laborers' International Union of North America, Professional Employees Local Union #697, AFL-CIO.

(2) 10-F - Copy of Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates.

(2) 10-F-1 - Copy of Amendment One to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates.

(3) 10-F-2 - Copy of Amendment Two to the Employee Stock Ownership Plan and Trust Agreement of Sanderson Farms, Inc. and Affiliates.

(2) 10-G - Copy of General Employee's Profit Sharing-Retirement Trust Agreement of Sanderson Farms, Inc. and Affiliates.

(6) 10-H - Copy of Sanderson Farms, Inc. Performance Incentive Program effective January 1, 1991.

(6) 10-H-1 - Copy of Sanderson Farms, Inc. Performance Incentive Program for Sanderson Farms, Inc. (Foods Division) effective November 1, 1990.

(6) 10-H-2 - Copy of Sanderson Farms, Inc. Performance Incentive Program for Sanderson Farms, Inc. (Foods Division) Retail Entree effective November 1, 1990.

(8) 10-H-3 - Copy of Sanderson Farms, Inc. Bonus Award Program effective November 1, 1993.

10-I - Copy of Sanderson Farms, Inc. and Affiliates Stock Option Plan.

(5) 10-J - Copy of Memorandum of Agreement dated as of June 13, 1989, between Pike County, Mississippi and the Registrant.

(6) 10-K - Copy of Wastewater Treatment Agreement between the City of Magnolia, Mississippi and the Registrant dated August 19, 1991.

(6) 10-L - Copy of Memorandum of Agreement and Purchase Option between Pike County, Mississippi and the Registrant dated May, 1991.

- (7) 10-M - Copy of Lease Agreement between Pike County, Mississippi and the Registrant dated as of November 1, 1992.
- 13 - Copy of the Registrant's definitive proxy statement related to the 1996 Annual Meeting of Shareholders.
- 22 - List of subsidiaries of the Registrant.
- 24 - Consent of Independent Auditors
- 27 - Copy of Financial Data Schedule
- (2) 28-A - Copy of Certificate of Registration of Trademark "Miss Goldy".
- (2) 28-B - Copy of Certificate of Registration of Trademark "Wise Choice".
- (2) 28-C - Copy of Certificate of Registration of Trademark "Buttercup Farms".
- (2) 28-D - Copy of Certificate of Registration of Trademark "Collinswood".
- (2) 28-E - Copy of Certificate of Registration of Trademark "Covington Farms".
- (2) 28-F - Copy of Certificate of Registration of Trademark "Smart Cuts".
- (4) 28-G - Copy of Certificate of Registration of Trademark "Kettle Classics".
- (5) 28-H - Copy of Certificate of Registration of Trademark "Sanderson Farms".

- (1) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1989, and incorporated herein by reference.
- (2) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (Commission File No. 33-13141) and incorporated herein by reference.
- (3) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1987, and incorporated herein by reference.
- (4) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1988, and incorporated herein by reference.
- (5) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1990, and incorporated herein by reference.
- (6) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1991, and incorporated herein by reference.
- (7) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1992, and incorporated herein by reference.
- (8) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1994 and incorporated herein by reference.
- (9) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1995 and incorporated herein by reference.
- (a) (3) (ii) Agreements Available Upon Request by the Commission.

The Registrant is a party to various agreements defining the rights of holders of long-term debt of the Registrant, but no single agreement authorizes securities in an amount which exceeds 10% of the total assets of the Company. Upon request of the Commission, the Registrant will furnish a copy of any such agreement to the Commission. Accordingly, such agreements are omitted as exhibits as permitted by Item 601(b) (4) (iii) of Regulation S-K.

(b) REPORTS ON FORM 8-K:

No reports on Form 8-K were filed during the fourth quarter of the Fiscal Year ended October 31, 1996.

QUALIFICATION BY REFERENCE

Information contained in this Annual Report as to the contents of any contract or other document referred to or evidencing a transaction referred to is necessarily not complete, and in each document filed as an exhibit to this Annual Report or incorporated herein by reference, all such information being qualified in its entirety by such reference.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Sanderson Farms, Inc.

We have audited the accompanying consolidated balance sheets of Sanderson Farms, Inc. and subsidiaries as of October 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 1996. Our audit also included the financial statement schedule listed in the index under Item 14(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 generally accepted auditing standards. 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, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 1996, in conformity with 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.

/s/Ernst & Young LLP

Jackson, Mississippi
December 11, 1996

Sanderson Farms, Inc. and Subsidiaries

Valuation and Qualifying Accounts

Schedule II

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 (In Thousands)	Deductions Describe(1)	Balance at End of Period
Year ended October 31, 1996					
Deducted from accounts receivable:					
Allowance for doubtful accounts					
Totals	\$130	\$172		\$135	\$167
Year ended October 31, 1995					
Deducted from accounts receivable:					
Allowance for doubtful accounts					
Totals	\$100	\$54		\$24	\$130
Year ended October 31, 1994					
Deducted from accounts receivable:					
Allowance for doubtful accounts					
Totals	\$80	\$36		\$16	\$100

(1) Uncollectible accounts written off, net of recoveries.

/TABLE

SIGNATURES

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

SANDERSON FARMS, INC.

Date: January 23, 1997

/s/Joe Frank Sanderson

Joe Frank Sanderson
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities as of the dates indicated.

/s/Joe Frank Sanderson	1/23/97	/s/John H. Baker, III	1/23/97
Joe Frank Sanderson, Chairman of the Board		John H. Baker, III. Director	
/s/Joe F. Sanderson, Jr.	1/23/97	/s/Charles W. Ritter, Jr.	1/23/97
Joe F. Sanderson, Jr., President, Chief Executive Officer and Director		Charles W. Ritter, Jr., Director	
/s/Dewey R. Sanderson, Jr.	1/23/97	/s/Rowan H. Taylor	1/23/97
Dewey R. Sanderson, Jr., Director		Rowan H. Taylor, Director	
/s/Donald W. Zacharias	1/23/97	/s/Robert Buck Sanderson	1/23/97
Donald W. Zacharias, Director		Robert Buck Sanderson, Director	
/s/Phil K. Livingston	1/23/97	/s/James A. Grimes	1/23/97
Phil K. Livingston, Director		James A. Grimes, Secretary and Chief Accounting Officer	
/s/D. Michael Cockrell	1/23/97		
D. Michael Cockrell, Treasurer and Chief Financial Officer			

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BY-LAWS OF
SANDERSON FARMS, INC.
(As restated on January 8, 1997)

Article I. Name and the Location.

Section 1. The name of this corporation shall be Sanderson Farms, Inc.

Section 2. Its principal office shall be located in Laurel, Mississippi.

Section 3. Other offices for the transaction of business shall be located in such other places as the Board of Directors may from time to time determine.

Article II. Capital Stock.

Section 1. The amount of capital stock shall be such amount as is authorized by the Articles of Incorporation.

Section 2. All certificates of stock shall be signed by the Chairman of the Board, the President and the Secretary and shall be sealed with the corporate seal. Such signatures and seal may be facsimile if the certificate is signed by the corporation's transfer agent or registrar.

Section 3. Treasury stock shall be held by the corporation subject to disposition by the Board of Directors and shall neither be voted nor participate in dividends.

Section 4. Transfers of stock shall be made only on the books of the corporation or the books of the duly appointed transfer agent; an old certificate, properly endorsed, shall be surrendered and cancelled before a new certificate is issued.

Section 5. In case of loss or destruction of a certificate of stock, no new certificate shall be issued in lieu thereof except upon satisfactory proof of affidavit of such loss or destruction; and upon the giving of satisfactory security, by bond or otherwise (if the Board of Directors so requires), against loss to the corporation.

Article III. Stockholder meetings

Section 1. The annual meeting of stockholders shall be held each year on such day in the month of February, or in such other month, as the Board of Directors shall determine, at the principal office of the corporation or at such other suitable place, within or without the State of Mississippi, and at such convenient time as may be determined by the Board of Directors. At the annual meeting the stockholders shall elect directors to serve until their successors have been elected and have qualified.

Section 2. A special meeting of the stockholders, to be held at any place at which the annual stockholders' meeting may be held, may be called at any time by the Chairman, the Vice Chairman (if appointed), the President or the Board of Directors. It shall be the duty of the Chairman, the Vice Chairman (if appointed), the President or the Board of Directors to call such a meeting whenever so requested or demanded by one or more stockholders holding 10% or more of all the shares entitled to vote on any issue proposed to be considered at the special meeting.

Section 3. Notice of the place, day and hour of all annual and special stockholders' meetings shall be given by the Secretary of the corporation to each stockholder entitled to vote at the meeting not fewer than ten (10) nor more than sixty (60) days before the date of the meeting by mailing said notice, with postage thereon prepaid, to the address of such stockholder appearing on the stock records of the corporation. In the case of a special meeting, the notice shall also state the purpose or purposes for which the meeting is called.

