

SANDERSON FARMS INC
Form 10-Q
May 25, 2017

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended April 30, 2017

OR

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 (I.R.S. Employer
incorporation or organization) 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 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: SANDERSON FARMS INC - Form 10-Q

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

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 No

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: 22,742,508 shares outstanding as of May 22, 2017.

Table of Contents

INDEX

SANDERSON FARMS, INC. AND SUBSIDIARIES

<u>PART I. FINANCIAL INFORMATION</u>	<u>3</u>
Item 1. <u>Financial Statements (Unaudited)</u>	<u>3</u>
<u>Condensed consolidated balance sheets—April 30, 2017 and October 31, 2016</u>	<u>3</u>
<u>Condensed consolidated statements of operations—Three and six months ended April 30, 2017 and 2016</u>	<u>4</u>
<u>Condensed consolidated statements of cash flows—Six months ended April 30, 2017 and 2016</u>	<u>5</u>
<u>Notes to condensed consolidated financial statements—April 30, 2017</u>	<u>6</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>13</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>14</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>25</u>
Item 4. <u>Controls and Procedures</u>	<u>26</u>
<u>PART II. OTHER INFORMATION</u>	<u>26</u>
Item 1. <u>Legal Proceedings</u>	<u>26</u>
Item 1A. <u>Risk Factors</u>	<u>28</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>28</u>
Item 6. <u>Exhibits</u>	<u>29</u>
<u>SIGNATURES</u>	<u>30</u>
<u>EXHIBITS</u>	

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SANDERSON FARMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except number of shares)

	April 30, 2017 (Unaudited)	October 31, 2016 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	\$246,281	\$234,111
Accounts receivable, net	138,532	124,348
Inventories	234,796	220,306
Prepaid expenses and other current assets	42,048	34,559
Total current assets	661,657	613,324
Property, plant and equipment	1,593,910	1,505,596
Less accumulated depreciation	(743,844)	(701,605)
	850,066	803,991
Other assets	7,238	5,385
Total assets	\$1,518,961	\$1,422,700
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$75,568	\$72,774
Dividends payable	5,458	—
Accrued expenses	50,264	57,918
Accrued income taxes	1,855	17,497
Total current liabilities	133,145	148,189
Claims payable and other liabilities	9,080	8,501
Deferred income taxes	97,449	75,748
Commitments and contingencies		
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—22,742,508 and 22,693,225 at April 30, 2017 and October 31, 2016, respectively	22,743	22,693
Paid-in capital	135,630	125,855
Retained earnings	1,120,914	1,041,714
Total stockholders' equity	1,279,287	1,190,262
Total liabilities and stockholders' equity	\$1,518,961	\$1,422,700
See notes to condensed consolidated financial statements.		

Table of Contents

SANDERSON FARMS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
 (In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2017	2016	2017	2016
Net sales	\$802,038	\$692,089	\$1,490,384	\$1,297,255
Cost and expenses:				
Cost of sales	655,283	578,276	1,261,674	1,133,337
Selling, general and administrative	43,641	40,039	89,711	70,333
	698,924	618,315	1,351,385	1,203,670
Operating Income	103,114	73,774	138,999	93,585
Other income (expense):				
Interest income	301	—	496	—
Interest expense	(428)	(420)	(860)	(851)
Other	3	7	5	10
	(124)	(413)	(359)	(841)
Income before income taxes	102,990	73,361	138,640	92,744
Income tax expense	36,047	25,759	48,524	34,461
Net income	\$66,943	\$47,602	\$90,116	\$58,283
Earnings per share:				
Basic	\$2.94	\$2.11	\$3.96	\$2.58
Diluted	\$2.94	\$2.11	\$3.96	\$2.58
Dividends per share	\$0.24	\$0.22	\$0.48	\$0.44

See notes to condensed consolidated financial statements.

