SANDERSON FARMS INC
Form 10-Q
August 23, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q

(MARK ONE)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the quarterly period ended July 31, 2010

OR

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

(601) 649-4030

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

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 þ No o

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 o No o

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

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No o

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. Common Stock, $1 Par Value Per Share: 22,738,395 shares outstanding as of July 31, 2010.

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SANDERSON FARMS, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

SANDERSON FARMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	July 31, 2010 (Unaudited)	October 31, 2009 (Note 1)
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 102,698	$ 8,194
Accounts receivable, net	74,200	68,461
Inventories	153,970	140,521
Refundable income taxes	0	1,567
Deferred income taxes	2,230	2,866
Prepaid expenses and other current assets	22,585	18,428
Total current assets	355,683	240,037
Property, plant and equipment	838,194	740,587
Less accumulated depreciation	(378,615)	(347,459)
	459,579	393,128
Other assets	3,129	3,011
Total assets	$ 818,391	$ 636,176
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 102,047	$ 76,352
Current maturities of long-term debt	991	1,022
Total current liabilities	103,038	77,374
Long-term debt, less current maturities	62,646	103,123
Claims payable	2,100	2,600
Deferred income taxes	21,755	22,371
Stockholders equity:		
Preferred Stock:		
Series A Junior Participating Preferred Stock, $100 par value: authorized 500,000 shares, none issued		
Par value to be determined by the Board of Directors: authorized 4,500,000 shares; none issued		
Common Stock, $1 par value: authorized 100,000,000 shares; issued and outstanding shares 22,738,395 and 20,333,637 at July 31, 2010 and October 31, 2009, respectively	22,738	20,334
Paid-in capital	153,828	35,143
Retained earnings	452,286	375,231

Total stockholders equity	628,852	430,708
Total liabilities and stockholders equity	$ 818,391	$ 636,176

See notes to condensed consolidated financial statements.

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SANDERSON FARMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	(in thousands, except per share amounts)			
	2010	2009	2010	2009
Net sales	$ 489,096	$ 504,846	$ 1,396,320	$ 1,320,489
Cost and expenses:				
Cost of sales	409,841	413,821	1,199,994	1,168,507
Selling, general and administrative	24,899	21,514	60,536	46,312
	434,740	435,335	1,260,530	1,214,819
OPERATING INCOME	54,356	69,511	135,790	105,670
Other income (expense):				
Interest income	34	8	50	19
Interest expense	(277)	(2,038)	(2,570)	(7,738)
Other	5	5	12	2
	(238)	(2,025)	(2,508)	(7,717)
INCOME BEFORE INCOME TAXES	54,118	67,486	133,282	97,953
Income tax expense	18,002	24,438	46,262	35,438
NET INCOME	$ 36,116	$ 43,048	$ 87,020	$ 62,515
Earnings per share:				
Basic	$ 1.55	$ 2.06	$ 3.96	$ 3.00
Diluted	$ 1.55	$ 2.06	$ 3.96	$ 3.00
Dividends per share	$ 0.15	$ 0.14	$ 0.45	$ 0.42

See notes to condensed consolidated financial statements.

SANDERSON FARMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended July 31,	
	2010	2009
	(In thousands)	
Operating activities		
Net income	$ 87,020	$ 62,515
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	32,771	32,661
Non-cash stock compensation	6,506	3,307
Deferred income taxes	20	374
Provision for losses on accounts receivable	0	16,515
Change in assets and liabilities:		
Accounts receivable, net	(5,739)	(4,071)
Refundable income taxes	1,567	31,033
Inventories	(13,449)	(13,124)
Prepaid expenses and other assets	(4,125)	(6,729)
Accounts payable, accrued expenses and other liabilities	21,697	20,497
Total adjustments	39,248	80,463
Net cash provided by operating activities	126,268	142,978
Investing activities		
Capital expenditures	(99,403)	(15,887)
Net proceeds from sale of property and equipment	31	156
Net cash used in investing activities	(99,372)	(15,731)
Financing activities		
Principal payments on long-term debt	(508)	(604)
Net repayments from revolving line of credit	(40,000)	(92,051)
Net proceeds from secondary offering of common stock	115,193	0
Net proceeds (payments) from exercise of stock options and vesting of restricted stock	(610)	367
Tax benefit on exercised stock options	180	0
Dividends paid	(6,647)	(5,847)
Net cash provided by (used in) financing activities	67,608	(98,135)
Net change in cash and cash equivalents	94,504	29,112
Cash and cash equivalents at beginning of period	8,194	4,261

