

SANDERSON FARMS INC  
Form 10-K  
December 15, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the fiscal year ended October 31, 2016

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 1-14977

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

Mississippi 64-0615843  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

127 Flynt Road 39443  
Laurel, Mississippi  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (601) 649-4030

Securities registered pursuant to Section 12(b) of the Act:  
Title of each Class: Name of exchange on which registered:  
Common stock, \$1.00 par value per share The NASDAQ Stock Market LLC  
Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant computed by reference to the closing sales price of the common equity in The NASDAQ Stock Market on the last business day of the Registrant's most recently completed second fiscal quarter: \$1,958,149,292.

Number of shares outstanding of the Registrant's common stock as of December 8, 2016: 22,739,667 shares of common stock, \$1.00 per share par value.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive proxy statement filed or to be filed in connection with its 2017 Annual Meeting of Stockholders are incorporated by reference into Part III.

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Table of Contents

TABLE OF CONTENTS

<u>PART I</u>	<u>3</u>
Item 1. <u>Business</u>	<u>3</u>
Item 1A. <u>Risk Factors</u>	<u>13</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>20</u>
Item 2. <u>Properties</u>	<u>20</u>
Item 3. <u>Legal Proceedings</u>	<u>21</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>22</u>
Item 4A. <u>Executive Officers of the Registrant</u>	<u>22</u>
<u>PART II</u>	<u>23</u>
Item 5. <u>Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>23</u>
Item 6. <u>Selected Financial Data</u>	<u>24</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
Item 7A. <u>Quantitative and Qualitative Disclosure About Market Risk</u>	<u>37</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>39</u>
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>57</u>
Item 9A. <u>Controls and Procedures</u>	<u>57</u>
Item 9B. <u>Other Information</u>	<u>58</u>
<u>PART III</u>	<u>59</u>
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>59</u>
Item 11. <u>Executive Compensation</u>	<u>59</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>59</u>
Item 13. <u>Certain Relationships and Related Transactions and Director Independence</u>	<u>60</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>60</u>
<u>PART IV</u>	<u>61</u>
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>61</u>
<u>SIGNATURES</u>	<u>65</u>
<u>EXHIBITS</u>	<u>67</u>

Table of Contents

**INTRODUCTORY NOTE**

**Definitions.** This Annual Report on Form 10-K (the "Annual Report") is filed by Sanderson Farms, Inc., a Mississippi corporation. Except where the context indicates otherwise, the terms "Registrant," "Company," "Sanderson Farms," "we," "us," or "our" refer to Sanderson Farms, Inc. and its subsidiaries and predecessor organizations. The use of these terms to refer to Sanderson Farms, Inc. and its subsidiaries collectively does not suggest that Sanderson Farms and its subsidiaries have abandoned their separate identities or the legal protections given to them as separate legal entities.

"Fiscal year" means the fiscal year ended October 31, 2016, which is the year for which this Annual Report is filed.

**Presentation and Dates of Information.** Except for Item 4A herein, the Item numbers and letters appearing in this Annual Report correspond with those used in Securities and Exchange Commission Form 10-K (and, to the extent that it is incorporated into Form 10-K, those used in SEC Regulation S-K) as effective on the date hereof, which specifies the information required to be included in Annual Reports to the SEC. Item 4A ("Executive Officers of the Registrant") has been included by the Registrant in accordance with General Instruction G(3) of Form 10-K and Instruction 3 of Item 401(b) of Regulation S-K. The information contained in this Annual Report is, unless indicated to be given as of a specified date or for a specified period, given as of the date of this Annual Report, which is December 15, 2016.

**PART I**

**Item 1. Business**

**(a) GENERAL DEVELOPMENT OF THE REGISTRANT'S BUSINESS**

The Registrant was incorporated in Mississippi in 1955, and is a fully-integrated poultry processing company engaged in the production, processing, marketing and distribution of fresh and frozen chicken products. In addition, the Registrant is engaged in the processing, marketing and distribution of processed and minimally prepared chicken. The Registrant sells ice pack, chill pack, bulk pack and frozen chicken, in whole, cut-up and boneless form, primarily under the Sanderson Farms® brand name to retailers, distributors, and casual dining operators principally in the southeastern, southwestern, northeastern and western United States, and to customers who resell frozen chicken into export markets. During its fiscal year ended October 31, 2016, the Registrant processed approximately 507 million chickens, or approximately 3.8 billion dressed pounds. According to 2016 industry statistics, the Registrant was the third largest processor of dressed chicken in the United States based on average weekly processed pounds.

The Registrant's fresh and frozen chicken operations presently encompass 9 hatcheries, 8 feed mills and 10 processing plants, and those figures do not include the facilities under construction at its new St. Pauls, North Carolina complex.

The Registrant began operations at the new St. Pauls hatchery in November 2016, and expects to begin processing chickens at the new processing plant in January 2017. The Registrant has one prepared chicken plant.

The Registrant has contracts with operators of approximately 690 grow-out farms that provide it with sufficient housing capacity for its current operations. The Registrant also has contracts with operators of 208 breeder farms. The Company's prepared chicken product line includes approximately 70 institutional and consumer packaged partially cooked or marinated chicken items that it sells nationally and regionally, primarily to distributors and food service establishments. A majority of the prepared chicken items are made to the specifications of food service users. Since the Registrant completed the initial public offering of its common stock in May 1987, the Registrant has significantly expanded its operations by expanding existing facilities, adding second shifts and constructing new facilities to increase production capacity, product lines and marketing flexibility.

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

In January 2011, the Company began initial operations at a new poultry processing complex in Kinston, North Carolina. The Kinston facilities comprise a poultry complex consisting of a hatchery, feed mill, processing plant, and wastewater facility with the capacity to process 1.25 million chickens per week. The facility reached full capacity during March 2012.



Table of Contents

In February 2015, the Company began initial operations at a new poultry processing complex in Palestine, Texas. The complex consists of a hatchery, feed mill, processing plant and wastewater facility with the capacity to process 1.25 million chickens per week. The facility reached full capacity during October 2016.

In March 2015, the Company announced the selection of sites in and near St. Pauls, North Carolina, for the construction of its next poultry complex. The completed complex will consist of a hatchery, processing plant, wastewater treatment facility, and an expansion of the Company's existing feed mill in Kinston, North Carolina. Construction began in July 2015, and initial operations of the new complex began during the first quarter of fiscal 2017. At full capacity, the new complex will process 1.25 million chickens per week. Before the complex can open, we will need to enter into contracts with a sufficient number of independent contract poultry producers to house the live inventory, complete construction, and hire and train our workforce. See "The construction and potential benefits of our new facilities are subject to risks and uncertainties" in the Risk Factors Section of this Annual Report.

Capital expenditures for fiscal 2016 were funded by cash on hand at November 1, 2015, and cash provided by operations during fiscal 2016. The Company is a party to a revolving credit facility dated April 24, 2015 with a maximum available borrowing capacity of \$750.0 million. The facility has an annual capital expenditure limitation of \$100.0 million for fiscal years 2016 through 2020, and permits up to \$15.0 million of the unused capital expenditure limitation from the prior fiscal year to be carried over to the next fiscal year. The capital expenditure limitation for fiscal 2016 is \$115.0 million. The credit facility also permits the Company to spend up to \$160.0 million in capital expenditures on the construction of the new poultry complex in St. Pauls, North Carolina, and up to \$175.0 million in capital expenditures on the construction of a potential additional new poultry complex, which expenditures are in addition to the annual capital expenditure limits. In addition to the annual capital expenditure limits, the credit facility permits the Company to spend up to \$15.0 million in capital expenditures on the acquisition of a new aircraft, which was spent during fiscal 2015 and the first quarter of fiscal 2016. Under the facility, the Company may not exceed a maximum debt to total capitalization ratio of 50%. The Company has a one-time right, at any time during the term of the agreement, to increase the maximum debt to total capitalization ratio then in effect by five percentage points in connection with the construction of either the St. Pauls, North Carolina complex or a second potential new poultry complex for the four fiscal quarters beginning on the first day of the fiscal quarter during which the Company gives written notice of its intent to exercise this right. The Company has not exercised this right. The facility also sets a minimum net worth requirement that at October 31, 2016, was \$833.1 million. The credit is unsecured and, unless extended, will expire on April 24, 2020. As of October 31 and December 8, 2016, the Company had no outstanding draws under the facility, and had approximately \$16.3 million outstanding in letters of credit, leaving \$733.7 million available under the facility. For more information about the facility, see Item 1.01 of our Current Report on Form 8-K filed April 29, 2015, which is incorporated herein by reference.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

Not applicable.

(c) NARRATIVE DESCRIPTION OF REGISTRANT'S BUSINESS

General

The Registrant is engaged in the production, processing, marketing and distribution of fresh and frozen chicken and the preparation, processing, marketing and distribution of processed and minimally prepared chicken items. The Registrant has one reporting segment, poultry products.

The Registrant sells chill pack, ice pack, bulk pack and frozen chicken, in whole, cut-up and boneless form, primarily under the Sanderson Farms® brand name to retailers, distributors and casual dining operators principally in the southeastern, southwestern, northeastern and western United States. During its fiscal year ended October 31, 2016, the Registrant processed approximately 507 million chickens, or approximately 3.8 billion dressed pounds. In addition, the Registrant purchased and further processed 2.1 million pounds of poultry products during fiscal 2016. According to 2016 industry statistics, the Registrant was the third largest processor of dressed chicken in the United States based on average weekly processed pounds.

The Registrant conducts its chicken operations through Sanderson Farms, Inc. (Production Division) and Sanderson Farms, Inc. (Processing Division), both of which are wholly-owned subsidiaries of Sanderson Farms, Inc. The production subsidiary, Sanderson Farms, Inc. (Production Division), which has facilities in Laurel, Collins, Hazlehurst

and McComb, Mississippi; Bryan, Waco, Palestine, Freestone County, and Robertson County, Texas; Adel, Georgia and Kinston, North Carolina, is engaged in the production of chickens to the broiler stage. Sanderson Farms, Inc. (Processing Division), which has

Table of Contents

facilities in Laurel, Collins, Hazlehurst and McComb, Mississippi; Hammond, Louisiana; Bryan, Palestine, and Waco, Texas; Moultrie, Georgia and Kinston, North Carolina, is engaged in the processing, sale and distribution of chickens. The Registrant conducts its prepared chicken business through its wholly-owned subsidiary, Sanderson Farms, Inc. (Foods Division), which has a facility in Flowood, Mississippi. This facility is engaged in the processing, marketing and distribution of approximately 70 processed and minimally prepared chicken items, which it sells nationally and regionally, principally to distributors and national food service accounts. The facility is managed by the same senior management team that manages our Processing Division.

**Products**

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

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

To satisfy some customers' merchandising needs, the Registrant freezes the chicken product, which adds value by meeting the customers' handling, storage, distribution and marketing needs and by permitting shipment of product overseas where transportation time may be as long as 60 days.

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

	Fiscal Year Ended October 31,				
	2012	2013	2014	2015	2016
Registrant processed chicken:					
Value added:					
Chill pack	33.1 %	34.4 %	36.0 %	36.9 %	34.7 %
Fresh bulk pack	49.0	50.5	48.3	49.1	52.7
Frozen	13.1	10.5	9.2	6.3	5.1
Subtotal	95.2	95.4	93.5	92.3	92.5
Non-value added:					
Ice pack	1.2	1.0	0.9	1.0	0.9
Subtotal	1.2	1.0	0.9	1.0	0.9
Total Company processed chicken	96.4	96.4	94.4	93.3	93.4
Minimally prepared chicken	3.6	3.6	5.6	6.7	6.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%

**Markets and Pricing**

The three largest customer markets in the fresh and frozen chicken industry are big bird, chill pack and small birds. The following table sets forth, for each of the Company's poultry processing plants, the general customer market to which the plant is devoted, the weekly capacity of each plant at full capacity expressed in number of head processed, and the average industry size of birds processed in the relevant market.



Table of Contents

Plant Location	Market	Capacity Per Week	Industry Bird Size
Laurel, Mississippi	Big Bird	625,000	8.94
Hazlehurst, Mississippi	Big Bird	625,000	8.94
Hammond, Louisiana	Big Bird	625,000	8.94
Collins, Mississippi	Big Bird	1,250,000	8.94
Waco, Texas	Big Bird	1,250,000	8.94
Palestine, Texas	Big Bird	1,250,000	8.94
McComb, Mississippi	Chill Pack Retail	1,250,000	6.47
Bryan, Texas	Chill Pack Retail	1,250,000	6.47
Moultrie, Georgia	Chill Pack Retail	1,250,000	6.47
Kinston, North Carolina	Chill Pack Retail	1,250,000	6.47

Our big bird plants process a relatively large bird. The dark meat from these birds is sold primarily as frozen leg quarters in the export market or as fresh whole legs to further processors. While we have long-standing relationships with many of our export partners, virtually all of our export sales are at negotiated or spot commodity prices, which prices exhibit fluctuations typical of commodity markets. We have few long-term contracts for this product.

The white meat produced at these plants is generally sold as bulk-packed, fresh boneless breast meat, chicken tenders and whole or cut wings, and is sold primarily to restaurants, food service customers and further processors at negotiated spreads from quoted commodity market prices for wings, tenders and boneless breast meat. We have long-term contracts with many of our customers for white meat produced at our big bird plants, but prices for products sold pursuant to those contracts fluctuate based on quoted commodity market prices. The contracts do not require the customers to purchase, or the Company to sell, any specific quantity of product.

As of October 31, 2016, the Company had the capacity to process 5.625 million head per week in its big bird plants, and its results are materially affected by fluctuations in the commodity market prices for leg quarters, boneless breast meat, chicken tenders and wings, as quoted by Urner Barry.

The Urner Barry spot market price for leg quarters, boneless breast meat, chicken tenders and whole wings for the past five calendar years is set forth below. Realized prices will not necessarily equal quoted market prices since most contracts offer negotiated discounts to quoted market prices, which discounts are negotiated on a customer by customer basis and are influenced by many factors. Selection of a particular market price benchmark is largely customer driven:

Table of Contents

7

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Table of Contents

Our chill pack plants process medium sized birds and cut and package the product in various sized individual trays to customers' specifications. The trays are weighed and pre-priced primarily for customers to resell through retail grocery outlets. While the Company sells some of its chill pack product under store brand names, most of its chill pack production is sold under the Company's Sanderson Farms® brand name. The Company has long-term contracts with most of its chill pack customers. These agreements typically provide for the pricing of product based on negotiated formulas that use an agreed upon, regularly quoted market price as the base, as well as various other guidelines for the relationship between the parties. The contracts do not require the customers to purchase, or the Company to sell, any specific quantity of product. All of our contracts with retail grocery store customers also provide for the sale of negotiated quantities of product at fixed and periodically negotiated prices, rather than the formula-driven prices discussed above. As of October 31, 2016, the Company had the capacity to process 5.0 million head per week at its chill pack plants, and its results are materially affected by fluctuations in the Georgia Dock price, Urner Barry prices and other market benchmarks.

As with products produced at our big bird plants, selection of the appropriate market benchmark for pricing chill pack products is largely customer driven. We used the Georgia Dock price for whole birds as the base for formulas negotiated and used to price approximately 10.2% of our total poultry pounds sold during fiscal 2016. Approximately 3.3% of pounds sold during fiscal 2016 were sold to chill pack customers at prices based on formulas that used Urner Barry prices as the base. As discussed above, all of our contracts with chill pack customers provide for the sale of products at fixed and periodically negotiated prices for features and promotions. Fixed prices are negotiated on a customer by customer basis and are not tied to any particular index. During fiscal 2016, 6.5% of poultry pounds sold were sold to chill pack customers at flat or negotiated prices.

The Georgia Dock price for whole birds as published by the Georgia Department of Agriculture for the past five calendar years is set forth below. Realized prices will not necessarily equal quoted market prices since, as discussed above, chill pack products are sold based on negotiated formulas using various market indexes as a base, or at fixed and negotiated prices not tied to any particular index.

Plants dedicated to the small bird market process a relatively small chicken and market the finished product primarily to fast food and food service companies at negotiated flat prices, cost plus formulas or spot market prices. Based on benchmarking services used by the industry, this customer market has been the least profitable of the three primary customer markets over most of the last ten years. The Company has no product dedicated to the small bird market. Almost all of our products sold by our prepared chicken plant are sold under long-term contracts at fixed prices related to the spot commodity price of chicken at the time the contract is negotiated, plus a premium for additional processing.

**Sales and Marketing**

The Registrant's chicken products are sold primarily to retailers (including national and regional supermarket chains and local supermarkets) and distributors located principally in the southeastern, southwestern, northeastern and western United States. The Registrant also sells its chicken products to casual dining operators and to United States based customers who resell

Table of Contents

the products outside of the continental United States. This wide range of customers, together with the Registrant's product mix, provides the Registrant with flexibility in responding to changing market conditions in its effort to maximize profits. This flexibility also assists the Registrant in its efforts to reduce its exposure to market volatility, although its ability to do so is limited.

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

Generally, the Registrant prices much of its chicken products based upon weekly and daily market prices reported by the Georgia Department of Agriculture and by private firms such as Urner Barry. Consistent with the industry, the Registrant's profitability is affected by such market prices, which may fluctuate substantially and exhibit cyclical and seasonal characteristics. The Registrant will adjust base prices depending upon value added, volume, product mix and other factors. While base prices may change weekly and daily, the Registrant's adjustments are generally negotiated from time to time with the Registrant's customers. The Registrant's sales are generally made on an as-ordered basis, and the Registrant maintains some long-term sales contracts with its customers. These agreements, which provide for the pricing of product based on formulas that use market prices reported by the Georgia Department of Agriculture and by private firms such as Urner Barry, as well as various other guidelines for the relationship between the parties, do not require the customers to purchase or the Company to sell any specific quantity of product.

From time to time, the Registrant may use television, radio and newspaper advertising, point of purchase material and other marketing techniques to develop consumer awareness of and brand recognition for its Sanderson Farms® products. The Registrant has achieved a high level of public awareness and acceptance of its products in its core markets. Brand awareness is an important element of the Registrant's marketing philosophy, and it intends to continue brand name merchandising of its products. During calendar 2004, the Company launched an advertising campaign designed to distinguish the Company's fresh chicken products from competitors' products. The campaign noted that the Company's product is a natural product free from salt, water and other additives that some competitors inject into their fresh chicken. The Company continues to use various media to communicate this message today. During fiscal 2016, the Company launched a multi-media advertising campaign designed to explain and support the Company's position regarding the judicious use of antibiotics to prevent and treat chickens that become ill. The Company regularly evaluates the success of this campaign and expects to continue to use the campaign, at least for the near term. The Registrant's prepared chicken items are sold nationally, primarily to distributors and national food service accounts. Sales of such products are handled by sales personnel of the Registrant and by independent food brokers. Prepared chicken items are distributed from the Registrant's plant in Flowood, Mississippi, through arrangements with contract carriers.

**Production and Facilities**

**General.** The Registrant is a vertically-integrated producer of fresh, frozen and minimally prepared 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 and cockerels) from primary breeding companies that specialize in the production of genetically designed breeder stock. As of October 31, 2016, the Registrant maintained contracts with 60 independent contract pullet producers for the grow-out of pullets (growing the pullet to the point at which it is capable of egg production, which takes approximately six months). Thereafter, the mature breeder flocks are transported by the Registrant's vehicles to breeder farms that are maintained, as of October 31, 2016, by 148 independent contractors under the Registrant's supervision. Eggs produced on the farms of independent contract breeder producers are transported to the Registrant's hatcheries in the Registrant's vehicles. The Registrant owns and operates nine hatcheries located in Mississippi, Texas, Georgia and North Carolina where eggs are incubated, vaccinated and hatched in a process requiring 21 days. The chicks are vaccinated against common poultry diseases and are transported by the Registrant's vehicles to independent contract grow-out farms. As of

October 31, 2016, the Registrant's hatcheries were capable of producing an aggregate of approximately 11.5 million chicks per week.

Grow-out. The Registrant places its chicks on the farms of 690 independent contract broiler producers, as of October 31, 2016, located in Mississippi, Texas, Georgia and North Carolina, where broilers are grown to an age of approximately seven to

9

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## Table of Contents

nine weeks. The farms provide the Registrant with sufficient housing capacity for its operations, and are typically family-owned farms operated under contract with the Registrant. The farm owners provide facilities, utilities and labor; the Registrant supplies the day-old chicks, feed and veterinary and technical services. The farm owner is compensated pursuant to an incentive formula designed to promote production cost efficiency.

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

**Feed Mills.** An important factor in the grow-out of chickens is the rate at which chickens convert feed into body weight. The Registrant purchases primary feed ingredients on the open market. Ingredients include corn and soybean meal, which historically have been the largest cost components of the Registrant's total feed costs. The quality and composition of the feed are critical to the conversion rate, and accordingly, the Registrant formulates and produces its own feed. As of October 31, 2016, the Registrant operated eight feed mills, four of which are located in Mississippi, two in Texas, one in Georgia and one in North Carolina. The Registrant's annual feed requirements for fiscal 2016 were approximately 4,226,000 tons, and it has the capacity to produce approximately 5,410,000 tons of finished feed annually under current configurations.