Table of Contents

SANDERSON FARMS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
 (In thousands)

	Six Months Ended	
	April 30,	2016
	2017	
Operating activities		
Net income	\$ 90,116	\$ 58,283
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46,920	40,847
Non-cash stock compensation	9,379	9,128
Deferred income taxes	21,701	28,783
Change in assets and liabilities:		
Accounts receivable, net	(14,184)	(11,189)
Income taxes	(15,642)	31,490
Inventories	(14,490)	(12,169)
Prepaid expenses and other assets	(7,525)	(3,711)
Accounts payable	6,714	1,407
Accrued expenses and other liabilities	(6,219)	(35,145)
Total adjustments	26,654	49,441
Net cash provided by operating activities	116,770	107,724
Investing activities		
Capital expenditures	(96,635)	(67,326)
Net proceeds from sale of property and equipment	319	401
Net cash used in investing activities	(96,316)	(66,925)
Financing activities		
Principal payments on long-term debt	—	(10,000)
Payments for debt issuance costs	(2,416)	—
Proceeds from issuance of restricted stock under stock compensation plans	475	771
Payments from issuance of common	(3,068)	(4,051)

stock under stock compensation plans Tax benefit on vesting of restricted stock grants	2,183		3,910	
Dividends paid	(5,458)	(4,966)
Net cash used in financing activities	(8,284)	(14,336)
Net change in cash and cash equivalents	12,170		26,463	
Cash and cash equivalents at beginning of period	234,111		196,659	
Cash and cash equivalents at end of period	\$ 246,281		\$ 223,122	
Supplemental disclosure of non-cash financing activity:				
Dividends payable	\$ (5,458)	\$ (4,966)

See notes to condensed consolidated financial statements.

Table of Contents

SANDERSON FARMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

April 30, 2017

NOTE 1—ACCOUNTING POLICIES

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 six months ended April 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending October 31, 2017.

The condensed consolidated balance sheet at October 31, 2016 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 its fiscal year ended October 31, 2016.

New Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board ("FASB") issued guidance amending the requirements related to accounting for changes to stock compensation awards. The guidance is effective for interim and annual periods beginning after December 15, 2017, our fiscal 2019. Early adoption is permitted. The impact this guidance will have on our consolidated financial statements will depend on the nature and extent of future changes, if any, to the terms and conditions of the Company's Stock Incentive Plan.

In March 2017, the FASB issued guidance requiring the service cost component of defined benefit pension plans and other post-retirement benefit plans to be reported in the same line item or items as other compensation costs arising from the services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be reported outside of operating income. The guidance is effective for interim and annual periods beginning after December 15, 2017, our fiscal 2019. Early adoption is permitted. We do not expect adoption to have a material effect on our consolidated financial statements.

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 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 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.

Table of Contents

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.

NOTE 2—INVENTORIES

Inventories consisted of the following:

	April 30,	October
	2017	31, 2016
	(In thousands)	
Live poultry-broilers and breeders	\$ 158,590	\$ 143,554
Feed, eggs and other	37,457	40,834
Processed poultry	18,759	15,378
Prepared chicken	13,172	13,640
Packaging materials	6,818	6,900
	\$ 234,796	\$ 220,306

NOTE 3—STOCK COMPENSATION PLANS

Refer to Note 8 and Note 9 of the Company's October 31, 2016 audited financial statements in the Company's 2016 Annual Report on Form 10-K for further information on our employee benefit plans and stock based compensation plans, respectively. Total stock based compensation expense during the three and six months ended April 30, 2017 was \$3,693,000 and \$9,379,000, respectively, as compared to total stock based compensation expense of \$6,406,000 and \$9,128,000 for the three and six months ended April 30, 2016, respectively.

During the six months ended April 30, 2017, participants in the Company's Management Share Purchase Plan ("MSPP") elected to receive a total of 5,728 shares of restricted stock at an average price of \$98.86 per share instead of a specified percentage of their cash compensation, and the Company issued 1,375 matching restricted shares. During the three and six months ended April 30, 2017, the Company recorded compensation cost for the MSPP shares, included in the total stock based compensation expense above, of \$138,000 and \$198,000, respectively, as compared to \$89,000 and \$178,000 during the three and six months ended April 30, 2016, respectively.

During fiscal 2017, 2016 and 2015, 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 on November 1, 2016 totaled 68,250. As of April 30, 2017, the Company could not determine that achievement of the applicable performance based criteria is probable for the agreements entered into on November 1, 2016 due to the uncertainties discussed below, and therefore recorded no compensation expense related to those agreements.