Cash and cash equivalents at end of period	$ 102,698	$ 33,373
Supplemental disclosure of non-cash financing activity:		
Dividends payable	$ (3,498)	$ (2,926)

See notes to condensed consolidated financial statements.

SANDERSON FARMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
July 31, 2010

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. Operating results for the three and nine months ended July 31, 2010 are not necessarily indicative of the results that may be expected for the year ending October 31, 2010.

The consolidated balance sheet at October 31, 2009 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended October 31, 2009.

NOTE 2 INVENTORIES

Inventories consisted of the following:

	July 31, 2010	October 31, 2009
	(In thousands)	
Live poultry-broilers and breeders	$ 96,271	$ 88,054
Feed, eggs and other	21,907	20,637
Processed poultry	23,062	20,768
Processed food	7,280	6,796
Packaging materials	5,450	4,266
	$ 153,970	$ 140,521

Inventories of live poultry were higher at July 31, 2010 as compared to October 31, 2009. This increase is the result of normal inventory reductions at October 31, 2009 in anticipation of the holiday season when demand for chicken is historically at its lowest point in the year.

The increase in inventory of processed poultry resulted primarily from additional units of export product in inventory at July 31, 2010 as compared to October 31, 2009, which resulted from the timing of export sales.

NOTE 3 STOCK AND INCENTIVE COMPENSATION PLANS

Refer to Note 8 of the Company s October 31, 2009 audited financial statements for further information on our employee benefit plans and stock based compensation plans. Total stock based compensation expense during the nine months ended July 31, 2010 and July 31, 2009 was $6,506,000 and $3,307,000, respectively, and is detailed below. The Company also expensed $13.4 million and $9.8 million during the third quarter of fiscal 2010 and fiscal 2009, respectively, related to the Company s Bonus Award Program. No similar expense was recorded during the second fiscal quarter of either year.

During the nine months ended July 31, 2010, participants in the Company s Management Share Purchase Plan purchased a total of 18,167 shares of restricted stock at an average price of $47.05 per share and the Company issued 4,475 matching restricted shares. During the nine months ended July 31, 2010 and 2009 the Company recorded compensation cost, included in the total stock based compensation expense above, of $211,000 and $152,000, respectively, related to the Management Share Purchase Plan.

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On November 1, 2009, the Company entered into performance share agreements that grant certain officers and key employees the right to receive an aggregate target number of 70,000 shares of the Company s common stock, subject to the Company s achievement of certain performance measures. The Company also has performance share agreements in place with certain officers and key employees that were entered into during fiscal 2008 and 2009. The aggregate target number of shares specified in performance share agreements outstanding as of July 31, 2010 totaled 186,342. The Company recorded compensation cost, included in the total stock based compensation expense above, of $3,076,000 and $434,000 during the nine months ended July 31, 2010 and July 31, 2009, respectively, related to the performance share agreements entered into during 2008 and 2009. No compensation cost has been recorded for the performance share agreements entered into in fiscal 2010.

