

CAPITAL SENIOR LIVING CORP

Form DEFR14A

April 19, 2005

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

SCHEDULE 14A

**INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO. 1)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

CAPITAL SENIOR LIVING CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

Table of Contents

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

The sole purpose of this Revised Definitive Proxy Statement filing is to update the Proxy Card. No changes were made to the Proxy Statement.

Table of Contents

CAPITAL SENIOR LIVING CORPORATION
14160 Dallas Parkway, Suite 300
Dallas, Texas 75254
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held May 10, 2005

To the Stockholders of Capital Senior Living Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the Annual Meeting) of Capital Senior Living Corporation, a Delaware corporation (the Company), will be held at the Bent Tree Country Club, 5201 Westgrove Drive, Dallas, Texas 75248 at 10:00 a.m. (local time), on the 10th day of May, 2005, for the following purposes:

1. To elect two (2) directors of the Company to hold office until the Annual Meeting to be held in 2008 or until their respective successors are duly qualified and elected;

2. To transact any and all other business that may properly come before the Annual Meeting or any adjournment(s) thereof.

The Board of Directors has fixed the close of business on March 14, 2005, as the record date (the Record Date) for the determination of stockholders entitled to notice of and to vote at such meeting or any adjournment(s) thereof. Only stockholders of record at the close of business on the Record Date are entitled to notice of and to vote at the Annual Meeting. The stock transfer books will not be closed. A list of stockholders entitled to vote at the Annual Meeting will be available for examination at the offices of the Company for 10 days prior to the Annual Meeting.

You are cordially invited to attend the Annual Meeting; however, whether or not you expect to attend the meeting in person, you are urged to mark, sign, date, and mail the enclosed form of proxy promptly so that your shares of stock may be represented and voted in accordance with your wishes and in order that the presence of a quorum may be assured at the Annual Meeting. Your proxy will be returned to you if you are present at the Annual Meeting and request its return in the manner provided for revocation of proxies on the initial page of the enclosed proxy statement.

By Order of the Board of Directors

James A. Stroud
Chairman of the Board and Secretary

April 8, 2005
Dallas, Texas

TABLE OF CONTENTS

ELECTION OF DIRECTORS

BOARD OF DIRECTORS AND COMMITTEES

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

FEES PAID TO INDEPENDENT AUDITORS

OTHER BUSINESS

GENERAL

DATE FOR RECEIPT OF STOCKHOLDER PROPOSALS

APPENDIX A

Table of Contents

CAPITAL SENIOR LIVING CORPORATION
14160 Dallas Parkway, Suite 300
Dallas, Texas 75254
PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS
To Be Held May 10, 2005
SOLICITATION AND REVOCABILITY OF PROXIES

The accompanying proxy is solicited by the Board of Directors on behalf of Capital Senior Living Corporation, a Delaware corporation (the Company), to be voted at the 2005 Annual Meeting of Stockholders of the Company (the Annual Meeting) to be held on May 10, 2005, at the time and place and for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders (the Notice) and at any adjournment(s) thereof. **When proxies in the accompanying form are properly executed and received, the shares represented thereby will be voted at the Annual Meeting in accordance with the directions noted thereon; if no direction is indicated, such shares will be voted FOR the election of directors as set forth on the accompanying Notice.**

The executive offices of the Company are located at, and the mailing address of the Company is, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254.

Management does not intend to present any business at the Annual Meeting for a vote other than the matters set forth in the Notice and has no information that others will do so. If other matters requiring a vote of the stockholders properly come before the Annual Meeting, it is the intention of the persons named in the accompanying form of proxy to vote the shares represented by the proxies held by them in accordance with their judgment on such matters.

This proxy statement (the Proxy Statement) and accompanying form of proxy are being mailed on or about April 8, 2005. The Company's Summary Annual Report to Stockholders covering the Company's fiscal year ended December 31, 2004, mailed to the Company's stockholders on or about April 8, 2005, does not form any part of the materials for solicitation of proxies.

Any stockholder of the Company giving a proxy has the unconditional right to revoke his or her proxy at any time prior to the voting thereof either in person at the Annual Meeting by delivering a duly executed proxy bearing a later date or by giving written notice of revocation to the Company addressed to David R. Brickman, General Counsel, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254; no such revocation shall be effective, however, unless such notice of revocation has been received by the Company at or prior to the Annual Meeting.

In addition to the solicitation of proxies by use of the mail, officers and regular employees of the Company may solicit the return of proxies, either by mail, telephone, telecopy, or through personal contact. Such officers and employees will not be additionally compensated but will be reimbursed for out-of-pocket expenses. Brokerage houses and other custodians, nominees, and fiduciaries will, in connection with shares of common stock, par value \$0.01 per share (the Common Stock), registered in their names, be requested to forward solicitation material to the beneficial owners of such shares of Common Stock.

