



FORM 10-K

SANDERSON FARMS INC - SAFM

Filed: January 28, 1998 (period: October 31, 1997)

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)

/X / Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended October 31, 1997

/ / 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 (IRS Employer
incorporation or organization) Identification No.)

225 North 13th Avenue 39440
Laurel, Mississippi (Zip Code)
(Address of principal executive offices)

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, 1997: approximately \$82,557,691.

Number of Shares outstanding of the Registrant's common stock as of December 31, 1997: 14,367,580 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 1998 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, 1997, 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, 1998.

PART I

Item 1. Business

(a) GENERAL DEVELOPMENT OF THE REGISTRANT'S BUSINESS

The Registrant was incorporated in Mississippi in 1955, and is a fully-integrated poultry processing company engaged in the production, processing, marketing and distribution of fresh and frozen chicken products. In addition, 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 Sanderson Farms(R) 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, 1997, the Registrant processed 217.1 million chickens, or approximately 721.9 million dressed pounds. According to 1997 industry statistics, the Registrant was the 10th largest processor of dressed chickens in the United States based on estimated average weekly processing.

The Registrant's chicken operations presently encompass five hatcheries, four feed mills, six processing plants and one by-products plant. The Registrant has contracts with operators of approximately 442 grow-out farms that provide it with sufficient housing capacity for its current operations. The Registrant also has contracts with operators of 146 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. During 1997, the Registrant completed the construction and start-up of its Brazos County, Texas production and processing facilities, including a hatchery, a feed mill located in Robertson County, Texas, 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 1997 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 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 1998 will be funded by internally generated working capital and borrowings under the revolving credit agreement.

During fiscal 1997, the Registrant completed the start-up of its Brazos County, Texas processing facility. The Registrant currently has additional processing capacity available to it through the double shifting of both lines of the Brazos County, Texas processing facility and through the double shifting of the second line at its Collins, Mississippi processing facility. At full capacity the new Texas facility will have the capacity to process 1.2 million birds per week and will employ approximately 1,400 people. 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 Sanderson Farms(R) 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, 1997, the Registrant processed approximately 217.1 million chickens, or approximately 721.9 million dressed pounds. In addition, the Registrant purchased and further processed 23.8 million pounds of poultry products during fiscal 1997. According to 1997 industry statistics, the Registrant was the 10th 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 labeling 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.

	Fiscal Year Ended October 31,				
	1993	1994	1995	1996	1997
	----	----	-----	----	----
Value added	97.2%	98.3%	98.2%	98.2%	98.1%
Non-value added	2.8%	1.7%	1.8%	1.8%	1.9%
	-----	-----	-----	-----	-----
Total Registrant chicken sales	100.0%	100.0%	100.0%	100.0%	100.0%
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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,				
	1993	1994	1995	1996	1997
	----	----	-----	----	----
Registrant processed chicken:					
Value added:					
Chill pack(1)	20.9%	18.2%	19.3%	18.6%	20.8%
Fresh bulk pack(1)	49.6	56.2	51.6	49.9	45.9
Frozen	8.8	10.2	13.5	17.0	15.7
	----	-----	-----	----	----
Subtotal	79.3	84.6	84.4	85.5	82.4
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Non-value added:					
Ice pack	1.8	0.9	0.7	0.9	0.9
Frozen	0.4	0.6	0.8	0.7	0.7
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Subtotal	2.2	1.5	1.5	1.6	1.6
	---	---	---	---	---
Total Company processed chicken	81.5	86.1	85.9	87.1	84.0
Processed and prepared foods	18.4	13.8	14.1	12.9	16.0
Other(2)	0.1	0.1	0.0	0.0	0.0
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Total	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====

- (1) Vacuum pack poultry products have been restated in 1994 and included in 1994, 1995, 1996 and 1997 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 six 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 Sanderson Farms(R) 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, 1997, the Registrant maintained contracts with 30 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, 1997, by 116 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 five hatcheries located in Mississippi and Texas where eggs are incubated and hatched in a process requiring 21 days. 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, 1997, the Registrant's hatcheries were capable of producing an aggregate of approximately 4.8 million chicks per week.

