

SANDERSON FARMS INC  
Form 8-K  
October 26, 2010

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 8-K**  
**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**Date of Report (Date of earliest event reported): October 20, 2010**  
**SANDERSON FARMS, INC.**

(Exact name of registrant as specified in its charter)

Mississippi

1-14977

64-0615843

(State or other jurisdiction  
of incorporation)

(Commission File Number)

(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 or former address, if changed since last report)

Check the appropriate box if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Section 5 Corporate Governance and Management**

**Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangement of Certain Officers.**

On October 20 and 21, 2010, the Compensation Committee of the Registrant's Board of Directors took the following actions:

(1) The Committee approved a 7% salary increase for Joe F. Sanderson, Jr., Chairman and Chief Executive Officer and a 5% salary increase for each of Lampkin Butts, President and Chief Operating Officer; D. Michael Cockrell, Treasurer and Chief Financial Officer; and James A. Grimes, Secretary and Chief Accounting Officer, in each case for the 2011 fiscal year, effective November 1, 2010. The fiscal 2011 salary for each of the executive officers expressed in dollars is as follows:

	2011 Salary
Mr. Sanderson	\$ 1,298,076
Mr. Butts	\$ 633,336
Mr. Cockrell	\$ 542,700
Mr. Grimes	\$ 256,704

(2) The Committee made awards to executive officers under the Registrant's long term equity incentive program for the 2011 fiscal year, effective November 1, 2010, as follows:

Name	Performance Shares	Shares of Restricted Stock
Mr. Sanderson	35,750	
Mr. Butts	8,500	8,500
Mr. Cockrell	8,500	8,500
Mr. Grimes	1,000	1,000

The Committee will consider a grant of restricted stock to Mr. Sanderson following a vote by the Registrant's stockholders at its next annual meeting on whether to increase the total number of restricted shares that may be granted under the Registrant's Stock Incentive Plan.

The form of restricted stock agreement used for the restricted stock awards noted above will be substantially similar to the form of agreement filed as Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 2009. The form of performance share agreement for the performance share awards noted above will be filed as an exhibit to the Registrant's next 10-K report. The following descriptions of the restricted stock and performance share agreements relating to the above awards are necessarily not complete, and in each instance reference is made to the agreements themselves.

Restricted Stock Agreements

The form of restricted stock agreement that the Registrant entered into provides for the grant of a specified number of shares of restricted stock to the participant as a reward for past service or as an incentive for the performance of future services and for no additional consideration, subject to the following terms and conditions:

The restricted stock may not be sold or transferred during the restricted period except by will or inheritance.

The restricted period lasts for four years, except that it ends and the shares fully and immediately vest if a change of control in the Registrant occurs at any time. If the participant dies, retires or becomes disabled before the end of the restricted period, a pro rata percentage of the shares will immediately vest based on the number of years of the restricted period that have passed before death, retirement or disability occurred (for example, if the participant dies, retires or becomes disabled after one year of the restricted period has passed, he or his estate would receive 25% of the shares and would forfeit the remainder; if he dies, retires or becomes disabled after two years of the restricted period has passed, he or his estate would receive 50% of the shares and would forfeit the remainder; and so on).

Rights to the shares are forfeited if the participant's employment terminates for any other reason prior to the end of the restricted period, or if the board determines that the participant has engaged in specified detrimental conduct or activity while employed with the Registrant or in the two-year period following his or her voluntary termination or termination for cause. If a participant's shares have already vested, he or she must repay the Registrant the fair market value of his or her shares that is specified in his or her restricted stock agreement.

During the restricted period, the participant is entitled to vote the shares and receive dividends.