Feed grains are commodities subject to volatile price changes caused by weather, size of the harvest, transportation and storage costs, domestic and export demand and the agricultural and energy policies of the United States and foreign governments. On October 31, 2016, the Registrant had the capacity to store approximately 3,697,000 bushels of corn at its feed mills, which was sufficient to store all of its weekly requirements for corn. Generally, the Registrant purchases its corn and other feed ingredients at current prices from suppliers and, to a limited extent, directly from farmers. Feed grains are available from an adequate number of sources. Although the Registrant has not experienced and does not anticipate problems in securing adequate supplies of feed grains, price fluctuations of feed grains have a direct and material effect upon the Registrant's profitability. Although the Registrant attempts to manage the risk of volatile price changes in grain markets by sometimes purchasing grain at current prices for future delivery, it cannot eliminate the potentially adverse effect of grain price increases.

**Processing.** Once broilers reach processing weight, they are transported to the Registrant's processing plants. These plants use modern, highly automated equipment to process and package the chickens. The Registrant's McComb and Collins, Mississippi; Moultrie, Georgia; Kinston, North Carolina and Bryan, Waco and Palestine, Texas processing plants operate two processing lines on a double shift basis and each had the capacity to process approximately 1,250,000 chickens per week on October 31, 2016. The Registrant's Laurel and Hazlehurst, Mississippi and Hammond, Louisiana processing plants operate on a double shift basis and collectively had the capacity to process approximately 1,875,000 chickens per week on October 31, 2016. At October 31, 2016, the Company's deboning facilities were operating on a double shift basis and had the capacity to produce approximately 15.0 million pounds of big bird boneless breast product and 9.0 million pounds of chill pack boneless breast product each week.

**Prepared Chicken.** The Company's prepared chicken plant is located in Flowood, Mississippi and has approximately 75,000 square feet of refrigerated manufacturing and storage space. The plant uses highly automated equipment to prepare, process and freeze prepared chicken items.

**Executive Offices; Other Facilities.** The Registrant's laboratory and corporate offices are located on separate sites in Laurel, Mississippi. The office buildings house the Company's corporate offices, meeting facilities and computer equipment and constitutes the corporate headquarters. As of October 31, 2016, the Registrant operated 12 automotive maintenance shops, which service approximately 1,200 over-the-road and farm vehicles used to support the Registrant's operations. In addition, the Registrant has one child care facility located near its Collins, Mississippi processing plant, serving on average approximately 135 children on October 31, 2016.

### Quality Control

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

From its company owned laboratory in Laurel, Mississippi, the Director of Technical Services supervises the operation of a modern, well-equipped laboratory which, among other things, monitors sanitation at the hatcheries, quality and purity of the Registrant's feed ingredients and feed, the health of the Registrant's breeder flocks and

broilers, and conducts microbiological tests on live chickens, facilities and finished products. The Registrant conducts on-site quality control activities at each of the ten processing plants and the prepared chicken plant.

## Table of Contents

### Regulation

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

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

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

### 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.

### Customers

One customer accounted for more than 10% of the Registrant's consolidated sales for the years ended October 31, 2016, 2015 and 2014. Sales to that customer accounted for 17.5%, 16.2%, and 15.9% of the Company's consolidated net sales in fiscal 2016, 2015 and 2014, respectively. The Company does not believe the loss of this or any other single customer would have a material adverse effect on the Company because it could sell poultry earmarked for any single customer to alternative customers at market prices.

### Sources of Supply

During fiscal 2016, the Registrant purchased its pullets and cockerels from a single major breeder. The Registrant has found the genetic breeds or cross breeds supplied by this company produce chickens most suitable to the Registrant's purposes. The Registrant has no written contracts with this breeder for the supply of breeder stock. Other sources of breeder stock are available, and the Registrant continually evaluates these sources of supply.

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

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

### Seasonality

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

### Trademarks



Table of Contents

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

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

**Employee and Labor Relations**

As of October 31, 2016, the Registrant had 13,232 employees, including 1,673 salaried and 11,559 hourly employees. A collective bargaining agreement with the United Food and Commercial Workers International Union covering 498 hourly employees who work at the Registrant's processing plant in Hammond, Louisiana expired on November 30, 2016. The Company and the union continue to negotiate a new collective bargaining agreement, but no assurance can be given that a new agreement will be reached.

The production, maintenance and clean-up employees at the Company's Bryan, Texas poultry processing facility are represented by the United Food and Commercial Workers Union Local #408, AFL-CIO. A collective bargaining agreement covering 1,264 employees expires on December 31, 2017. The collective bargaining agreement has a grievance procedure and no strike-no lockout clause that should assist in maintaining stable labor relations at the Bryan, Texas processing facility.

**(d) FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS**

All of the Company's operations are domiciled in the United States. All of the Company's products sold in the Company's fiscal years 2016, 2015 and 2014 were produced in the United States and all long-lived assets of the Company are located in the United States. Gross domestic sales for fiscal years 2016, 2015 and 2014 totaled approximately \$2,670.3 million, \$2,662.5 million, and \$2,556.7 million, respectively.

The Company sells certain of its products to foreign customers and customers who resell the product in foreign markets. These foreign markets for fiscal 2016 were primarily Mexico, Central Asia and the Middle East. For fiscal 2015 and 2014, these foreign markets were primarily Mexico, Russia, China, Eastern Europe, the Middle East and the Caribbean. These gross export sales for fiscal years 2016, 2015 and 2014 totaled approximately \$213.5 million, \$207.8 million and \$282.3 million, respectively. The Company's export sales are facilitated through independent food brokers located in the United States and the Company's internal sales staff. For a discussion of risks related to our foreign markets, please see "A decrease in demand for our products in the export market could materially and adversely affect our results of operations" in the Risk Factors section of this Annual Report.

**(e) AVAILABLE INFORMATION**

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

Table of Contents

Item 1A. Risk Factors

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

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

Profitability in the poultry industry is materially affected by the commodity prices of feed ingredients, chicken, and, to a lesser extent, alternative proteins. These prices are determined by supply and demand factors, and supply and demand factors in respect of feed ingredients and chicken may not correlate. As a result, the poultry industry is subject to wide fluctuations that are called cycles. Typically we do well when chicken prices are high and feed prices are low. We are less profitable, and sometimes have losses, when chicken prices are low and feed prices are high. For example, grain prices during 2011 were high, while prices for chicken products did not increase proportionally, and the Company lost money. During 2012 and 2013, grain prices remained high, but market prices for chicken also increased, and the Company was profitable. During fiscal 2014 and fiscal 2015, grain prices declined while market prices for chicken increased, and the Company earned near record-high margins. It is very difficult to predict when these cycles will occur. All we can safely predict is that they do and will occur.

Various factors can affect the supply of corn and soybean meal, which are the primary ingredients of the feed we use. In particular, global weather patterns, including adverse weather conditions that may result from climate change, the global level of supply inventories and demand for feed ingredients, currency fluctuations and the agricultural and energy policies of the United States and foreign governments all affect the supply of feed ingredients. Weather patterns often change agricultural conditions in an unpredictable manner. A sudden and significant change in weather patterns could affect supplies of feed ingredients, as well as both the industry's and our ability to obtain feed ingredients, grow chickens or deliver products. For example, historic drought conditions in the Midwestern United States in 2012 had a significant adverse effect on the supply and price of feed grains in fiscal 2012 and the first three quarters of 2013. Additionally, an increase in ethanol producers' demand for corn has historically resulted in increases in the costs for corn and other grains.

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

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

For example, for the fiscal year ended October 31, 2011, we recorded a charge of \$9.0 million to lower the value of live broiler inventories on hand at that date from cost to estimated market value because the estimated market price for the products to be produced from those live chickens, when sold, was estimated to be below the estimated cost to grow, process and distribute those chickens. The \$9.0 million adjustment to inventory on October 31, 2011, effectively absorbed into fiscal 2011 a portion of the costs to grow, process and distribute chickens that we would have otherwise incurred in the first quarter of fiscal 2012, thereby benefiting fiscal 2012. Any similar adjustments that

we make in the future could be material, and could materially adversely affect our financial condition and results of operations. The Company made no such adjustment during fiscal 2016.

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

Table of Contents

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

In previous years there has been substantial publicity regarding a highly pathogenic Asian strain of avian influenza, or AI, known as H5N1, which has affected Asia since 2002 and which has been found in Europe, the Middle East and Africa. It is widely believed that this strain of AI is spread by migratory birds, such as ducks and geese. There have also been some cases where this strain of AI is believed to have passed from birds to humans as humans came into contact with live birds that were infected with the disease. During the first calendar quarter of 2013, there was also substantial publicity regarding a low pathogenic strain of avian influenza, known as H7N9, which affected eastern and northern China. It is widely believed that H7N9 circulates in wild birds and may have been transmitted to domestic poultry in live bird markets in and around Shanghai and Beijing. It is also believed that the virus has passed from live birds to humans as humans came into contact with live birds that were infected with the disease. Through May 2013, the virus was believed to have sickened at least 130 people and caused at least 33 deaths. There have been no reported incidents of the virus since May 2013. No human to human transmission of the disease has been proved, and there is no evidence to suggest that the consumption of properly prepared and cooked poultry could transmit the virus to humans. However, fear associated with this outbreak dampened demand for poultry, including our products, in the affected areas of China. A recurrence of this outbreak, or others similar to it, could have a material negative effect on world demand for poultry, including demand for our products.

Although the Asian strains of AI described above have not been identified in North America, there have been outbreaks of both low and high pathogenic strains of non-Asian avian influenza in North America, including in the U.S. in 2002, 2004, 2006 and 2015, and in Mexico in 2005, 2012 and 2013. During calendar 2013, a relatively widespread outbreak of a highly pathogenic strain of non-Asian avian influenza, known as H7N3, affected live poultry in several states in central Mexico. The Company has no operations in Mexico, and our live chickens were not affected by this outbreak. In an effort to prevent the spread of the virus, the Mexican government and poultry industry reportedly culled approximately 27.5 million chickens in Mexico and undertook an extensive vaccination program in the affected areas of that country. These practices reduced the supply of available poultry in Mexico, and increased demand in Mexico for poultry produced in the United States, including our products. In August 2015, Mexican authorities confirmed the discovery of a low pathogenic strain of AI identified as H5N2 in Mexico's Sinaloa Province.

Until 2015, the outbreaks in North America have not generated the same level of concern, or received the same level of publicity, or been accompanied by the same reduction in demand for poultry products in certain countries, as that associated with the Asian strains. Beginning in January 2015, however, the United States experienced what some industry observers believe was the worst avian influenza outbreak in United States history. According to the United States Animal and Plant Health Inspection Service (APHIS), approximately 7.8 million turkeys and 40.3 million chickens were affected in the United States by this avian influenza outbreak, and the last reported case was in June 2015. The affected chickens were almost all hens that lay eggs for the table egg industry, and not broiler chickens such as those we raise. We have a high degree of confidence in our industry's biosecurity program, but we cannot be certain our flocks or others in our industry will not be affected. Given our high degree of confidence in our biosecurity programs, we believe the primary risks associated with domestic outbreaks of avian influenza are market risks, as many countries to which our industry sells product imposed partial or total bans on the import of broiler meat produced in the United States as a result of the outbreak. The duration of such bans varies by country, and there is no certainty regarding when any particular country will lift a ban once imposed. All AI related bans that were imposed following the 2015 outbreak in the United States have been lifted, except China's. While these bans were in place, the

market price for leg quarters fell significantly below historical averages. During our fourth fiscal quarter ended October 31, 2015, quoted market prices for leg quarters were lower by 53.3% when compared to the fourth fiscal quarter of 2014. As of October 31, 2016, the quoted market prices for leg quarters have recovered approximately 22.2% of that decline. For more information on the impact of this outbreak on exports, please see the risk factor below entitled “A decrease in demand for our products in the export markets could materially and adversely affect our results of operations.”

While domestic demand for broiler meat was not materially affected by the 2015 outbreak, we cannot assure you that further spread of avian influenza or the outbreak of the Asian strains of avian influenza either in other countries or in the United States will not materially adversely affect both domestic and international demand for poultry products produced in the United States. Because the virus is carried by migratory water fowl, it is possible the virus could be spread to domestic poultry flocks during any seasonal migration of those water fowl. If avian influenza were to affect a significant number of our flocks, or

## Table of Contents

materially reduce domestic demand for our products, either or both of these events could have a material adverse effect on our business, reputation or prospects.

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

Nearly all of our customers are based in the United States, but some of our product is sold directly to foreign customers, and some of our United States based customers resell poultry products in the export markets. Our chicken products have been sold in Russia and other former Soviet countries, China and Mexico, among other countries. Approximately 7.4% of our gross sales in fiscal 2016 were to export markets, including approximately \$154.9 million to Mexico and \$26.9 million to countries in Central Asia. Any disruption to the export markets, such as trade embargoes, tariffs, import bans, duties, quotas, currency fluctuations or changes in governmental trade policies or agreements with countries to which we sell products can materially affect our sales or create an oversupply of chicken in the United States. This, in turn, can cause domestic poultry prices to decline. Any quotas or bans can materially and adversely affect our sales and our results of operations.

On February 5, 2010, China announced that it would impose anti-dumping duties on U.S. chicken products beginning on February 13, 2010. The duty applicable to Sanderson Farms products was 64.5%. On April 28, 2010, China imposed countervailing duties on United States chicken products, raising the duty applicable to Sanderson Farms' products by 6.1% to 70.6%. A challenge to China's anti-dumping determination was filed by the U.S. Government with the World Trade Organization (WTO), which ruled in favor of the U.S. on September 25, 2013. China did not appeal the WTO ruling. On July 8, 2014, China announced that it had re-investigated charges that United States chicken exporters dump product in the China domestic market, causing substantial harm to the local industry. Despite the WTO's findings, China announced that its re-investigation revealed that United States exporters continue to dump product into the local China market. While China announced lower anti-dumping tariffs on certain United States producers in its July 8, 2014 announcement, the tariffs actually increased on most United States producers, including Sanderson Farms. The United States government continues to believe that the WTO ruling was correct and that China's anti-dumping determination lacks merit. Accordingly, the United States government continues to challenge China's actions at the WTO. On January 8, 2015, China announced a ban on the import of United States poultry meat following the discovery of avian influenza in a wild bird in the Pacific Northwest. Avian influenza was later detected in commercial poultry flocks in fifteen states. There has been no indication from China of how long the ban will last. During fiscal 2014, the Company sold approximately 74.9 million pounds of poultry meat, primarily chicken paws and wing tips, to customers who resold the product in China, reflecting approximately \$62.1 million in total sales. Because there were no material domestic or export markets for these products other than China, the Company began rendering most of those products after imposition of the Chinese ban for significantly lower returns. As a result, during fiscal 2015 before the ban's effective date, the Company sold only approximately 22.8 million pounds of poultry meat, primarily chicken paws and wing tips, to customers who resold the product in China, reflecting approximately \$20.0 million in total sales. During fiscal 2016, the Company did not sell any poultry meat to customers who resold the meat in China.

On August 6, 2012, Mexico imposed anti-dumping duties on chicken drumstick and thigh imports from the United States, establishing the duty applicable to Sanderson Farms' products at 25.7%. However, Mexico suspended the implementation of the duties amidst concerns that food inflation may occur as a result. While we do not know whether or when Mexico might impose the anti-dumping duties, their implementation could reduce our revenues and profits. On October 2, 2012, pursuant to the North American Free Trade Agreement (NAFTA), the U.S. poultry industry, including Sanderson Farms, Inc., filed a complaint challenging the anti-dumping determination issued by Mexico. The complaint is currently pending.

On August 8, 2014, Russia announced economic sanctions against countries that imposed economic sanctions on Russia in response to Russia's previous actions in Ukraine. The Russian sanctions include a ban on imports of chicken

from the United States. During fiscal 2014, Sanderson Farms sold approximately 90.9 million pounds of chicken for approximately \$36.0 million to customers who resold the product in Russia. Unlike previous Russian bans on United States poultry imports when Russia represented a much larger share of total industry exports, the current ban has had a relatively smaller impact. Russia represented only 7% of total United States exports of chicken during calendar 2013, which was the last full year during which exports to Russia were allowed.

In addition to the specific bans listed above, several countries imposed varying degrees of bans on United States poultry imports as a result of the avian influenza outbreak in the United States during 2015. The bans varied in degree in that some applied to all United States poultry imports, while others were specific to the areas of the country in which avian influenza was detected. The collective result of these bans was a decrease in demand for the Company's dark meat products, which are the Company's primary exports. The duration of such bans varied by country, and all the bans, except China's, have since been lifted. Due to the bans, overall industry exports of chicken parts, excluding paws, were lower by approximately 13.4% in volume and 26.1% in value during calendar 2015 compared to the same period in 2014 for the reasons described above. During the first ten months of calendar 2016, overall industry exports of chicken parts, excluding paws, were higher by approximately

Table of Contents

2.5% in volume and lower by approximately 8.3% in value compared to the same period in 2015. For more information regarding the impact of the 2015 outbreak, please see the risk factor above entitled "Outbreaks of avian disease, such as avian influenza, or the perception that outbreaks may occur, can significantly restrict our ability to conduct our operations and can significantly affect demand for our products."

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

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

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

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

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

Our sales to our top ten customers represented approximately 53.7% of our net sales during fiscal 2016. Our non-chill pack customers, with all of whom we do not have long-term contracts, could significantly reduce or cease their purchases from us with little or no advance notice, which could materially and adversely affect our sales and results of operations.

We must identify changing consumer preferences and offer food products that consumers want.

Our success depends, in part, on our ability to offer products that appeal to our customers and to respond to evolving consumer preferences and trends. Consumer preferences and trends are influenced by, among other things, perceptions concerning the health implications, social implications, safety and quality of food products and ingredients. In some cases, consumer perceptions are influenced by negative publicity about food production, including stories that are inaccurate or misleading. The expanding role of social and digital media in publicity has increased the speed and extent to which information (whether or not accurate) and opinions about our products can be shared. If we do not identify and react timely to changes in consumer perceptions or trends, we may experience reduced demand and pricing for our products. Prolonged negative perceptions concerning our products, our brand or our company, or a loss of confidence by consumers in the safety and quality of our products, could materially and adversely affect our reputation, sales, financial condition and results of operations.

We have devoted significant resources to marketing and public relations programs that inform consumers about the safety and quality of our products and our production practices. However, we are subject to legal and regulatory restrictions on the marketing and labeling of our products, which may hamper our marketing efforts. We may also introduce new products and improved products from time to time to satisfy evolving consumer preferences, and may incur significant development and marketing costs in doing so. If our products fail to meet consumer preferences, then these products and our marketing strategy will be less successful. Additionally, because we produce only chicken products, we may be limited in our ability to respond to changes in consumer preferences towards other animal proteins or away from animal proteins entirely.

If our marketing and public relations efforts to inform consumers and respond to negative perceptions are not effective, or we are not successful in developing and marketing new products in response to changing trends, then our competitive position, reputation and market share may suffer. This, in turn, could lead to lower sales and profits, which could materially and adversely affect our results of operations and financial condition.

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





Table of Contents

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

We rely heavily on the services of key personnel.

We depend substantially on the leadership of a small number of executive officers and other key employees. We have employment agreements with only three of these persons (our Chairman of the Board and Chief Executive Officer, our President and Chief Operating Officer, and our Treasurer and Chief Financial Officer), and those with whom we have no agreement would not be bound by non-competition agreements or non-solicitation agreements if they were to leave us. The loss of the services of these persons could have a material adverse effect on our business, results of operations and financial condition. In addition, we may not be able to attract, retain and train the new management personnel we need for our new complexes, or do so at the pace necessary to sustain our significant company growth. We depend on the availability of, and good relations with, our employees and contract growers.

We have approximately 13,232 employees, approximately 13.3% of which are covered by collective bargaining agreements. In addition, we contract with approximately 898 independent contract poultry producers in Mississippi, Texas, North Carolina and Georgia for the grow-out of our breeder and broiler stock and the production of broiler eggs. Our operations depend on the availability of labor and contract growers and maintaining good relations with these persons and with labor unions. If we fail to maintain good relations with our employees or with the unions, we may experience labor strikes or work stoppages. If we do not attract and maintain contracts with our growers, including new growers for our new poultry complexes, our production operations could be negatively impacted and/or our growth could be restrained.

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

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

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

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

Enforcement have informally indicated an intent to focus their enforcement efforts on red meat and poultry processors.

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

Table of Contents

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

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

Our business operations entail a number of risks, including risks relating to product liability claims, product recalls, property damage and injuries to persons. We currently maintain insurance with respect to certain of these risks, including product liability and recall insurance, property insurance, workers compensation insurance and general liability insurance, but in many cases such insurance is expensive and difficult to obtain. We cannot assure you that we can maintain on reasonable terms sufficient coverage to protect us against losses due to any of these events. We would be adversely affected if we expand our business by acquiring other businesses or by building new processing plants, but fail to successfully integrate the acquired business or run a new plant efficiently.

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

Governmental regulation and litigation are constant factors affecting our business.

The poultry industry is subject to federal, state, local and foreign governmental regulation relating to the processing, packaging, storage, distribution, advertising, labeling, quality and safety of food products. Unknown matters, new laws and regulations, or stricter interpretations of existing laws or regulations may materially affect our business or operations in the future. Our failure to comply with applicable laws and regulations could subject us to administrative penalties and civil remedies, including fines, injunctions and recalls of our products. Our operations are also subject to extensive and increasingly stringent regulations administered by the Environmental Protection Agency, which pertain to the discharge of materials into the environment and the handling and disposition of wastes. Failure to comply with these regulations can have serious consequences, including civil and administrative penalties and negative publicity. In addition to the risk of regulatory enforcement actions, we are subject to risk of private legal claims arising out of our our employees' failure or alleged failure to comply with applicable laws and regulations, including claims such as those described in "Item 3. Legal Proceedings" of this report and the notes to our financial statements included in this report. Trends in litigation may include class actions by consumers, shareholders, employees or injured persons, and claims relating to commercial, labor, employment, antitrust, securities or environmental matters. Although we believe we have implemented strict compliance programs and policies, along with effective internal controls to guard against intentional and unintentional violations of law by our personnel, contractors and agents, we cannot assure you that such persons will not violate our policies or the law, or be alleged to have done so. Defending such litigation may be costly and any adverse outcomes of litigation against us could materially and adversely affect our reputation, results of operation and financial condition.