Grow-out. The Registrant places its chicks on 442 grow-out farms, as of October 31, 1997, located in Mississippi, Louisiana and Texas 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 are critical to the conversion rate, and accordingly, the Registrant formulates and produces its own feed. As of October 31, 1997, the Registrant operated four feed mills, three of which are located in Mississippi and one in Texas. The Registrant's annual feed requirements for fiscal 1997 were approximately 996,000 tons, and it has the capacity to produce approximately 1,310,000 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, 1997, the Registrant had approximately 645,000 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 Brazos County, Texas processing plant, which is currently operating two lines on a single shift basis, is currently processing approximately 650,000 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 five of its six processing facilities. At October 31, 1997, five of these deboning facilities were operating on a double shifted basis resulting in a combined capacity to process approximately 3.6 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, 1997, the Registrant operated one by-products plant, and six automotive maintenance shops which service approximately 465 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 155 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 1997, the Registrant purchased its pullets and its cockerels from six (6) 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 Sanderson Farms(R) 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 Sanderson Farms(R) 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(R) which it uses in connection with the distribution of its prepared foods and two pound frozen entree products, as well as in connection with the distribution of its premium grade chill pack chicken 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, 1997, the Registrant had 6,155 employees, including 744 salaried and 5,411 hourly employees. A collective bargaining agreement with the United Food and Commercial Workers International Union covering 647 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 362 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 1,184 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.

On January 9, 1998, the United Food and Commercial Workers Union Local #408, AFL-CIO filed its petition with the National Labor Relations Board seeking representation of the Registrant's full-time and part-time production, maintenance and clean-up employees at its Brazos County, Texas poultry processing facility. At a hearing held on January 20, 1998, the National Labor Relations Board set February 25, 1998 as the date for an election on this matter by the Registrant's Brazos County, Texas employees.

Year 2000

Some of the Company's older computer programs were written using two digits rather than four to define the applicable year. As a result, those computer programs have time-sensitive software that recognize a date using "00" as the year 1900 rather than the year 2000. This could cause a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions or engage in similar normal business activities. The Company is currently evaluating the impact of and preparing for the year 2000.

(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's principal properties are as follows:

Use	Location (City, State)
Poultry complex, including poultry processing plant, hatchery and feedmill	Laurel, Mississippi
Poultry complex, including poultry processing plant, hatchery and feedmill	Pike County, Mississippi
Poultry complex, including poultry processing plant, hatchery and feedmill	Hazlehurst, Mississippi
Poultry complex, including poultry processing plant, hatchery and feedmill	Brazos and Robertson Counties, Texas
Poultry processing plant	Hammond, Louisiana
Poultry processing plant, hatchery and by-products plant	Collins, Mississippi
Prepared food plant	Jackson, Mississippi
Corporate general offices	Laurel, Mississippi

The Registrant owns substantially all of its major operating facilities with the following exceptions: one processing plant and feed mill complex is leased on an annual renewal basis through 2063 with an option to purchase at a nominal amount, at the end of the lease term. One processing plant complex is leased under four leases, which are renewable annually through 2061, 2063, 2075 and 2073, respectively. Certain infrastructure improvements associated with a processing plant are leased under a lease 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 \$1,363,575 on December 31, 1997, 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.

4A. Executive Officers of the Registrant.

Name	Age	Office	Executive Officer Since
Joe F. Sanderson, Jr.	51	Chairman of the Board, President and Chief Executive Officer	1984 (1)
D. Michael Cockrell	40	Treasurer and Chief Financial Officer	1994 (2)
James A. Grimes	49	Secretary and Chief Accounting Officer	1994 (3)
Lampkin Butts	46	Vice President - Sales	1996 (4)

- (1) Joe F. Sanderson, Jr. has served as President and Chief Executive Officer of the Registrant since November 1, 1989, and as Chairman of the Board since January 8, 1998. From January 1984, to November 1989, Mr. Sanderson served as Vice-President, Processing and Marketing of the Registrant.
- (2) 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.
- (3) 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.
- (4) 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 also a Director 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 as of December 31, 1997, was 680.

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 1997	Stock Price		Dividends
	High	Low	

First Quarter	\$18.75	\$12.875	\$.05
Second Quarter	\$19.25	\$14.00	\$.05
Third Quarter	\$18.25	\$13.50	\$.05
Fourth Quarter	\$16.25	\$13.00	\$.05
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

On December 31, 1997 the closing sales price for the common stock was \$14.50 per share.

Item 6. Selected Financial Data.