Also on November 1, 2009 the Company granted an aggregate of 70,000 shares of restricted stock to certain officers and key management employees. The restricted stock had a grant date fair value of $36.80 per share and vests four years from the date of the grant. On December 21, 2009, the Company granted 31,850 shares of restricted stock to key management employees. The restricted stock had a grant date fair value of $41.94 per share with 50% of the shares vesting immediately on December 21, 2009 and the remaining 50% of shares vesting one year later on December 21, 2010. On February 19, 2010, the Company granted 25,300 shares of restricted stock to its non-employee directors. The restricted stock had a grant date fair value of $50.49 per share and vests one to three years from the date of grant. The Company also has non-vested restricted stock grants outstanding that were granted during the five previous fiscal years with certain officers, key employees and outside directors. The aggregate number of shares outstanding at July 31, 2010 under all restricted stock grants totaled 496,015. During the nine months ended July 31, 2010 and 2009 the Company recorded compensation cost, included in the total stock based compensation expense above, of $3,219,000 and $2,721,000, respectively, related to restricted stock grants.

NOTE 4 EARNINGS PER SHARE

In June 2008, the Financial Accounting Standards Board (FASB) issued FSP EITF No. 03-6-1, codified in ASC 260, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.* ASC 260 clarifies that share-based payment awards entitling holders to receive non-forfeitable dividends before vesting should be considered participating securities and thus included in the calculation of basic earnings per share. Effective November 1, 2009, these awards are now included in the calculation of basic earnings per share under the two-class method, a change that reduces both basic and diluted earnings per share. The two-class method allocates earnings for the period between common shareholders and other security holders. The participating awards receiving dividends will be allocated the same amount of income as if they were outstanding shares. All prior period earnings per share data presented have been adjusted retrospectively to conform to the provisions of the new requirements. Previously, the Company included unvested share payment awards in the calculation of diluted earnings per share under the treasury stock method. The adoption of ASC 260 had no effect on the Company s retained earnings or other components of equity.

The following table presents the effect the adoption of ASC 260 has on affected financial statement line items, weighted average shares outstanding, and per share amounts for the three months ended July 31, 2010 and 2009.

	For the three months ended			
	July 31, 2010		July 31, 2009	
	Two-class method	Treasury stock method	Two-class method	Treasury stock method
	(In thousands, except share and per share data)			
Net income	$ 36,116	$ 36,116	$ 43,048	$ 43,048
Distributed and undistributed (earnings) to unvested restricted stock	(908)	0	(1,171)	0
Distributed and undistributed earnings to common shareholders Basic	$ 35,208	$ 36,116	$ 41,877	$ 43,048

Weighted average shares outstanding	Basic	22,730	22,730	20,326	20,326
Weighted average shares outstanding	Diluted	22,734	23,081	20,336	20,639
Earnings per common share	Basic	$ 1.55	$ 1.59	$ 2.06	$ 2.12
Earnings per common share	Diluted	$ 1.55	$ 1.56	$ 2.06	$ 2.09

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The following table presents the effect the adoption of ASC 260 has on affected financial statement line items, weighted average shares outstanding, and per share amounts for the nine months ended July 31, 2010 and 2009.

	For the nine months ended			
	July 31, 2010		July 31, 2009	
	Two-class method	Treasury stock method	Two-class method	Treasury stock method
	(In thousands, except share and per share data)			
Net income	$ 87,020	$ 87,020	$ 62,515	$ 62,515
Distributed and undistributed (earnings) to unvested restricted stock	(2,343)	0	(1,639)	0
Distributed and undistributed earnings to common shareholders Basic	$ 84,677	$ 87,020	$ 60,876	$ 62,515
Weighted average shares outstanding Basic	21,370	21,370	20,313	20,313
Weighted average shares outstanding Diluted	21,378	21,725	20,323	20,598
Earnings per common share Basic	$ 3.96	$ 4.07	$ 3.00	$ 3.08
Earnings per common share Diluted	$ 3.96	$ 4.01	$ 3.00	$ 3.04

NOTE 5 PUBLIC OFFERING

On April 7, 2010 the Company announced that it had sold 2,300,000 shares of common stock in a public offering at a price of $53.00 per share resulting in net proceeds of approximately $115.2 million after deducting the underwriting discount and offering expenses. The net proceeds are reflected in the common stock and additional paid-in capital accounts of the Company s condensed consolidated balance sheet at July 31, 2010. During April 2010 the Company used $40.0 million of the proceeds to repay all outstanding draws on its revolving line of credit and will use the remaining proceeds, together with other funds, to finance the construction of its new retail poultry complex in Kinston, North Carolina, and a potential new big bird poultry complex to be located near Goldsboro, North Carolina. Pending such uses, the remaining proceeds will be invested in cash and cash equivalents or may be used as working capital and for general corporate purposes.