#### Performance Share Agreements

The form of performance share agreement that the Registrant entered into provides for the grant of the right to receive shares of the Registrant's common stock at the end of a restricted period, subject to the Registrant's achievement of certain performance measures over the two-year performance period commencing November 1, 2010. The restricted period means the three fiscal years commencing on November 1, 2010. The performance criteria are based on a historical average of the Registrant's performance over 19 two-year periods, dating back to the two-year period ending in 1991. A performance share award is granted as a reward for past service or as an incentive for the performance of future services and for no additional consideration, subject to the following terms and conditions:

A participant can receive a target amount of shares based on the Registrant's average return on equity and a target based on the Registrant's average return on sales over the two-year period commencing November 1, 2010. It also establishes several possible percentages of those target awards that he or she could receive, depending on the Registrant's actual performance measured at the end of the performance period. The performance criteria for the fiscal 2011 performance share awards are:

<b>Measure</b>	<b>Weight</b>	<b>Threshold (50% Payout)</b>	<b>Target (100% Payout)</b>	<b>Maximum (200% Payout)</b>
ROE	50%	9.6%	10.7%	19.8%
ROS	50%	2.8%	3.5%	4.6%

In making the performance share awards, the Compensation Committee determined, pursuant to the provisions of the Stock Incentive Plan, to provide that the award agreements will neutralize the effect of the Registrant's April 2010 equity offering on its average return on equity (or ROE). Under the performance share agreements, average ROE is equal to the mathematical average of the net return on average equity for each of the years in the performance period. Net return on average equity is computed by adding together stockholders' equity at the beginning and end of each fiscal year on the Registrant's audited financial statements and dividing by two. The resulting number is then divided into net income for the fiscal year as reported on the Registrant's audited financial statements to reach net return on average equity for the year. In calculating equity, the agreements will provide that the Registrant's total equity for each of the years in the performance period will be reduced by

\$115.4 million, which was the amount of the net proceeds of the equity offering. The Committee also determined to adjust net income for this purpose to reflect any benefit the Registrant may achieve from the early repayment of a \$40 million outstanding balance on its revolving credit facility with proceeds from the equity offering.

The Registrant's Board of Directors, in its sole discretion, may pay earned performance shares in the form of cash, in shares of common stock, or in a combination of cash or shares which has an aggregate fair market value equal to the value of the earned performance shares at the close of the applicable performance period.

If the participant's employment terminates because of death, disability or eligibility for retirement, or there has been a change in control of the Registrant before the end of the performance period, the participant will be entitled to receive, at the end of the restricted period, a pro rata portion of the number

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of performance shares to which he or she otherwise would have been entitled, based on the number of months he or she was employed with the Registrant during the performance period.

Rights to the shares are forfeited if the participant's employment terminates for any other reason prior to the end of the restricted period, or if the Board determines that the participant has engaged in specified detrimental conduct or activity while employed with the Registrant or in the two-year period following his or her voluntary termination or termination for cause. If a participant's shares have already been issued, he or she must repay the Registrant their fair market value as of their issue dates.

During the restricted period, the participant does not have any of the rights of a stockholder of the Registrant with respect to his or her performance shares, including the right to vote the performance shares and the right to receive any dividends or other distributions.

A participant may not sell, exchange, transfer, pledge, hypothecate or otherwise dispose of his or her right to receive performance shares, other than by will or by the applicable laws of descent and distribution.

(3) The Committee increased the total percentage of base salary that Messrs. Butts and Cockrell can earn as a bonus under the Registrant's Bonus Award Program for the 2011 fiscal year and future years from 100% to 120%.

(4) The Committee recommended, and the Board of Directors approved, a policy under which the Board and the Committee, among other things, have the discretion, to the extent permitted by law, to seek to recoup incentive-based compensation of the Registrant's senior management, including the executive officers named above, if the Registrant has a financial restatement or if the person in question has engaged in misconduct adversely affecting the Registrant.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**SANDERSON FARMS, INC.**  
(Registrant)

Date: *October 26, 2010*

By: */s/ D. Michael Cockrell*  
*D. Michael Cockrell*  
*Treasurer and Chief Financial Officer*