Our stock price may be volatile.

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

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

Table of Contents

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

changes in investor perceptions of the poultry industry in general, including our competitors; and  
general economic and competitive conditions.

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

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

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

Weak or unstable national or global economic conditions could negatively impact our business.

Our business may be adversely affected by weak or volatile national or global economic conditions, including inflation, unfavorable currency exchange rates and interest rates, the lack of availability of credit on reasonable terms, changes in consumer spending rates and habits, unemployment and underemployment, and a tight energy supply and high energy costs. Our business could be negatively affected if efforts and initiatives of the governments of the United States and other countries to manage and stimulate the economy fail or result in worsening economic conditions.

Deteriorating economic conditions could negatively affect consumer demand for protein generally or our products specifically, consumers' ability to afford our products, or consumer habits with respect to how they spend their food dollars.

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

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

For any new facility that we build, our ability to complete construction on a timely basis and within budget is subject to a number of risks and uncertainties described below. In addition, when a new facility becomes operational, it may not generate the benefits we expect if demand for the products to be produced by the facility is different from what we expect or we do not operate the facility efficiently.

In order to complete construction of a new facility, we need to take a significant number of steps and obtain a number of approvals and permits, none of which we can assure you will be obtained. For example, for each new fresh and frozen chicken complex, we need to:

- identify a site and purchase or lease such site;
- obtain a number of licenses and permits;
- enter into construction contracts;
- identify and enter into contracts with a sufficient number of independent contract poultry producers;
- complete construction on time; and



Table of Contents

hire and train our workforce.

If we are unable to complete construction on schedule, attract independent contract poultry producers, find customers for the additional product generated by the new facility, run the facility efficiently, or otherwise achieve the expected benefits of our new facilities, our business could be negatively affected.

We are, and in the future may become, involved in legal proceedings related to an alleged antitrust violation and, as a result, may incur substantial costs in connection with those proceedings.

Between September 2, 2016 and October 13, 2016, we, along with our subsidiaries, were named as defendants, along with 13 other poultry producers and certain of their affiliated companies, in multiple putative class action lawsuits filed by direct and indirect purchasers of broiler chickens in the United States District Court for the Northern District of Illinois. The complaints allege that the defendants conspired to unlawfully fix, raise, maintain and stabilize the price of broiler chickens, thereby violating federal and certain states' antitrust laws, and also allege certain related state-law claims. The complaints also allege that the defendants fraudulently concealed the alleged anticompetitive conduct in furtherance of the conspiracy. The complaints seek damages, including treble damages for the antitrust claims, injunctive relief, costs and attorneys' fees. The court has consolidated each of the direct purchaser complaints into one case, and each of the indirect purchaser complaints into one case. On October 28, 2016, the plaintiffs filed consolidated, amended complaints in each case, and on November 23, 2016, the plaintiffs filed second amended complaints.

We, along with certain of our directors and officers, were also named as defendants in a putative class action lawsuit filed on October 28, 2016, in the United States District Court for the Southern District of New York. The complaint alleges that the defendants made statements in SEC filings and press releases, and other public statements, that were materially false and misleading in light of our alleged, undisclosed violation of the federal antitrust laws. The complaint also alleges that the material misstatements were made in order to, among other things, artificially inflate and maintain the market price of our securities. The complaint alleges the defendants thereby violated the Exchange Act, including Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and seeks damages, interest, costs and attorneys' fees.

An adverse resolution of any proceedings related to the matters described above could subject us to significant monetary damages and other penalties, which could have a material adverse effect on our results of operations, financial condition, and liquidity.

For additional information regarding the nature and status of these and other material legal proceedings, see "Item 3. Legal Proceedings" and the notes to our financial statements included in this report.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Registrant's principal properties are as follows:



Table of Contents

Use	Location (City, State)
Poultry processing plant, hatchery and feedmill	Laurel, Mississippi
Poultry processing plant, hatchery and feedmill	McComb, Mississippi
Poultry processing plant, hatchery and feedmill	Hazlehurst and Gallman, Mississippi
Poultry processing plant, hatchery and feedmill	Bryan and Robertson Counties, Texas
Poultry processing plant, hatchery and feedmill	Moultrie and Adel, Georgia
Poultry processing plant, hatchery and feedmill	Kinston and Lenoir County, North Carolina
Poultry processing plant, hatchery and feedmill	Palestine and Freestone County, Texas
Poultry processing plant and hatchery	Waco, Texas
Poultry processing plant and hatchery (Construction in progress)	Lumberton and St. Pauls, North Carolina
Poultry processing plant	Hammond, Louisiana
Poultry processing plant, hatchery, child care facility and feedmill	Collins, Mississippi
Prepared chicken plant	Flowood, Mississippi
Corporate general offices and technical laboratory	Laurel, Mississippi

The Registrant owns substantially all of its major operating facilities with the following exceptions: one processing plant and feed mill complex is leased on an annual renewal basis through 2063 with an option to purchase at a nominal amount at the end of the lease term; one processing plant complex is leased under four leases, which are renewable annually through 2061, 2063, 2075 and 2073, respectively; and certain infrastructure improvements associated with a processing plant are leased under a lease that expired in 2013, which is now renewable annually through 2091 and has been renewed for 2017. All of the foregoing leases are capital leases.

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

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

### Item 3. Legal Proceedings

Between September 2, 2016 and October 13, 2016, Sanderson Farms, Inc. and our subsidiaries were named as defendants, along with 13 other poultry producers and certain of their affiliated companies, in multiple putative class action lawsuits filed by direct and indirect purchasers of broiler chickens in the United States District Court for the Northern District of Illinois. The complaints allege that the defendants conspired to unlawfully fix, raise, maintain and stabilize the price of broiler chickens, thereby violating federal and certain states' antitrust laws, and also allege certain related state-law claims. The complaints also allege that the defendants fraudulently concealed the alleged anticompetitive conduct in furtherance of the conspiracy. The complaints seek damages, including treble damages for the antitrust claims, injunctive relief, costs and attorneys' fees. The court has consolidated each of the direct purchaser complaints into one case, and each of the indirect purchaser complaints into one case. On October 28, 2016, the plaintiffs filed consolidated, amended complaints in each case, and on November 23, 2016, the plaintiffs filed second amended complaints. The lawsuits are in the earliest stages and we intend to defend them vigorously; however, the Company cannot predict the outcome of these actions. If the plaintiffs were to prevail, the Company could be liable for damages, which could have a material, adverse effect on our financial position and results of operations.

Sanderson Farms, Inc.; Joe F. Sanderson, Jr., the Chairman of the Registrant's Board of Directors and its Chief Executive Officer; and D. Michael Cockrell, director and Chief Financial Officer, were named as defendants in a putative class action lawsuit filed on October 28, 2016, in the United States District Court for the Southern District of New York. The complaint alleges that the defendants made statements in the Registrant's SEC filings and press releases, and other public statements, that were materially false and misleading in light of the Registrant's alleged, undisclosed violation of the federal antitrust laws described above. The complaint also alleges that the material misstatements were made in order to, among other things, "artificially inflate and maintain the market price of Sanderson Farms securities." The complaint alleges the defendants thereby violated the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and seeks damages, interest, costs and attorneys' fees. The lawsuit is in its earliest



Table of Contents

stage and the defendants intend to defend it vigorously; however, the Company cannot predict the outcome of these actions. If the plaintiffs were to prevail, the Company could be liable for damages, which could have a material, adverse effect on our financial position and results of operations.

The Company is involved in various other claims and litigation incidental to its business. Although the outcome of these matters cannot be determined with certainty, management, upon the advice of counsel, is of the opinion that the final outcome of any currently pending claim, other than those discussed above, should not have a material effect on the Company’s consolidated results of operations or financial position.

The Company recognizes the costs of legal defense for the legal proceedings to which it is a party in the periods incurred. After a considerable analysis of each case, the Company determines the amount of reserves required, if any. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed reasonably estimable and probable due to changes in the Company’s assumptions, the effectiveness of legal strategies, or other factors beyond the Company’s control. Future results of operations may be materially affected by the creation of reserves or by accruals of losses to reflect any adverse determinations in these legal proceedings.

Item 4. Mine Safety Disclosures

Not Applicable

Item 4A. Executive Officers of the Registrant

Name	Age	Office	Executive Officer Since
Joe F. Sanderson, Jr.	69	Chairman of the Board of Directors and Chief Executive Officer	1984 (1)
Lampkin Butts	65	President and Chief Operating Officer, Director	1996 (2)
Mike Cockrell	59	Treasurer and Chief Financial Officer, Director	1993 (3)
Tim Rigney	52	Secretary and Chief Accounting Officer	2012 (4)

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

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

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

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

The Company entered into employment agreements with Messrs. Sanderson, Butts and Cockrell dated as of September 15, 2009. Each of these agreements was amended and restated on November 1, 2015. The term of the agreements ends when the officers' employment terminates under the provisions of the agreement. The agreements provide for severance payments to be paid to the officers if their employment is terminated in certain circumstances, as well as provisions prohibiting them from engaging in certain competitive activity with the Company during their employment and for the two years after their employment with the Company terminates for any reason other than poor performance.

Table of Contents

## PART II

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

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

The number of stockholders of record as of December 8, 2016, was 3,487. The number of beneficial owners of our stock is greater than the number of holders of record, and the exact number is unknown.

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

	Closing Stock Price		
Fiscal Year 2016	High	Low	Dividends
First Quarter	\$81.39	\$67.57	\$ 0.22
Second Quarter	\$94.29	\$78.57	\$ 0.22
Third Quarter	\$94.29	\$80.53	\$ 0.22
Fourth Quarter	\$97.34	\$85.78	\$ 1.24

	Closing Stock Price		
Fiscal Year 2015	High	Low	Dividends
First Quarter	\$93.72	\$77.99	\$ 0.22
Second Quarter	\$85.68	\$75.12	\$ 0.22
Third Quarter	\$84.59	\$66.78	\$ 0.22
Fourth Quarter	\$75.21	\$65.02	\$ 0.72

The amount of future common stock dividends will depend on our earnings, financial condition, capital requirements, the effect a dividend would have on the Company's compliance with financial covenants and other factors, which will be considered by the Board of Directors on a quarterly basis.

On December 8, 2016, the closing sales price for the common stock was \$85.38 per share.

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

Period	(a) Total Number of Shares Purchased <sup>1</sup>	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>2</sup>	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs <sup>3</sup>
Aug. 1 - Aug. 31, 2016	—	\$ —	—	1,000,000
Sep. 1 - Sep. 30, 2016	1,286	\$ 96.33	1,286	1,000,000
Oct. 1 - Oct. 31, 2016	33,375	\$ 89.98	33,375	1,000,000
Total	34,661	\$ 90.22	34,661	1,000,000

<sup>1</sup> All purchases were made pursuant to the Company's Stock Incentive Plan, as amended and restated on February 11, 2016, under which shares were withheld to satisfy tax withholding obligations.

<sup>2</sup> On April 23, 2015, the Company's Board of Directors expanded and extended the share repurchase program originally approved on October 22, 2009, under which the Company may purchase up to one million shares of its common stock in open market transactions or negotiated purchases, subject to market conditions, share price and other considerations. The authorization will expire on April 23, 2018. The Company's repurchase of vested restricted stock to satisfy tax withholding obligations of its Stock Incentive Plan participants will not be made under the 2015 general repurchase plan.

<sup>3</sup> Does not include vested restricted shares that may yet be repurchased under the Stock Incentive Plan as described in Note 1. In March 2015, the Company repurchased 700,003 shares of its common stock in open market transactions, and on April 23, 2015, the Company's Board of Directors expanded the share repurchase program by 700,003 shares

to authorize the repurchase of up to 1,000,000 additional shares.

23

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Table of Contents

## Item 6. Selected Financial Data

	Year Ended October 31,				
	2016	2015	2014	2013	2012
	(In thousands, except per share data)				
Net sales	\$2,816,057	\$2,803,480	\$2,774,845	\$2,682,980	\$2,386,105
Operating income	294,111	335,998	381,922	205,678	96,316
Net income	188,961	216,001	249,048	130,617	53,944
Basic earnings per share	8.37	9.52	10.80	5.68	2.35
Diluted earnings per share	8.37	9.52	10.80	5.68	2.35
Working capital	465,135	396,834	363,071	269,200	262,193
Total assets	1,422,700	1,246,752	1,111,252	924,645	896,453
Long-term debt, less current maturities	—	—	10,000	29,414	150,212
Stockholders' equity	1,190,262	1,029,861	897,948	671,599	550,075
Cash dividends declared per share	\$1.90	\$1.38	\$1.32	\$0.71	\$0.68

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

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

**CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE PERFORMANCE**

This Annual Report, and other periodic reports filed by the Company under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other written or oral statements made by it or on its behalf, may include forward-looking statements within the meaning of the "Safe Harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. These forward-looking statements are based on a number of assumptions about future events and are subject to various risks, uncertainties and other factors that may cause actual results to differ materially from the views, beliefs and estimates expressed in such statements. These risks, uncertainties and other factors include, but are not limited to, the risks described in the "Risk Factors" section of this 10-K, and to the following:

- (1) Changes in the market price for the Company's finished products and feed grains, both of which may fluctuate substantially and exhibit cyclical characteristics typically associated with commodity markets.
- (2) Changes in economic and business conditions, monetary and fiscal policies or the amount of growth, stagnation or recession in the global or U.S. economies, any of which may affect the value of inventories, the collectability of accounts receivable or the financial integrity of customers, and the ability of the end user or consumer to afford protein.
- (3) Changes in the political or economic climate, trade policies, laws and regulations or the domestic poultry industry of countries to which the Company or other companies in the poultry industry ship product, and other changes that might limit the Company's or the industry's access to foreign markets.
- (4) Changes in laws, regulations, and other activities in government agencies and similar organizations applicable to the Company and the poultry industry and changes in laws, regulations and other activities in government agencies and similar organizations related to food safety.
- (5) Various inventory risks due to changes in market conditions, including, but not limited to, the risk that market values of live and processed poultry inventories might be lower than the cost of such inventories, requiring a downward adjustment to record the value of such inventories at the lower of cost or market as required by generally accepted accounting principles.
- (6) Changes in and effects of competition, which is significant in all markets in which the Company competes, and the effectiveness of marketing and advertising programs. The Company competes with regional and national firms, some of which have greater financial and marketing resources than the Company.
- (7) Changes in accounting policies and practices adopted voluntarily by the Company or required to be adopted by accounting principles generally accepted in the United States.



Table of Contents

- (8)Disease outbreaks affecting the production, performance and/or marketability of the Company's poultry products, or the contamination of its products.
- (9)Changes in the availability and cost of labor and growers.
- (10)The loss of any of the Company's major customers.
- (11)Inclement weather that could hurt Company flocks or otherwise adversely affect its operations, or changes in global weather patterns that could impact the supply and price of feed grains.
- (12)Failure to respond to changing consumer preferences.
- (13)Failure to successfully and efficiently start up and run a new plant or integrate any business the Company might acquire.

Readers are cautioned not to place undue reliance on forward-looking statements made by or on behalf of Sanderson Farms. Each such statement speaks only as of the day it was made. The Company undertakes no obligation to update or to revise any forward-looking statements. The factors described above cannot be controlled by the Company. When used in this annual report, the words "believes," "estimates," "plans," "expects," "should," "outlook," and "anticipates" and similar expressions as they relate to the Company or its management are intended to identify forward-looking statements. Examples of forward-looking statements include statements about management's beliefs about future earnings, production levels, capital expenditures, grain prices, global economic conditions, supply and demand factors and other industry conditions.

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 affected by the market price for its finished products and feed grains, both of which may fluctuate substantially and exhibit cyclical characteristics typically associated with commodity markets. Other costs, excluding feed grains, related to the profitability of the Company's poultry operations, including hatching egg production, hatching, growing, and processing cost, are responsive to efficient cost containment programs and management practices. Over the past three fiscal years, these other normal production costs have averaged approximately 54.4% of the Company's total normal production costs.

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

The Company's prepared chicken product line includes approximately 70 institutional and consumer packaged chicken items that it sells nationally, primarily to distributors and food service establishments. A majority of the prepared chicken items are made to the specifications of food service users.

Recent Developments

In February 2015, the Company began initial operations at a new poultry processing complex in Palestine, Texas. The complex consists of a hatchery, feed mill, processing plant and wastewater facility with the capacity to process 1.25 million chickens per week, and the facility is currently operating at full capacity. During fiscal 2016, the Palestine processing plant processed approximately 351.7 million pounds of dressed poultry meat, as compared to 116.1 million pounds during fiscal 2015. See "The construction and potential benefits of our new facilities are subject to risks and uncertainties" in the Risk Factors section of this Annual Report.

In March 2015, the Company announced the selection of sites in and near St. Pauls, North Carolina, for the construction of its next poultry complex. The completed complex will consist of a hatchery, processing plant, wastewater treatment facility, and an expansion of the Company's existing feed mill in Kinston, North Carolina.



Construction began in July 2015, and initial operations of the new complex are expected to begin during the first quarter of fiscal 2017. At full capacity, the new complex will process 1.25 million chickens per week. Before the complex can open, we will need to enter into contracts with a sufficient

25

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Table of Contents

number of independent contract poultry producers to house the live inventory, complete construction, and hire and train our workforce. See “The construction and potential benefits of our new facilities are subject to risks and uncertainties” in the Risk Factors Section of this Annual Report.

**EXECUTIVE OVERVIEW OF RESULTS — 2016**

The Company’s margins were lower during fiscal 2016 as compared to fiscal 2015, reflecting significantly lower average sales prices for most products produced at our plants that process a larger sized bird, partially offset by lower grain prices and continued strong demand and market prices for fresh chicken sold at retail grocery stores. The supply of and demand for fresh chicken sold to retail grocery store customers remain balanced, although the average price for that product was slightly lower during fiscal 2016 compared to fiscal 2015. In contrast, food service demand declined during fiscal 2016 when compared to fiscal 2015, and it could not keep pace with increased industry production and increases in domestic supplies caused by weak export demand. Export demand remains under pressure as a result of several factors including political conditions, China's avian influenza related ban, economic stress caused by low oil prices in some countries and the strength of the United States dollar. We expect these factors to weigh on the export market for the foreseeable future. The result of these factors is weak pricing for most products produced at our plants that process a larger sized bird, with Urner Barry average market prices for bulk leg quarters 6.2% lower during fiscal 2016 as compared to fiscal 2015, and Urner Barry average market prices for boneless breast meat approximately 12.5% lower for the same period.

Grain costs were lower during fiscal 2016 compared to fiscal 2015, which resulted in an 8.7% decrease in the average feed cost in broiler flocks processed during fiscal 2016 as compared to fiscal 2015. The Company has priced only a portion of its grain needs past December 2016. Had it priced its remaining fiscal 2017 needs at December 12, 2016 cash market prices, its costs of feed grains would be approximately \$35.6 million higher during fiscal 2016 as compared to fiscal 2015.

On January 8, 2015, China announced a ban on the import of United States poultry meat following the discovery of avian influenza ("AI") in a wild bird in the Pacific Northwest. AI was later detected in several types of poultry flocks from the West Coast to the upper Midwest, and as far south as Arkansas. There has been no indication from China of how long the ban will last. Although AI was not detected in broiler chickens of the type raised and marketed by the Company, additional countries imposed bans on United States broiler meat imports, which negatively affected dark meat pricing. During fiscal 2014, the Company sold approximately 74.9 million pounds of poultry meat, primarily chicken paws and wing tips, to customers who resold the product in China, reflecting approximately \$62.1 million in total sales. Because there are no material domestic or export markets for these products other than China, the Company is currently rendering those products for significantly lower returns. As a result, during fiscal 2015 the Company sold only approximately 22.8 million pounds of poultry meat, primarily chicken paws and wing tips, to customers who resold the product in China, reflecting approximately \$20.0 million in total sales. The fiscal 2015 sales were made prior to the ban's effective date. Export demand remains under pressure, and overall industry exports of chicken parts, excluding paws, were higher by approximately 2.5% in volume and lower by approximately 8.3% in value through the first ten months of calendar 2016 compared to the same period in 2015. That increase is the result of the removal of all avian influenza related bans, except China's. However, export demand continues to be negatively affected by the other factors described above, and market prices for dark meat produced at our plants that process a larger sized bird will remain under pressure for as long as those factors remain.