The Company also has performance share agreements in place with certain officers and key employees that were entered into on November 1, 2015. During the quarter ended January 31, 2017, the Company determined that achievement of the applicable performance based criteria for the November 1, 2015 agreements is probable at a level between the target and maximum levels. Accordingly, the three and six months ended April 30, 2017 include compensation expense of \$1,193,000 and \$4,484,000, respectively, in the total stock based compensation expense above, as compared to no compensation expense recorded during the three and six months ended April 30, 2016,

related to the agreements entered into on November 1, 2015. As of April 30, 2017, the aggregate number of shares estimated to be awarded related to the performance share agreements entered into on

7

Table of Contents

November 1, 2015 totaled 129,025 shares. The actual number of shares that can be awarded for those agreements could change materially from that estimate due to the Company's actual performance during the remaining six months of the performance period ending October 31, 2017, and due to potential forfeitures.

The Compensation Committee of the Company's Board of Directors has determined that the performance shares granted as of November 1, 2014 have been earned at a level between the target and maximum levels, subject to the satisfaction of the additional one-year service period ending on October 31, 2017. Accordingly, the three and six months ended April 30, 2017 include compensation expense of \$709,000 and \$1,343,000, respectively, related to those agreements, as compared to \$3,943,000 of compensation expense during the three and six months ended April 30, 2016. There was no compensation expense recorded during the quarter ended January 31, 2016 related to the agreements entered into on November 1, 2014, because management's initial determination of probability was made during the second quarter of fiscal 2016. As of April 30, 2017, the aggregate number of shares estimated to be awarded related to the performance share agreements entered into on November 1, 2014 totaled 102,193 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 six months of the service period ending October 31, 2017. In estimating the compensation expense to record in a period for any outstanding performance share grants, 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. The accounting for these arrangements requires the Company to accrue over the two-year performance and one-year service periods the estimated amounts that will be earned with changes made during those periods adjusted using the cumulative catch up method. Had the Company determined that it was probable that the maximum amount of those outstanding awards from the agreements entered into on November 1, 2015 and November 1, 2016 would be earned, an additional \$1.1 million and \$2.0 million, respectively, would have been accrued as of April 30, 2017.

The Company's compensation cost related to performance share agreements is summarized as follows (in thousands, except number of shares):

Date of Performance Share Agreement	Number of shares issued (actual (a) or estimated (e))	Three months ended		Six months ended	
		April 30, 2017	April 30, 2016	April 30, 2017	April 30, 2016
November 1, 2013	146,169 (a)	\$—	\$ 799	\$—	\$ 1,566
November 1, 2014	102,193 (e)	709	3,943	1,343	3,943
November 1, 2015	129,025 (e)	1,193	—	4,484	—
November 1, 2016 (1)	— (e)	—	—	—	—
Total compensation cost		\$1,902	\$ 4,742	\$5,827	\$ 5,509

Note (1) - As of April 30, 2017, the Company could not determine that achievement of the applicable performance based criteria is probable for the agreements entered into on November 1, 2016 due to the uncertainties discussed above, and therefore recorded no compensation expense related to those agreements.

On November 1, 2016, the Company granted 68,250 shares of restricted stock to certain officers and key management employees. The restricted stock had a grant date fair value of \$91.61 per share and will vest on November 1, 2020. On February 9, 2017, the Company granted an aggregate of 15,237 shares of restricted stock to all of its non-employee directors. The restricted stock had a grant date fair value of \$88.61 per share and vests one, two or three years from the date of grant. The Company also has unvested restricted stock grants outstanding that were granted during prior fiscal years to its officers, key employees and outside directors. The aggregate number of shares outstanding at April 30, 2017 related to all unvested restricted stock grants totaled 301,229. During the three and six months ended April 30, 2017, the Company recorded compensation cost, included in the total stock based compensation expense above, of \$1,653,000 and \$3,353,000, respectively, related to restricted stock grants, as compared to \$1,575,000 and \$3,441,000

during the three and six months ended April 30, 2016, respectively. The Company had \$13.6 million in unrecognized share-based compensation costs as of April 30, 2017, which will be recognized over a weighted average remaining vesting period of approximately 1 year, 10 months.