Section 4. For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to demand a special meeting or to receive payment of any dividend, or in order to make a determination of stockholders for any other proper purpose, the Board of Directors of the corporation may fix the record date for such purpose, but such record date may not be more than seventy (70) days before the meeting or action requiring a determination of stockholders. If no record date is fixed for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders, or stockholders entitled to demand a special meeting or to receive payment of a dividend, or for any other proper purpose, the close of business on the day before the day on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be,

shall be the record date for such determination of stockholders. When a determination of stockholders entitled to notice of or to vote at any meeting of stockholders has been made as provided in this section, such determination shall be effective for any adjournment of the meeting unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned to a date more than one hundred, twenty (120) days after the date fixed for the original meeting.

Section 5. The officer or agent having charge of the stock transfer books for shares of the corporation shall make, no later than two (2) business days after notice of the meeting is given for which the list was prepared, an alphabetical list of the names of all its stockholders entitled to notice of a stockholders' meeting. The list must be arranged by voting group (and within each voting group by class or series of shares) and show the address of and number of shares held by each stockholder. Such list shall be available at the principal office of the corporation and shall be subject to inspection by any stockholder at any time during usual business hours. Such list shall also be available at the place identified in the meeting notice in the city where the meeting will be held and shall be subject to the inspection of any stockholder continuously through the meeting. The original stock transfer books shall be prima facie evidence as to who are stockholders entitled to examine such list or transfer books or to vote at any meeting of stockholders.

Section 6. The Chairman of the Board shall preside at all stockholder meetings. In the event the Chairman is unable to preside, the next available officer shall be authorized to preside in this order: Vice Chairman (if appointed), President, Executive Vice President (if appointed), Vice President (by seniority if more than one is appointed), Secretary or Treasurer.

Section 7. Each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders, except to the extent that the voting rights of the shares of preferred stock are limited or denied by the Articles of Incorporation, the Board of Directors or as permitted by law.

Treasury shares shall not be voted at any meeting or counted in determining the total number of outstanding shares at any given time.

A stockholder may vote either in person or by proxy appointed in writing by the stockholder or by his duly authorized attorney-in-fact. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

Shares standing in the name of another corporation, domestic or foreign but not a corporation the majority of the outstanding shares of which are owned, directly or indirectly, by this corporation, may be voted by any duly elected officer, or any duly appointed agent, in person or by proxy, or as the Board of Directors of this corporation may otherwise determine.

Shares held by an administrator, executor, guardian or conservator may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by him, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name.

Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his name if authority so to do be contained in an appropriate order of the court by which such receiver was appointed.

A stockholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

Redeemable shares are not entitled to vote after notice of redemption is mailed to the holders and a sum sufficient to redeem the shares has been deposited with a bank, trust company or other financial institution under an irrevocable obligation to pay the holders the redemption price on surrender of the shares.

Section 8. A majority of the votes represented in person or by proxy entitled to be cast on a matter by the voting stockholders shall constitute a quorum for the transaction of business at a meeting of stockholders. If a quorum exists, action on a matter (other than the election of directors) by the stockholders shall be approved if the votes cast favoring the action exceed the votes cast opposing the action, unless the Articles of Incorporation, the By-laws or the law requires a greater number of affirmative votes.

Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for that adjourned meeting.

An amendment to the Articles of Incorporation that adds, changes or

deletes a greater quorum or voting requirement must meet the same quorum requirement and be adopted by the same vote required to take action under the quorum and voting requirements then in effect or proposed to be adopted, whichever is greater.

Directors shall be elected at such annual meeting of stockholders at which their terms expire or at any special meeting of stockholders called for that purpose by the affirmative vote of a majority, and not a plurality, of the shares entitled to vote and represented, in person or by proxy, at such meeting at which a quorum is present. There shall be no cumulative voting.

Section 9. Nominations by stockholders for the election of directors may be made by stockholders from the floor at any annual or special meeting of stockholders called for the election of directors if timely written notice of such nominations has been given to the Secretary of the corporation. To be timely, such notice must be received at the principal office of the corporation not later than the close of business on the 15th day following the day on which notice of the date of the meeting is given or made to stockholders in accordance with these bylaws. A stockholder's notice to the Secretary must set forth or be accompanied by (i) the name and address of record of the stockholder who intends to make the nomination; (ii) a representation that the stockholder is a holder of record of shares of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) the name, age, business and residence addresses, and principal occupation or employment of each nominee; (iv) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed by such stockholder pursuant to the proxy rules of the Securities and Exchange Commission, as then in effect; (v) the consent of each nominee to serve as a director of the corporation if elected; and (vi) a representation signed by each proposed nominee that states that such nominee meets all of the qualifications set forth in Article IV of these bylaws.

Section 10. Only business properly brought before stockholders' meetings in accordance with these bylaws shall be conducted at such meetings. To be properly brought before a meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly before the meeting by or at the direction of the Board of Directors, or (c) otherwise (i) properly requested to be brought before the meeting by a stockholder of record entitled to vote in the election of directors generally, and (ii) constitute a proper subject to be brought before such meeting. Any stockholder who wishes to bring a matter (other than the election of directors) before a meeting of stockholders and is entitled to vote on such matter must deliver written notice of said stockholder's intent to bring such matter before the meeting of stockholders so that such notice is received by the Secretary no later than the close of business on the 15th day following the date on which notice of the date of the meeting is given or made to stockholders in accordance with these bylaws.

A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the meeting of stockholders (a) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (b) the name and address, as they appear on the Corporation's books, of the stockholder intending to propose such business, (c) the class and number of shares of stock of the Corporation beneficially owned by the stockholder, and (d) any material interest of the stockholder in such business. The Chairman of a meeting shall, if the facts warrant, determine and declare to the meeting that the business was not properly brought before the meeting in accordance with the provisions hereof and, if he should so determine, he shall declare such to the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 11. Action required or permitted to be taken at a stockholders' meeting may be taken without a meeting if the action is taken by all the stockholders entitled to vote on the action. The action must be evidenced by one or more written consents describing the action taken, signed by all the stockholders entitled to vote on the action, and delivered to the corporation for inclusion in the minutes or filing with the corporate records.

If not otherwise set by the Board of Directors, the record date for determining stockholders entitled to take action without a meeting is the date the first stockholder signs the written consent.

A consent signed under this section has the effect of a meeting vote and may be described as such in any document.

Article IV. Directors.

Section 1. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation managed under the direction of, the Board of Directors, subject to any limitation set forth in the Articles of Incorporation, which shall consist of nine (9) members, at

least two (2) of whom shall be independent directors. For purposes of this Section, "independent director" shall mean a person other than an officer or employee of the corporation or its affiliates or any other individual having a relationship that, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Directors must be at least twenty-one (21) years of age and be citizens of the United States, although directors need not be stockholders of the corporation or residents of the state of Mississippi.

The Board of Directors shall appoint a Chairman who shall preside at meetings of the Board of Directors and of stockholders and shall have such other duties as may from time to time be assigned to the Chairman by the Board of Directors. Each director shall receive such compensation for his services as may, by the Board of Directors, be determined from time to time.

The terms of directors shall be staggered by dividing the total number of directors into three (3) classes, with each class containing one-third (1/3), or as close to one-third (1/3) as possible, of the total. With respect to directors who are elected at the first annual stockholders' meeting where a classified Board of Directors is elected, the terms of directors in the first class shall expire at the first annual stockholders' meeting after their election, the terms of the second class shall expire at the second annual stockholders' meeting after their election, and the terms of the third class shall expire at the third annual stockholders' meeting after their election. At each annual stockholders' meeting held after such first meeting, directors shall be chosen for a term of three (3) years to succeed those whose terms expire.

A decrease in the number of directors does not shorten an incumbent director's term. A director elected to fill a vacancy, whether such director is elected by the stockholders or the Board of Directors, shall serve for the unexpired portion of the term of the vacancy which is being filled. Despite the expiration of a director's term, he shall continue to serve until his successor is elected and qualifies or until there is a decrease in the number of directors.

Section 2. The directors shall hold five (5) regular meetings, four (4) of which shall be held on such quarterly dates as the Board or the Chairman shall determine from time to time, and shall be held at the principal office of the corporation in Laurel, Mississippi, or at such other place, within or without the State of Mississippi, as may be determined by the Chairman of the Board. The remaining one (1) regular meeting shall be held immediately after, and at the same place as, the annual meeting of stockholders.

Section 3. Special meetings of the Board of Directors, to be held at the principal office of the corporation in Laurel, Mississippi, or at such other place, within or without the State of Mississippi, as may be determined by the Board or the Chairman, may be called by the Chairman or by any two members of the Board of Directors.

Section 4. Any or all directors may participate in a regular or special meeting by, or conduct the meeting through the use of, any means of communication by which all directors participating may simultaneously hear each other during the meeting. A director participating in a meeting by this means is deemed to be present in person at the meeting.

Section 5. Notice as to date, time and place of all regular and special meetings of the directors shall be given to each director, by the Secretary, at least two (2) days prior to the time fixed for the meeting. Such notice shall be given in any manner to each director at his usual address or location and shall be deemed to be delivered, if mailed, when deposited four (4) days prior to the time fixed for the meeting in the United States mail, so addressed, with postage thereon prepaid. A director's attendance at or participation in a meeting shall constitute a waiver of any required notice of such meeting, unless the director at the beginning of the meeting (or promptly upon his arrival) objects to holding the meeting or transacting business at the meeting and does not hereafter vote for or assent to action taken at the meeting.