NOTE 6 NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements (SFAS 157), codified in ASC 820. This standard defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosure about fair value measurements. This pronouncement applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value. Accordingly, this statement does not require any new fair value measurements. The Company adopted ASC 820 effective November 1, 2008 for its financial assets and liabilities and the adoption had no material effect on the Company s consolidated financial position, results of operations or cash flows. The Company adopted ASC 820 for its non-financial assets and liabilities that are recognized at fair value on a non-recurring basis on November 1, 2009 and the adoption did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts for cash and temporary cash investments approximate their fair values. Fair values for debt are based on quoted market prices or published forward interest rate curves. The fair value and carrying value of the Company s borrowings under its credit facilities, long-term debt and capital lease obligations were as follows (in millions):

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	July 31, 2010		October 31, 2009	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Total Debt (in millions)	$72	$64	$109	$ 104

NOTE 8 OTHER MATTERS

The Company is involved in various claims and litigation incidental to its business. Although the outcome of these matters cannot be determined with certainty, management, upon the advice of counsel, is of the opinion that the final outcome should not have a material effect on the Company s consolidated results of operations or financial position. The Company recognizes the costs of legal defense for the legal proceedings to which it is a party in the periods incurred. 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.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Sanderson Farms, Inc.

We have reviewed the condensed consolidated balance sheet of Sanderson Farms, Inc. and subsidiaries as of July 31, 2010, and the related condensed consolidated statements of income for the three-month and nine-month periods ended July 31, 2010 and 2009 and the condensed consolidated statements of cash flows for the nine-month periods ended July 31, 2010 and 2009. These financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Sanderson Farms, Inc. and subsidiaries as of October 31, 2009, and the related consolidated statements of income, stockholders equity, and cash flows for the year then ended not presented herein, and in our report dated December 21, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of October 31, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP
New Orleans, Louisiana
August 23, 2010

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

General

The following Discussion and Analysis should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of the Company s Annual Report on Form 10-K for its fiscal year ended October 31, 2009.

This Quarterly Report, and other periodic reports filed by the Company under the Securities Exchange Act of 1934, and other written or oral statements made by it or on its behalf, may include forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. 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, projections and estimates expressed in such statements. These risks, uncertainties and other factors include, but are not limited to those discussed under Risk Factors in this quarterly report and in the Company s quarterly report on Form 10-Q for the quarter ended April 30, 2010, and the following:

(1) Changes in the market price for the Company s finished products and feed grains, both of which may fluctuate substantially and exhibit cyclical characteristics typically associated with commodity markets.

(2) Changes in economic and business conditions, monetary and fiscal policies or the amount of growth, stagnation or recession in the global or U.S. economies, either of which may affect the value of inventories, the collectability of accounts receivable or the financial integrity of customers, and the ability of the end user or consumer to afford protein.

(3) Changes in the political or economic climate, trade policies, laws and regulations or the domestic poultry industry of countries to which the Company or other companies in the poultry industry ship product, and other changes that might limit the Company s or the industry s access to foreign markets.

(4) Changes in laws, regulations, and other activities in government agencies and similar organizations applicable to the Company and the poultry industry and changes in laws, regulations and other activities in government agencies and similar organizations related to food safety.

(5) Various inventory risks due to changes in market conditions.

(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.

(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 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 quarterly report, the words believes , estimates , plans , expects , should , outlook , and anticipates 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 the Company s belief regarding future consumer demand for fresh chicken and future sales.