NOTE 4—EARNINGS PER SHARE

8

Table of Contents

Certain share-based payment awards described in Note 3 - Stock Compensation Plans above entitling holders to receive non-forfeitable dividends before vesting are considered participating securities and thus are 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 vested shares.

The following tables present earnings per share.

	Three months ended	
	April 30, 2017	April 30, 2016
	(in thousands except per share amounts)	
Net Income	\$ 66,943	\$ 47,602
Distributed and undistributed (earnings) to unvested restricted stock	(1,015)	(735)
Distributed and undistributed earnings to common shareholders—Basic	\$ 65,928	\$ 46,867
Weighted average shares outstanding—Basic	22,396	22,226
Weighted average shares outstanding—Diluted	22,396	22,226
Earnings per common share—Basic	\$ 2.94	\$ 2.11
Earnings per common share—Diluted	\$ 2.94	\$ 2.11

	Six months ended	
	April 30, 2017	April 30, 2016
	(in thousands except per share amounts)	
Net Income	\$ 90,116	\$ 58,283
Distributed and undistributed (earnings) to unvested restricted stock	(1,399)	(919)
Distributed and undistributed earnings to common shareholders—Basic	\$ 88,717	\$ 57,364
Weighted average shares outstanding—Basic	22,387	22,216
Weighted average shares outstanding—Diluted	22,387	22,216
Earnings per common share—Basic	\$ 3.96	\$ 2.58
Earnings per common share—Diluted	\$ 3.96	\$ 2.58

NOTE 5—FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company holds certain items that are required to be disclosed at fair value, primarily cash equivalents. 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.

Table of Contents

At April 30, 2017, and October 31, 2016, the fair value of the Company's cash and cash equivalents 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.

NOTE 6—COMMITMENTS AND CONTINGENCIES

Property, Plant and Equipment

On March 16, 2017, the Company announced the selection of sites in Lindale, Mineola and Smith County, Texas, for the construction of a new poultry processing complex. The completed complex will consist of a hatchery, feed mill, processing plant, and waste water treatment facility. Construction is expected to commence in the third quarter of fiscal 2017, and initial operations of the new complex are expected to begin during the first calendar quarter of 2019. The Company estimates the total investment in the complex will be approximately \$200.5 million. As of May 24, 2017, the Company has not entered into any commitments related to the new complex.

As of April 30, 2017, the Company has outstanding commitments totaling \$46.2 million related to purchase agreements for future delivery of aircraft. These commitments are expected to be paid as follows: \$10.0 million during the remainder of fiscal 2017, \$22.1 million during fiscal 2018, and \$14.1 million during fiscal 2019.

Litigation

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 all of the direct purchaser complaints into one case, and the indirect purchaser complaints into two cases, one on behalf of commercial and institutional indirect purchaser plaintiffs and one on behalf of end-user consumer plaintiffs. On October 28, 2016, the direct and indirect purchaser plaintiffs filed consolidated, amended complaints, and on November 23, 2016, the direct and indirect purchaser plaintiffs filed second amended complaints. On December 16, 2016, the indirect purchaser plaintiffs separated into two cases. On that date, the commercial and institutional indirect purchaser plaintiffs filed a third amended complaint, and the end-user consumer plaintiffs filed an amended complaint. On January 27, 2017 the defendants filed motions to dismiss the amended complaints in all of the cases. These motions are now fully briefed and awaiting decision. 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. On March 30, 2017, the lead plaintiff filed an amended complaint adding Lampkin Butts, director, Chief Operating Officer, and President, as a defendant. The complaint alleges that the defendants made statements in the Company's SEC filings and press releases, and other public statements, that were materially false and misleading in light of the Company'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 an early 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.