Section 6. A quorum for the transaction of business at any regular or special meeting of the directors shall consist of a majority of the number of directors fixed by these Bylaws.

Section 7. The directors shall appoint the officers of the corporation and fix the salary of the Chairman of the Board and the President; the President, or in the absence of the President the directors, shall fix the salaries of all other officers. Appointment of officers shall be made at the directors' meeting following each annual stockholders' meeting.

Section 8. Any vacancy on the Board of Directors resulting from the removal of a director as provided in the Articles of Incorporation shall be filled by the stockholders; provided that, if the stockholders fail to fill any such vacancy within ninety (90) days after the date that the director was removed, then the Board of Directors may fill such vacancy. If a vacancy occurs on the Board of Directors for reasons other than removal by

stockholders, including a vacancy resulting from an increase in the number of directors: (a) the stockholders may fill the vacancy; (b) the Board of Directors may fill the vacancy; or (c) if the directors remaining in office constitute fewer than a quorum of the Board, they may fill the vacancy by the affirmative vote of a majority of all the directors remaining in office.

A vacancy that will occur at a specific later date (by reason of a resignation effective at a later date) may be filled before the vacancy occurs but the new director may not take office until the vacancy occurs.

Section 9. The affirmative vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the Articles of Incorporation or the By-laws require the vote of a greater number of directors.

Section 10. A director of the corporation who is present at a meeting of the Board of Directors or a committee of the Board of Directors when corporate action is taken shall be deemed to have assented to the action taken unless: (a) he objects at the beginning of the meeting (or promptly upon his arrival) to holding it or transacting business at the meeting; (b) his dissent or abstention from the action taken is entered in the minutes of the meeting; or (c) he delivers written notice of his dissent or abstention to the presiding officer of the meeting before its adjournment or to the corporation immediately after adjournment of the meeting. The right of dissent or abstention shall not be available to a director who votes in favor of the action taken.

Section 11. Any action required or permitted to be taken at a Board of Directors' meeting may be taken without a meeting if the action is taken by all members of the Board. The action must be evidenced by one or more written consents describing the action taken, signed by each director, and included in the minutes or filed with the corporate records reflecting the action taken.

Action taken under this section is effective when the last director signs the consent, unless the consent specifies a different effective date.

A consent signed under this section has the effect of a meeting vote and may be described as such in any document.

Section 12. A director may resign at any time by delivering written notice to the Board of Directors, its Chairman or to the corporation. A resignation is effective when the notice is delivered unless the notice specifies a later effective date.

The stockholders may remove one or more directors with or without cause unless otherwise provided by the Articles of Incorporation. The removal of any director of the corporation elected or appointed by the stockholders of the corporation or by its Board of Directors shall be effected only by the vote of not less than two-thirds (2/3) of the total outstanding Common Stock. Notwithstanding the foregoing, these voting requirements for director removal shall not apply to any director elected by any class (other than Common Stock) or series which may be or become entitled to elect a director voting as a separate class or series, and the removal of such a director shall be governed by the provisions relating to that class or series.

A director may be removed by the stockholders only at a meeting called for the purpose of removing him and the meeting notice must state that the purpose, or one of the purposes, of the meeting is removal of the director.

Section 13. The Board of Directors may create one or more committees and appoint members of the Board of Directors to serve on them. Each committee must have two (2) or more members, who serve at the pleasure of the Board of Directors.

The creation of a committee and appointment of members to it must be approved by a majority of all the directors in office when the action is taken.

Prior to the annual meeting of stockholders, the Board of Directors shall appoint a director nominating committee consisting of three directors serving current terms, at least one of whom shall be an independent director. The committee shall consider candidates for the class of directorships to be filled at the meeting and shall submit a slate of candidates or nominees for Board approval and inclusion in the corporate proxy materials for the annual meeting and for vote by the stockholders at the annual meeting. Such submission shall be deemed a nomination of each person named. The committee may recommend one or more than one candidate or nominee for each vacancy to be filled. Where a vacancy on the Board of Directors exists that is to be filled by the Board of Directors, a director nominating committee shall also be appointed by the Board of Directors to consider and submit a slate of candidates or nominees for vote by the directors.

The provisions of the By-laws which govern meetings, action without meetings, notice and waiver of notice, and quorum and voting requirements of the Board of Directors, shall apply to committees and their members as well.

To the extent specified by the Board of Directors, each committee may exercise the authority of the Board of Directors.

A committee may not, however: (a) authorize distributions; (b) approve

or propose to stockholders action that requires approval by stockholders; (c) fill vacancies on committees of the Board of Directors; (d) amend the Articles of Incorporation; (e) adopt, amend or repeal by-laws; (f) approve a plan of merger not requiring stockholder approval; (g) authorize or approve reacquisition of shares except according to a formula or method prescribed by the Board of Directors; or (h) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except that the Board of Directors may authorize a committee (or a senior executive officer of the corporation) to do so within limits specifically prescribed by the Board of Directors.

The creation of, delegation of authority to, or action by a committee does not alone constitute compliance by a director with the standards of conduct required by law.

Section 14. Each director shall discharge his duties as a director, including his duties as a member of a committee: (a) in good faith; (b) with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and (c) in a manner he reasonably believes to be in the best interests of the corporation.

In discharging his duties a director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, if prepared or presented by: (a) one or more officers or employees of the corporation whom the director reasonably believes to be reliable and competent in the matters presented; (b) legal counsel, public accountants or other persons as to matters the director reasonably believes are within the person's professional or expert competence; or (c) a committee of the Board of Directors of which he is not a member if the director reasonably believes the committee merits confidence.

Article V. Officers.

Section 1. The officers of this corporation shall be a Chairman of the Board, a Vice Chairman of the Board (if appointed by the Board at its discretion), a President, an Executive Vice President (if appointed by the Board at its discretion), one or more Vice Presidents, a Secretary and a Treasurer, all of whom shall be appointed for the term of one (1) year, and shall hold office until their successors are duly elected and qualified.

Such other officers and assistant officers as may be deemed necessary may be appointed by the Board of Directors or by the officers duly appointed by the Board of Directors. Any two or more offices may be simultaneously held by the same person.

Section 2. The officers of the corporation shall be appointed annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the stockholders. Officers of the corporation may also be appointed by the Board of Directors to serve until the next annual meeting, when a new office is created by amendment to, or restatement of, these By-Laws or, in the absence of a resignation, when an incumbent officer cannot perform the duties conferred upon him by reason of absence or inability or unfitness to carry out said duties. The appointment of an officer shall not itself create contract rights. Officers shall serve at the pleasure of the Board of Directors.

Section 3. An officer may resign at any time by delivering notice to the corporation. A resignation is effective when the notice is delivered unless the notice specifies a later effective date. If a resignation is made effective at a later date and the corporation accepts the future effective date, it may fill the pending vacancy before the effective date if the successor does not take office until the effective date. An officer's resignation shall not affect the corporation's contract rights, if any, with the officer.

Section 4. Any officer appointed by the Board of Directors may be removed by the Board of Directors at any time with or without cause whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall not affect the contract rights with the corporation, if any, of the officer so removed. Any office or assistant officer, if appointed by another officer, may likewise be removed by such officer.

Section 5. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

Section 6. The Chairman of the Board shall preside at all directors' meetings; shall sign all stock certificates (which signature may be by facsimile as provided in Article II, Section 2, of these By-laws); and shall have authority to sign on behalf of the corporation, bills, notes, receipts, acceptances, endorsements, checks, releases, contracts and documents of every nature and kind, to issue checks or otherwise draw upon the deposits or credits of the corporation, excepting dividends, and to do such other acts not specifically enumerated herein and which are not inconsistent with the purposes of the business of the corporation and its charter authority or not

otherwise specifically delegated to any other officer.

Section 7. The Vice Chairman of the Board (if appointed by the Board at its discretion) shall perform all the duties of the Chairman of the Board at such times as the Chairman is unable to perform the duties conferred upon him by reason of absence or inability or unfitness to carry out said duties. The Vice Chairman shall further perform such duties as may be directed to him by the Chief Executive Officer or by the Board of Directors.

Section 8. The President shall be the chief executive officer of the corporation. He shall sign all stock certificates (which signature may be by facsimile as provided in Article II, Section 2, of these By-laws) and shall perform all of the duties of the Chairman of the Board at such times as the Chairman or Vice Chairman (if appointed) is unable to perform the duties conferred upon him by reason of absence or inability or unfitness to carry out said duties. He shall have general supervision over the affairs of the corporation; shall perform the duties generally conferred upon the chief executive officer of a corporation, including the authority to conduct the affairs of the corporation and to carry out the policies thereof; and shall have authority to sign on behalf of the corporation, bills, notes, receipts, acceptances, endorsements, checks, releases, contracts and documents of every nature and kind, to issue checks or otherwise draw upon the deposits or credits of the corporation, excepting dividends, to extend credit to persons and in amounts as he may deem advisable, and to do such other acts not specifically enumerated herein and which are not inconsistent with the purposes of the business of the corporation and its charter authority or not otherwise specifically delegated to any other officer. He shall have general charge of the office and the plant or plants of the corporation, with authority to employ and terminate such office assistants and employees as he may deem advisable and necessary, and to fix and pay salaries for such employment. The President shall further perform such duties as may be directed to him by the Board of Directors and shall have authority to delegate any of the duties herein set forth.