**RESULTS OF OPERATIONS — 2016**

Net sales for fiscal 2016 were \$2,816.1 million as compared to \$2,803.5 million for fiscal 2015, an increase of \$12.6 million or 0.4%. Net sales of poultry products for fiscal 2016 and fiscal 2015 were \$2,631.0 million and \$2,616.6 million, respectively, an increase of \$14.3 million or 0.5%. The increase in net sales of poultry products resulted from a 9.2% increase in the pounds of poultry products sold, partially offset by a 7.9% decrease in the average sales price of poultry products sold. During fiscal 2016, the Company sold 3,730.8 million pounds of poultry products, up from 3,417.7 million pounds during fiscal 2015. The additional pounds of poultry products sold resulted from a 2.3% increase in average bird weights and a 6.5% increase in the number of chickens sold. During fiscal 2016, the new Palestine processing facility, which began initial operations in February 2015, processed 41.4 million head, or 8.2% of the Company's total head processed during the period, and sold 354.3 million pounds of poultry products, or 9.5% of

the Company's total poultry pounds sold during the period. By comparison, the Palestine facility processed 14.4 million head during fiscal 2015, or 3.0% of the Company's total head processed during the period, and sold 124.3 million pounds of poultry products during fiscal 2015, or 3.6% of the Company's total poultry pounds sold during the period. Overall, market prices for poultry products decreased during fiscal 2016 as compared to fiscal 2015. Urner Barry average market prices for boneless breast and bulk leg quarters decreased during fiscal 2016 compared to fiscal 2015 by 12.5% and 6.2%, respectively, while average market prices for tenders and jumbo wings increased by 4.4% and 3.9%, respectively, for the same comparative periods. The average Georgia Dock market price for whole birds was 2.7% lower during fiscal 2016 as compared to the average during fiscal 2015. Net sales of prepared chicken products during fiscal 2016 and 2015 were \$185.1 million and \$186.8 million, respectively, a decrease of 0.9%, resulting from a 2.3%

Table of Contents

decrease in the average sales price of prepared chicken products sold, partially offset by a 1.4% increase in the pounds of prepared chicken products sold. During fiscal 2016, the Company sold 91.8 million pounds of prepared chicken products, up from 90.6 million pounds sold during fiscal 2015.

Cost of sales for fiscal 2016 was \$2,362.1 million as compared to \$2,312.4 million during fiscal 2015, an increase of \$49.7 million, or 2.1%. Excluding poultry products sold to the Company's prepared chicken division, cost of sales of poultry products sold during fiscal 2016 and fiscal 2015 were \$2,197.2 million and \$2,140.1 million, respectively, which represents a 6.0% decrease in the average cost of sales of poultry products. As illustrated in the table below, which for comparative purposes includes poultry products sold to the Company's prepared chicken division, the decrease in the average cost of sales of poultry products resulted primarily from a decrease in the cost of feed per pound of broilers processed of \$0.0244, or 8.7%, and a \$0.0118 per pound decrease in other costs of sales of poultry products.

**Poultry Cost of Sales**

(In thousands, except per pound data)

Description	Fiscal Year 2016		Fiscal Year 2015		Incr/(Decr)	
	Dollars	Per lb.	Dollars	Per lb.	Dollars	Per lb.
Beginning Inventory	\$10,158	\$0.2171	\$24,426	\$0.3983	\$(14,268)	\$(0.1812)
Feed in broilers processed	961,562	0.2554	962,764	0.2798	(1,202 )	(0.0244 )
All other cost of sales	1,284,960	0.3413	1,215,284	0.3531	69,676	(0.0118 )
Less: Ending Inventory	15,378	0.3397	10,158	0.2171	5,220	0.1226
Total poultry cost of sales	\$2,241,302 <sup>(1)</sup>	\$0.5953	\$2,192,316 <sup>(1)</sup>	\$0.6345	\$48,986	\$(0.0392)
<b>Pounds:</b>						
Beginning Inventory	46,800		61,333			
Poultry processed	3,764,878		3,441,409			
Poultry sold	3,764,971 <sup>(1)</sup>		3,455,365 <sup>(1)</sup>			
Ending Inventory	45,272		46,800			

Note (1) - For comparative purposes, includes the costs and pounds of product sold to the Company's prepared chicken plant.

Other costs of sales of poultry products include labor, contract grower pay, packaging, freight and certain fixed costs, among other costs. During fiscal 2016 and 2015, other costs of sales of poultry products also included approximately \$0.3 million and \$16.8 million, respectively, of charges related to the Company's bonus award program. These non-feed related costs of poultry products sold decreased \$0.0118 per pound processed, or 3.3%, during fiscal 2016 as compared to fiscal 2015, a majority of which is due to a combination of reduced accruals related to the bonus award program and increased efficiencies realized at the Company's new Palestine, Texas facilities as the volume of processed pounds increased. The decrease in bonus award program accruals is the result of fiscal 2016 minimum earnings per share and operational targets not being achieved under the Company's fiscal 2016 bonus award program. During fiscal 2016, costs of sales of the Company's prepared chicken products were \$164.9 million as compared to \$172.3 million during fiscal 2015, a decrease of \$7.4 million, or 4.3%, primarily attributable to an 8.9% decrease in processing costs per pound, a category which includes items such as labor, packaging and fixed costs, partially offset by a 1.4% increase in the pounds of prepared chicken products sold. Approximately 1.6% of the decrease in processing costs per pound is attributable to reduced accruals related to the Company's bonus award program during fiscal 2016 as compared to fiscal 2015.

The Company recorded the value of live broiler inventories on hand at October 31, 2016 at cost. When market conditions are favorable, the Company values the broiler inventories on hand at cost, and accumulates costs as the birds are grown to a marketable age subsequent to the balance sheet date. In periods where the Company estimates that the cost to grow live birds in inventory to a marketable age and then process and distribute those birds will be higher in the aggregate than the anticipated sales proceeds, the Company will make an adjustment to lower the value of live birds in inventory to the market value. No such charge was required at October 31, 2016 or October 31, 2015. Selling, general and administrative ("SG&A") costs during fiscal 2016 were \$159.9 million, or \$4.8 million higher than the \$155.1 million of SG&A in fiscal 2015. The following table shows the components of SG&A costs for the

twelve months ended October 31, 2016 and 2015.

27

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Table of ContentsSelling, General and Administrative Costs  
(in thousands)

Description	Twelve months ended October 31, 2016	Twelve months ended October 31, 2015	Increase/(Decrease)
Marketing expense	\$18,776	\$7,823	\$ 10,953
Start-up expense (St. Pauls, North Carolina complex)	8,445	439	8,006
Administrative salaries	32,379	29,499	2,880
Sanderson Farms Championship expense	6,369	5,322	1,047
Trainee expense	11,955	11,641	314
Stock compensation expense	15,449	15,692	(243 )
ESOP expense	12,300	15,000	(2,700 )
Start-up expense (Palestine, Texas complex)	—	4,835	(4,835 )
Bonus award program expense	124	12,983	(12,859 )
All other SG&A	54,093	51,880	2,213
Total SG&A	\$159,890	\$155,114	\$ 4,776

As illustrated in the table above, the majority of the \$4.8 million increase in SG&A costs during fiscal 2016 as compared to fiscal 2015 resulted from increases in marketing and start-up expenses, partially offset by a decrease in accruals related to the Company's bonus award program. The increase in marketing expenses is the result of an advertising campaign launched during the third quarter of fiscal 2016. The change in start-up expense in any particular period relates to the stage of the start-up process in which a facility under construction is in during the period. Non-construction related expenses, such as labor, training and office-related expenses for a facility under construction are recorded as start-up expense until the facility begins operations. As a facility moves closer to actual start-up, the expenses incurred for labor, training, etc. increase. As a result, amounts classified as start-up expenses will increase period over period until the facility begins production. Once production begins, the expenses from that point forward are recorded as costs of goods sold. The decrease in bonus award program expense is the result of fiscal 2016 minimum earnings per share and operational targets not being achieved under the Company's fiscal 2016 bonus award program.

The Company's operating income during fiscal 2016 was \$294.1 million as compared to an operating income during fiscal 2015 of \$336.0 million. The reduced operating income resulted primarily from lower market prices of poultry products, partially offset by lower costs of feed grains during fiscal 2016 as compared to fiscal 2015, as described above.

Interest expense during fiscal 2016 and fiscal 2015 was \$1.7 million and \$2.1 million, respectively. The decrease in interest expense during fiscal 2016 as compared to fiscal 2015 resulted from lower average outstanding debt during fiscal 2016 as compared to fiscal 2015.

The Company's effective tax rate for fiscal 2016 was 35.4% as compared to 35.3% for fiscal 2015. The Company's effective tax rate differs from the statutory federal rate due to state income taxes, certain nondeductible expenses for federal income tax purposes and certain state and federal tax credits. As of October 31, 2016, the Company's long-term deferred income tax liability was \$75.7 million as compared to \$47.5 million at October 31, 2015, an increase of \$28.2 million. The increase is primarily attributable to legislation enacted during the first quarter of fiscal 2016 which allowed for bonus depreciation to be taken on qualifying assets placed in service during the 2015 calendar year and the Company's decision to take advantage of the legislation.

The Company's net income during fiscal 2016 was \$189.0 million, or \$8.37 per share, as compared to net income during fiscal 2015 of \$216.0 million or \$9.52 per share.

**EXECUTIVE OVERVIEW OF RESULTS — 2015**

The Company's margins were slightly lower during fiscal 2015 as compared to fiscal 2014, reflecting significantly lower average sales prices for most products produced at our plants that process a larger sized bird, partially offset by

significantly lower grain prices and continued strong demand and market prices for fresh chicken sold at retail grocery stores. Wholesale market prices for product sold to retail grocery store customers reached record-high levels during the third quarter of fiscal 2015 and remained at or near record-high levels throughout fiscal 2015. In contrast, although food service demand improved during fiscal 2015 when compared to fiscal 2014, that increased demand was not sufficient to keep pace with increased industry

Table of Contents

production and increases in domestic supplies caused by weak export demand. During fiscal 2015, export demand remained under pressure as a result of several factors including political conditions, avian influenza related bans, economic stress caused by low oil prices in some countries and the strength of the United States dollar. The result of these factors was weak pricing for most products produced at our plants that process a larger sized bird, with Urner Barry average market prices for bulk leg quarters 31.5% lower during fiscal 2015 as compared to fiscal 2014, and Urner Barry average market prices for boneless breast meat and tenders approximately 15.4% and 15.8% lower, respectively, for the same period.

Market prices for corn and soybean meal were significantly lower during fiscal 2015 compared to fiscal 2014, which resulted in a 16.2% decrease in the average feed cost in broiler flocks processed during fiscal 2015 as compared to fiscal 2014.

On January 8, 2015, China announced a ban on the import of United States poultry meat following the discovery of avian influenza ("AI") in a wild bird in the Pacific Northwest. AI was later detected in several types of poultry flocks from the West Coast to the upper Midwest, and as far south as Arkansas. There has been no indication from China of how long the ban will last. Although AI was not detected in broiler chickens of the type raised and marketed by the Company, additional countries imposed bans on United States broiler meat imports, which negatively affected dark meat pricing. During fiscal 2014, the Company sold approximately 74.9 million pounds of poultry meat, primarily chicken paws and wing tips, to customers who resold the product in China, reflecting approximately \$62.1 million in total sales. Because there are no material domestic or export markets for these products other than China, the Company is currently rendering those products for significantly lower returns. As a result, during fiscal 2015 the Company sold only approximately 22.8 million pounds of poultry meat, primarily chicken paws and wing tips, to customers who resold the product in China, reflecting approximately \$20.0 million in total sales. The fiscal 2015 sales were made prior to the ban's effective date. Overall industry exports of chicken parts, excluding paws, were lower by approximately 13.4% in volume and 26.1% in value during calendar 2015 compared to calendar 2014 for the reasons described above.

**RESULTS OF OPERATIONS — 2015**

Net sales for fiscal 2015 were \$2,803.5 million, as compared to \$2,774.8 million for fiscal 2014, an increase of \$28.6 million or 1.0%. Net sales of poultry products for fiscal 2015 and fiscal 2014 were \$2,616.6 million and \$2,620.5 million, respectively, a decrease of \$3.9 million or 0.1%. The decrease in net sales of poultry products resulted from an 11.0% decrease in the average sales price of poultry products sold, partially offset by a 12.2% increase in the pounds of poultry products sold. During fiscal 2015, the Company sold 3,417.7 million pounds of poultry products, up from 3,045.5 million pounds during fiscal 2014. The additional pounds of poultry products sold resulted from a 4.0% increase in average bird weights and a 5.4% increase in the number of chickens sold. During fiscal 2015, the new Palestine processing facility, which began initial operations in February 2015, processed 14.4 million head, or 3.0% of the Company's total head processed during the period, and sold 124.3 million pounds of poultry products, or 3.6% of the Company's total poultry pounds sold during the period. Overall, market prices for poultry products decreased during fiscal 2015 as compared to fiscal 2014. Urner Barry average market prices for boneless breast, tenders and bulk leg quarters decreased during fiscal 2015 compared to fiscal 2014 by 15.4%, 15.8% and 31.5%, respectively, while average market prices for jumbo wings increased by 26.9% for the same comparative periods. The average Georgia Dock market price for whole birds, which reached its historical high during the Company's third fiscal quarter of 2015, averaged 5.6% higher during fiscal 2015 as compared to the average during fiscal 2014. Net sales of prepared chicken products during fiscal 2015 and 2014 were \$186.8 million and \$154.3 million, respectively, an increase of 21.1%, resulting from a 19.0% increase in the pounds of prepared chicken products sold and a 1.8% increase in the average sales price of prepared chicken products sold. During fiscal 2015, the Company sold 90.6 million pounds of prepared chicken products, up from 76.1 million pounds sold during fiscal 2014.

Cost of sales for fiscal 2015 was \$2,312.4 million as compared to \$2,253.9 million during fiscal 2014, an increase of \$58.5 million, or 2.6%. Excluding poultry products sold to the Company's prepared chicken division, cost of sales of poultry products sold during fiscal 2015 and fiscal 2014 were \$2,140.1 million and \$2,106.6 million, respectively, an increase of \$33.5 million, or approximately 1.6%. As illustrated in the table below, which for comparative purposes includes poultry products sold to the Company's prepared chicken division, the increase in the cost of sales of poultry



products sold resulted primarily from an increase in the pounds of poultry products sold of 12.7%, partially offset by a decrease in the cost of feed per pound of broilers processed of \$0.0540 or 16.2%.

Table of Contents

## Poultry Cost of Sales

(In thousands, except percentages and per pound data)

Description	Fiscal Year 2015		Fiscal Year 2014		Incr/(Decr)	
	Dollars	Per lb.	Dollars	Per lb.	Dollars	Per lb.
Beginning Inventory	\$24,426	\$0.3983	\$32,139	\$0.4736	\$(7,713 )	\$(0.0753)
Feed in broilers processed	962,764	0.2798	1,020,770	0.3338	(58,006 )	(0.0540 )
All other cost of sales	1,215,284	0.3531	1,110,351	0.3631	104,933	(0.0100 )
Less: Ending Inventory	10,158	0.2171	24,426	0.3983	(14,268 )	(0.1812 )
Total poultry cost of sales	\$2,192,316 <sup>(1)</sup>	\$0.6345	\$2,138,834 <sup>(1)</sup>	\$0.6977	\$53,482	\$(0.0632)
Pounds:						
Beginning Inventory	61,333		67,859			
Poultry processed	3,441,409		3,057,635			
Poultry sold	3,455,365 <sup>(1)</sup>		3,065,624 <sup>(1)</sup>			
Ending Inventory	46,800		61,333			

Note (1) - For comparative purposes, includes the costs and pounds of product sold to the Company's prepared chicken plant.

Other costs of sales of poultry products include labor, contract grower pay, packaging, freight and certain fixed costs, among other costs. During fiscal 2015 and 2014, other costs of sales of poultry products also included approximately \$16.8 million and \$13.8 million, respectively, of charges related to the Company's bonus award program. These non-feed related costs of poultry products sold decreased \$0.0100 per pound processed, or 2.8%, during fiscal 2015 as compared to fiscal 2014, due to efficiencies realized from higher volume and lower freight and packaging costs. Other costs of sales per pound processed were adversely affected by the Company's new Palestine, Texas complex. The new complex's other costs of sales per pound processed will be higher compared to similar complexes until it reaches full capacity. Excluding Palestine, other costs of sales would have decreased by \$0.0125 per pound processed, or 3.4%. During fiscal 2015, costs of sales of the Company's prepared chicken products were \$172.3 million as compared to \$147.3 million during fiscal 2014, an increase of \$25.0 million, or 17.0%, primarily attributable to a 19.0% increase in the pounds of prepared chicken products sold. The increase in the pounds of prepared chicken products sold was a mixed result of both increased volume sold to existing customers and new customers added during the year.

The Company recorded the value of live broiler inventories on hand at October 31, 2015, at cost. When market conditions are favorable, the Company values the broiler inventories on hand at cost, and accumulates costs as the birds are grown to a marketable age subsequent to the balance sheet date. In periods where the Company estimates that the cost to grow live birds in inventory to a marketable age and then process and distribute those birds will be higher in the aggregate than the anticipated sales proceeds, the Company will make an adjustment to lower the value of live birds in inventory to the market value. No such charge was required at October 31, 2015, or October 31, 2014. SG&A costs during fiscal 2015 were \$155.1 million, \$16.1 million higher than the \$139.0 million in fiscal 2014. The following table shows the components of SG&A costs for the twelve months ended October 31, 2015 and 2014.

Table of ContentsSelling, General and Administrative Costs  
(in thousands)

Description	Twelve months ended October 31, 2015	Twelve months ended October 31, 2014	Increase/(Decrease)
Stock compensation expense	\$ 15,692	\$ 12,102	\$ 3,590
Administrative salaries	29,499	26,305	3,194
Trainee expense	11,641	9,812	1,829
Bonus award program expense	12,983	11,886	1,097
Start-up expense (St. Pauls, North Carolina complex)	439	—	439
Sanderson Farms Championship expense	5,322	5,080	242
Marketing expense	7,823	7,788	35
ESOP expense	15,000	15,000	—
Start-up expense (Palestine, Texas complex)	4,835	5,686	(851)
All other SG&A	51,880	45,366	6,514
Total SG&A	\$ 155,114	\$ 139,025	\$ 16,089

As illustrated in the table above, the \$16.1 million increase in SG&A costs during fiscal 2015 as compared to fiscal 2014 resulted from a \$7.9 million increase in labor costs, including administrative salaries, stock-based compensation and bonus expense, a \$6.5 million increase in the amounts classified as all other SG&A expenses, and a \$1.8 million increase in trainee expense. The increase in administrative salaries is attributable to an increase in the number of employees, as well as higher wages paid to existing personnel. The increase in stock-based compensation expense is largely attributable to the timing of accruals related to the Company's performance share agreements with key employees, as described in "Note 9 - Stock Compensation Plans" in the notes to our consolidated financial statements. The increase in all other SG&A expenses resulted from a variety of areas within the Company, and the increase in trainee expense is attributable to an increase in trainee staff.

The Company's operating income during fiscal 2015 was \$336.0 million as compared to an operating income during fiscal 2014 of \$381.9 million. The reduced operating income resulted primarily from lower market prices of poultry products, partially offset by lower costs of feed grains during fiscal 2015 as compared to fiscal 2014, as described above.

Interest expense during fiscal 2015 and fiscal 2014 was \$2.1 million and \$2.6 million, respectively. The decrease in interest expense during fiscal 2015 as compared to fiscal 2014 resulted primarily from lower outstanding debt during fiscal 2015 as compared to fiscal 2014. The decrease was partially offset by a reduction of capitalized interest during fiscal 2015 as compared to 2014. During fiscal 2015, the Company capitalized \$480,000 of interest related to the construction of the new complexes in Palestine, Texas and St. Pauls, North Carolina, as well as the new building that was under construction at the site of the corporate headquarters in Laurel, Mississippi. Comparatively, the Company capitalized \$1.1 million of interest related to the construction of the new complex in Palestine during fiscal 2014.

The Company's effective tax rate for fiscal 2015 was 35.3% as compared to 34.4% for fiscal 2014. The effective tax rate increased due to additional tax expense related to legislation enacted during the first quarter, an increase in state tax expense related to utilization of state tax credits and a decrease in pretax income during 2015. The Company's effective tax rate differs from the statutory federal rate due to state income taxes, certain nondeductible expenses for federal income tax purposes and certain state and federal tax credits. As of October 31, 2015, the Company's long-term deferred income tax liability was \$47.5 million as compared to \$42.7 million at October 31, 2014, an increase of \$4.8 million. The increase is primarily attributable to legislation enacted during the first quarter of fiscal 2015 which allowed for bonus depreciation to be taken on qualifying assets placed in service during the 2014 calendar year.

The Company's net income during fiscal 2015 was \$216.0 million, or \$9.52 per share, as compared to net income during fiscal 2014 of \$249.0 million or \$10.80 per share.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital, calculated by subtracting current liabilities from current assets, at October 31, 2016, was \$465.1 million, and its current ratio, calculated by dividing current assets by current liabilities, was 4.1 to 1. The Company's working capital and current ratio at October 31, 2015, were \$396.8 million and 3.5 to 1, respectively. These measures reflect the Company's ability to meet its short term obligations and are included here as a measure of the Company's short term market liquidity. The Company's principal sources of liquidity available during fiscal 2016 included cash on hand at November 1, 2015, cash flows from operations, and funds available under the Company's revolving credit facility. As described below, the Company is a party to a revolving credit facility dated April 24, 2015, with a maximum available borrowing capacity of \$750.0

Table of Contents

million. As of October 31, 2016 and December 8, 2016, the Company had no outstanding draws under the facility and had approximately \$16.3 million outstanding in letters of credit, leaving \$733.7 million available under the facility. For more information about the facility, see Item 1.01 of our Current Report on Form 8-K filed April 29, 2015, which is incorporated herein by reference.

The Company's cash position at October 31, 2016 and October 31, 2015, consisted of \$234.1 million and \$196.7 million, respectively, in cash and cash equivalents. The Company's ability to invest cash is limited by covenants in its revolving credit agreement to short term investments. All of the Company's cash at October 31, 2016 and October 31, 2015, was held in bank accounts and highly-liquid investment accounts. There were no restrictions on the Company's access to its cash and cash investments, and such cash and cash investments were available to the Company on demand to fund its operations.