On January 30, 2017, the Company received a letter from a putative shareholder demanding that the Company take action against current and/or former officers and directors of the Company for alleged breach of their fiduciary duties. The shareholder asserted that the officers and directors (i) failed to take any action to stop the alleged antitrust conspiracy described above, despite their alleged knowledge of the conspiracy, and (ii) made and/or caused the Company to make materially false and misleading statements by failing to disclose the alleged conspiracy. He also asserted that certain directors engaged in

Table of Contents

“insider sales” from which they improperly benefited. The shareholder also demanded that the Company adopt unspecified corporate governance improvements. On February 9, 2017, pursuant to statutory procedures available in connection with demands of this type, the Company’s board of directors appointed a special committee of qualified directors to determine, after conducting a reasonable inquiry, whether it is in the Company’s best interests to pursue any of the actions asserted in the shareholder’s letter. On April 26, 2017, the special committee reported to the Company’s board of directors its determination that it is not in the Company’s best interests to take any of the demanded actions at this time, and that no governance improvements related to the subject matter of the demand are needed at this time. On May 5, 2017, the special committee’s counsel informed the shareholder’s counsel of the committee’s determination.

As of the date of filing of this report, and to the Company’s knowledge, no legal proceedings related to the shareholder’s demand have been filed. However, we are voluntarily disclosing the existence of the shareholder demand for the sake of completeness, in light of its relationship to the putative antitrust and securities class action lawsuits described above.

On January 27, 2017, Sanderson Farms, Inc. and our subsidiaries were named as defendants, along with four other poultry producers and certain of their affiliated companies, in a putative class action lawsuit filed in the United States District Court for the Eastern District of Oklahoma. On March 27, 2017, Sanderson Farms, Inc. and our subsidiaries were named as defendants, along with four other poultry producers and certain of their affiliated companies, in a second putative class action lawsuit filed in the United States District Court for the Eastern District of Oklahoma. The complaints allege that the defendants unlawfully conspired by sharing data on compensation paid to broiler farmers, with the purpose and effect of suppressing the farmers’ compensation below competitive levels. The complaints also allege that the defendants unlawfully conspired to not solicit or hire the broiler farmers who were providing services to other defendants. The complaints seek treble damages, costs and attorneys’ fees. On April 25, 2017, the Court issued a Joint Order in both cases, in which it stated that it was inclined, pending a hearing, to consolidate the two cases and to order the filing of a consolidated complaint. That hearing is presently scheduled for June 9, 2017. The lawsuits are in their early stages, and we intend to defend them vigorously. 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.

On February 21, 2017, Sanderson Farms, Inc. received an antitrust civil investigative demand from the Office of the Attorney General, Department of Legal Affairs, of the State of Florida. Among other things, the demand seeks information related to the Georgia Dock Index and other information on poultry and poultry products published by the Georgia Department of Agriculture and its Poultry Market News division. The Company is cooperating fully with the investigative demand, and we are unable to predict its outcome at this time.

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 currently pending matters, 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 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.

NOTE 7—CREDIT AGREEMENT

The Company entered into a new revolving credit facility on April 28, 2017 to, among other things, increase the available credit to \$900.0 million from \$750.0 million. The facility has annual capital expenditure limitations of \$100.0 million, \$105.0 million, \$110.0 million, \$115.0 million, \$120.0 million and \$125.0 million for fiscal years 2017 through 2022, respectively, and permits up to \$15.0 million of the unused capital expenditure limitation from fiscal year 2016 to be carried over to the fiscal year 2017; thereafter, up to \$20.0 million of the unused limitation for any fiscal year starting with fiscal year 2017 may be carried over to the next fiscal year. The facility also permits capital expenditures up to \$200.5 million on the construction of a new poultry complex in and around Tyler, Texas, up

to \$210.0 million on the construction of a potential additional new poultry complex, up to \$15.0 million on expansion of the Company's existing prepared chicken facility in Flowood, Mississippi, up to \$60.0 million on a potential new further processing complex, and up to \$70.0 million on the purchase of three new aircraft. 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 any of the three aforementioned new complexes for the four fiscal

Table of Contents

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 April 30, 2017, was \$887.2 million. The credit is unsecured and, unless extended, will expire on April 28, 2022. As of April 30, 2017, and May 24, 2017, the Company had no outstanding draws under the facility, and had approximately \$19.7 million outstanding in letters of credit, leaving \$880.3 million of borrowing capacity available under the facility.