	Year Ended October 31				
	1997	1996	1995	1994	1993
	----	----	----	----	----
	(In thousands, except per share data)				
Net sales	\$481,789	\$455,100	\$392,896	\$371,502	\$269,059
Operating income	7,467	1,189	21,239	28,184	20,767
Income (loss) before extraordinary gain	558	(2,443)	10,856	15,479	11,938
Net income (loss)	1,234	(2,443)	10,856	15,479	11,938
Earnings (loss) per share before extraordinary gain(1)	.04	(.18)	0.80	1.14	.88
Earnings (loss) per share(1)	.09	(.18)	0.80	1.14	.88
Working capital	6,051	60,826	47,605	45,843	42,548
Total assets	4,893	237,226	193,197	181,709	169,006
Long-term debt, less current maturities	118,782	90,102	54,806	56,176	60,253
Stockholders' equity	116,771	118,250	114,319	106,187	93,431
Cash dividends declared per share(1)	\$.20	\$.20	\$.20	\$.20	\$.20

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

QUARTERLY FINANCIAL DATA

	Fiscal Year 1997			
	First	Second	Third	Fourth
	Quarter	Quarter	Quarter	Quarter
	(In thousands, except per share data)			
	(Unaudited)			
Net sales	\$115,647	\$ 117,410	\$ 121,895	\$126,837
Operating income (loss)	6,757	287	(2,417)	2,840
Income (loss) before extraordinary gain	3,578	(751)	(2,705)	436
Net income (loss)	3,578	(751)	(2,029)	436
Earnings (loss) per share before extraordinary gain25	(.05)	(.19)	.03
Earnings (loss) per share	\$.25	\$ (.05)	\$ (.14)	\$.03

	Fiscal Year 1996			
	First	Second	Third	Fourth
	Quarter	Quarter	Quarter	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	\$ (.06)	\$ (.20)	\$ (.05)	\$.13

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 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 egg production, hatching, feed manufacturing, raising chickens to marketable age ("grow-out"), processing and marketing. Consistent with the poultry industry, the Company's profitability is substantially impacted by the market price for its finished products and feed grains, both of which may fluctuate substantially and exhibit cyclical characteristics typically associated with commodity markets. Other costs, excluding feed grains, related to the profitability of the Company's poultry operations, including hatching egg production, hatching, growing, and processing cost, are responsive to efficient cost containment programs and management practices. Over the past three fiscal years, these other production costs have averaged approximately 59.1% 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 cyclicity that has historically characterized commodity chicken market prices, the Company has increasingly concentrated on the production and marketing of value-added product lines with emphasis on product quality, customer service, and brand recognition. The Company adds value to its poultry products by performing one or more processing steps beyond the stage where the whole chicken is first saleable as a finished product, such as cutting, deep chilling, packaging and labeling the product. The Company believes that one of its major strengths is its ability to change its product mix to meet 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.

Poultry prices per pound, as measured by the Georgia dock price, fluctuated during the three years ended October 31, 1997 as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 1997				
High	\$.6600*	\$.6325	\$.6275	\$.6325
Low	\$.6375	\$.6125	\$.6075	\$.5900*
Fiscal 1996				
High	\$.6000	\$.5825	\$.6650	\$.6675*
Low	\$.5825	\$.5500*	\$.5675	\$.6525
Fiscal 1995				
High	\$.5300	\$.5200	\$.5675	\$.6150*
Low	\$.5125*	\$.5125*	\$.5125*	\$.5775

*Year High/Low

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 first quarter of fiscal 1997, the Company experienced improved selling prices of chicken products and lower average cost of feed grains. However, later during fiscal 1997, lower market prices for poultry products, the adverse effect of a change in the Company's feed formulation, and additional costs associated with the start-up of the new complex in Texas partially offset the favorable market prices for poultry products during the first quarter of fiscal 1997 and the overall lower average feed costs during fiscal 1997. The Company looks ahead to fiscal 1998 with caution. The current market price for poultry, as measured by the Georgia dock price, is approximately 9 cents per pound lower than a year ago, while the cost of feed grains is roughly the same. Under these market conditions, the first quarter of fiscal 1998 will be difficult for Sanderson Farms. Although we are cautious in our outlook for the current quarter, we believe our operations are on tract to perform well when market conditions improve.