Cash flows provided by operating activities during fiscal 2016 and fiscal 2015 were \$292.8 million and \$297.8 million, respectively. The change in cash flows from operating activities resulted from offsetting circumstances. During fiscal 2016, compared to fiscal 2015, the Company experienced a decrease in cash paid for income taxes of approximately \$112.1 million, net of refunds received. However, this was offset by reduced market prices for poultry products in fiscal 2016 and cash needed to fund increases in inventories during fiscal 2016 as the Company's Palestine, Texas complex moved toward full capacity.

Cash flows provided by operating activities during fiscal 2015 and fiscal 2014 were \$297.8 million and \$306.5 million, respectively. The decrease in cash flows from operating activities of \$8.7 million resulted primarily from reduced market prices for poultry products during fiscal 2015, partially offset by the lower costs of feed grains experienced by the Company during fiscal 2015, and a \$19.7 million increase in cash paid for income taxes during fiscal 2015 as compared to fiscal 2014.

Cash flows used in investing activities during fiscal 2016, 2015 and 2014, were \$200.4 million, \$157.4 million and \$171.1 million, respectively. The Company's capital expenditures during fiscal 2016 of \$200.9 million included approximately \$122.4 million for construction at the Company's new St. Pauls, North Carolina complex and approximately \$5.7 million for construction of a new office building on the site of the Company's headquarters in Laurel, Mississippi. The Company's capital expenditures during fiscal 2015 were \$158.3 million and included approximately \$50.6 million for construction at the Company's new Palestine, Texas complex, approximately \$13.2 million for construction at the St. Pauls, North Carolina complex, and approximately \$11.7 million for progress payments on a new Company aircraft. The Company's capital expenditures during fiscal 2014 were \$171.6 million and included approximately \$104.6 million for construction at the Palestine, Texas complex and approximately \$7.4 million for a new Company aircraft. Excluding expenditures related to construction of new complexes and new aircraft during fiscal 2016, 2015 and 2014, the Company's capital expenditures for those years were \$78.5 million, \$82.8 million and \$59.6 million, respectively.

Cash flows used in financing activities during fiscal 2016, 2015 and 2014 were \$55.0 million, \$109.3 million and \$55.3 million, respectively. During fiscal 2016, the Company purchased shares valued at \$7.3 million pursuant to the Company's Stock Incentive Plan, as amended and restated on February 11, 2016, under which shares were withheld to satisfy tax withholding obligations. Additionally, the Company made the last of five \$10.0 million annual installments on the \$50.0 million Farm Credit Services term loan and paid approximately \$42.9 million in dividends to its shareholders, of which approximately \$22.6 million resulted from a special cash dividend paid during the fourth quarter of fiscal 2016. During fiscal 2015, the Company repurchased and canceled 700,003 shares of its common stock in open-market transactions at an average price of \$78.85 per share, and purchased shares valued at \$14.9 million pursuant to the Company's Stock Incentive Plan, as amended and restated on February 11, 2016, as described above. Additionally, the Company made the fourth of five \$10.0 million annual installments on the \$50.0 million Farm Credit Services term loan and paid approximately \$31.1 million in dividends to its shareholders, of which approximately \$11.2 million resulted from a special cash dividend paid during the fourth quarter of fiscal 2015. During fiscal 2014, the Company purchased shares valued at \$6.6 million pursuant to the Company's Stock Incentive Plan, as amended and restated on February 11, 2016, as described above. Additionally, the Company made the third of five \$10.0 million annual installments on the \$50.0 million Farm Credit Services term loan, completed a \$10.2 million early purchase option of an aircraft that was previously subject to a capital lease and paid approximately \$30.5 million

in dividends to its shareholders, of which approximately \$11.5 million resulted from a special cash dividend paid during the fourth quarter of fiscal 2014.

As of December 8, 2016, the Company's fiscal 2017 capital budget, excluding operating leases, is expected to be approximately \$100.1 million. The 2017 capital budget will be funded by cash on hand at October 31, 2016, internally generated working capital, cash flows from operations and, as needed, borrowings under the Company's revolving credit facility. The Company had \$733.7 million available under the revolving line of credit at October 31, 2016. The fiscal 2017 capital budget is expected to include approximately \$18.3 million for construction of the Company's new St. Pauls, North Carolina complex. Excluding the budget for construction of the new complex, the fiscal 2017 capital budget is expected to be approximately \$81.8 million. These amounts are estimates and are subject to change as we move through fiscal 2017.

Table of Contents

On October 9, 2008, the Company announced that it filed a Form S-3 “shelf” registration statement with the Securities and Exchange Commission to register for possible future sale of shares of the Company’s common and/or preferred stock at an aggregate offering price not to exceed \$1.0 billion. The Company sold 2.3 million shares of its common stock pursuant to this registration statement on April 7, 2010, at \$53.00 per share. Under SEC rules, a shelf registration statement on Form S-3 expires after three years. The Company filed its latest renewal S-3 on October 8, 2014 to register for possible future sale shares of the Company's common and/or preferred stock at an aggregate offering price not to exceed \$1.0 billion. The stock may be offered by the Company in amounts, at prices and on terms to be determined by the board of directors if and when shares are issued.

In March 2015, the Company announced the selection of sites in and near St. Pauls, North Carolina, for the construction of its next poultry complex. The completed complex will consist of a hatchery, processing plant, wastewater treatment facility, and an expansion of the Company's existing feed mill in Kinston, North Carolina. Construction began in July 2015, and initial operations of the new complex are expected to begin during the first quarter of fiscal 2017. The Company estimates the total investment in the complex will be approximately \$155.0 million, of which approximately \$135.6 million was spent as of October 31, 2016. See "The construction and potential benefits of our new facilities are subject to risks and uncertainties" in the Risk Factors section of this Annual Report. The Company is a party to a revolving credit facility dated April 24, 2015 with a maximum available borrowing capacity of \$750.0 million. The facility has an annual capital expenditure limitation of \$100.0 million for fiscal years 2016 through 2020, and permits up to \$15.0 million of the unused capital expenditure limitation from the prior fiscal year to be carried over to the next fiscal year. The capital expenditure limitation for fiscal 2016 is \$115.0 million. The credit facility also permits the Company to spend up to \$160.0 million in capital expenditures on the construction of the new poultry complex in St. Pauls, North Carolina, and up to \$175.0 million in capital expenditures on the construction of a potential additional new poultry complex, which expenditures are in addition to the annual capital expenditure limits. In addition to the annual capital expenditure limits, the credit facility permits the Company to spend up to \$15.0 million in capital expenditures on the acquisition of a new aircraft, which was spent during fiscal 2015 and the first quarter of fiscal 2016. Under the facility, the Company may not exceed a maximum debt to total capitalization ratio of 50%. The Company has a one-time right, at any time during the term of the agreement, to increase the maximum debt to total capitalization ratio then in effect by five percentage points in connection with the construction of either the St. Pauls, North Carolina complex or a second potential new poultry complex for the four fiscal quarters beginning on the first day of the fiscal quarter during which the Company gives written notice of its intent to exercise this right. The Company has not exercised this right. The facility also sets a minimum net worth requirement that at October 31, 2016, was \$833.1 million. The credit is unsecured and, unless extended, will expire on April 24, 2020. As of October 31 and December 8, 2016, the Company had no outstanding draws under the facility, and had approximately \$16.3 million outstanding in letters of credit, leaving \$733.7 million available under the facility. For more information about the facility, see Item 1.01 of our Current Report on Form 8-K filed April 29, 2015, which is incorporated herein by reference.

The Company regularly evaluates both internal and external growth opportunities, including acquisition opportunities and the possible construction of new production assets, and conducts due diligence activities in connection with such opportunities. The cost and terms of any financing to be raised in conjunction with any growth opportunity, including the Company’s ability to raise debt or equity capital on terms and at costs satisfactory to the Company, and the effect of such opportunities on the Company’s balance sheet, are critical considerations in any such evaluation.

**Contractual Obligations**

Obligations under non-cancelable operating leases; purchase obligations relating to feed grains, other feed ingredients and packaging supplies; construction contracts and claims payable relating to the Company’s workers’ compensation insurance policy at October 31, 2016, were as follows (in thousands):

Table of Contents

Contractual Obligations	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating leases	34,004	11,482	17,260	5,262	—
Purchase obligations:					
Feed grains, feed ingredients and packaging supplies	79,584	75,209	4,375	—	—
Construction contracts and other	18,320	18,320	—	—	—
Repair and maintenance contracts	—	—	—	—	—
Claims payable	15,671	7,971	7,700	—	—
Total	\$147,579	\$112,982	\$29,335	\$5,262	\$ —

## Off-balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements material to our financial position or results of operations as of October 31, 2016.

## Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions, and the differences could be material.

## Allowance for Doubtful Accounts

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

## Inventories

Processed and prepared inventories and inventories of feed, eggs, medication and packaging supplies are stated at the lower of cost (average method) or market value. When market prices for poultry are low and feed grains are high, the Company may be required to write down the carrying values of processed poultry and live inventories to fair market value, which would increase the Company’s cost of sales.

Live poultry inventories of broilers are stated at the lower of cost or market and breeders at cost less accumulated amortization. The cost associated with broiler inventories, consisting principally of chicks, feed, medicine and payments to the growers who raise the chicks for us, are accumulated during the growing period. The cost associated with breeder inventories, consisting principally of breeder chicks, feed, medicine and grower payments are accumulated during the growing period. Capitalized breeder costs are then amortized over nine months using the straight-line method. Mortality of broilers and breeders is charged to cost of sales as incurred. If market prices for chicks, feed or medicine or if grower payments increase (or decrease) during the period, the Company could have an increase (or decrease) in the market value of its inventory as well as an increase (or decrease) in cost of sales. Should the Company decide that the nine month amortization period used to amortize the breeder costs is no longer appropriate as a result of operational changes, a shorter (or longer) amortization period could increase (or decrease) the cost of sales recorded in future periods. High mortality from disease or extreme temperatures would result in abnormal charges to cost of sales to write-down live poultry inventories.



## Table of Contents

The Company's live broiler inventories are recorded at cost at October 31, 2016 and 2015, because the estimated market value for all broiler flocks in inventory was higher than the estimated cost to complete those live broiler inventories. Breeders are generally not subject to lower of cost or market reserves due to their longer production lives.

### Long-Lived Assets

Depreciable long-lived assets are primarily comprised of buildings and machinery and equipment. Depreciation is provided by the straight-line method over the estimated useful lives, which are 15 to 39 years for buildings and 3 to 12 years for machinery and equipment. An increase or decrease in the estimated useful lives would result in changes to depreciation expense.

The Company continually reevaluates the carrying value of its long-lived assets for events or changes in circumstances that indicate that the carrying value may not be recoverable. As part of this reevaluation, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposal. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized to reduce the carrying value of the long-lived asset to the estimated fair value of the asset. If the Company's assumptions with respect to the future expected cash flows associated with the use of long-lived assets currently recorded change, then the Company's determination that no impairment charges are necessary may change and result in the Company recording an impairment charge in a future period.

### Accrued Self Insurance

Insurance expense for workers' compensation benefits and employee-related health care benefits are estimated using historical experience and actuarial estimates. The Company accrues expenses in its workers' compensation and employee benefit plans for both known claims as well as claims incurred but not reported. Stop-loss coverage is maintained with third party insurers to limit the Company's total exposure. Management regularly reviews the assumptions used to recognize periodic expenses. Any resulting adjustments to accrued claims are reflected in current operating results. There are no material adjustments to expenses accrued in prior periods in current expenses. If historical experience proves not to be a good indicator of future expenses, if management were to use different actuarial assumptions, or if there is a negative trend in the Company's claims history, there could be a significant increase or decrease in cost of sales depending on whether these expenses increased or decreased, respectively.

### Performance Share Plans

The Company enters into performance share agreements that grant certain officers and key employees the right to receive shares of the Company's common stock, subject to the Company's achievement of certain performance measures. The performance measures in each outstanding agreement relate to the Company's average return on equity and average return on sales over a two year performance period. There is an additional one-year service-based vesting period during which the holder must be employed by the Company to be eligible to receive the shares that met the performance measures. The Company must estimate, at the end of each reporting period, the probability that all or some portion of the shares will be earned at the end of the total three year vesting period. In making this estimate, the Company considers, among other factors, the current and projected grain costs and chicken volumes and pricing, as well as the amount of commitments to procure grain at a fixed price throughout the performance period. Due to the high level of volatility of these commodity prices and the impact that the change in pricing can have on the Company's results, the Company's assessment of probability can change from period to period and can result in a significant revision to the amounts accrued related to the awards. The accounting for these awards requires the Company to accrue over the three year vesting period the estimated amounts that will be earned with adjustments made during the service period using the cumulative catch up method. With respect to the fiscal 2014 awards, which vested and were issued effective October 31, 2016, the Company expensed a total of approximately \$9.6 million, of which \$6.4 million was recorded during fiscal 2015 and \$3.2 million was recorded during fiscal 2016. With respect to the fiscal 2015 awards, the Company has accrued \$5.9 million as of October 31, 2016, based on the Company's determination that achievement of the applicable performance based criteria for those agreements is probable at a level between the target and maximum levels. Because of the volatility of the factors previously discussed, as of October 31, 2016, the Company was unable to determine that it was probable that awards from outstanding agreements entered into during fiscal 2016 would be earned, and therefore has not accrued any amount for those awards. Had the Company determined that it was probable that the maximum amount of those outstanding awards from the fiscal 2016

agreements would be earned, an additional \$3.8 million would have been accrued as of October 31, 2016.  
Income Taxes

35

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Table of Contents

The Company determines its effective tax rate by estimating its permanent differences resulting from differing treatment of items for financial and income tax purposes. The Company is periodically audited by taxing authorities and considers any adjustments made as a result of the audits in computing the Company's income tax expense. Any audit adjustments affecting permanent differences could have an impact on the Company's effective tax rate.

Deferred income taxes are accounted for using the liability method and relate principally to depreciation expense, stock based compensation programs and self-insurance programs accounted for differently for financial and income tax purposes. During fiscal 2016, the Company retrospectively adopted Accounting Standards Update No. 2015-17, "Income Taxes - Balance Sheet Classification of Deferred Taxes," which requires an entity to classify all deferred tax assets and liabilities as noncurrent. Refer to the "New Accounting Pronouncements" section below for a description of the resulting reclassification to the related balance sheet items previously reported as of October 31, 2015.

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

Contingencies

The Company recognizes the costs of legal defense for the legal proceedings to which it is a party in the periods incurred. After a considerable analysis of each case, the Company determines the amount of reserves required, if any. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed reasonably estimable and probable due to changes in the Company's assumptions, the effectiveness of legal strategies, or other factors beyond the Company's control. Future results of operations may be materially affected by the creation of reserves or by accruals of losses to reflect any adverse determinations of these legal proceedings.

New Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued guidance requiring all income tax effects of stock awards to be recognized in the statement of operations when the awards vest or are settled rather than recording excess tax benefits or deficiencies in additional paid-in capital. Additionally, classification of the related amounts in the statement of cash flows will be recognized within operating activities, rather than financing activities. The guidance also changes accounting for an employee's use of shares to satisfy the employer's statutory tax withholding obligation and for forfeitures. The standard becomes effective for interim and annual periods beginning after December 15, 2016, our fiscal 2018. Early adoption is permitted. The effect of this new standard's provisions on excess tax benefits or deficiencies in our consolidated financial statements will depend on the changes in the Company's stock prices at vesting dates and grant dates for awards that vest after adoption. The changes in amounts repurchased for tax withholding purposes and changes in the accounting for forfeitures are not expected to have a material effect on our consolidated financial statements.

In February 2016, the FASB issued guidance which is intended to increase transparency and comparability among companies by requiring an entity that is a lessee to recognize on the balance sheet the right-of-use assets and lease liabilities arising from all leases with terms, as defined by the guidance, of greater than twelve months. The guidance also requires disclosures of key information about the leasing arrangements. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2018, our fiscal 2020. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

In November 2015, the FASB issued guidance that requires an entity to classify all deferred tax assets and liabilities as noncurrent. The standard is effective for fiscal years beginning after December 15, 2016, our fiscal 2018, and interim periods within those years. Early adoption is permitted. The Company adopted this standard, retrospectively, as of October 31, 2016. The changes in the effected income tax related balance sheet accounts at the prior year end were as follows:

October 31, 2015	
Prior to	As
AdoptionEffects of	Adopted
(previousAdoption	(currently
reported)	reported)

Current Assets

Current Deferred Income Taxes \$4,709 \$ (4,709 ) \$ —

Non-current Liabilities

Deferred Income Taxes \$52,234 \$ (4,709 ) \$ 47,525

36

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Table of Contents

In July 2015, the FASB issued guidance that requires an entity to measure inventory at the lower of cost or net realizable value. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2016, our fiscal 2018. Early adoption is permitted and the prospective transition method should be applied. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

In April 2015, the FASB issued guidance requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in the new standard. The standard requires retrospective application and will be effective for financial statements issued for fiscal years beginning after December 15, 2015, our fiscal year 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company does not believe adoption will have a material effect on our consolidated financial statements.

In May 2014, the FASB issued guidance changing the criteria for recognizing revenue, which was amended in 2015 to defer the effective date by one year. The guidance also modifies the related disclosure requirements, clarifies guidance for multiple-element arrangements and provides guidance for transactions that were not addressed fully in previous guidance. The guidance, as amended, is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. Early adoption is permitted for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

The Company is a purchaser of certain commodities, primarily corn and soybean meal, for use in manufacturing feed for its chickens. As a result, the Company's earnings are affected by changes in the price and availability of such feed ingredients. Feed grains are subject to volatile price changes caused by factors described below that include weather, size of harvest, transportation and storage costs and the agricultural policies of the United States and foreign governments. The price fluctuations of feed grains have a direct and material effect on the Company's profitability. Generally, the Company commits to purchase feed ingredients for deferred delivery from one month to nine months after the time of the commitment. The Company sometimes purchases its feed ingredients for prompt delivery to its feed mills at market prices at the time of such purchases. The grain purchases are made directly with our usual grain suppliers, which are companies in the business of regularly supplying grain to end users, and do not involve options to purchase. Such purchases occur when our chief operating decision maker concludes that market factors indicate that prices at the time the grain is needed are likely to be higher than current prices, or where, based on current and expected market prices for the Company's poultry products, our chief operating decision maker believes it can purchase feed ingredients at prices that will allow the Company to earn a reasonable return for its shareholders. Market factors considered by our chief operating decision maker in determining whether or not and to what extent to buy grain for deferred delivery include:

- Current market prices;
- Current and predicted weather patterns in the United States, South America, China and other grain producing areas, as such weather patterns might affect the planting, growing, harvesting and yield of feed grains;
- The expected size of the harvest of feed grains in the United States and other grain producing areas of the world as reported by governmental and private sources;
- Current and expected changes to the agricultural policies of the United States and foreign governments;
- The relative strength of United States currency and expected changes therein as it might impact the ability of foreign countries to buy United States feed grain commodities;
- The current and expected volumes of export of feed grain commodities as reported by governmental and private sources;
- The current and expected use of available feed grains for uses other than as livestock feed grains (such as the use of corn for the production of ethanol, which use is impacted by the price of crude oil); and
- Current and expected market prices for the Company's poultry products.

The Company purchases physical grain, not financial instruments such as puts, calls or straddles that derive their value from the value of physical grain. Thus, the Company does not use derivative financial instruments as defined in ASC 815,

37

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Table of Contents

“Accounting for Derivatives for Instruments and Hedging Activities,” or any market risk sensitive instruments of the type contemplated by Item 305 of Regulation S-K. The Company does not enter into any derivative transactions or purchase any grain-related contracts other than the physical grain contracts described above.

Although the Company does not use derivative financial instruments as defined in ASC 815 or purchase market risk sensitive instruments of the type contemplated by Item 305 of Regulation S-K, the commodities that the Company does purchase for physical delivery, primarily corn and soybean meal, are subject to price fluctuations that have a direct and material effect on the Company’s profitability as mentioned above. During fiscal 2016, the Company purchased approximately 104.5 million bushels of corn and approximately 961,074 tons of soybean meal for use in manufacturing feed for its live chickens. Thus, a \$1.00 change in the average market price paid per bushel for corn would have impacted the Company’s cash outlays for corn by approximately \$104.5 million in fiscal 2016. Likewise, a \$10.00 change in the price paid per ton for soybean meal would impact the Company’s cash outlays by approximately \$9.6 million.

Although changes in the market price paid for feed grains impact cash outlays at the time the Company purchases the grain, such changes do not immediately impact cost of sales. The cost of feed grains is recognized in cost of sales, on a first-in-first-out basis, at the same time that the sales of the chickens that consume the feed grains are recognized. Thus, there is a lag between the time cash is paid for feed ingredients and the time the cost of such feed ingredients is reported in cost of goods sold. For example, corn delivered to a feed mill and paid for one week might be used to manufacture feed the following week. However, the chickens that eat that feed might not be processed and sold for another 48-65 days, and only at that time will the costs of the feed consumed by the chicken become included in cost of goods sold.

During fiscal 2016, the Company’s average feed cost per pound of broilers processed totaled \$0.2554 per pound. Feed costs per pound of broilers processed consist primarily of feed grains, but also include other feed ingredients such as vitamins, fat and mineral feed supplements. The average feed cost per pound is influenced not only by the price of feed ingredients, but also by the efficiency with which live chickens convert feed into body weight. Factors such as weather, poultry husbandry, quality of feed ingredients and the quality and health of the bird, among others, affect the quantity of feed necessary to mature chickens to the target live weight and the efficiency of that process. Generally, however, a \$1.00 change in the average price paid per bushel of corn fed to a chicken during its life would have affected average feed cost per pound of broilers processed by \$0.0278, based on the quantity of grain used during fiscal 2016. Similarly, a \$10.00 change in the average price paid per ton of soybean meal would have influenced the average feed cost per pound of broilers processed by \$0.0025 during fiscal 2016.