Table of Contents

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 April 30, 2017, and the related condensed consolidated statements of operations for the three-month and six-month periods ended April 30, 2017 and 2016 and the condensed consolidated statements of cash flows for the six-month periods ended April 30, 2017 and 2016. 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 (United States), 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, 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended not presented herein and we expressed an unqualified opinion on those consolidated financial statements in our report dated December 15, 2016. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet of Sanderson Farms, Inc. and its subsidiaries as of October 31, 2016, 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

May 25, 2017

Table of Contents

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, 2016.

This Quarterly 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 our latest 10-K and 10-Q reports, 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.
- (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 affect the supply of feed grains.
- (12) Failure to respond to changing consumer preferences and negative media campaigns.
- (13) Failure to successfully and efficiently start up and run a new plant or integrate any business the Company might acquire.
- (14) Unfavorable results from currently pending litigation and proceedings, or litigation and proceedings that could arise in the future.

Table of Contents

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 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, 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, marketing and distribution. The Company’s prepared chicken product line includes approximately 80 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.

Consistent with the poultry industry, the Company’s profitability is substantially affected 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.

In February 2015, the Company began initial operations at a new poultry processing complex in Palestine, Texas. The complex consists of a feed mill, hatchery, poultry processing plant and wastewater facility with the capacity to process 1.25 million chickens per week. During the second quarter of fiscal 2017, the Palestine processing plant processed approximately 129.6 million pounds of dressed poultry meat, as compared to approximately 71.5 million pounds during the second quarter of fiscal 2016. See “The construction and potential benefits of our new facilities are subject to risks and uncertainties” in the Risk Factors section of our Annual Report on Form 10-K for the fiscal year ended October 31, 2016.

On March 12, 2015, the Company announced the selection of St. Pauls and Robeson County, North Carolina, for the construction of a new poultry processing complex. The completed complex consists of a hatchery, processing plant, waste water 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 reach full production, we will need to enter into contracts with a sufficient number of independent contract poultry producers to house the live inventory 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 our Annual Report on Form 10-K for the fiscal year ended October 31, 2016.

On March 16, 2017, the Company announced the selection of sites in Lindale, Mineola and Smith County, Texas, for the construction of a new poultry processing complex. The completed complex will consist of a hatchery, feed mill, processing plant and waste water treatment facility. Construction is expected to commence in the third quarter of fiscal 2017, and initial operations of the new complex are expected to begin during the first calendar quarter of 2019. At full capacity, the new complex will process 1.25 million chickens per week. Before the complex can become operational, we will need to identify and purchase or lease the necessary sites, obtain the necessary licenses and permits, enter into construction contracts, enter into contracts with a sufficient number of independent contract poultry producers to house the live inventory 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 our Annual Report on Form 10-K for the fiscal year ended October 31, 2016.

The Company entered into a new revolving credit facility on April 28, 2017 to, among other things, increase the available credit to \$900.0 million from \$750.0 million. The facility has annual capital expenditure limitations of \$100.0 million, \$105.0 million, \$110.0 million, \$115.0 million, \$120.0 million and \$125.0 million for fiscal years 2017 through 2022, respectively, and permits up to \$15.0 million of the unused capital expenditure limitation from

fiscal year 2016 to be carried over to the fiscal year 2017; thereafter, up to \$20.0 million of the unused limitation for any fiscal year starting with fiscal year 2017 may be carried over to the next fiscal year. The facility also permits capital expenditures up to \$200.5 million on the construction of a new poultry complex in and around Tyler, Texas, up to \$210.0 million on the construction of a potential additional new poultry complex, up to \$15.0 million on expansion of the Company's existing prepared chicken facility in Flowood, Mississippi, up to \$60.0 million on a potential new further processing complex, and up to \$70.0 million on the purchase of three new aircraft. 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

Table of Contents

percentage points in connection with the construction of any of the three aforementioned new complexes 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 April 30, 2017, was \$887.2 million. The credit is unsecured and, unless extended, will expire on April 28, 2022. As of April 30, 2017, and May 24, 2017, the Company had no outstanding draws under the facility, and had approximately \$19.7 million outstanding in letters of credit, leaving \$880.3 million of borrowing capacity available under the facility. For more information about the facility, see Item 1.01 of our Current Report on Form 8-K filed May 4, 2017, which is incorporated herein by reference.