RESULTS OF OPERATIONS:

Fiscal 1997 Compared to Fiscal 1996

Net sales for the year ended October 31, 1997, were \$481.8 million, an increase of \$26.7 million, or 5.9%, over net sales of \$455.1 million for the year ended October 31, 1996. The increase in net sales resulted from an increase in net sales of poultry products of \$10.5 million, or 2.7%, and a corresponding increase in net sales of prepared food products of \$16.2 million, or 26.9%. The increase in net sales of poultry products was the result of a 6.3% increase in the pounds of poultry products sold and a decrease of 3.4% in the average sale price of poultry products. During fiscal 1997 as compared to fiscal 1996, the Company produced additional poultry volume internally from its expansion of the McComb, Mississippi, poultry complex during fiscal 1996, and the start-up of the new complex in Texas during fiscal 1997. These increases were partially offset by fewer pounds purchased from external sources which have a higher average sale price and cost of sales per pound than the Company's normal product mix. The increase in the net sales of prepared food products was due to an increase of 15.0% in the

pounds of prepared food products sold and an increase in the amount of cooked chicken products sold which have a higher average selling price than the prepared food division's average product mix during fiscal 1996.

Cost of sales for fiscal 1997 as compared to fiscal 1996 increased \$18.5 million, or 4.2%. During the same period, cost of sales of poultry products increased \$2.7 million, or 0.7% due to the increase in the pounds sold of poultry products and a decrease in the average cost of feed grains. A simple average of the corn and soy meal cash market prices for the twelve-month periods ended October 31, 1997 and 1996, reflected a decrease of 29.5% and an increase of 10.7%, respectively. Cost of sales of prepared food products increased \$15.8 million, or 30.3%, as a result of an increase of 15.0% in the pounds of prepared food products sold and an increase in the amount of cooked chicken products sold which have a higher average cost of sales than the prepared food division's product mix during the previous fiscal year.

Selling, general and administrative expenses for the twelve months ended October 31, 1997, increased \$1.9 million, or 11.3%, as compared to the same period during fiscal 1996. The primary factor for this increase was additional selling and administrative cost associated with the construction and start-up of the new complex in Texas during fiscal 1997.

For the fiscal year ended October 31, 1997 as compared to the fiscal year ended October 31, 1996, the Company's operating income increased \$6.3 million primarily as a result of lower average cost of feed grains. In addition, during the second quarter of fiscal 1997, the Company altered the formulation of the feed used for its broiler chickens. The new feed formulation resulted in poor grow-out performance and a decrease in the bird weight delivered to our processing plants. The lower bird weight processed by the Company during the third quarter resulted in lower margins per pound. The feed formulation has been corrected and the negative effects of the change worked their way completely out of the Company's operations during the fourth quarter of fiscal 1997. Also, the Company incurred additional costs associated with the start-up of the new complex in Texas during fiscal 1997.

Interest expense increased approximately \$2.3 million during fiscal 1997 as compared to the previous fiscal year. During the first four months of fiscal 1997, the Company capitalized interest costs of approximately \$0.5 million which was associated with the construction of the new complex in Texas. Accordingly, upon completion and start-up of the new complex during the second quarter of fiscal 1997, the Company no longer capitalized interest cost and, as a result, incurred increased interest expense. The Company expects interest expense to be higher during fiscal 1998 as compared to fiscal 1997 due to a full year of interest expense incurred on the new complex.

The Company's effective tax rate was approximately 39.5% during fiscal 1997. During fiscal 1996, the Company recorded a tax benefit of approximately 23.9%. The increased effective tax rate is the result of the change in nondeductible expenses as a percentage of pretax income (loss).

In January 1997, a fire damaged sections of the Pike County, Mississippi, processing plant, including some equipment and refrigeration. Substantially all of the cost of repairs and reconstruction of the new plant were covered by insurance. Certain costs associated with the plant's downtime were also covered by insurance. The excess of the insurance proceeds received over the book value of the assets destroyed of \$1.1 million, before income taxes of \$.4 million, has been accounted for as an extraordinary gain in the accompanying consolidated statements of income.

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 \$.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 nondeductible expenses as a percentage of pretax income (loss) being higher in fiscal 1996 as compared to fiscal 1995.

LIQUIDITY AND CAPITAL RESOURCES

The Company's current ratio and working capital at October 31, 1997, were 4.6 to 1 and \$66.1 million, respectively. During the year ended October 31, 1997, the Company expended approximately \$42.1 million on planned capital projects, including \$30.2 million on the new poultry complex in Texas. The capital budget for fiscal 1997 was increased to approximately \$44.0 million from \$34.2 million as of November 1, 1996. The increase of \$9.8 million pertains to items not approved at the beginning of fiscal 1997, pending justification, field trials and alternate costing and assets replaced that had been destroyed by the fire at the Company's McComb processing plant.