Section 9. The Executive Vice President (if appointed by the Board at its discretion) shall perform all the duties of the President at such times as the President is unable to perform the duties conferred upon him by reason of absence or inability or unfitness to carry out said duties. The Executive Vice President shall further perform such duties as may be directed to him by the President or by the Board of Directors.

Section 10. The Vice President(s) shall perform such duties as may be directed to him(them) by the President or by the Board of Directors.

Section 11. The Secretary shall issue notices of all directors' and stockholders' meetings, and shall attend and keep the minutes of the same; shall have charge of all corporate books, records and papers; shall be the custodian of the corporate seal; shall authenticate records of the corporation; shall attest with his signature and impress with the corporate seal all stock certificates (which signature and seal may be facsimile as provided in Article II, Section 2, of these By-laws) and written contracts of the corporation, but such attestation shall not be limited to the Secretary and the absence of such attestation shall not affect the legal validity of any written contracts; and shall perform all other such duties as are incidental to his office and that may be specifically delegated to his office.

Section 12. The Treasurer shall have custody of all monies and securities of the corporation, and he shall keep regular books of account and shall submit them, together with all his vouchers, receipts, records and other papers to the directors for their examination and approval as often as they may require. The Treasurer, or such other officer, if any, who has been designated as the chief financial officer by the Board of Directors, shall have the fiscal responsibility for the affairs of the corporation, including future operations, and shall from time to time propose or otherwise institute such fiscal policy as may be determined by the Board of Directors.

Section 13. The duties of the Secretary or Treasurer or any part thereof may be from time to time delegated by the Secretary or Treasurer, with the consent of the Board of Directors, to an Assistant Secretary or Assistant Treasurer. The Assistant Secretary or Assistant Treasurer shall have the authority to perform such acts as may be delegated to him by the Secretary or Treasurer with the consent of the Board of Directors.

Section 14. For their services, the Vice Chairman (if appointed), the Executive Vice President (if appointed), the Vice President(s), the Secretary, the Treasurer and the Assistant Secretary or Assistant Treasurer (if appointed) shall each receive such salary and other compensation as may be fixed by the President, or, in his absence, by the directors.

Section 15. As assigned and directed by the Board of Directors, the Vice President(s), the Secretary or the Treasurer shall perform those duties of the Chairman, the Vice Chairman (if appointed), the President or the Executive Vice President (if appointed) at such times as the Chairman, the Vice Chairman (if appointed), the President or the Executive Vice President

(if appointed) is unable to perform the duties conferred upon him by reason of absence or inability or unfitness to carry out said duties.

Section 16. Any officer with discretionary authority shall discharge his duties under that authority: (a) in good faith; (b) with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and (c) in a manner he reasonably believes to be in the best interests of the corporation.

In discharging his duties any officer is entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, if prepared or presented by: (a) one or more officers or employees of the corporation whom the officer reasonably believes to be reliable and competent in the matters presented; or (b) legal counsel, public accountants or other persons as to matters the officer reasonably believes are within the person's professional or expert competence.

Article VI. Indemnification of Directors, Officers and Other Persons

Section 1. The Corporation shall indemnify its directors, officers, those employees of the Corporation appointed by the President to serve on the Corporation's Executive Committee and those employees selected by the Executive Committee to be the Division Managers, to the fullest extent permitted by law, except in an action brought directly by the Corporation against such person, and except that such employees shall be entitled to mandatory indemnification under this Article only to the same extent to which officers are permitted by law to be indemnified.

Section 2. To the extent permitted by law, the right to indemnification conferred in this Article (a) shall apply to acts or omissions antedating the adoption of this Article; (b) shall be severable; (c) shall continue as to a person who has ceased to be such director, officer or employee; and (d) shall inure to the benefit of the heirs, executors and administrators of such person.

Section 3. This article may be repealed or amended from time to time by the Board of Directors with or without shareholder approval; provided however, that no such repeal or amendment shall limit the right to indemnification conferred in this Article for liability for acts or omissions which occurred prior to the time of such repeal or amendment.

Section 4. If the Corporation indemnifies or advances expenses to a director under this Article, the Corporation shall, if required by Section 79-4-16.21(a) of the Mississippi Code of 1972, as amended, report the indemnification or advance in writing to the shareholders with or before the notice of the next shareholder meeting.

Article VII. Dividends and Finance.

Section 1. Dividends may be declared from time to time by resolution of the Board of Directors; but no dividends shall be paid if, after giving them effect, (a) the corporation would not be able to pay its debts as they become due in the usual course of business; or (b) the corporation's total assets would be less than the sum of its total liabilities plus (unless the Articles of Incorporation permit otherwise) the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution.

Section 2. The funds of the corporation shall be deposited in those depository institutions designated by the Board of Directors, and such funds may be withdrawn upon the check or demand of either the Chairman of the Board, the President, the Vice President(s), the Secretary or the Treasurer or by authority granted to some other individual by the Chairman of the Board, the Vice Chairman of the Board, or the President or the Executive Vice President (if any) and one other officer of the corporation by appropriate notice directed to any such banking institution or trust company.

Article VIII. Contracts and Loans.

The Board of Directors may authorize any officer or officers, and any agent or agents to enter into any contract, make any loan or execute and deliver any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to a specific instance.

Article IX. Fiscal Year.

The fiscal year of the corporation shall end on the 31st day of October in each year.

Article X. Corporate Seal.

The Board of Directors shall provide a corporate seal which shall be circular in form and shall have inscribed thereon the name of the corporation, the state of incorporation and the words "Corporate Seal." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or

reproduced or otherwise.

Article XI. Waiver of Notice.

Whenever any notice is required to be given to any stockholder or director of the corporation under the provisions of these By-laws or under the provisions of the Articles of Incorporation or under the provisions of the Mississippi Business Corporation Act, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the date and time stated in the notice, and filed with the minutes or corporate records, shall be equivalent to the giving of such notice.

Article XII. Transfer Agent.

The Board of Directors shall be authorized, in its discretion, to contract with and employ a securities transfer agent, either within or without the State of Mississippi for the general purposes of issuing and cancelling stock and other security certificates of the corporation, of transfer processing and of other related security services. The services of any security transfer agent, for which the Board may contract, may include, but not be limited to, all security processing, stockholder record-keeping, election processing, dividend payment, dividend reinvestment, tax information, notices and proxies, securities regulation reporting, and corporate reorganization work related to securities. Any transfer agent, if employed, shall be authorized and empowered to affix official signatures and the seal of the corporation to stock and other security certificates by facsimile and to sign on its behalf any and all stock and other security certificates issued by the corporation.

Article XIII. Amendments.

These By-laws may be altered, amended or repealed or new By-laws may be adopted by the Board of Directors at any regular or special meeting of the Board of Directors. Any alteration, amendment or repeal of, or any addition to, these By-laws which affects classes of directors, the filling of vacancies on the Board of Directors, the removal of directors, super majority voting requirements, cumulative voting and classes of stock including preferences, limitations and relative rights thereof shall require an affirmative vote of two-thirds (2/3) or more of all the directors in office when the action is taken; provided that such two-thirds (2/3) vote shall not be required for any such alteration, amendment or repeal of, or any addition to, these By-laws at a time when no person, corporation or entity, other than a member of the Sanderson Family (as such term is defined in Article NINTH of the Articles of Incorporation), beneficially owns (as such term is defined in Article NINTH of the Articles of Incorporation) 20% or more of the outstanding shares of Common Stock of the corporation or 20% or more of the total voting power of the corporation entitled to vote on any such matter at a meeting of stockholders.

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SANDERSON FARMS, INC.

INCENTIVE STOCK OPTION AGREEMENT

THIS INCENTIVE STOCK OPTION AGREEMENT ("Agreement"), dated as of the day of _____, ____ (the "Date of Grant"), is delivered by Sanderson Farms, Inc., and its subsidiaries and affiliates (collectively referred to as "SFI") to _____ (the "Optionee"), who is an executive officer or key employee of SFI.

WHEREAS, the Board of Directors of Sanderson Farms, Inc. (the "Board") recommended stockholder approval of, the stockholders approved and the Board adopted the Sanderson Farms, Inc. Stock Option Plan (as amended and restated to the date hereof, the "Plan");

WHEREAS, the Plan provides for the granting of incentive stock options by the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) to executive officers and key employees of SFI to purchase, or to exercise certain rights with respect to, shares of the Common Stock of SFI, par value \$1.00 per share (the "Stock"), in accordance with the terms and provisions thereof; and

WHEREAS, the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) considers the Optionee to be a person who is eligible for grant of an incentive stock option under the Plan, and has determined that it would be in the best interest of SFI to grant the incentive stock option documented herein.