The following table shows the impact of hypothetical changes in the price of corn and soybean meal on both the Company’s cash flow and cost of goods sold, based on quantities actually purchased in fiscal 2016:

Feed Ingredient	Quantity Purchased during Fiscal 2016	Hypothetical Price Change	Impact on Cash Outlay	Ultimate Impact on Feed Cost per Pound of broilers Processed
Corn	104.5 million bushels	\$1.00 per bushel	\$104.5 million	\$0.0278/lb processed
Soybean meal	961,074 tons	\$10.00 per ton	\$9.6 million	\$0.0025/lb processed

Typically, the Company’s interest expense is sensitive to changes in the general level of interest rates in the United States, and the Company maintains certain of its debt as fixed rate in nature to mitigate the impact of fluctuations in interest rates. At October 31, 2016, the Company had no outstanding debt on its balance sheet.

The Company is a party to no other market risk sensitive instruments requiring disclosure.

Table of Contents

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Sanderson Farms, Inc.

We have audited the accompanying consolidated balance sheets of Sanderson Farms, Inc. and subsidiaries as of October 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2016. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sanderson Farms, Inc. and subsidiaries at October 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sanderson Farms, Inc.'s internal control over financial reporting as of October 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated December 15, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
New Orleans, Louisiana  
December 15, 2016



Table of ContentsSanderson Farms, Inc. and Subsidiaries  
CONSOLIDATED BALANCE SHEETS

	October 31,	
	2016	2015
	(In thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$234,111	\$196,659
Accounts receivable, less allowance of \$2,650 in 2016 and \$2,500 in 2015	124,348	112,924
Inventories	220,306	198,753
Refundable income taxes	—	16,414
Prepaid expenses	34,559	33,331
Total current assets	613,324	558,081
Property, plant and equipment:		
Land and buildings	668,476	570,202
Machinery and equipment	837,120	748,328
	1,505,596	1,318,530
Accumulated depreciation	(701,605 )	(636,196 )
	803,991	682,334
Other assets	5,385	6,337
Total assets	\$1,422,700	\$1,246,752
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$72,774	\$62,816
Accrued expenses	57,918	88,431
Accrued income taxes	17,497	—
Current maturities of long-term debt	—	10,000
Total current liabilities	148,189	161,247
Claims payable and other liabilities	8,501	8,119
Deferred income taxes	75,748	47,525
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock:		
Series A Junior Participating Preferred Stock, \$100 par value: authorized shares-500,000; none issued - Par value to be determined by the Board of Directors: authorized shares-4,500,000; none issued		
Common Stock, \$1 par value: authorized shares-100,000,000; issued and outstanding shares- 22,693,225 in 2016 and 22,520,875 in 2015	22,693	22,521
Paid-in capital	125,855	111,687
Retained earnings	1,041,714	895,653
Total stockholders' equity	1,190,262	1,029,861
Total liabilities and stockholders' equity	\$1,422,700	\$1,246,752
See accompanying notes.		

Table of Contents

## Sanderson Farms, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended October 31,		
	2016	2015	2014
	(In thousands, except per share data)		
Net sales	\$2,816,057	\$2,803,480	\$2,774,845
Cost and expenses:			
Cost of sales	2,362,056	2,312,368	2,253,898
Selling, general and administrative	159,890	155,114	139,025
	2,521,946	2,467,482	2,392,923
Operating income	294,111	335,998	381,922
Other income (expense):			
Interest income	244	106	60
Interest expense	(1,708)	(2,136)	(2,577)
Other	30	123	61
	(1,434)	(1,907)	(2,456)
Income before income taxes	292,677	334,091	379,466
Income tax expense	103,716	118,090	130,418
Net income	\$188,961	\$216,001	\$249,048
Earnings per share:			
Basic	\$8.37	\$9.52	\$10.80
Diluted	\$8.37	\$9.52	\$10.80
Dividends per share	\$1.90	\$1.38	\$1.32
See accompanying notes.			

Table of Contents

## Sanderson Farms, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Paid-In	Retained	Total
	Shares	Amount	Capital	Earnings	Stockholders' Equity
	(In thousands, except shares and per share amounts)				
Balance at October 31, 2013	23,016,241	\$23,016	\$142,482	\$506,101	\$671,599
Net income for year	—	—	—	249,048	249,048
Cash dividends (\$1.32 per share)	—	—	—	(30,453)	(30,453)
Issuance of stock under stock compensation plans	114,262	114	(4,756)	—	(4,642)
Amortization of unearned compensation	—	—	12,396	—	12,396
Balance at October 31, 2014	23,130,503	23,130	150,122	724,696	897,948
Net income for year	—	—	—	216,001	216,001
Cash dividends (\$1.38 per share)	—	—	—	(31,092)	(31,092)
Purchase of common stock	(700,003)	(700)	(40,540)	(13,952)	(55,192)
Issuance of stock under stock compensation plans	90,375	91	(9,974)	—	(9,883)
Amortization of unearned compensation	—	—	12,079	—	12,079
Balance at October 31, 2015	22,520,875	22,521	111,687	895,653	1,029,861
Net income for year	—	—	—	188,961	188,961
Cash dividends (\$1.90 per share)	—	—	—	(42,900)	(42,900)
Issuance of stock under stock compensation plans	172,350	172	669	—	841
Amortization of unearned compensation	—	—	13,499	—	13,499
Balance at October 31, 2016	22,693,225	\$22,693	\$125,855	\$1,041,714	\$1,190,262

See accompanying notes.

Table of Contents

## Sanderson Farms, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended October 31,		
	2016	2015	2014
	(In thousands)		
Operating activities			
Net income	\$ 188,961	\$ 216,001	\$ 249,048
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	84,583	74,661	64,309
Amortization of share-based compensation	15,813	16,068	12,396
Provision for losses on accounts receivable	150	300	—
Deferred income taxes	28,223	4,781	(9,867 )
Change in assets and liabilities:			
Accounts receivable	(11,574 )	5,071	(9,316 )
Inventories	(21,553 )	(7,930 )	15,032
Income taxes	33,911	(37,903 )	10,434
Prepaid expenses and other assets	(1,263 )	(1,162 )	(3,026 )
Accounts payable	5,109	11,615	(32,718 )
Accrued expenses, claims payable and other liabilities	(29,511 )	16,304	10,175
Total adjustments	103,888	81,805	57,419
Net cash provided by operating activities	292,849	297,806	306,467
Investing activities			
Capital expenditures	(200,882 )	(158,289 )	(171,626 )
Net proceeds from sale of property and equipment	478	848	514
Net cash used in investing activities	(200,404 )	(157,441 )	(171,112 )
Financing activities			
Principal payments on long-term debt	(10,000 )	(10,000 )	(10,000 )
Principal payments on capital lease obligations	—	—	(10,213 )
Payments for debt issuance costs	—	(1,960 )	—
Dividends paid	(42,900 )	(31,092 )	(30,453 )
Repurchase of common stock	—	(55,193 )	—
Tax benefit from stock incentive plans	3,910	2,630	1,016
Proceeds from issuance of restricted stock under stock compensation plans	1,279	1,209	901
Payments from issuance of common stock under stock compensation plans	(7,282 )	(14,910 )	(6,559 )
Net cash used in financing activities	(54,993 )	(109,316 )	(55,308 )
Net change in cash and cash equivalents	37,452	31,049	80,047
Cash and cash equivalents at beginning of year	196,659	165,610	85,563
Cash and cash equivalents at end of year	\$ 234,111	\$ 196,659	\$ 165,610
Supplemental disclosure of cash flow information:			
Income taxes paid	\$ 72,213	\$ 149,770	\$ 130,023
Interest paid, net	\$ 1,709	\$ 2,615	\$ 3,548
See accompanying notes.			

Table of Contents

Sanderson Farms, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

**Basis of Presentation:** 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. Certain reclassifications have been made to prior year financial statements to conform to the current year's presentation, including balance sheet reclassifications for current deferred income tax assets in relation to the Company's retrospective adoption of Accounting Standards Update No. 2015-17, "Income Taxes - Balance Sheet Classification of Deferred Taxes." Refer to the "Impact of Recently Issued Accounting Standards" sub-section below for a description of the resulting reclassification to the related balance sheet items previously reported as of October 31, 2015.

**Business:** The Company is engaged in the production, processing, marketing and distribution of fresh and frozen chicken and other prepared chicken items. The Company's net sales and cost of sales are significantly affected by market price fluctuations of its principal products sold and of its principal feed ingredients, corn and other grains. The Company sells to retailers, distributors and casual dining operators primarily in the southeastern, southwestern, northeastern and western United States. Management periodically performs credit evaluations of its customers' financial condition and generally does not require collateral. One customer accounted for more than 10% of consolidated sales for each of the years ended October 31, 2016, 2015 and 2014. Sales to that customer accounted for 17.5%, 16.2%, and 15.9% of the Company's consolidated net sales in fiscal 2016, 2015, and 2014, respectively.

Shipping and handling costs are included as a component of cost of sales.

Generally, revenue is recognized in connection with a transaction when the Company has agreed to sell, and our customer has agreed to purchase, a specific quantity of product, when delivery has occurred, when the price to the buyer has been fixed, and when collectability is reasonably assured. For most customers, this occurs when the product is delivered to customers, which for domestic sales usually occurs at the time of shipment. Revenue on certain international sales is recognized upon transfer of title, which may occur after shipment. Revenue is recognized as the net amount estimated to be received after deducting estimated amounts for discounts, cooperative advertising allowances, product terms and other items.

Table of Contents

## RECONCILIATION OF GROSS SALES TO NET SALES DOLLARS (in millions)

Product Category	Description	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
	Gross Sales	\$438.5	\$399.1	\$336.7
	Commissions	(4.2 )	(4.1 )	(3.7 )
Fresh Ice Packed Chicken	Sales and Customer Allowances	(14.1 )	(12.8 )	(11.2 )
	Other (1)	(13.5 )	(13.5 )	(8.5 )
	Net Sales	406.7	368.7	313.3
	Gross Sales	999.9	1,057.6	1,025.3
	Commissions	(4.4 )	(4.6 )	(5.5 )
Chill Pack Chicken	Sales and Customer Allowances	(5.7 )	(6.5 )	(8.7 )
	Other (1)	(5.6 )	(5.3 )	(5.4 )
	Net Sales	984.2	1,041.2	1,005.7
	Gross Sales	144.0	178.3	257.9
	Commissions	—	(0.1 )	(0.3 )
Frozen Chicken	Sales and Customer Allowances	—	—	—
	Other (1)	(0.5 )	(0.6 )	(1.9 )
	Net Sales	143.5	177.6	255.7
	Gross Sales	1,085.7	1,010.6	1,026.8
	Commissions	(1.9 )	(1.7 )	(1.8 )
Fresh Vacuum Sealed Chicken	Sales and Customer Allowances	(9.4 )	(9.0 )	(9.1 )
	Other (1)	(7.5 )	(7.7 )	(6.7 )
	Net Sales	1,066.9	992.2	1,009.2
	Gross Sales	186.0	187.7	155.7
	Commissions	(0.4 )	(0.5 )	(0.7 )
Minimally Prepared Chicken	Sales and Customer Allowances	(0.2 )	(0.1 )	(0.5 )
	Other (1)	(0.3 )	(0.3 )	(0.2 )
	Net Sales	185.1	186.8	154.3
	Gross Sales	29.7	37.0	36.6
	Commissions	—	—	—
Mechanically Deboned Chicken	Sales and Customer Allowances	—	—	—
	Other (1)	—	—	—
	Net Sales	29.7	37.0	36.6
	Gross Sales	2,883.8	2,870.3	2,839.0
	Commissions	(10.9 )	(11.0 )	(12.0 )
Totals	Sales and Customer Allowances	(29.4 )	(28.4 )	(29.5 )
	Other (1)	(27.4 )	(27.4 )	(22.7 )
	Net Sales	\$2,816.1	\$2,803.5	\$2,774.8

(1) Other deductions include short weights, miscellaneous deductions, credit memos, rebates and other items.

Sales of offal are considered by-products; accordingly, these amounts reduce cost of sales and totaled \$27.8 million, \$31.2 million and \$43.1 million in fiscal 2016, 2015 and 2014, respectively.

The Company sells certain of its products either directly to foreign markets or to U.S. based customers who resell the product in foreign markets. These foreign markets for fiscal 2016 were primarily Mexico, Central Asia and the Middle East. For fiscal 2015 and 2014, these foreign markets were primarily Mexico, Russia, China, Eastern Europe, the Middle East and the Caribbean. These export sales for fiscal years 2016, 2015 and 2014 totaled approximately \$213.5 million, \$207.8 million and \$282.3 million, respectively. The Company does not believe that the amount of sales attributable to any single foreign country



Table of Contents

is material to its total sales during any of the periods presented. The Company's export sales are facilitated through independent food brokers located in the United States and the Company's internal sales staff.

**Use of Estimates:** The preparation of the consolidated financial statements in conformity with U.S. 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.

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

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

**Inventories:** Processed and prepared inventories and inventories of feed, eggs, medication and packaging supplies are stated at the lower of cost (average method) or market value.

Live poultry inventories of broilers are stated at the lower of cost or market value 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. When the projected cost to complete, process and sell broilers in live inventory exceeds the expected market value for the finished product, the Company reduces the value of live inventories from cost to market.

**Property, Plant and Equipment:** Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is provided by the straight-line method over the estimated useful lives of 15 to 39 years for buildings and 3 to 12 years for machinery and equipment. During fiscal 2016, 2015 and 2014, the Company capitalized interest of \$0.3 million, \$0.5 million and \$1.1 million, respectively, related to new facilities under construction at the time in Laurel, Mississippi, St. Pauls, North Carolina, and Palestine, Texas.

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

**Self-Insurance Programs:** Insurance expense for workers' compensation benefits and employee-related health care benefits are estimated using historical experience and actuarial estimates. The Company accrues expenses in its workers' compensation and employee benefit plans for both known claims as well as claims incurred but not reported. Stop-loss coverage is maintained with third party insurers to limit the Company's total exposure. Management regularly reviews the assumptions used to recognize periodic expenses. Any resulting adjustments to accrued claims are reflected in current operating results. There are no material adjustments to expenses accrued in prior periods in current expenses. If historical experience proves not to be a good indicator of future expenses, if management were to use different actuarial assumptions, or if there is a negative trend in the Company's claims history, there could be a significant increase or decrease in cost of sales depending on whether these expenses increased or decreased, respectively.

**Advertising and Marketing Costs:** The Company expenses advertising costs as incurred. Advertising costs are included in selling, general and administrative expenses and totaled \$25.1 million, \$13.1 million and \$12.9 million for fiscal 2016, 2015 and 2014, respectively.



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

Table of Contents

tax purposes. During fiscal 2016, the Company retrospectively adopted Accounting Standards Update No. 2015-17, "Income Taxes - Balance Sheet Classification of Deferred Taxes," which requires an entity to classify all deferred tax assets and liabilities as noncurrent. Refer to the "Impact of Recently Issued Accounting Standards" sub-section below for a description of the resulting reclassification to the related balance sheet items previously reported as of October 31, 2015.

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

The Company is periodically audited by taxing authorities and considers any adjustments, interest, and penalties incurred as a result of the audits in computing and reporting income tax expense. Any audit adjustments could have a material impact on the Company's effective tax rate. Tax periods for fiscal years 2013 through 2016 remain open to examination by federal and state taxing jurisdictions to which the Company is subject.

Share-Based Compensation: The Company accounts for all share-based payments to employees, including grants of restricted stock and performance-based shares, in the income statement based on their fair values. For performance-based shares, the Company recognizes expense when management determines the performance criteria are probable of being met.

Earnings Per Share: Basic earnings per share is based upon the weighted average number of common shares outstanding during the year. Share-based payment awards entitling holders to receive non-forfeitable dividends before vesting are considered participating securities and thus included in the calculation of basic earnings per share. These awards are included in the calculation of basic earnings per share under the two-class method. The two-class method allocates earnings for the period between common shareholders and other security holders. The participating awards receiving dividends are allocated the same amount of income as if they were outstanding shares. Diluted earnings per share includes any dilutive effects of options, warrants, restricted stock and convertible securities.

Fair Value of Financial Instruments: The Company sometimes holds certain items that are required to be disclosed at fair value, primarily cash equivalents and debt instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A three-level hierarchy is followed for disclosure to show the extent and level of judgment used to estimate fair value measurements:

Level 1 – Inputs used to measure fair value are unadjusted quoted prices that are available in active markets for the identical assets or liabilities as of the reporting date.

Level 2 – Inputs used to measure fair value, other than quoted prices included in Level 1, are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.

Level 3 – Inputs used to measure fair value are unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

At October 31, 2016 and October 31, 2015, the fair value of the Company's cash and short-term cash investments approximated their carrying value due to the short maturity of these financial instruments and were categorized as a Level 2 measurement. Inputs used to measure fair value were primarily recent trading prices and prevailing market interest rates.

Fair values for debt are based on quoted market prices or published forward interest rate curves and were categorized as Level 2 measurements. The fair value and carrying value of the Company's borrowings under its long-term debt were as follows:

	October 31, 2016	October 31, 2015
	Fair Value	Carrying Value
Total Debt (In millions) \$	—\$	—\$10.2 \$ 10.0

Impact of Recently Issued Accounting Standards: In March 2016, the FASB issued guidance requiring all income tax effects of stock awards to be recognized in the statement of operations when the awards vest or are settled rather than recording excess tax benefits or deficiencies in additional paid-in capital. Additionally, classification of the related amounts in the statement of

47

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Table of Contents

cash flows will be recognized within operating activities, rather than financing activities. The guidance also changes accounting for an employee's use of shares to satisfy the employer's statutory tax withholding obligation and for forfeitures. The standard becomes effective for interim and annual periods beginning after December 15, 2016, our fiscal 2018. Early adoption is permitted. The effect of this new standard's provisions on excess tax benefits or deficiencies in our consolidated financial statements will depend on the changes in the Company's stock prices at vesting dates and grant dates for awards that vest after adoption. The changes in amounts repurchased for tax withholding purposes and changes in the accounting for forfeitures are not expected to have a material effect on our consolidated financial statements.

In February 2016, the FASB issued guidance which is intended to increase transparency and comparability among companies by requiring an entity that is a lessee to recognize on the balance sheet the right-of-use assets and lease liabilities arising from all leases with terms, as defined by the guidance, of greater than twelve months. The guidance also requires disclosures of key information about the leasing arrangements. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2018, our fiscal 2020. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

In November 2015, the FASB issued guidance that requires an entity to classify all deferred tax assets and liabilities as noncurrent. The standard is effective for fiscal years beginning after December 15, 2016, our fiscal 2018, and interim periods within those years. Early adoption is permitted. The Company adopted this standard, retrospectively, as of October 31, 2016. The changes in the effected income tax related balance sheet accounts at the prior year end were as follows:

	October 31, 2015	
	Prior to	As
	Adoption	Effects of
	(previous	Adoption
	reported)	(currently
		reported)

## Current Assets

Current Deferred Income Taxes	\$4,709	\$ (4,709 )	\$ —
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## Non-current Liabilities

Deferred Income Taxes	\$52,234	\$ (4,709 )	\$ 47,525
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In July 2015, the FASB issued guidance that requires an entity to measure inventory at the lower of cost or net realizable value. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2016, our fiscal 2018. Early adoption is permitted and the prospective transition method should be applied. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

In April 2015, the FASB issued guidance requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in the new standard. The standard requires retrospective application and will be effective for financial statements issued for fiscal years beginning after December 15, 2015, our fiscal year 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company does not believe adoption will have a material effect on our consolidated financial statements.