The Company's capital budget for fiscal 1998 is approximately \$12.0 million and includes capital expenditures for the double shift of the new complex in Texas. In addition, the anticipated capital expenditures for fiscal 1998 include approximately \$1.9 million relating to fiscal 1997 budget items that were not completed or started during fiscal 1997, and renovations, changes and additions to existing processing facilities to allow better product flow and product mix for more market flexibility.

The Company believes the anticipated capital expenditures for fiscal 1998 will be funded from working capital and by cash flows from operations; however, if needed, the Company has \$33.0 million available under its revolving credit agreement as of October 31, 1997.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.
 Not Applicable

Item 8. Financial Statements and Supplementary Data.

Sanderson Farms, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	October 31	
	1997	1996
	----	----
	(In thousands)	
Assets		
Current assets:		
Cash and temporary cash investments	\$ 1,531	\$ 4,879
Accounts receivables, less allowance of \$233,000 in 1997 and \$167,000 in 1996	30,934	27,661
Inventories (Note 2)	44,210	39,060
Refundable income taxes	2,112	1,148
Prepaid expenses	5,535	5,616
	-----	-----
Total current assets	84,322	78,364
Property, plant and equipment (Note 3):		
Land and buildings	119,065	81,689
Machinery and equipment	189,867	151,861
Construction in process	1,789	37,380
	-----	-----
	310,721	270,930
Accumulated depreciation	(132,533)	(112,974)
	-----	-----
	178,188	157,956
Other assets	2,383	906
	-----	-----
Total assets	\$ 264,893	\$ 237,226
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,612	\$ 4,968
Accrued expenses	9,545	9,470
Current maturities of long-term debt	3,114	3,100
	-----	-----
Total current liabilities	18,271	17,538
Long-term debt, less current maturities (Note 3)	118,782	90,102
Deferred income taxes (Note 4)	11,069	11,336
Stockholders' equity (Note 7):		
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-14,367,580 in 1997 and 14,363,080 in 1996	14,368	14,363
Paid-in capital	11,447	11,292
Retained earnings	90,956	92,595
	-----	-----
Total stockholders' equity	116,771	118,250
	-----	-----
Total liabilities and stockholders' equity	\$ 264,893	\$ 237,226
	=====	=====

See accompanying notes.

Sanderson Farms, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended October 31		
	1997	1996	1995
	(In thousands, except per share data)		
Net sales	\$ 481,789	\$ 455,100	\$ 392,896
Cost and expenses:			
Cost of sales	455,274	436,799	355,907
Selling, general and administrative	19,048	17,112	15,750
	-----	-----	-----
	474,322	453,911	371,657
	-----	-----	-----
Operating income	7,467	1,189	21,239
Other income (expense):			
Interest income	156	157	180
Interest expense	(6,652)	(4,383)	(3,774)
Other	(13)	(173)	(99)
	-----	-----	-----
	(6,509)	(4,399)	(3,693)
	-----	-----	-----
Income before income taxes and extraordinary gain	958	(3,210)	17,546
Income tax expense (benefit) (Note 4)	400	(767)	6,690
	-----	-----	-----
Income (loss) before extraordinary gain	558	(2,443)	10,856
Extraordinary gain (net of income taxes of \$406,000) (Note 8)	676	-0-	-0-
	-----	-----	-----
Net income (loss)	\$ 1,234	\$ (2,443)	\$ 10,856
	=====	=====	=====
Net income (loss) per share:			
Income (loss) per share before extraordinary gain	\$.04	\$ (.18)	\$.80
Extraordinary gain	.05	-0-	-0-
	-----	-----	-----
Net income (loss)	\$.09	\$ (.18)	\$.80
	=====	=====	=====

See accompanying notes

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

	Total Common Stock Shares	Amount (In thousands, except shares)	Paid-in Capital	Retained Earnings	Stockholders' Equity
Balance at November 1, 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)			
Issuance of common stock 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
Net income for year	1,234	1,234			
Cash dividends (\$.20 per share)	(2,873)	(2,873)			
Issuance of common stock	4,500	5	45	50	
Principal payments received on note receivable from ESOP	110	110			

Balance at October 31, 1997	14,367,580	\$ 14,368	\$ 11,447	\$90,956 =====	\$116,771 =====

See accompanying notes.