The Company s poultry operations are integrated through its control of all functions relative to the production of its chicken products, including hatching egg production, hatching, feed manufacturing, raising chickens to marketable age (grow out), processing, and marketing. Consistent with the poultry industry, the Company s profitability is substantially impacted by the market prices 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.

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

On January 12, 2006, the Company announced that sites in Waco and McLennan County, Texas had been selected for the construction of a new poultry complex, consisting of a processing plant, hatchery and wastewater treatment facility. The processing plant began processing chickens on August 6, 2007, and was originally planned to reach full production of approximately 1.25 million head of chickens per week during the fourth quarter of fiscal 2008. However, because of poor market fundamentals in the second half of calendar 2008, moving the plant to full capacity was delayed until the third quarter of fiscal 2009.

Sanderson Farms announced plans on April 24, 2008, to invest approximately $126.5 million for construction of a new feed mill, poultry processing plant and hatchery on separate sites in Kinston and Lenoir County, North Carolina. On June 26, 2008, the Company announced its decision to postpone the project due to market conditions and escalating grain prices. On July 23, 2009, the Company announced plans to proceed with the construction and start-up of the Company s Kinston, North Carolina, poultry complex with a revised budget of approximately $121.4 million. The Kinston facilities will comprise a state-of-the-art poultry complex with the capacity to process 1.25 million birds per week for the retail chill pack market. At full capacity, the complex will employ approximately 1,500 people, will require 130 contract growers, and will be equipped to process and sell 6.7 million pounds per week of dressed poultry meat. Construction began during August 2009 and the Company expects initial operation of the new complex to begin during the first quarter of fiscal 2011.

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

EXECUTIVE OVERVIEW OF RESULTS

Overall market prices for poultry products were lower during the third quarter of fiscal 2010 when compared to the third quarter of fiscal 2009 resulting primarily from Russia s ban on U.S. poultry products and tariffs imposed on chicken paws and wing tips by China. During the first nine months of fiscal 2010 as compared to the first nine months of fiscal 2009, the Company s margins improved primarily as a result of higher overall market prices for poultry products and additional pounds of poultry products sold. The Company believes overall market prices for poultry products during the first nine months of fiscal 2010 as compared to the first nine months of fiscal 2009 improved due more from the tightening of the supply of poultry products than an improvement in demand from consumers. While demand for all protein consumed away from home remains sluggish, demand for fresh chicken in the retail grocery store market has remained strong. While encouraged by the recent improvement in the average Georgia Dock price for whole birds and Urner Barry market prices for boneless breast meat, the Company believes that demand for chicken products in food service markets will remain soft until overall economic conditions in the United States improve and employment numbers move higher. In addition to improved poultry markets, the average cost of feed in broiler flocks sold during the first nine months of fiscal 2010 as compared to the same period a year ago decreased $0.0037 per pound, or 1.3%. Feed grain market prices remain relatively high versus historical averages, and have increased in recent weeks mostly due to drought conditions in Russia, and the resulting impact on supply of Russian grain. While the Company has not priced all of its grain needs for the balance of the fiscal year, had it priced those needs at August 20, 2010 market prices, cash feed grain prices would be approximately $2.9 million lower during fiscal 2010 as compared to fiscal 2009. Live costs and operating efficiencies were also impacted during the third fiscal quarter by extreme heat across our production areas. Heat negatively impacts live weights and the efficiency with which live birds convert feed to body weight, thereby reducing the number of pounds processed and sold from our targets.