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Incentive Stock Option.

(a) Subject to the terms and conditions hereinafter set forth, SFI, with the approval and at the direction of the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan), hereby grants to the Optionee, as of the Date of Grant, an option to purchase up to _____ shares of Stock at a price of \$ _____ per share, which price per share is at or above the present fair market value. Such option is hereinafter referred to as the "Incentive Stock Option" and the shares of stock purchasable upon exercise of the Incentive Stock Option are hereinafter sometimes referred to as the "Incentive Stock Option Shares." The Incentive Stock Option is intended by the parties hereto to be, and shall be treated as, an "incentive stock option," pursuant to and as such term is defined under Sections 421 and 422 of the Internal Revenue Code of 1986, as amended (the "Code").

(b) This Incentive Stock Option is granted subject to the following additional terms and conditions (if none, so indicate):

2. Term and Exercise.

This Incentive Stock Option may be exercised during a period beginning one year after and ending six years after the date of grant thereof (the "option term"). Unless a shorter period is provided by the

Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan),

this Incentive Stock Option shall be exercised in accordance with this section 2. During the first year of the option term, no more than 25% of the initial total number of shares covered by the Incentive Stock Option may be exercised and purchased by the Optionee. During the second year of the option term, no more than 50% of the initial total number of shares covered by the Incentive Stock Option may be exercised and purchased by the Optionee, such percentage to include the percentage, by number of shares, purchased in the previous year of the option term. During the third year of the option term, no more than 75% of the initial total number of shares covered by the Incentive Stock Option may be exercised and purchased by the Optionee, such percentage to include the percentages, by number of shares, previously purchased in earlier years of the option term on a cumulative basis. During the fourth year of the option term, 100% of the initial total number of shares covered by the Incentive Stock Option may be exercised and purchased by the Optionee, such percentage to include the percentages, by number of shares, previously purchased in earlier years of the option term on a cumulative basis. No fractional shares

shall be issued as a result of the exercise of this Incentive Stock Option. No Incentive Stock Option shall be exercisable after the expiration of its option term.

3. Termination of Incentive Stock Option.

(a) Except as provided in Sections 3(b), 3(c) and 3(d) of this Agreement, upon termination of the Optionee's employment, the Incentive Stock Option, to the extent not previously exercised, shall terminate immediately upon such termination of employment.

(b) Upon termination of the Optionee's employment by reason of death of the Optionee, the Incentive Stock Option may be exercised, but only to the extent exercisable on the date of such death, within one (1) year from and after the date of the Optionee's death. The Incentive Stock Option may be exercised by the executor or administrator of the deceased Optionee's estate or by a person receiving the Incentive Stock Option by will or under the laws of descent and distribution of the state in which the Optionee resided.

(c) Upon termination of the Optionee's employment by reason of permanent and total disability as defined under Section 22(e)(3) of the Code, the Incentive Stock Option may be exercised, but only to the extent exercisable on the date of such permanent and total disability, during the one (1) year period following the date of such termination of the Optionee's employment.

(d) Upon termination of the Optionee's employment by reason of retirement or disability other than as defined by Section 3(c) of this Agreement, the Incentive Stock Option may be exercised, but only to the extent exercisable on the date of such retirement or disability, during the three (3) month period following the date of such termination of the Optionee's employment.

(e) A transfer of the Optionee's employment from one affiliate of SFI to another shall not be deemed to be a termination of the Optionee's employment.

(f) Notwithstanding any other provisions set forth herein or in the Plan, if the Optionee shall (i) commit any act of malfeasance or wrongdoing affecting SFI, (ii) breach any covenant not to compete or employment contract with SFI, or (iii) engage in conduct that would warrant the Optionee's discharge for cause (excluding general dissatisfaction with the performance of the Optionee's duties, but including any act of disloyalty or any conduct clearly tending to bring discredit upon SFI), then any unexercised portion of the Incentive Stock Option shall immediately terminate and be void.

4. Exercise of Incentive Stock Option.

(a) During the Option Term, the Optionee may exercise the Incentive Stock Option with respect to all or any part of the number of Incentive Stock Option Shares then exercisable hereunder by giving the Board of SFI (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) written notice of intent to exercise substantially in the form attached hereto as Exhibit A. The notice of exercise shall specify the number of Incentive Stock Option Shares as to which the Incentive Stock Option is to be exercised and the date of exercise thereof, which date shall be at least five days after the giving of such notice unless an earlier date shall have been mutually agreed upon.

(b) Full payment (in U.S. dollars) by the Optionee of the option price for the Incentive Stock Option Shares purchased shall be made on or before the exercise date specified in the notice of exercise in cash, or, with the prior written consent of the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan), in whole or in part through the surrender of previously acquired shares of Stock at their fair market value on the exercise date.

On the exercise date specified in the Optionee's notice or as soon thereafter as is reasonably practicable, SFI shall cause to be delivered to the Optionee, a certificate or certificates for the Incentive Stock Option Shares then being purchased (out of theretofore unissued Stock or reacquired or surrendered Stock, as SFI may elect) upon full payment for such Incentive Stock Option Shares. The obligation of SFI to deliver Stock shall, however, be subject to the condition that if at any time the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) shall determine in its discretion that (i) the listing, registration or qualification of the Incentive Stock Option or the Incentive Stock Option Shares upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any governmental regulatory body, or (iii) an agreement by the Optionee with respect to the disposition of shares of Common Stock, is necessary or desirable as a condition of, or in connection with, the Incentive Stock Option or the issuance or purchase of Stock thereunder, the Incentive Stock Option may not be exercised in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions

not acceptable to the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan).

(c) If the Optionee fails to pay for any of the Incentive Stock Option Shares specified in such notice or fails to accept delivery thereof, the Optionee's right to purchase such Incentive Stock Option Shares may be terminated by SFI. The date specified in the Optionee's notice as the date of exercise shall be deemed to be the date of exercise of the Incentive Stock Option, provided that payment in full for the Incentive Stock Option Shares to be purchased upon such exercise shall have been received by such date.

5. Adjustment of and Changes in Stock of SFI.

In the event of a reorganization, recapitalization, change of shares, stock split, spinoff, stock dividend, reclassification, subdivision or combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or shares of capital stock of SFI, the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) shall make such adjustment as it deems appropriate in the number and kinds of shares of Stock subject to the Incentive Stock Option or in the option price; provided, however, that no such adjustment shall give the Optionee any additional benefits under the Incentive Stock Option.

6. Fair Market Value.

"Fair market value" as of any date and in respect of any share of Common Stock means the closing price on such date or on the next business day, if such date is not a business day, of a share of Common Stock reflected in the NASDAQ National Market System traded under the Symbol SAFM, provided that, if shares of Common Stock shall not have been traded on NASDAQ for more than 10 days immediately preceding such date or if deemed appropriate by the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) for any other reason, the fair market value of shares of Common Stock shall be as determined by the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) in such other manner as it may deem appropriate. In no event shall the fair market value of any share of Common Stock be less than its par value.

7. No Rights as a Stockholder.

Neither the Optionee nor any personal representative shall be, or shall have any of the rights and privileges of, a stockholder of SFI with respect to any shares of Stock purchasable or issuable upon the exercise of this Incentive Stock Option, in whole or in part, prior to the issuance of certificates for shares of Common Stock to said person.

8. Insider Trading Short-Swing Profit Liability Exemption Requirements.

Notwithstanding

any other provision of this Agreement to the contrary, the Incentive Stock Option granted under this Agreement shall be transferrable (i) by the option holder only by will or under the laws of descent and distribution of the state in which the option holder resided on the date of his death, and (ii) by the Company pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act or the Rules thereunder.

9. No Rights of Employment.

Neither the granting of this Incentive Stock Option nor its exercise shall be construed as granting to the Optionee any right with respect to continuance of employment with SFI. Except as may otherwise be limited by a written agreement between SFI and the Optionee, and acknowledged by the Optionee, the right of SFI to terminate at will the Optionee's employment with it at any time (whether by dismissal, discharge, retirement or otherwise) is specifically reserved by SFI.

10. Amendment of Incentive Stock Option.

The Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) may, without further action by the stockholders and without the consent of or further consideration from the Optionee, amend, condition or modify this Incentive Stock Option in response to changes in securities or other laws or rules, regulations or regulatory interpretations thereof applicable to the Incentive Stock Option or to comply with stock exchange rules or requirements. The Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) may amend this Incentive Stock Option otherwise with the written consent of the Optionee.

11. Notice.

Any notice to SFI provided for in this instrument shall be

addressed to it in care of its Secretary at its executive offices at Post Office Box 988, Laurel, Mississippi 39441, and any notice to the Optionee shall be addressed to the Optionee at the current address shown on the payroll records of SFI. Any notice shall be deemed to be duly given if and when properly addressed and posted by registered or certified mail, postage prepaid.