SANDERSON FARMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	1997	Years Ended October 31	
		1996	1995
	(In thousands)		
Operating activities			
Net income (loss)	\$ 1,234	\$ (2,443)	\$ 10,856
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	21,367	19,744	18,439
Provision for losses on accounts receivable	142	172	54
Deferred income taxes	200	150	950
Change in assets and liabilities:			
Increase in accounts receivable	(3,415)	(5,209)	(3,692)
Increase in inventories	(5,150)	(5,785)	(3,900)
Increase in prepaid expenses	(1,370)	(1,671)	(974)
Increase in other assets	(1,756)	(240)	(93)
Increase in accounts payable	644	763	1,368
Increase in accrued expenses	75	541	1,907
Total adjustments	<u>10,737</u>	<u>8,465</u>	<u>14,059</u>
Net cash provided by operating activities	11,971	6,022	24,915
Investing activities			
Net proceeds from sale of property and equipment	846	96	286
Capital expenditures	<u>(42,147)</u>	<u>(46,230)</u>	<u>(24,934)</u>
Net cash used in investing activities	(41,301)	(46,134)	(24,648)
Financing activities			
Long-term borrowings	4,794	2,406	-0-
Net change in revolving credit	27,000	36,000	(1,000)
Principal payments on long-term debt	(2,934)	(81)	(77)
Principal payments on capital lease	(165)	(155)	(144)
Principal payments received on note receivable from ESOP	110	-0-	-0-
Dividends paid	(2,873)	(2,797)	(2,723)
Net proceeds from issuance of common stock to ESOP	-0-	9,171	-0-
Net proceeds from common stock issued	50	-0-	-0-
Redemption of fractional shares	-0-	-0-	(1)
Net cash provided by (used in) financing activities	<u>25,982</u>	<u>44,544</u>	<u>(3,945)</u>
Net increase (decrease) in cash and temporary cash investments	(3,348)	4,432	(3,678)
Cash and temporary cash investments at beginning of year	4,879	447	4,125
Cash and temporary cash investments at end of year	<u>\$ 1,531</u> =====	<u>\$ 4,879</u> =====	<u>\$ 447</u> =====
Supplemental disclosure of cash flow information:			
Income taxes paid	\$ 2,940	\$ 1,991	\$ 5,807
Income taxes refunded	\$ 1,368	\$ -0-	\$ -0-
Interest paid	\$ 7,378	\$ 4,600	\$ 3,492

See accompanying notes.

Sanderson Farms, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

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

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

The Company sells to retailers, distributors and fast food operators in the southern and western United States. Revenue is recognized when product is shipped to customers. 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 include 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, eggs, medication and packaging supplies are stated at the lower of cost (first-in, first-out method) or market.

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

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

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

anticipate during fiscal 1998. Management does not anticipate the Act having a material effect on the Company's financial position or operations.

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 weighted average shares outstanding used in the calculation of earnings per share were 14,365,227 in fiscal 1997, 13,842,588 in fiscal 1996 and 13,613,080 in fiscal 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-term 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 effect of the Company's adoption of Statement 121 in the first quarter of fiscal 1997 was not material to the Company's financial position or results of its operation.

In February 1997, the FASB issued Statement No. 128, "Earnings per Share." Statement 128 will require the Company to change the method currently used to compute earnings per share for the first quarter of fiscal 1998 and to restate all prior periods. Under the new requirements, the dilutive effect of stock options will be excluded. The impact of Statement 128 on the calculation of earnings per share is not expected to be material.

2. Inventories

Inventories consisted of the following:

	October 31	
	1997	1996
	----	----
	(In thousands)	
Live poultry-broilers and breeders	\$24,980	\$23,505
Feed, eggs and other	5,790	5,412
Processed poultry	5,238	3,951
Processed food	5,234	3,908
Packaging materials	2,968	2,284
	-----	-----
	\$44,210	\$39,060

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

	October 31	
	1997	1996
	(In thousands)	
Revolving credit agreement with banks (weighted average rate of 6.8% at October 31, 1997)	\$ 92,000	\$65,000
Term loan with an insurance company, accruing interest at 7.49%; due in annual principal installments of \$2,850,000	17,150	20,000
Note payable, accruing interest at 5%; due in annual installments of \$161,400, including interest, maturing in 2009	1,452	1,537
6% Mississippi Business Investment Act bond-capital lease obligation	4,035	4,200
Robertson County, Texas, Industrial Revenue Bonds (variable rate, 3.8% at October 31, 1997)	7,200	2,406
Notes payable to an insurance company, accruing interest at 5%	59	59
	-----	-----
	121,896	93,202
Less current maturities of long-term debt	3,1	3,100
	-----	-----
	\$118,782	\$90,102
	=====	=====

The Company has a \$125.0 million (\$33.0 million available at October 31, 1997) revolving credit agreement with five banks. The revolver extends to fiscal 2000, 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. 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 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.