RESULTS OF OPERATIONS

Net sales for the three months ended July 31, 2010 were $489.1 million as compared to $504.8 million for the three months ended July 31, 2009, a decrease of $15.7 million or 3.1%. Net sales of poultry products for the three months ended July 31, 2010 and 2009 were $456.5 million and $467.9 million, respectively, a decrease of $11.4 million or 2.4%. The decrease in net sales of poultry products resulted from a decrease in the average sales price of poultry products of 1.7% and a decrease in the pounds of poultry products sold of .8%, from 632.1 million pounds during the third quarter of fiscal 2009 to 627.4 million pounds during the third quarter of fiscal 2010. Although the Company processed 650.0 million pounds of poultry products during the third quarter of fiscal 2010 as compared to 632.6 million pounds during the third quarter of fiscal 2009, this did not result in an increase in the pounds of poultry products sold as the Company s inventory of poultry products increased by approximately 20.0 million pounds due to the timing of export sales. The Company expects these additional pounds will be sold and invoiced during the fourth quarter of fiscal 2010 and result in the fourth quarter benefiting from more pounds sold than processed. Overall market prices for poultry products were lower during the third quarter of fiscal 2010 when compared to the third quarter of fiscal 2009. While Urner Barry market prices for boneless breast meat and tenders were 8.9% and 11. 3% higher, leg quarters and jumbo wings decreased 22.2% and 18.9%, respectively. In addition, a simple average of the Georgia dock prices for whole birds reflected a decrease of 1.0% during the third quarter of fiscal 2010 as compared to the same period a year ago. Net sales of prepared chicken products for the three months ended July 31, 2010 and 2009 were $32.6 million and $36.9 million, respectively, or a decrease of 11.8%. This decrease was the result of a decrease of 6.2% in the pounds of prepared chicken products sold and a decrease in the average sales price of 6.0%. Pounds of prepared chicken products sold decreased from 17.7 million pounds during the third quarter of fiscal 2009 to 16.6 million pounds during the third quarter of fiscal 2010.

Net sales for the nine months ended July 31, 2010 were $1,396.3 million as compared to $1,320.5 million for the same nine months of 2009, an increase of $75.8 million or 5.7%. Net sales of poultry products during the nine months ended July 31, 2010 were $1,304.8 million as compared to $1,221.2 million during the nine months ended July 31, 2009, an increase of $83.5 million or 6.8%. The increase in net sales of poultry products resulted from increases in both the pounds of poultry products sold and the average sales price of poultry products sold of 3.8% and 2.9%, respectively. The Company sold 1.88 billion pounds of poultry products during the nine months ended July 31, 2010, up from 1.81 billion pounds during the nine months ended July 31, 2009. During the first nine months of fiscal 2010 as compared to the first nine months of fiscal 2009 the Company increased the average live weight of chickens processed by 4.2%, and increased the number of chickens processed by 2.3%. During the first nine months of fiscal 2009 the Company had a planned decrease in the number and average live weight of chickens in response to weak demand from food service customers. Overall market prices for poultry products improved during the nine months ended July 31, 2010 as compared to the nine months ended July 31, 2009 as reflected by increases in the average Urner Barry market prices for boneless breast, jumbo wings and tenders of 7.9%, 1.9% and 1.7%, respectively. These improvements were somewhat offset by a 6.4% decline in the average market price for bulk leg quarters and a 2.8% decline in the average Georgia Dock price for whole chickens. Net sales of prepared chicken products sold during the nine months ended July 31, 2010 were $91.5 million as compared to $99.2 million during the nine months ended July 31, 2009, a decrease of $7.7 million or 7.8%. This was the result of a decrease in the pounds of prepared chicken products sold from 48.5 million pounds sold during the first nine months of fiscal 2009 to 45.8 million pounds sold during the first nine months of fiscal 2010.

Cost of sales for the three months ended July 31, 2010 were $409.8 million as compared to $413.8 million during the three months ended July 31, 2009, a decrease of $4.0 million or 1.0%. Cost of sales of poultry products sold during the three months ended July 31, 2010 were $379.0 million as compared to $380.9 million for the three months ended July 31, 2009, a decrease of $1.9 million or 0.5%. As illustrated in the table below, the decrease in the cost of sales of poultry products sold resulted from a decrease in the cost of feed in broiler flocks sold during the three months ended July 31, 2010 as compared to the same three month period during fiscal 2009.

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Poultry Cost of Sales
(In thousands, except per pound data)