12. Incorporation of Plan by Reference.

This Incentive Stock Option is granted pursuant to the terms of the Plan, which terms are incorporated herein by reference, and the Incentive Stock Option shall in all respects be interpreted in accordance with the Plan. The Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) shall

interpret and construe the Plan and this instrument, and its interpretations and determinations shall be conclusive and binding on the parties hereto and any other person claiming an interest hereunder, with respect to any issue arising hereunder or thereunder.

13. Governing law.

The validity, construction, interpretation and effect of this instrument shall exclusively be governed by and determined in accordance with the laws of the State of Mississippi, except to the extent preempted by federal law, which shall to that extent govern.

IN WITNESS WHEREOF, SFI has caused its duly authorized officers to execute and attest this Incentive Stock Option Agreement, and to apply the corporate seal hereto, and the Optionee has placed his or her signature hereon, effective as of the Date of Grant.

SANDERSON FARMS, INC.

ATTEST:

By:
Name:
Title:

ACCEPTED AND AGREED TO:

Optionee

NOTICE OF EXERCISE OF INCENTIVE STOCK OPTION

SANDERSON FARMS, INC.

ATTENTION: The Board of Directors
 Stock Option Committee

Gentlemen:

Notice is hereby given of the undersigned's intent to exercise the Incentive Stock Option granted to the undersigned pursuant to the Incentive Stock Option Agreement dated _____, _____ entered into by and between the undersigned and Sanderson Farms, Inc. The Incentive Stock Option shall be exercised with respect to _____ (_____) shares of the common stock, par value \$1.00 per share, of Sanderson Farms, Inc., at the exercise price of \$_____ per share. The date of exercise shall be _____, _____ which is five days or more after the date of this notice.

In connection with the exercise of the Incentive Stock Option, the undersigned acknowledges that no withholding of income taxes is required.

Employee/Optionee

Dated: _____, _____

SANDERSON FARMS, INC.

NONSTATUTORY STOCK OPTION AGREEMENT

THIS NONSTATUTORY STOCK OPTION AGREEMENT ("Agreement"), dated as of the _____ day of _____, _____ (the "Date of Grant"), is delivered by Sanderson Farms, Inc., and its subsidiaries and affiliates (collectively referred to as "SFI") to _____ (the "Optionee"), who is an executive officer or key employee of SFI.

WHEREAS, the Board of Directors of Sanderson Farms, Inc. (the "Board"), recommended stockholder approval of, the stockholders approved and the Board adopted, the Sanderson Farms, Inc. Stock Option Plan (as amended and restated to the date hereof, the "Plan");

WHEREAS, the Plan provides for the granting of nonstatutory stock options by the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) to executive officers and key employees of SFI to purchase, or to exercise certain rights with respect to, shares of the Common Stock of SFI, par value \$1.00 per share (the "Stock"), in accordance with the terms and provisions thereof; and

WHEREAS, the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) considers the Optionee to be a person who is eligible for grant of a nonstatutory stock option under the Plan, and has determined that it would be in the best interest of SFI to grant the nonstatutory stock option documented herein.

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Nonstatutory Stock Option.

(a) Subject to the terms and conditions hereinafter set forth, SFI, with the approval and at the direction of the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan), hereby grants to the Optionee, as of the Date of Grant, an option to purchase up to _____ shares of Stock at a price of \$ _____ per share, which price per share is at or below the present fair market value. Such option is hereinafter referred to as the "Nonstatutory Stock Option" and the shares of stock purchasable upon exercise of the Nonstatutory Stock Option are hereinafter sometimes referred to as the "Nonstatutory Stock Option Shares." Notwithstanding any provision herein to the contrary, the Option is not intended by the parties hereto to be, and shall not be treated as, an "incentive stock option," pursuant to and as such term is defined under Sections 421 and 422 of the Internal Revenue Code of 1986, as amended (the "Code"), but is intended by the parties hereto to be, and shall be treated as, a "nonstatutory stock option."

(b) This Nonstatutory Stock Option is granted subject to the following additional terms and conditions (if none, so indicate):

2. Term and Exercise.

This Nonstatutory Stock Option may be exercised during a period beginning one year after and ending six years after the date of grant thereof (the "option term"). Unless a shorter period is provided by the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan), this Nonstatutory Stock Option shall be exercised in accordance with this section 2. During the first year of the option term, no more than 25% of the initial total number of shares covered by the Nonstatutory Stock Option may be exercised and purchased by the Optionee. During the second year of the option term, no more than 50% of the initial total number of shares covered by the Nonstatutory Stock Option may be exercised and purchased by the Optionee, such percentage to include the percentage, by number of shares, purchased in the previous year of the option term. During the third year of the option term, no more than 75% of the initial total number of shares covered by the Nonstatutory Stock Option may be exercised and purchased by the Optionee, such percentage to include the percentages, by number of shares, previously purchased in earlier years of the option term on a cumulative basis. During the fourth year of the option term, 100% of the initial total number of shares covered by the Nonstatutory Stock Option may be exercised and purchased by the Optionee, such percentage to include the percentages, by number of shares, previously purchased in earlier years of the option term on a cumulative basis. No fractional shares shall be issued as a result of the exercise of this Nonstatutory Stock Option. No Nonstatutory Stock Option shall be exercisable after the expiration of its option term.

3. Termination of Nonstatutory Stock Option.

(a) Except as provided in Sections 3(b) and 3(c) of this Agreement, upon termination of the Optionee's employment, the Nonstatutory Stock Option, to the extent not previously exercised, shall terminate immediately upon such termination of employment.

(b) Upon termination of the Optionee's employment by reason of death of the Optionee, the Nonstatutory Stock Option may be exercised, but only to the extent exercisable on the date of such death, within one (1) year from and after the date of the Optionee's death. The Nonstatutory Stock Option may be exercised by the executor or administrator of the deceased Optionee's estate or by a person receiving the Nonstatutory Stock Option by will or under the laws of descent and distribution of the state in which the Optionee resided.

(c) Upon termination of the Optionee's employment by reason of retirement or disability (as defined by the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan), the Nonstatutory Stock Option may be exercised, but only to the extent exercisable on the date of such retirement or disability, during the three (3) month period following the date of such termination of the Optionee's employment.

(d) A transfer of the Optionee's employment from one affiliate of SFI to another shall not be deemed to be a termination of the Optionee's employment.

(e) Notwithstanding any other provisions set forth herein or in the Plan, if the Optionee shall (i) commit any act of malfeasance or wrongdoing affecting SFI, (ii) breach any covenant not to compete or employment contract with SFI, or (iii) engage in conduct that would warrant the Optionee's discharge for cause (excluding general dissatisfaction with the performance of the Optionee's duties, but including any act of disloyalty or any conduct clearly tending to bring discredit upon SFI), then any unexercised portion of the Nonstatutory Stock Option shall immediately terminate and be void.

4. Exercise of Nonstatutory Stock Option.

(a) During the Option Term, the Optionee may exercise the Nonstatutory Stock Option with respect to all or any part of the number of Nonstatutory Stock Option Shares then exercisable hereunder by giving the Board of SFI (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) written notice of intent to exercise substantially in the form attached hereto as Exhibit A. The notice of exercise shall specify the number of Nonstatutory Stock Option Shares as to which the Nonstatutory Stock Option is to be exercised and the date of exercise thereof, which date shall be at least five days after the giving of such notice unless an earlier date shall have been mutually agreed upon.

(b) Full payment (in U.S. dollars) by the Optionee of the option price for the Nonstatutory Stock Option Shares purchased shall be made on or before the exercise date specified in the notice of exercise in cash, or, with the prior written consent of the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan), in whole or in part through the surrender of previously acquired shares of Stock at their fair market value on the exercise date.

On the exercise date specified in the Optionee's notice or as soon thereafter as is reasonably practicable, SFI shall cause to be delivered to the Optionee, a certificate or certificates for the Nonstatutory Stock Option Shares then being purchased (out of theretofore unissued Stock or reacquired or surrendered Stock, as SFI may elect) upon full payment for such Nonstatutory Stock Option Shares. The obligation of SFI to deliver Stock shall, however, be subject to the condition that if at any time the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) shall determine in its discretion that (i) the listing, registration or qualification of the Nonstatutory Stock Option or the Nonstatutory Stock Option Shares upon any securities exchange or under any state or federal law, or (ii) the consent or approval of any governmental regulatory body or (iii) an agreement by the Optionee with respect to the disposition of shares of Common Stock, is necessary or desirable as a condition of, or in connection with, the Option or the issuance or purchase of Stock thereunder, the Nonstatutory Stock Option may not be exercised in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan).

(c) If the Optionee fails to pay for any of the Nonstatutory Stock Option Shares specified in such notice or fails to accept delivery thereof, the Optionee's right to purchase such Nonstatutory Stock Option Shares may be terminated by SFI. The date specified in the Optionee's notice as the date of exercise shall be deemed to be the date of exercise of the Option, provided that payment in full for the Nonstatutory Stock Option Shares to be purchased upon such exercise shall have been received by such date.

5. Adjustment of and Changes in Stock of SFI.

In the event of a reorganization, recapitalization, change of shares,

stock split, spinoff, stock dividend, reclassification, subdivision or combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or shares of capital stock of SFI, the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) shall make such adjustment as it deems appropriate in the number and kinds of shares of Stock subject to the Nonstatutory Stock Option or in the option price; provided, however, that no such adjustment shall give the Optionee any additional benefits under the Nonstatutory Stock Option.