Property, plant and equipment with a carrying value of approximately \$6,612,000 is pledged as collateral to a note payable and the capital lease obligation.

Interest cost of \$480,000 and \$775,000 was capitalized in fiscal 1997 and 1996, respectively. No interest cost was capitalized in fiscal 1995.

The aggregate annual maturities of long-term debt at October 31, 1997 (assuming borrowings under the revolver will be converted to a term loan in fiscal 2000) are as follows (in thousands):

Fiscal Year	Amount
1998	\$ 3,114
1999	4,028
2000	11,543
2001	11,558
2002	11,578
Thereafter	80,075
	\$121,896

4. Income Taxes

Income tax expense (benefit) consisted of the following:

	Years Ended October 31		
	1997	1996	1995
	----	----	----
	(In thousands)		
Current:			
Federal	\$ 216	\$ (692)	\$5,110
State	390	(225)	630
	-----	-----	-----
	606	(917)	5,740
Deferred:			
Federal	470	115	780
State	(270)	35	170
	-----	-----	-----
	200	150	950
	-----	-----	-----
	(806)	(767)	6,690
Less income tax expense applicable to income before extraordinary gain	406	-0-	- 0 -
	-----	-----	-----
Income tax expense (benefit) applicable to income before extraordinary gain	\$ 400	\$ (767)	\$6,690
	=====	=====	=====

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

	October 31,	
	1997	1996
	(In thousands)	
Deferred tax liabilities:		
Cash basis temporary differences	\$ 3,900	\$ 3,900
Property, plant and equipment	8,400	7,436
Prepaid and other assets	654	138
	-----	-----
Total deferred tax liabilities	12,954	11,474
Deferred tax assets		
Accrued expenses	1,218	1,144
Alternative minimum tax credit carry forward	1,012	230
State net operating loss carryforward	424	-0 -
	-----	-----
Total deferred tax assets	2,654	1,374
	-----	-----
Net deferred tax liabilities	\$10,300	\$10,100
	=====	=====
Current deferred tax assets (included in prepaid expenses)	\$ 769	\$ 1,236
Long-term deferred tax liabilities	11,069	11,336
	-----	-----
Net deferred tax liabilities	\$10,300	\$10,100
	=====	=====

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

	Years Ended October 31		
	1997	1996	1995
Taxes at statutory rate	\$ 694	\$ (1,091)	\$ 6,012
State income taxes	79	(113)	671
State income tax credit	(91)	60	(140)
Other, net	124	377	147
	-----	-----	-----
Income tax expense (benefit)	\$ 806	\$ (767)	\$ 6,690
	=====	=====	=====

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. Contributions to the ESOP are determined at the discretion of the Company's Board of Directors. The Company did not contribute to the ESOP during fiscal 1997 and 1996. Total contributions to the plans were \$850,000 in fiscal 1995.

The Company has a 401(k) plan which covers substantially all employees after six months of service. Participants in the plan may contribute up to the maximum allowed by IRS regulations.

6. Stock Option Plan

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options because the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Under the Company's Stock Option Plan, 750,000 shares of Common Stock have been reserved for grant to key management personnel. All options granted prior to 1997 have six-year terms and vest over four years beginning one year from the date of grant. Options granted in 1997 have ten-year terms and vest over four years beginning one year after the date of grant.

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for fiscal 1997 and 1996, respectively: risk-free interest rates of 6%; dividend yields of 1.33% and 1.84%; volatility factors of the expected market price of the Company's common stock of .235 and .191; and a weighted-average expected life of the options of four years.

The weighted-average fair value of options granted in fiscal 1997 and fiscal 1996 was \$3.76 and \$2.28, respectively. The pro forma effect of the estimated fair value of the options granted was insignificant to the Company's net income (loss) and net income (loss) per share in fiscal 1997 and 1996.

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

	Shares	Weighted-Average Exercise Price
Outstanding at November 1, 1995	235,500	\$ 11.05
Granted	124,000	10.88
Outstanding at October 31, 1996	359,500	10.99
Granted	207,500	15.00
Exercised	(3,500)	11.15
Forfeited	(25,500)	11.47

Outstanding at October 31, 1997	538,000	\$ 12.51
		=====

The exercise price of the options outstanding as of October 31, 1997 ranged from \$10.67 to \$15.00 per share. At October 31, 1997, the weighted average remaining contractual life of the options outstanding was 5.9 years and 180,325 options were exercisable.