In May 2014, the FASB issued guidance changing the criteria for recognizing revenue, which was amended in 2015 to defer the effective date by one year. The guidance also modifies the related disclosure requirements, clarifies guidance for multiple-element arrangements and provides guidance for transactions that were not addressed fully in previous guidance. The guidance, as amended, is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. Early adoption is permitted for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

2. Inventories

Inventories consisted of the following:

48

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Table of Contents

	October 31,	
	2016	2015
	(In thousands)	
Live poultry-broilers and breeders	\$143,554	\$131,984
Feed, eggs and other	40,834	37,109
Processed poultry	15,378	10,158
Prepared chicken	13,640	11,927
Packaging materials	6,900	7,575
	\$220,306	\$198,753

## 3. Prepaid expenses

Prepaid expenses consisted of the following:

	October 31,	
	2016	2015
	(In thousands)	
Parts and supplies	\$23,022	\$21,332
Prepaid insurance	6,084	7,385
Other prepaid expenses	5,453	4,614
	\$34,559	\$33,331

## 4. Accrued expenses

Accrued expenses consisted of the following:

	October 31,	
	2016	2015
	(In thousands)	
Accrued bonuses	\$441	\$30,360
Workers' compensation claims	7,971	7,813
Accrued wages	8,415	6,169
Accrued rebates	6,761	6,347
Accrued vacation	6,721	5,999
Accrued property taxes	8,710	6,965
Product recall	—	4,153
Accrued payroll taxes	9,209	9,991
Other accrued expenses	9,690	10,634
	\$57,918	\$88,431

## 5. Long-Term debt obligations

Long-term debt obligations consisted of the following:

	October 31,	
	2016	2015
	(In thousands)	
Term loan, accruing interest at 6.12%, matured in 2016	—	10,000
	—	10,000
Less current maturities of long-term debt	—	10,000
	\$ —	\$ —

Table of Contents

The Company is a party to a revolving credit facility dated April 24, 2015, with a maximum available borrowing capacity of \$750.0 million. The facility has an annual capital expenditure limitation of \$100.0 million for fiscal years 2016 through 2020, and permits up to \$15.0 million of the unused capital expenditure limitation from the prior fiscal year to be carried over to the next fiscal year. The capital expenditure limitation for fiscal 2016 is \$115.0 million. The credit facility also permits the Company to spend up to \$160.0 million in capital expenditures on the construction of the new poultry complex in St. Pauls, North Carolina, and up to \$175.0 million in capital expenditures on the construction of a potential additional new poultry complex, which expenditures are in addition to the annual capital expenditure limits. In addition to the annual capital expenditure limits, the credit facility permits the Company to spend up to \$15.0 million in capital expenditures on the acquisition of a new aircraft, and that provision was utilized during fiscal 2015 and the first quarter of fiscal 2016. Under the facility, the Company may not exceed a maximum debt to total capitalization ratio of 50%. The Company has a one-time right, at any time during the term of the agreement, to increase the maximum debt to total capitalization ratio then in effect by five percentage points in connection with the construction of either the St. Pauls, North Carolina complex or a second potential new poultry complex for the four fiscal quarters beginning on the first day of the fiscal quarter during which the Company gives written notice of its intent to exercise this right. The Company has not exercised this right. The facility also sets a minimum net worth requirement that at October 31, 2016, was \$833.1 million. The credit is unsecured and, unless extended, will expire on April 24, 2020. As of October 31 and December 8, 2016, the Company had zero outstanding draws under the facility, and had approximately \$16.3 million outstanding in letters of credit, leaving \$733.7 million available under the facility.

The Company has the option to borrow funds under the revolving line of credit based on the Prime interest rate or the Libor interest rate plus a spread ranging from 0.25% to 1.50%. The spread on Libor borrowings and the commitment fee for the unused balance of the revolving credit agreement are determined based upon the Company's leverage ratio as follows:

Level	Leverage Ratio	Spread	Commitment Fee
1	< 25%	0.25 %	0.20 %
2	≥ 25% and < 35%	0.50 %	0.25 %
3	≥ 35% and < 45%	1.00 %	0.30 %
4	≥ 45%	1.50 %	0.35 %

## 6. Income Taxes

Income tax expense consisted of the following:

	Years Ended October 31,		
	2016	2015	2014
	(In thousands)		
Current expense:			
Federal	\$67,880	\$101,605	\$127,519
State	7,613	11,704	12,766
	75,493	113,309	140,285
Deferred expense (benefit):			
Federal	27,983	4,169	(8,769 )
State	1,194	1,043	577
Change in valuation allowance	(954 )	(431 )	(1,675 )
	28,223	4,781	(9,867 )
	\$103,716	\$118,090	\$130,418

Significant components of the Company's deferred tax assets and liabilities are outlined below. During fiscal 2016, the Company retrospectively adopted Accounting Standards Update No. 2015-17, "Income Taxes - Balance Sheet Classification of Deferred Taxes," which requires an entity to classify all deferred tax assets and liabilities as noncurrent. Refer to the "Impact of Recently Issued Accounting Standards" sub-section of the Significant Accounting Policies footnote for a description of the resulting reclassification to the related balance sheet items previously reported as of October 31, 2015.





Table of Contents

	October 31,	
	2016	2015
	(In thousands)	
Deferred tax liabilities:		
Property, plant and equipment	\$96,027	\$67,923
Prepaid and other assets	2,243	2,248
Total deferred tax liabilities	98,270	70,171
Deferred tax assets:		
Accrued expenses and accounts receivable	10,572	10,091
Inventory	493	219
Compensation on restricted stock	10,591	11,820
State income tax credits	15,229	15,833
Other	166	166
Valuation allowance	(14,529 )	(15,483 )
Total deferred tax assets	22,522	22,646
Net deferred tax liabilities	\$75,748	\$47,525

The increase in the Company's deferred tax liability is primarily attributable to legislation enacted during the first quarter of fiscal 2016 which allowed for bonus depreciation to be taken on qualifying assets placed in service during the 2015 calendar year and the Company's decision to take advantage of the legislation.

Included in the deferred tax assets at October 31, 2016, are North Carolina Investing in Business Property Credit and North Carolina Jobs Credits totaling \$12,351,000, as well as Georgia Job Tax Credits totaling \$2,878,000. The North Carolina Investing in Business Property Credit provides a 7% investment tax credit for property located in a North Carolina development area, the North Carolina Creating Jobs Credit provides a tax credit for increased employment in North Carolina, and the Georgia Job Tax Credit provides a tax credit for creation and retention of qualifying jobs in Georgia. It is management's opinion that the majority of the North Carolina and Georgia income tax credits will not be utilized before they expire, and a \$14,529,000 valuation allowance has been recorded. These credits expire between fiscal years 2017 and 2023.

At the end of each reporting period, the Company evaluates all available information at that time to determine if it is more likely than not that some or all of these credits will be utilized. As of October 31, 2016, 2015, and 2014, the Company determined that a total of \$700,000, \$350,000, and \$633,000, respectively, would be recovered.

Accordingly, those amounts were released from the valuation allowance and benefited deferred tax expense in the respective periods.

The differences between the consolidated effective income tax rate and the federal statutory rate of 35.0% are as follows:

	Years Ended October 31,		
	2016	2015	2014
	(In thousands)		
Income taxes at statutory rate	\$102,437	\$116,932	\$132,813
State income taxes	7,007	8,757	9,450
State income tax credits	(948 )	(342 )	(191 )
Federal income tax credits	(390 )	(90 )	(97 )
Federal manufacturers deduction	(8,425 )	(10,714 )	(12,636 )
Nondeductible expenses	2,482	3,234	2,909
Other, net	2,507	744	(155 )
Change in valuation allowance	(954 )	(431 )	(1,675 )
Income tax expense	\$103,716	\$118,090	\$130,418

## 7. Earnings Per Share



Table of Contents

Certain share-based payment awards entitling holders to receive non-forfeitable dividends before vesting are considered participating securities and thus included in the calculation of basic earnings per share, to the extent they are dilutive. These awards are included in the calculation of basic earnings per share under the two-class method. The two-class method allocates earnings for the period between common shareholders and other security holders. The participating awards receiving dividends are allocated the same amount of income as if they were outstanding shares. The following table presents earnings per share (in thousands).

	For the years ended		
	October 31, 2016	October 31, 2015	October 31, 2014
Net income	\$188,961	\$216,001	\$249,048
Distributed and undistributed (earnings) to unvested restricted stock	(2,930 )	(4,172 )	(6,781 )
Distributed and undistributed earnings to common shareholders — Basic	86,031	211,829	242,267
Weighted average shares outstanding — Basic	22,225	22,243	22,441
Weighted average shares outstanding — Diluted	22,225	22,243	22,441
Earnings per common share — Basic	\$8.37	\$9.52	\$10.80
Earnings per common share — Diluted	\$8.37	\$9.52	\$10.80

## 8. Employee Benefit Plans

The Company has an Employee Stock Ownership Plan (“ESOP”) covering substantially all employees. Contributions to the ESOP are made in cash at the discretion of the Company’s Board of Directors. Total contributions to the ESOP were \$12,300,000, \$15,000,000, and \$15,000,000 in fiscal 2016, 2015, and 2014, respectively. Contributions to the ESOP vary in amount, as the contributions are based on profitability.

The Company has a 401(k) Plan which covers substantially all employees after one year of service. Participants in the Plan may contribute up to the maximum allowed by Internal Revenue Service regulations. The Company matches 100% of employee contributions to the 401(k) Plan up to 3% of each employee’s salary, and 50% of employee contributions between 3% and 5% of each employee’s salary. The Company’s contributions to the 401(k) Plan totaled \$7,404,000 in fiscal 2016; \$6,670,000 in fiscal 2015; and \$6,058,000 in fiscal 2014.

## 9. Stock Compensation Plans

On February 17, 2005, the shareholders of the Company approved the Sanderson Farms, Inc. and Affiliates Stock Incentive Plan (the “Plan”). The Plan allows the Company’s Board of Directors to grant certain incentive awards including stock options, stock appreciation rights, restricted stock, and other similar awards. The Company was authorized to award up to 2,250,000 shares under the Plan. On February 17, 2011, the shareholders approved changes to the plan to increase the shares that may be issued under the plan from 2,250,000 to 3,500,000 shares and to increase the number of shares that may be granted in the form of restricted stock from 562,500 to 1,562,500 shares. On February 11, 2016, the shareholders approved the authorization of an additional 700,000 shares issuable under plan, for a total of 4,200,000 authorized shares. The shareholders also approved an increase in the number of shares issuable as restricted stock from 1,562,500 to 2,112,500 shares.

Pursuant to the Plan, the Company’s Board of Directors approves agreements for the issuance of restricted stock to directors, executive officers and other key employees. Restricted stock granted in fiscal 2016, 2015 and 2014, vests three to four years from the date of grant. The vesting schedule is accelerated upon death, disability, the participant’s termination of employment after reaching retirement eligibility, by reason of retirement, or upon a change in control, as defined. Restricted stock grants are valued based upon the closing market price of the Company’s common stock on the date of grant and are recognized as compensation expense over the vesting period. Compensation expense related to restricted stock grants totaled \$6,459,000; \$6,452,000; and \$4,831,000 during fiscal 2016, 2015 and 2014, respectively.

A summary of the Company’s restricted stock activity and related information is as follows:

Table of Contents

	Number of Shares	Weighted Average Grant Price
Outstanding at October 31, 2013	568,625	\$ 44.85
Granted during fiscal 2014	98,925	\$ 67.26
Vested during 2014	(84,601 )	\$ 40.22
Forfeited during 2014	(16,899 )	\$ 47.20
Outstanding at October 31, 2014	566,050	\$ 49.39
Granted during fiscal 2015	77,600	\$ 82.75
Vested during 2015	(327,988 )	\$ 44.98
Forfeited during 2015	(1,362 )	\$ 62.15
Outstanding at October 31, 2015	314,300	\$ 62.16
Granted during fiscal 2016	101,935	\$ 71.58
Vested during 2016	(119,407 )	\$ 54.09
Forfeited during 2016	(3,018 )	\$ 67.82
Outstanding at October 31, 2016	293,810	\$ 68.65

The Company had \$9.0 million in unrecognized share-based compensation costs related to the 293,810 unvested shares as of October 31, 2016, that will be recognized over a weighted average period of 1 year, 9 months.

Also pursuant to the Plan, the Company's Board of Directors approves Management Share Purchase Plan agreements (the "Purchase Plan") that authorize the issuance of shares of restricted stock to the Company's directors, executive officers and other key employees. Pursuant to the Purchase Plan, non-employee directors may elect to receive up to 100 percent of their annual retainer and meeting fees in the form of restricted stock. Other participants may elect to receive up to 15 percent of their salary and up to 75 percent of any bonus earned in the form of restricted stock. The purchase price of the restricted stock is the closing market price of the Company's common stock on the date of purchase. The Company makes matching contributions of 25 percent of the restricted shares purchased by participants. Restricted stock issued pursuant to the Purchase Plan vests after three years or immediately upon death, disability, or change in control, as defined. If an employee terminates employment after attaining eligibility for retirement, or a non-employee director retires upon the expiration of his or her board term, the participant's Purchase Plan shares vest immediately. If a participant's employment or service as a director is terminated for any other reason prior to the three-year vesting period, the participant forfeits the matching contribution and the Company may, at its option, repurchase restricted stock purchased by the participant at the price paid by the participant. Matching contributions are recognized as compensation expense over the vesting period. During fiscal 2016, 2015 and 2014, the participants purchased a total of 15,075; 15,395; and 12,823 shares of restricted stock pursuant to the Purchase Plan, valued at an average price of \$84.71, \$78.53, and \$80.80, per share, respectively, and the Company issued 3,650; 3,734; and 3,101 matching shares, valued at an average price of \$84.71, \$78.53, and \$80.80 per share, respectively. During fiscal 2016, 2015 and 2014, the participants vested in a total of 16,746; 21,540; and 24,445 shares of restricted stock pursuant to the Purchase Plan, valued at an average price of \$57.41, \$51.06, and \$43.98, per share, respectively. During fiscal 2016, 2015 and 2014, the participants forfeited a total of 484; 112; and 1,523 shares of restricted stock pursuant to the Purchase Plan, respectively. Compensation expense related to the Company's matching contribution totaled approximately \$313,000, \$297,000 and \$199,000 in fiscal 2016, 2015 and 2014, respectively. During fiscal 2016, 2015 and 2014, the Company entered into performance share agreements that grant certain officers and key employees the right to receive shares of the Company's common stock, subject to the Company's achievement of certain performance measures. The performance share agreements specify a target number of shares that a participant can receive based upon the Company's average return on equity and average return on sales, as defined, during a two-year performance period beginning November 1 of each performance period. Although the performance share agreements have a two-year performance period, they are subject to an additional one year period during which the participant must remain employed by the Company before they are paid out. If the Company's average return on equity and average return on sales exceed certain threshold amounts for the performance period, participants will receive 50 percent to 200 percent of the target number of shares, depending upon the Company's level

of performance. The target number of shares specified in the performance share agreements executed during fiscal 2016 totaled 83,875. As of October 31, 2016, the Company could not determine that achievement of the applicable performance based criteria is probable due to the uncertainties discussed below, and therefore recorded no compensation expense related to those agreements.

Table of Contents

The Company also has performance share agreements in place with certain officers and key employees that were entered into during fiscal 2015. During fiscal 2016, the Company determined based on combined results of fiscal 2015 and 2016, that achievement of the applicable performance based criteria for the fiscal 2015 agreements is probable at a level between the target and maximum levels. Accordingly, fiscal 2016 includes compensation expense of \$5,876,000, as compared to no compensation expense recorded during fiscal 2015 related to the fiscal 2015 agreements. As of October 31, 2016, the aggregate number of shares estimated to be awarded related to the fiscal 2015 performance share agreements totaled 103,974 shares. Since the performance period for those agreements has ended, the actual number of shares that will be awarded can change only due to potential forfeitures during the remaining twelve months of the service period ending October 31, 2017.

The Compensation Committee of the Company's Board of Directors has determined that the performance shares granted November 1, 2013, have been earned at the maximum level. Accordingly, fiscal 2016 includes compensation expense of \$3,165,000, related to those agreements, as compared to \$6,428,000 during fiscal 2015. Because management's initial determination of probability was made during fiscal 2015, and because adjustments to the accrual are made using the cumulative catch up method of accounting, the compensation expense recorded during fiscal 2015 related to the agreements entered into on November 1, 2013, was greater than that recorded during fiscal 2016. A total of 146,169 shares from the fiscal 2014 agreements vested and were issued on October 31, 2016.

In estimating the compensation expense to record in a period, the Company considers, among other factors, current and projected grain costs and chicken volumes and pricing, as well as the amount of the Company's commitments to procure grain at a fixed price throughout the performance period. Due to the high level of volatility of these commodity prices and the impact that the change in pricing can have on the Company's results, the Company's assessment of probability can change from period to period and can result in a significant revision to the amounts accrued related to the arrangements. Had the Company determined that it was probable that the maximum amount of those outstanding awards from the fiscal 2016 agreements would be earned, an additional \$3.8 million would have been accrued as of October 31, 2016.

A summary of the Company's compensation cost related to performance share agreements is as follows (in thousands):

Date of Performance Share Agreement	Number of shares issued (actual (a) or estimated (e))	For the years ended		
		October 31, 2016	October 31, 2015	October 31, 2014
November 1, 2011	102,534 (a)	\$—	\$ —	\$ 1,543
November 1, 2012	186,951 (a)	—	2,891	5,823
November 1, 2013	146,169 (a)	3,165	6,428	—
November 1, 2014	103,974 (e)	5,876	—	—
November 1, 2015	—	—	—	—
Total compensation cost		\$9,041	\$ 9,319	\$ 7,366

#### 10. Commitments and Contingencies

The Company has approximately 13,232 employees, approximately 13.3% of whom are covered by collective bargaining agreements. Each collective bargaining agreement has a grievance procedure and no strike-no lockout clauses that should assist in maintaining stable labor relations at the applicable facility.

The Company has vehicle and equipment operating leases that expire at various dates through fiscal 2021. Rental expense under these leases totaled approximately \$13.7 million, \$11.6 million, and \$9.0 million during fiscal 2016, 2015 and 2014, respectively. The minimum lease payments of obligations under non-cancelable operating leases at October 31, 2016 were as follows (in millions):

Fiscal Year Amount	
2017	\$ 11.5

2018	10.8
2019	6.5
2020	3.8
2021	1.5
	\$ 34.1

54

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Table of Contents

At October 31, 2016, the Company's estimated contractual obligations for feed grains, feed ingredients, and packaging supplies totaled \$79.6 million, with the entire amount due in less than one year.

In March 2015, the Company announced the selection of sites in and near St. Pauls, North Carolina, for the construction of its newest poultry complex. The completed complex will consist of a hatchery, processing plant, wastewater treatment facility, and an expansion of the Company's existing feed mill in Kinston, North Carolina. Construction began in July 2015, and initial operations of the new complex are expected to begin during the first quarter of fiscal 2017. The Company estimates the total investment in the complex will be approximately \$155.0 million. As of October 31, 2016, the Company has spent approximately \$135.6 million on the project, including approximately \$265,000 of capitalized interest, and we are obligated to spend the remaining approximate \$19.4 million during the first half of fiscal 2017. The amounts and timing of the remaining expenditures are estimates and are subject to change as the project moves toward completion.

Between September 2, 2016 and October 13, 2016, Sanderson Farms, Inc. and our subsidiaries were named as defendants, along with 13 other poultry producers and certain of their affiliated companies, in multiple putative class action lawsuits filed by direct and indirect purchasers of broiler chickens in the United States District Court for the Northern District of Illinois. The complaints allege that the defendants conspired to unlawfully fix, raise, maintain and stabilize the price of broiler chickens, thereby violating federal and certain states' antitrust laws, and also allege certain related state-law claims. The complaints also allege that the defendants fraudulently concealed the alleged anticompetitive conduct in furtherance of the conspiracy. The complaints seek damages, including treble damages for the antitrust claims, injunctive relief, costs and attorneys' fees. The court has consolidated each of the direct purchaser complaints into one case, and each of the indirect purchaser complaints into one case. On October 28, 2016, the plaintiffs filed consolidated, amended complaints in each case, and on November 23, 2016, the plaintiffs filed second amended complaints. The lawsuits are in the earliest stages and we intend to defend them vigorously; however, the Company cannot predict the outcome of these actions. If the plaintiffs were to prevail, the Company could be liable for damages, which could have a material, adverse effect on our financial position and results of operations.

Sanderson Farms, Inc.; Joe F. Sanderson, Jr., the Chairman of the Registrant's Board of Directors and its Chief Executive Officer; and D. Michael Cockrell, director and Chief Financial Officer, were named as defendants in a putative class action lawsuit filed on October 28, 2016, in the United States District Court for the Southern District of New York. The complaint alleges that the defendants made statements in the Registrant's SEC filings and press releases, and other public statements, that were materially false and misleading in light of the Registrant's alleged, undisclosed violation of the federal antitrust laws described above. The complaint also alleges that the material misstatements were made in order to, among other things, "artificially inflate and maintain the market price of Sanderson Farms securities." The complaint alleges the defendants thereby violated the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and seeks damages, interest, costs and attorneys' fees. The lawsuit is in its earliest stage and the defendants intend to defend it vigorously; however, the Company cannot predict the outcome of these actions. If the plaintiffs were to prevail, the Company could be liable for damages, which could have a material, adverse effect on our financial position and results of operations.

The Company is involved in various other claims and litigation incidental to its business. Although the outcome of these matters cannot be determined with certainty, management, upon the advice of counsel, is of the opinion that the final outcome of any currently pending claim, other than those discussed above, should not have a material effect on the Company's consolidated results of operations or financial position.

The Company recognizes the costs of legal defense for the legal proceedings to which it is a party in the periods incurred. After a considerable analysis of each case, the Company determines the amount of reserves required, if any. At this time, the Company has not accrued any reserve for any of these matters. Future reserves may be required if losses are deemed reasonably estimable and probable due to changes in the Company's assumptions, the effectiveness of legal strategies, or other factors beyond the Company's control. Future results of operations may be materially affected by the creation of reserves or by accruals of losses to reflect any adverse determinations in these legal proceedings.