6. Fair Market Value.

"Fair market value" as of any date and in respect of any share of Common Stock means the closing price on such date or on the next business day, if such date is not a business day, of a share of Common Stock reflected in the NASDAQ National Market System traded under the Symbol SAFM, provided that, if shares of Common Stock shall not have been traded on NASDAQ for more than 10 days immediately preceding such date or if deemed appropriate by the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) for any other reason, the fair market value of shares of Common Stock shall be as determined by the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) in such other manner as it may deem appropriate. In no event shall the fair market value of any share of Common Stock be less than its par value.

7. No Rights as a Stockholder.

Neither the Optionee nor any personal representative shall be, or shall have any of the rights and privileges of, a stockholder of SFI with respect to any shares of Stock purchasable or issuable upon the exercise of this Nonstatutory Stock Option, in whole or in part, prior to the issuance of certificates for shares of Common Stock to said person.

8. Insider Trading Short-Swing Profit Liability Exemption Requirements.

Notwithstanding any other provision of this Agreement to the contrary, the Nonstatutory Stock Option granted under this Agreement shall be transferrable (i) by the option holder only by will or under the laws of descent and distribution of the state in which the option holder resided on the date of his death or (ii) by the Company pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act or the Rules thereunder [except that it may be transferred to members of the Optionee's immediate family or to trusts for their benefit or partnerships in which such members hold the entire partnership interest].

9. No Rights of Employment.

Neither the granting of this Nonstatutory Stock Option nor its exercise shall be construed as granting to the Optionee any right with respect to continuance of employment with SFI. Except as may otherwise be limited by a written agreement between SFI and the Optionee, and acknowledged by the Optionee, the right of SFI to terminate at will the Optionee's employment with it at any time (whether by dismissal, discharge, retirement or otherwise) is specifically reserved by SFI.

10. Amendment of Nonstatutory Stock Option.

The Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) may, without further action by the stockholders and without the consent of or further consideration from the Optionee, amend, condition or modify this Nonstatutory Stock Option in response to changes in securities or other laws or rules, regulations or regulatory interpretations thereof applicable to the Nonstatutory Stock Option or to comply with stock exchange rules or requirements. The Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) may amend this Nonstatutory Stock Option otherwise with the written consent of the Optionee.

11. Notice.

Any notice to SFI provided for in this instrument shall be addressed to it in care of its Secretary at its executive offices at Post Office Box 988, Laurel, Mississippi 39441, and any notice to the Optionee shall be addressed to the Optionee at the current address shown on the payroll records of SFI. Any notice shall be deemed to be duly given if and when properly addressed and posted by registered or certified mail, postage prepaid.

12. Incorporation of Plan by Reference.

This Nonstatutory Stock Option is granted pursuant to the terms of the Plan, which terms are incorporated herein by reference, and the Nonstatutory Stock Option shall in all respects be interpreted in accordance with the Plan. The Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) shall interpret and construe the Plan and this instrument, and its interpretations and determinations shall be conclusive and binding on the parties hereto and any other person claiming an interest hereunder, with respect to any issue arising hereunder or thereunder.

13. Governing Law.

The validity, construction, interpretation and effect of this instrument shall exclusively be governed by and determined in accordance with the laws of the State of Mississippi, except to the extent preempted by federal law, which shall to that extent govern.

IN WITNESS WHEREOF, SFI has caused its duly authorized officers to execute and attest this Nonstatutory Stock Option Agreement, and to apply the corporate seal hereto, and the Optionee has placed his or her signature hereon, effective as of the Date of Grant.

SANDERSON FARMS, INC.

ATTEST:

By:
Name:
Title:

ACCEPTED AND AGREED TO:

Optionee

NOTICE OF EXERCISE OF NONSTATUTORY STOCK OPTION

SANDERSON FARMS, INC.

ATTENTION: The Board of Directors
 Stock Option Committee

Gentlemen:

Notice is hereby given of the undersigned's intent to exercise the Nonstatutory Stock Option granted to the undersigned pursuant to the Nonstatutory Stock Option Agreement dated _____, _____, entered into by and between the undersigned and Sanderson Farms, Inc. The Nonstatutory Stock Option shall be exercised with respect to _____ (_____) shares of the common stock, par value \$1.00 per share, of Sanderson Farms, Inc., at the exercise price of \$_____ per share. The date of exercise shall be _____, _____, which is five days or more after the date of this notice.

In connection with the exercise of the Nonstatutory Stock Option, the undersigned authorizes SFI to withhold all appropriate federal and state income and payroll taxes where cash is paid. Where only stock is transferred, the undersigned will remit to SFI an amount in cash equal to the appropriate federal and state income and payroll taxes upon being advised of the amount. Alternatively, SFI may reduce the number of shares distributed by an amount or number equal in value to the withholding amount.

Employee/Optionee

Dated: , ,

SANDERSON FARMS, INC.

ALTERNATE STOCK APPRECIATION RIGHTS AGREEMENT

THIS ALTERNATE STOCK APPRECIATION RIGHTS AGREEMENT (Agreement), dated as of the _____ day of _____, _____ (the Date of Grant), is delivered by Sanderson Farms, Inc., and its subsidiaries and affiliates (collectively referred to as "SFI") to _____ (the Optionee), who is an executive officer or key employee of SFI.

WHEREAS, the Board of Directors of Sanderson Farms, Inc. (the Board), recommended stockholder approval of, the stockholders approved and the Board adopted, the Sanderson Farms, Inc. Stock Option Plan (as amended and restated to the date hereof, the Plan);

WHEREAS, the Plan provides for the granting of alternate stock appreciation rights by the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) to executive officers and key employees of SFI to receive the appreciation in value of shares of the Common Stock of SFI, par value of \$1.00 per share (the "Stock"), in accordance with the terms and provisions thereof; and

WHEREAS, the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) considers the Optionee to be a person who is eligible for a grant of an alternate stock appreciation right under the Plan, and has determined that it would be in the best interest of SFI to grant the alternate stock appreciation right documented herein.

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Alternate Stock Appreciation Right.

(a) Subject to the terms and conditions hereinafter set forth, SFI, with the approval and at the direction of the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan), hereby grants to the Optionee, as of the Date of Grant, an alternate stock appreciation right related to a certain _____ Stock Option granted pursuant to a certain _____ Stock Option Agreement dated _____, _____. The shares of stock purchasable upon exercise of the related _____ Stock Option are hereinafter referred to as "Option Shares." Notwithstanding any provision herein to the contrary, the Alternate Stock Appreciation Right is not intended by the parties hereto to be, and shall not be treated as, an "incentive stock option," pursuant to and as such term is defined under Sections 421 and 422 of the Internal Revenue Code of 1986, as amended (the "Code").

(b) This Alternate Stock Appreciation Right is granted subject to the following additional terms and conditions (if none, so indicate):

2. Exercise of Alternate Stock Appreciation Right.

The Optionee may, in lieu of the exercise of the _____ Stock Option or portion thereof to which this Alternate Stock Appreciation Right relates, exercise this Alternate Stock Appreciation Right or portion hereof with respect to all or part of the option shares then exercisable and shall be entitled to receive from SFI the appreciated value of the option shares. The appreciated value of the option shares shall be equal to 100% of the amount, if any, by which the fair market value of a share of Common Stock on the date this Alternate Stock Appreciation Right is exercised exceeds the fair market value of a share of Common Stock on the date the option, to which this Alternate Stock Appreciation Right was awarded as an alternate, was granted. This Alternate Stock Appreciation Right shall be exercisable only to the extent that, and subject to the same conditions as, the option to which it relates is exercisable and only when the fair market value of a share of Common Stock on the exercise date exceeds the exercise price of the option to which this Alternate Stock Appreciation Right relates. The Optionee may exercise this Alternate Stock Appreciation Right by giving the Secretary of SFI written notice of intent to exercise substantially in the form attached hereto as Exhibit A. The notice of exercise shall specify the number of Option Shares as to which this Alternate Stock Appreciation Right is to be exercised and the date of exercise thereof, which date shall be at least five days after the giving of such notice unless an earlier date shall have been mutually agreed upon. Payment of the appreciated value of the Option Shares may be made in cash or in Common Stock or a combination of both, provided that no fractional share of Common Stock shall be issued as a result of the exercise of this Alternate Stock Appreciation Right. The exercise of this Alternate Stock Appreciation Right or portion hereof shall cancel the related option on an equal number of shares of Common Stock under

the _____ Stock Option to which this Alternate Stock Appreciation Right relates.

3. Termination of Alternate Stock Appreciation Right Related to Nonstatutory Stock Option.

(a) Except as provided in Sections 3(b) and 3(c) of this Agreement, upon termination of the Optionee's employment, this Alternate Stock Appreciation Right, to the extent not previously exercised, shall terminate immediately upon such termination of employment.