7. 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 7/8. 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.

8. Other Matters

No customer accounted for more than 10% of consolidated sales for the years ended October 31, 1997, 1996 and 1995. Export sales were less than 10% of consolidated sales in each year presented.

On July 12, 1996, the Company sold 750,000 shares of its common stock at \$13 per share (based on an independent valuation of the stock as of that date) to the ESOP in a private placement. The net proceeds from the sale were \$9,171,000 plus a \$500,000 note receivable from the ESOP.

In January 1997, the Company had a fire in an area of the Pike County, Mississippi processing plant housing packaging and supplies. Substantially all of the cost of repairs and reconstruction of the plant were covered by insurance. Certain costs associated with the plant's downtime were also covered by insurance. The excess of the insurance proceeds received over the book value of the assets destroyed of \$1,082,000, before income taxes of \$406,000, has been accounted for as an extraordinary gain in the accompanying consolidated statements of income.

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 permitted 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(b). 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 permitted 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(b). Such information is incorporated herein by reference to the definitive proxy statement.

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

As permitted 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(b). Such information is incorporated herein by reference to the definitive proxy statement.

Item 13. Certain Relationships
and Related Transactions.

As permitted by General Instruction G(3) to Form 10-K, information, if any, required to be reported by Item 13 of Form 10-K, with respect to transactions with management and others, certain business relationships, indebtedness of management, and transactions with promoters, is set forth in the Registrant's definitive proxy statement filed or to be filed with the Commission pursuant to Rule 14a-6(b). Such information, if any, is incorporated herein by references to the definitive proxy statement.

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, 1997 and 1996

Consolidated Statements of Income - Years ended October 31,
1997, 1996 and 1995

Consolidated Statements of Stockholders' Equity - Years ended
October 31, 1997, 1996 and 1995

Consolidated Statements of Cash Flows - Years ended October 31,
1997, 1996 and 1995

Notes to Consolidated Financial Statements - October 31, 1997

(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. 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, 1998.
(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) 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.
- 21 - List of subsidiaries of the Registrant.
- 23 - 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.

(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.

(c) 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.

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.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Sanderson Farms, Inc.

We have audited the accompanying consolidated balance sheets of Sanderson Farms, Inc. and subsidiaries as of October 31, 1997 and 1996 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 1997. 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, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 1997, 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 12, 1997

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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, 1997 Deducted from accounts receivable: Allowance for doubtful accounts	\$167	\$142		\$ 76	\$233
Totals					
Year ended October 31, 1996 Deducted from accounts receivable: Allowance for doubtful accounts	\$130	\$172		\$135	\$167
Totals					
Year ended October 31, 1995 Deducted from accounts receivable: Allowance for doubtful accounts	\$100	\$ 54		\$ 24	\$130
Totals					

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

SIGNATURES

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

SANDERSON FARMS, INC.

Date: January 27, 1998

/s/Joe F. Sanderson, Jr.
Joe F. Sanderson, Jr.
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 F. Sanderson, Jr. Joe F. Sanderson, Jr., Chairman of the Board, President and Chief Executive Officer	1/27/98	/s/John H. Baker, III John H. Baker, III. Director	1/27/98
/s/William R. Sanderson William R. Sanderson Director of Marketing	1/27/98	/s/Charles W. Ritter, Jr. Charles W. Ritter, Jr., Director	1/27/98
/s/Dewey R. Sanderson, Jr. Dewey R. Sanderson, Jr., Director	1/27/98	/s/Rowan H. Taylor Rowan H. Taylor, Director	1/27/98
/s/Donald W. Zacharias Donald W. Zacharias, Director	1/27/98	/s/Robert Buck Sanderson Robert Buck Sanderson, Director	1/27/98
/s/Phil K. Livingston Phil K. Livingston, Director	1/27/98	/s/James A. Grimes James A. Grimes, Secretary and Chief Accounting Officer	1/27/98
/s/D. Michael Cockrell D. Michael Cockrell, Treasurer and Chief Financial Officer	1/27/98		

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Consent of Independent Auditors

We consent to the incorporation by reference in Post Effective Amendment No. 1 to Registration Statement (Form S-8 No. 33-67474) pertaining to the Sanderson Farms, Inc. and Affiliates Stock Option Plan of our report dated December 12, 1997, 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, 1997.

/s/Ernst & Young LLP

Jackson, Mississippi
January 23, 1998

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