EXECUTIVE OVERVIEW OF RESULTS

The Company's margins improved during the second quarter of fiscal 2017 when compared to the same period a year ago, reflecting higher average sales prices and only slightly higher feed costs per pound of chicken processed. Driving our second quarter results were continued strong demand for chicken at retail grocery stores, increased volume, and improved export markets. In addition to strong demand at retail grocery stores, market prices for chicken wings improved counter-seasonally during the quarter, and market prices for boneless skinless breast meat produced at our plants that produce a larger sized bird moved up during April and have continued that trend into May. The improvement in export markets reflects oil prices that have moved above their previous lows, giving more buying power to those countries heavily dependent on oil revenue to fuel their economy. Additionally, the presence of avian-influenza in Europe has caused some export partners to increase their purchases of chicken from the United States.

While overall prices paid for feed grains were higher during the second quarter of fiscal 2017 as compared to the same period a year ago, feed formulation changes and improved broiler performance partially offset the higher prices. As a result, the average feed cost in broiler flocks processed was essentially flat, increasing by only 0.4%. The Company has priced only a small portion of its grain needs past May 2017. Had it priced its remaining fiscal year 2017 needs at May 23, 2017 cash market prices, its costs of feed grains would be approximately \$24.5 million higher during fiscal 2017 as compared to fiscal 2016.

RESULTS OF OPERATIONS

Net sales for the second quarter ended April 30, 2017 were \$802.0 million as compared to \$692.1 million for the second quarter ended April 30, 2016, an increase of \$109.9 million, or 15.9%. Net sales of poultry products for the second quarter ended April 30, 2017 and 2016, were \$758.3 million and \$647.9 million, respectively, an increase of \$110.4 million, or 17.0%. The increase in net sales of poultry products resulted from a 5.0% increase in the average sales price of poultry products sold and an 11.5% increase in the pounds of poultry products sold. During the second quarter of fiscal 2017, the Company sold 1,035.6 million pounds of poultry products, up from 928.9 million pounds during the second quarter of fiscal 2016. The increased pounds of poultry products sold resulted from a 9.0% increase in the number of head processed. The new St. Pauls processing facility, which began initial operations in January 2017, processed approximately 5.5 million head during the second quarter of fiscal 2017, or 4.0% of the Company's total head processed during the period, and sold approximately 47.6 million pounds of poultry products during the second quarter of fiscal 2017, or 4.6% of the Company's total poultry pounds sold during the quarter. The Palestine processing facility, which began initial operations during February 2015, processed approximately 15.1 million head during the second quarter of fiscal 2017, or 11.0% of the Company's total head processed during the period, and sold approximately 131.2 million pounds of poultry products during the second quarter of fiscal 2017, or 12.7% of the Company's total poultry pounds sold during the period. By comparison, the Palestine facility processed approximately 8.4 million head during the second quarter of fiscal 2016, or 6.6% of the Company's total head processed during the period, and sold approximately 72.8 million pounds of poultry products during the second quarter of fiscal 2016, or approximately 7.8% of the Company's total poultry pounds sold during the period. Overall, market prices for poultry products increased during the second quarter of fiscal 2017 as compared to the same quarter of fiscal 2016. When compared to the second quarter of fiscal 2016, Urner Barry average market prices for boneless breast meat, tenders, jumbo wings and bulk leg quarters increased by 9.1%, 4.7%, 5.1% and 17.2%, respectively. Average market prices for chicken products sold to retail grocery store customers remained relatively strong during the second quarter of fiscal 2017, and continue to reflect good demand. Net sales of prepared chicken products for the second quarter ended

April 30, 2017 and 2016 were \$43.8 million and \$44.2 million, respectively, or a decrease of 1.0%. This decrease resulted from a 1.2% decrease in the pounds of prepared chicken products sold, partially offset by a slight 0.1% increase in the average sales price of prepared chicken products sold. During the second quarter of fiscal 2017, the Company sold 22.2 million pounds of prepared chicken products, down from 22.4 million pounds during the second quarter of fiscal 2016.