(b) Upon termination of the Optionee's employment by reason of death of the Optionee, this Alternate Stock Appreciation Right may be exercised, but only to the extent exercisable on the date of such death, within one (1) year from and after the date of the Optionee's death. This Alternate Stock Appreciation Right may be exercised by the executor or administrator of the deceased Optionee's estate or by a person receiving this Alternate Stock Appreciation Right by will or under the laws of descent and distribution of the state in which the Optionee resided.

(c) Upon termination of the Optionee's employment by reason of retirement or disability (as defined by the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan), this Alternate Stock Appreciation Right may be exercised, but only to the extent exercisable on the date of such retirement or disability, during the three (3) month period following the date of such termination of the Optionee's employment.

(d) A transfer of the Optionee's employment from one affiliate of SFI to another shall not be deemed to be a termination of the Optionee's employment.

(e) Notwithstanding any other provisions set forth herein or in the Plan, if the Optionee shall (i) commit any act of malfeasance or wrongdoing affecting SFI, (ii) breach any covenant not to compete or employment contract with SFI, or (iii) engage in conduct that would warrant the Optionee's discharge for cause (excluding general dissatisfaction with the performance of the Optionee's duties, but including any act of disloyalty or any conduct clearly tending to bring discredit upon SFI), then any unexercised portion of the Alternate Stock Appreciation Right shall immediately terminate and be void.

4. Termination of Alternate Stock Appreciation Right Related to Incentive Stock Option.

(a) Except as provided in Sections 4(b), 4(c) and 4(d) of this Agreement, upon termination of the Optionee's employment, this Alternate Stock Appreciation Right, to the extent not previously exercised, shall terminate immediately upon such termination of employment.

(b) Upon termination of the Optionee's employment by reason of death of the Optionee, this Alternate Stock Appreciation Right may be exercised, but only to the extent exercisable on the date of such death, within one (1) year from and after the date of the Optionee's death. This Alternate Stock Appreciation Right may be exercised by the executor or administrator of the deceased Optionee's estate or by a person receiving the Alternate Stock Appreciation Right by will or under the laws of descent and distribution of the state in which the Optionee resided.

(c) Upon termination of the Optionee's employment by reason of permanent and total disability as defined under Section 22(e) (3) of the Code, this Alternate Stock Appreciation Right may be exercised, but only to the extent exercisable on the date of such permanent and total disability, during the one (1) year period following the date of such termination of the Optionee's employment.

(d) Upon termination of the Optionee's employment by reason of retirement or disability, other than disability defined by Section 4(c) of this Agreement, this Alternate Stock Appreciation Right may be exercised, but only to the extent exercisable on the date of such retirement or disability, during the three (3) month period following the date of such termination of the Optionee's employment.

(e) A transfer of the Optionee's employment from one affiliate to another of SFI shall not be deemed to be a termination of the Optionee's employment.

(f) Notwithstanding any other provision set forth herein or in the Plan, if the Optionee shall (i) commit any act of malfeasance or wrongdoing affecting SFI, (ii) breach any covenant not to compete or employment contract with SFI, or (iii) engage in conduct that would warrant the Optionee's discharge for cause (excluding general dissatisfaction with the performance of the Optionee's duties, but including any act of disloyalty or any conduct clearly tending to bring discredit upon SFI), then any unexercised portion of the Alternate Stock Appreciation Right shall immediately terminate and be void.

5. Adjustment of and Changes in Stock of SFI.

In the event of a reorganization, recapitalization, change of shares, stock split, spinoff, stock dividend, reclassification, subdivision or combination of shares, merger, consolidation, rights offering, or

any other change in the corporate structure or shares of capital stock of SFI, the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) shall make such adjustment as it deems appropriate in the number and kinds of shares of Stock subject to the Alternate Stock Appreciation Right; provided, however, that no such adjustment shall give the Optionee any additional benefits under the Alternate Stock Appreciation Right.

6. Fair Market Value.

"Fair market value" as of any date and in respect of any share of Common Stock means the closing price on such date or on the next business day, if such date is not a business day, of a share of Common Stock reflected in the NASDAQ National Market System traded under the Symbol SAFM, provided that, if shares of Common Stock shall not have been traded on NASDAQ for more than 10 days immediately preceding such date or if deemed appropriate by the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) for any other reason, the fair market value of shares of Common Stock shall be as determined by the Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) in such other manner as it may deem appropriate. In no event shall the fair market value of any share of Common Stock be less than its par value.

7. No Rights as a Stockholder.

Neither the Optionee nor any personal representative shall be, or shall have any of the rights and privileges of, a stockholder of SFI with respect to any shares of Stock related to the exercise of the Alternate Stock Appreciation Right, in whole or in part, prior to the issuance of certificates for shares of Common Stock to said person.

8. Insider Trading Short-Swing Profit Liability Exemption Requirements.

Notwithstanding any other provision of this Agreement to the contrary, the Alternate Stock Appreciation Right granted under this Agreement shall be transferrable (i) by the option holder only by will or under the laws of descent and distribution of the state in which the option holder resided on the date of his death or (ii) by the Company pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act or the Rules thereunder [, except that, if the Alternate Stock Appreciation Right granted hereby relates to a Nonstatutory Stock Option, it may be transferred to members of the Optionee's immediate family or to trusts for their benefit or partnerships in which such members hold the entire partnership interest].

9. No Rights of Employment.

Neither the granting of this Alternate Stock Appreciation Right nor its exercise shall be construed as granting to the Optionee any right with respect to continuance of employment with SFI. Except as may otherwise be limited by a written agreement between SFI and the Optionee, and acknowledged by the Optionee, the right of SFI to terminate at will the Optionee's employment with it at any time (whether by dismissal, discharge, retirement or otherwise) is specifically reserved by SFI.

10. Amendment of Alternate Stock Appreciation Right.

The Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) may, without further action by the stockholders and without the consent of or further consideration from the Optionee, amend, condition or modify this Alternate Stock Appreciation Right in response to changes in securities or other laws or rules, regulations or regulatory interpretations thereof applicable to the Alternate Stock Appreciation Right or to comply with stock exchange rules or requirements. The Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) may amend this Alternate Stock Appreciation Right otherwise with the written consent of the Optionee.

11. Notice.

Any notice to SFI provided for in this instrument shall be addressed to it in care of its Secretary at its executive offices at Post Office Box 988, Laurel, Mississippi 39441, and any notice to the Optionee shall be addressed to the Optionee at the current address shown on the payroll records of SFI. Any notice shall be deemed to be duly given if and when properly addressed and posted by registered or certified mail, postage prepaid.

12. Incorporation of Plan by Reference.

This Alternate Stock Appreciation Right is granted pursuant to the terms of the Plan, which terms are incorporated herein by reference, and the Alternate Stock Appreciation Right shall in all respects be interpreted in accordance with the Plan. The Board (or, if applicable, a committee thereof appointed pursuant to Section 1.02(d) of the Plan) shall interpret and construe the Plan and this instrument, and its interpretations and determinations shall be conclusive and binding on the parties hereto and any other person claiming an interest hereunder, with respect to any issue arising hereunder or thereunder.

13. Governing law.

The validity, construction, interpretation and effect of this instrument shall exclusively be governed by and determined in accordance with the laws of the State of Mississippi, except to the extent preempted by federal law, which shall to that extent govern.

IN WITNESS WHEREOF, SFI has caused its duly authorized officers to execute and attest this Alternate Stock Appreciation Right Agreement, and to apply the corporate seal hereto, and the Optionee has placed his or her signature hereon, effective as of the Date of Grant.

SANDERSON FARMS, INC.

ATTEST:

By:
Name:
Title:

ACCEPTED AND AGREED TO:

Optionee

NOTICE OF EXERCISE OF ALTERNATE STOCK APPRECIATION RIGHT

SANDERSON FARMS, INC.

ATTENTION: The Board of Directors
 Stock Option Committee

Gentlemen:

Notice is hereby given of the undersigned's intent to exercise the Alternate Stock Appreciation Right granted to the undersigned pursuant to the Alternate Stock Appreciation Rights Agreement dated _____, _____, entered into by and between the undersigned and Sanderson Farms, Inc. The Alternate Stock Appreciation Right shall be exercised with respect to _____ (_____) shares of the Common Stock, \$1.00 par value, of Sanderson Farms, Inc. The date of exercise shall be _____, _____, which is five days or more after the date of this notice.

In connection with the exercise of the Alternate Stock Appreciation Right, the undersigned authorizes SFI to withhold all appropriate federal and state income and payroll taxes where cash is paid. Where only stock is transferred, the undersigned will remit to SFI an amount in cash equal to the appropriate federal and state income and payroll taxes upon being advised of the amount. Alternatively, SFI may reduce the number of shares distributed by an amount or number equal in value to the withholding amount.

Employee/Optionee

Dated: _____ . _____

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Exhibit 24

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8) pertaining to the Sanderson Farms, Inc. and Affiliates Stock Option Plan of our report dated December 11, 1996, with respect to the consolidated financial statements and schedule of Sanderson Farms, Inc. included in the Annual Report (Form 10-K) for the year ended October 31, 1996.

/s/Ernst & Young LLP

Jackson, Mississippi
January 23, 1997

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