11. Quarterly Financial Data (unaudited)





Table of Contents

	Fiscal Year 2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data) (Unaudited)			
Net sales	\$605,166	\$692,089	\$727,991	\$790,811
Gross profit	50,105	113,813	129,428	160,655
Net income	10,681	47,602	54,716	75,962
Diluted earnings per share	\$0.47	\$2.11	\$2.42	\$3.36

	Fiscal Year 2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data) (unaudited)			
Net sales	\$667,363	\$716,592	\$739,933	\$679,592
Gross profit	141,162	139,025	127,172	83,753
Net income	66,503	71,246	50,881	27,371
Diluted earnings per share	\$2.87	\$3.13	\$2.27	\$1.22

Sanderson Farms, Inc. and Subsidiaries  
Valuation and Qualifying Accounts  
Schedule II

Classification	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions Describe(1)	Balance at End of Period
	(In Thousands)				
Year Ended October 31, 2016					
Deducted from accounts receivable:					
Allowance for doubtful accounts					
Totals	\$2,500	\$ 178		\$ 28	\$ 2,650
Year Ended October 31, 2015					
Deducted from accounts receivable:					
Allowance for doubtful accounts					
Totals	\$2,200	\$ 300		\$ —	\$ 2,500
Year Ended October 31, 2014					
Deducted from accounts receivable:					
Allowance for doubtful accounts					
Totals	\$2,200	\$ 29		\$ 29	\$ 2,200

(1)Uncollectible accounts written off, net of recoveries

Table of Contents

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

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of October 31, 2016, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of October 31, 2016.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the fourth quarter ended October 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's management has assessed the effectiveness of the Company's internal control over financial reporting as of October 31, 2016. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013 framework). Based on our assessment we have concluded that, as of October 31, 2016, the Company's internal control over financial reporting is effective based on those criteria.

Attestation Report of the Registered Public Accounting Firm

Our independent registered public accounting firm, Ernst & Young LLP, has provided an attestation report on the Company's internal control over financial reporting as of October 31, 2016.

Item 9B. Other Information

Not applicable.

Table of Contents

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting  
The Board of Directors and Stockholders  
Sanderson Farms, Inc.

We have audited Sanderson Farms, Inc. and subsidiaries' internal control over financial reporting as of October 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Sanderson Farms, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sanderson Farms, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of October 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sanderson Farms, Inc. and subsidiaries as of October 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2016, of Sanderson Farms, Inc. and subsidiaries, and our report dated December 15, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
New Orleans, Louisiana  
December 15, 2016

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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. The Registrant also incorporates by reference, as permitted by General Instruction G(3) to Form 10-K, information appearing in its definitive proxy statement filed or to be filed with the Commission pursuant to Rule 14a-6(b) related to the filing of reports under Section 16 of the Securities Exchange Act of 1934.

The Registrant has a standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act, whose members are John H. Baker, III (Vice Chairman), Fred Banks, Jr., Robert C. Khayat, Phil K. Livingston, Dianne Mooney, Gail J. Pittman and Charles W. Ritter, Jr. (Chairman). All members of the audit committee are independent directors under the listing standards of the NASDAQ Stock Market LLC. The Registrant's Board of Directors has determined that Phil K. Livingston is an audit committee financial expert.

The Registrant has adopted a code of ethics that applies to its senior financial personnel, including its chief executive officer, chief financial officer and chief accounting officer. The Registrant will provide a copy of the code of ethics free of charge to any person upon request to:

Sanderson Farms, Inc.

P.O. Box 988

Laurel, Mississippi 39441

Attn.: Chief Financial Officer

Requests can also be made by phone at (601) 649-4030.

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 and Related Stockholder Matters

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.

The following table provides information as of October 31, 2016, with respect to compensation plans (including individual compensation arrangements) under which equity securities of the Registrant are authorized for issuance. The Registrant has no equity compensation plan not approved by security holders. All outstanding awards were issued under the Registrant's Stock Incentive Plan approved by shareholders on February 17, 2005, as most recently amended and approved by shareholders on February 11, 2016. No further options or other awards may be granted under the Stock Option Plan. There are 4,200,000 shares of common stock authorized for issuance under the Stock Incentive Plan.

Table of Contents

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	(b) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)(2)
Equity compensation plans approved by security holders	269,024	848,233
Equity compensation plans not approved by security holders	—	—
Total	269,024	848,233

(1) This column reflects 103,974 performance shares outstanding at October 31, 2016, that have been earned and that are subject to an additional one year, service-based vesting period ending on October 31, 2017, before they can be issued, and 165,050 unearned performance shares at October 31, 2016, at the maximum level. However, management could not determine that achievement of the applicable performance based criteria is probable for those unearned performance shares. This column does not include the 146,169 fiscal 2014 performance shares that were issued on October 31, 2016.

(2) This column reflects the 1,158,038 shares of restricted stock granted to participants under the Stock Incentive Plan, the 271,424 shares of restricted stock purchased by or granted to participants under the MSPP provisions of the Stock Incentive Plan, the 679,631 earned performance shares that have been issued or are expected to be issued under the Stock Incentive Plan, and the 165,050 unearned outstanding performance shares that could be earned as described in footnote (1) above, in each case since the inception of the plan and net of forfeitures, but including shares withheld to satisfy tax withholding obligations.

**Item 13. Certain Relationships and Related Transactions and Director Independence**

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 reference to the definitive proxy statement.

**Item 14. Principal Accounting Fees and Services**

As permitted by General Instruction G(3) to Form 10-K, information required to be reported by Item 14 of Form 10-K is set forth in the Registrant’s definitive proxy statement filed or to be filed with the Commission pursuant to Rule 14a-6(b). That information is incorporated by reference into this Form 10-K.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. FINANCIAL STATEMENTS:

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

Consolidated Balance Sheets — October 31, 2016 and 2015

Consolidated Statements of Operations — Years ended October 31, 2016, 2015 and 2014

Consolidated Statements of Stockholders' Equity — Years ended October 31, 2016, 2015 and 2014

Consolidated Statements of Cash Flows — Years ended October 31, 2016, 2015 and 2014

Notes to Consolidated Financial Statements — October 31, 2016

(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 required, 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	Description
3.1	Restated Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 3.1 filed with the Registrant's Quarterly Report on Form 10-Q for the Quarter ended on July 31, 2015.)
3.2	By-Laws of the Registrant, amended and restated as of February 13, 2014. (Incorporated by reference to Exhibit 3 filed with the Registrant's Current Report on Form 8-K on February 20, 2014.)
10.1	Contract dated July 31, 1964, between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.2	Contract Amendment dated December 1, 1970, between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D-1 filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.3	Contract Amendment dated June 11, 1985, between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D-2 filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.4	Contract Amendment dated October 7, 1986, between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D-3 filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.5+	Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan, as amended and restated effective November 1, 2013. (Incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2013.)
10.6+*	First Amendment to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan dated as of July 23, 2014.
10.7+*	

Second Amendment to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan dated as of May 2, 2016.

10.8+\* Third Amendment to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan dated as of October 20, 2016.

61

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Table of Contents

Exhibit Number	Description
10.9+	Sanderson Farms, Inc. and Affiliates Stock Incentive Plan, as amended and restated on February 17, 2011. (Incorporated by reference to Appendix A to the Registrant's definitive proxy statement filed on January 14, 2011, for its annual meeting held February 17, 2011.)
10.10+	Sanderson Farms, Inc. and Affiliates Stock Incentive Plan, as amended and restated on February 11, 2016. (Incorporated by reference to Exhibit 4.3 to the Registrant's registration statement on Form S-8 filed by the Registrant on February 11, 2016, Registration No. 333-209481.)
10.11+	Sanderson Farms, Inc. Bonus Award Program Effective November 1, 2014. (Incorporated by reference to Exhibit 10 filed with the Registrant's Current Report on Form 8-K on January 26, 2015.)
10.12+	Sanderson Farms, Inc. Bonus Award Program Effective November 1, 2015. (Incorporated by reference to Exhibit 10 filed with the Registrant's Current Report on Form 8-K on January 25, 2016.)
10.13+	Sanderson Farms, Inc. Supplemental Disability Plan effective September 1, 2008. (Incorporated by reference to Exhibit 10 to the Current Report on Form 8-K filed by the Registrant on October 1, 2008).
10.14+	Form of Share Purchase Agreement between the Registrant and its non-employee directors who participate in its management share purchase plan, as amended. (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007.)
10.15+	Form of Share Purchase Agreement between the Registrant and its officers and employees who participate in its management share purchase plan, as amended. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Quarterly Report on Form 10-Q for the Quarter ended April 30, 2008.)
10.16+	Form of Restricted Stock Agreement between the Registrant and its officers and employees who are granted restricted stock with a four-year vesting period (for awards granted after August 2009 through fiscal 2013). (Incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2009.)
10.17+	Form of Restricted Stock Agreement between the Registrant and its officers and employees who are granted restricted stock with a four-year vesting period (for awards granted on or after November 1, 2013). (Incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2013.)
10.18+	Form of Restricted Stock Agreement between the Registrant and its non-employee directors who are granted restricted stock, as amended. (Incorporated by reference to Exhibit 10.4 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007.)
10.19+	Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2014). (Incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2013.)
10.20+	Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2015). (Incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2014.)

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- 10.21+ Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2016). (Incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2015.)
- 10.22+\* Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2017).
- 10.23+ Employment Agreement dated as of November 1, 2015 between the Registrant and Joe F. Sanderson, Jr. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Current Report on Form 8-K/A on January 13, 2016.)
- 10.24+ Employment Agreement dated as of November 1, 2015 between the Registrant and Lampkin Butts. (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Current Report on Form 8-K/A on January 13, 2016.)
- 10.25+ Employment Agreement dated as of November 1, 2015 between the Registrant and D. Michael Cockrell. (Incorporated by reference to Exhibit 10.3 filed with the Registrant's Current Report on Form 8-K on November 2, 2015.)
- 10.26 Memorandum of Agreement dated June 13, 1989, between Pike County, Mississippi and the Registrant. (Incorporated by reference to Exhibit 10-L filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1990.)

Table of Contents

Exhibit Number	Description
10.27	Wastewater Treatment Agreement between the City of Magnolia, Mississippi and the Registrant dated August 19, 1991. (Incorporated by reference to Exhibit 10-M filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991.)
10.28	Memorandum of Agreement and Purchase Option between Pike County, Mississippi and the Registrant dated May 1991. (Incorporated by reference to Exhibit 10-N filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991.)
10.29	Lease Agreement between Pike County, Mississippi and the Registrant dated as of November 1, 1992. (Incorporated by reference to Exhibit 10-M filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1993.)
10.30	Lease Agreement dated as of December 1, 2004, between Moultrie-Colquitt County Development Authority, as Lessor, and Sanderson Farms, Inc. (Processing Division) as Lessee. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.)
10.31	Bond Purchase Loan Agreement between Moultrie-Colquitt County Development Authority, as Issuer, and Sanderson Farms, Inc. (Processing Division), as Purchaser. (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.)
10.32	Credit Agreement dated April 24, 2015 among Sanderson Farms, Inc. and BMO Harris Bank N.A. as Agent for the Banks defined therein. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Current Report on Form 8-K on April 29, 2015.)
10.33	Guaranty Agreement dated April 24, 2015 of Sanderson Farms, Inc. (Foods Division), Sanderson Farms, Inc. (Production Division) and Sanderson Farms, Inc. (Processing Division). (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Current Report on Form 8-K filed April 29, 2015.)
10.34	Note Purchase Agreement dated as of April 28, 2006, between Sanderson Farms, Inc. and Northwest Farm Credit Services, PCA. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
10.35	Guarantee Agreement dated as of April 28, 2006, of Sanderson Farms, Inc. (Foods Division). (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
10.36	Guarantee Agreement dated as of April 28, 2006, of Sanderson Farms, Inc. (Production Division). (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
10.37	Guarantee Agreement dated as of April 28, 2006, of Sanderson Farms, Inc. (Processing Division). (Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
10.38	Intercreditor Agreement dated as of April 28, 2006, among The Lincoln National Life Insurance Company, Northwest Farm Credit Services, PCA, Harris N.A., SunTrust Bank, AmSouth Bank, U.S. Bank National Association, Regions Bank, and Trustmark National Bank. (Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)

- 10.39 Lease Agreement dated as of July 1, 2006, between Adel Industrial Development Authority as Lessor, and Sanderson Farms, Inc. (Production Division) as Lessee. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2006.)
- 10.40 Bond Purchase Agreement dated as of July 31, 2006, between Sanderson Farms, Inc. (Production Division) as Purchaser and Adel Industrial Development Authority as Issuer. (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2006.)
- 21 List of Subsidiaries of the Registrant. (Incorporated by reference to Exhibit 21 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)
- 23\* Consent of Independent Registered Public Accounting Firm.
- 31.1\* Certification of Chief Executive Officer.
- 31.2\* Certification of Chief Financial Officer.
- 32.1\*\* Section 1350 Certification.
- 32.2\*\* Section 1350 Certification.

Table of Contents

Exhibit Number	Description
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

\* Filed herewith.

\*\*Furnished herewith.

+Management contract or compensatory plan or arrangement.

**QUALIFICATION BY REFERENCE**

Any statement contained in this Annual Report concerning the contents of any contract or other document filed as an exhibit to this Annual Report or incorporated herein by reference is not necessarily complete, and in each instance reference is made to the copy of the document filed.

Table of Contents

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.

By: /s/ Joe F. Sanderson, Jr.

Chairman of the Board and Chief Executive Officer

Date: December 15, 2016

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 and as of the dates indicated.

/s/ Joe F. Sanderson, Jr. 12/15/2016

Joe F. Sanderson, Jr.,

Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

/s/ Lampkin Butts 12/15/2016

Lampkin Butts, Director,

President and Chief Operating Officer

/s/ D. Michael Cockrell 12/15/2016

D. Michael Cockrell,

Director, Treasurer and Chief Financial Officer

/s/ Tim Rigney 12/15/2016

Tim Rigney,

Secretary and Chief Accounting Officer  
(Principal Accounting Officer)

/s/ John H. Baker, III 12/15/2016

John H. Baker, III,

Director

/s/ Fred Banks, Jr. 12/15/2016

Fred Banks, Jr.

Director

/s/ John Bierbusse 12/15/2016

John Bierbusse,

Director

/s/ Ms. Toni Cooley 12/15/2016

Toni Cooley

Director

/s/ Beverly Wade Hogan 12/15/2016

Beverly Wade Hogan,

Director



Table of Contents

/s/ Robert C. Khayat 12/15/2016  
Robert C. Khayat  
Director

/s/ Phil K. Livingston 12/15/2016  
Phil K. Livingston,  
Director

/s/ Dianne Mooney 12/15/2016  
Dianne Mooney  
Director

/s/ Gail Jones Pittman 12/15/2016  
Gail Jones Pittman,  
Director

/s/ Charles W. Ritter, Jr. 12/15/2016  
Charles W. Ritter, Jr.,  
Director



Table of Contents

EXHIBITS:

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

Exhibit Number	Description
3.1	Restated Articles of Incorporation of the Registrant. (Incorporated by reference to Exhibit 3.1 filed with the Registrant's Quarterly Report on Form 10-Q for the Quarter ended on July 31, 2015.)
3.2	By-Laws of the Registrant, amended and restated as of February 13, 2014. (Incorporated by reference to Exhibit 3 filed with the Registrant's Current Report on Form 8-K on February 20, 2014.)
10.1	Contract dated July 31, 1964, between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.2	Contract Amendment dated December 1, 1970, between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D-1 filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.3	Contract Amendment dated June 11, 1985, between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D-2 filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.4	Contract Amendment dated October 7, 1986, between the Registrant and the City of Laurel, Mississippi. (Incorporated by reference to Exhibit 10-D-3 filed with the registration statement on Form S-1 filed by the Registrant on April 3, 1987, Registration No. 33-13141.)
10.5+	Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan, as amended and restated effective November 1, 2013. (Incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2013.)
10.6+*	First Amendment to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan dated as of July 23, 2014.
10.7+*	Second Amendment to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan dated as of May 2, 2016.
10.8+*	Third Amendment to the Sanderson Farms, Inc. and Affiliates Employee Stock Ownership Plan dated as of October 20, 2016.
10.9+	Sanderson Farms, Inc. and Affiliates Stock Incentive Plan, as amended and restated on February 17, 2011. (Incorporated by reference to Appendix A to the Registrant's definitive proxy statement filed on January 14, 2011, for its annual meeting held February 17, 2011.)
10.10+	Sanderson Farms, Inc. and Affiliates Stock Incentive Plan, as amended and restated on February 11, 2016. (Incorporated by reference to Exhibit 4.3 to the Registrant's registration statement on Form S-8 filed by the Registrant on February 11, 2016, Registration No. 333-209481.)
10.11+	

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Sanderson Farms, Inc. Bonus Award Program Effective November 1, 2014. (Incorporated by reference to Exhibit 10 filed with the Registrant's Current Report on Form 8-K on January 26, 2015.)

10.12+ Sanderson Farms, Inc. Bonus Award Program Effective November 1, 2015. (Incorporated by reference to Exhibit 10 filed with the Registrant's Current Report on Form 8-K on January 25, 2016.)

10.13+ Sanderson Farms, Inc. Supplemental Disability Plan effective September 1, 2008. (Incorporated by reference to Exhibit 10 to the Current Report on Form 8-K filed by the Registrant on October 1, 2008).

10.14+ Form of Share Purchase Agreement between the Registrant and its non-employee directors who participate in its management share purchase plan, as amended. (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007.)

10.15+ Form of Share Purchase Agreement between the Registrant and its officers and employees who participate in its management share purchase plan, as amended. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Quarterly Report on Form 10-Q for the Quarter ended April 30, 2008.)

10.16+ Form of Restricted Stock Agreement between the Registrant and its officers and employees who are granted restricted stock with a four-year vesting period (for awards granted after August 2009 through fiscal 2013). (Incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2009.)

Table of Contents

- 10.17+ Form of Restricted Stock Agreement between the Registrant and its officers and employees who are granted restricted stock with a four-year vesting period (for awards granted on or after November 1, 2013). (Incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2013.)
- 10.18+ Form of Restricted Stock Agreement between the Registrant and its non-employee directors who are granted restricted stock, as amended. (Incorporated by reference to Exhibit 10.4 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007.)
- 10.19+ Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2014). (Incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2013.)
- 10.20+ Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2015). (Incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2014.)
- 10.21+ Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2016). (Incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2015.)
- 10.22+\* Form of Performance Share Agreement between the Registrant and its employees who are granted performance shares (for fiscal 2017).
- 10.23+ Employment Agreement dated as of November 1, 2015 between the Registrant and Joe F. Sanderson, Jr. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Current Report on Form 8-K/A on January 13, 2016.)
- 10.24+ Employment Agreement dated as of November 1, 2015 between the Registrant and Lampkin Butts. (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Current Report on Form 8-K/A on January 13, 2016.)
- 10.25+ Employment Agreement dated as of November 1, 2015 between the Registrant and D. Michael Cockrell. (Incorporated by reference to Exhibit 10.3 filed with the Registrant's Current Report on Form 8-K on November 2, 2015.)
- 10.26 Memorandum of Agreement dated June 13, 1989, between Pike County, Mississippi and the Registrant. (Incorporated by reference to Exhibit 10-L filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1990.)
- 10.27 Wastewater Treatment Agreement between the City of Magnolia, Mississippi and the Registrant dated August 19, 1991. (Incorporated by reference to Exhibit 10-M filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991.)
- 10.28 Memorandum of Agreement and Purchase Option between Pike County, Mississippi and the Registrant dated May 1991. (Incorporated by reference to Exhibit 10-N filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991.)
- 10.29

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Lease Agreement between Pike County, Mississippi and the Registrant dated as of November 1, 1992. (Incorporated by reference to Exhibit 10-M filed with the Registrant's Annual Report on Form 10-K for the year ended October 31, 1993.)

10.30 Lease Agreement dated as of December 1, 2004, between Moultrie-Colquitt County Development Authority, as Lessor, and Sanderson Farms, Inc. (Processing Division) as Lessee. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.)

10.31 Bond Purchase Loan Agreement between Moultrie-Colquitt County Development Authority, as Issuer, and Sanderson Farms, Inc. (Processing Division), as Purchaser. (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.)

10.32 Credit Agreement dated April 24, 2015 among Sanderson Farms, Inc. and BMO Harris Bank N.A. as Agent for the Banks defined therein. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Current Report on Form 8-K on April 29, 2015.)

10.33 Guaranty Agreement dated April 24, 2015 of Sanderson Farms, Inc. (Foods Division), Sanderson Farms, Inc. (Production Division) and Sanderson Farms, Inc. (Processing Division). (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Current Report on Form 8-K filed April 29, 2015.)

10.34 Note Purchase Agreement dated as of April 28, 2006, between Sanderson Farms, Inc. and Northwest Farm Credit Services, PCA. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)

Table of Contents

10.35	Guarantee Agreement dated as of April 28, 2006, of Sanderson Farms, Inc. (Foods Division). (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
10.36	Guarantee Agreement dated as of April 28, 2006, of Sanderson Farms, Inc. (Production Division). (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
10.37	Guarantee Agreement dated as of April 28, 2006, of Sanderson Farms, Inc. (Processing Division). (Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
10.38	Intercreditor Agreement dated as of April 28, 2006, among The Lincoln National Life Insurance Company, Northwest Farm Credit Services, PCA, Harris N.A., SunTrust Bank, AmSouth Bank, U.S. Bank National Association, Regions Bank, and Trustmark National Bank. (Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed May 3, 2006.)
10.39	Lease Agreement dated as of July 1, 2006, between Adel Industrial Development Authority as Lessor, and Sanderson Farms, Inc. (Production Division) as Lessee. (Incorporated by reference to Exhibit 10.1 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2006.)
10.40	Bond Purchase Agreement dated as of July 31, 2006, between Sanderson Farms, Inc. (Production Division) as Purchaser and Adel Industrial Development Authority as Issuer. (Incorporated by reference to Exhibit 10.2 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2006.)
21	List of Subsidiaries of the Registrant. (Incorporated by reference to Exhibit 21 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 2002.)
23*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification of Chief Executive Officer.
31.2*	Certification of Chief Financial Officer.
32.1**	Section 1350 Certification.
32.2**	Section 1350 Certification.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

\* Filed herewith.

\*\* Furnished herewith.

+ Management contract or compensatory plan or arrangement.