Net sales for the first six months of fiscal 2017 were \$1,490.4 million as compared to \$1,297.3 million for the first six months of fiscal 2016, an increase of \$193.1 million, or 14.9%. Net sales of poultry products for the first six months of fiscal 2017 and 2016 were \$1,405.8 million and \$1,208.6 million, respectively, an increase of \$197.2 million or 16.3%. The increase in net sales of poultry products resulted from an 11.9% increase in the pounds of poultry products sold and a 3.9% increase in the average sales price of poultry products. During the first six months of fiscal 2017, the Company sold 2,002.7 million pounds of

Table of Contents

poultry products, up from 1,789.2 million pounds during the first six months of fiscal 2016. The increased pounds of poultry products resulted from a 10.4% increase in the number of head processed and a 1.3% increase in the average live weight of poultry processed. During the first half of fiscal 2017, the new St. Pauls processing facility, which began initial operations in January 2017, processed approximately 6.0 million head, or 2.3% of the Company's total head processed during the period, and sold approximately 56.4 million pounds of poultry products, or 2.8% of the Company's total poultry pounds sold during the period. During the first half of fiscal 2017, the Palestine processing facility, which began initial operations during February 2015, processed approximately 30.3 million head, or 11.4% of the Company's total head processed during the period, and sold approximately 264.8 million pounds of poultry products, or 13.2% of the Company's total poultry pounds sold during the period. By comparison, during the first half of fiscal 2016, the Palestine facility processed approximately 15.7 million head, or 6.5% of the Company's total head processed during the period, and sold approximately 135.7 million pounds of poultry products, or 7.6% of the Company's total poultry pounds sold during the period. Overall, market prices for poultry products increased during the first half of fiscal 2017 as compared to the same period during fiscal 2016. When compared to the first half of fiscal 2016, Urner Barry average market prices for boneless breast meat, tenders, jumbo wings and bulk leg quarters increased by 2.3%, 8.5%, 9.4% and 23.5%, respectively. Average market prices for chicken products sold to retail grocery store customers remained relatively strong during the first half of fiscal 2017, and continue to reflect good demand. Net sales of prepared chicken products for the six months ended April 30, 2017 and 2016 were \$84.6 million and \$88.7 million, respectively, or a decrease of 4.6%. This decrease resulted from a 4.0% decrease in the pounds of prepared chicken products sold and a 0.6% decrease in the average sales price of prepared chicken products sold. During the first six months of fiscal 2017, the Company sold 42.9 million pounds of prepared chicken products, down from 44.7 million pounds during the first six months of fiscal 2016.

Cost of sales for the second quarter of fiscal 2017 was \$655.3 million as compared to \$578.3 million during the second quarter of fiscal 2016, an increase of \$77.0 million, or 13.3%. Cost of sales of poultry products during the second quarter of fiscal 2017, as compared to the second quarter of fiscal 2016, was \$616.3 million and \$538.0 million, respectively, which represents a 2.8% increase 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 plant, and excludes poultry products processed and sold under our agreement with House of Raeford Farms as described in "Note (2)," the increase in the average cost of sales of poultry products resulted from a \$0.0154 per pound increase in other costs of sales of poultry products and an increase in the cost of feed per pound of broilers processed of \$0.0009, or 0.4%.

Poultry Cost of Sales

(In thousands, except per pound data)

Description	Second Quarter 2017		Second Quarter 2016		Incr/(Decr)	
	Dollars	Per lb.	Dollars	Per lb.	Dollars	Per lb.
Beginning Inventory	\$21,300	\$0.3925	\$7,662	\$0.2415	\$13,638	\$0.1510
Feed in broilers processed	259,906	0.2549	240,225	0.2540	19,681	0.0009
All other cost of sales	353,926	0.3471	313,716	0.3317	40,210	0.0154
Less: Ending Inventory	18,758	0.3822	12,229	0.3094	6,529	0.0728
Total poultry cost of sales	\$616,374 ^{(1) (2)}	\$0.6018	\$549,374 ⁽¹⁾	\$0.5860	\$67,000	\$0.0158
Pounds:						
Beginning Inventory	54,273		31,727			
Poultry processed	1,019,655					