The cost of preparing, printing, assembling, and mailing the Annual Report, the Notice, this Proxy Statement, and the enclosed form of proxy, as well as the reasonable cost of forwarding solicitation materials to the beneficial owners of shares of the Company's Common Stock, and other costs of solicitation, are to be borne by the Company.

Table of Contents

QUORUM AND VOTING

The record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting was the close of business on March 14, 2005 (the Record Date). On the Record Date, there were 25,754,447 shares of Common Stock issued and outstanding.

Each holder of Common Stock is entitled to one vote per share on all matters to be acted upon at the Annual Meeting, and neither the Company's Amended and Restated Certificate of Incorporation nor its Amended and Restated Bylaws allow for cumulative voting rights. The presence, in person or by proxy, of the holders of a majority of the issued and outstanding shares of Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum to transact business. If a quorum is not present or represented at the Annual Meeting, the stockholders entitled to vote at the Annual Meeting, present in person or by proxy, may adjourn the Annual Meeting from time to time without notice or other announcement until a quorum is present or represented. Assuming the presence of a quorum, the affirmative vote of the holders of a majority of the shares of Common Stock voting at the Annual Meeting is required for the election of directors.

If you hold shares in your name, and you sign and return a proxy card without giving specific voting instructions, your shares will be voted as recommended by the Board of Directors on all matters and as the proxy holders may determine in their discretion with respect to any other matters that properly come before the meeting. If you hold your shares through a broker, bank or other nominee and you do not provide instructions on how to vote, your broker or other nominee may have authority to vote your shares on certain matters. NYSE regulations prohibit brokers or other nominees that are NYSE member organizations from voting in favor of proposals relating to equity compensation plans and certain other matters unless they receive specific instructions from the beneficial owner of the shares to vote in that manner. NASD member brokers are also prohibited from voting on these types of proposals without specific instructions from beneficial holders. An automated system administered by the Company's transfer agent tabulates the votes. Abstentions and broker non-votes are each included in the determination of the number of shares present for determining a quorum. Each proposal is tabulated separately. Abstentions are counted in tabulations of votes cast on proposals presented to stockholders, whereas broker non-votes are not counted as voting for purposes of determining whether a proposal has received the necessary number of votes for approval of the proposal. With regard to the election of directors, votes may be cast in favor of or withheld from each nominee; votes that are withheld will be excluded entirely from the vote and will have no effect.

Table of Contents**PRINCIPAL STOCKHOLDERS AND STOCK OWNERSHIP OF MANAGEMENT**

The following table sets forth certain information with respect to beneficial ownership of the Common Stock as of March 14, 2005, by: (i) each person known by the Company to be the beneficial owner of more than five percent of the Common Stock; (ii) each director of the Company; (iii) each of the executive officers named in the Summary Compensation Table (the "Named Executive Officers"); and (iv) all executive officers and directors of the Company as a group. Except as otherwise indicated, the address of each person listed below is 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254.

Name of Beneficial Owner	Shares Beneficially Owned(1)(2) Number	Percent
James Stroud	5,127,159(3)	19.8
Dimensional Fund Advisors Inc.	2,150,099(4)	8.3
Lord Abbett & Co. LLC	2,082,731(5)	8.1
T. Rowe Price Small-Cap Value Fund, Inc.	1,690,900(6)	6.6
Wasatch Advisors, Inc.	1,661,695(7)	6.5
Jon D. Gruber	1,484,000(8)(9)	5.8
J. Patterson McBaine	1,481,950(8)(10)	5.8
Harvey Hanerfeld	1,376,600(11)(12)	5.3
Roger Feldman	1,354,000(11)(13)	5.3
Gruber and McBaine Capital Management, LLC	1,347,150(8)	5.2
J. Lynn Rose	1,347,150(8)	5.2
Eric B. Swergold	1,347,150(8)	5.2
J.&W. Seligman & Co. Incorporated	1,301,723(14)	5.1
William C. Morris	1,301,723(14)	5.1
Lawrence A. Cohen	676,809(15)	2.6
Keith N. Johannessen	140,196(16)	*
David R. Brickman	82,324(17)	*
Ralph A. Beattie	43,010(18)	*
James A. Moore	35,071(19)	*
Dr. Victor W. Nee	32,271(20)	*
Craig F. Hartberg	13,500(21)	*
Jill M. Krueger	3,000(22)	*
All directors and executive officers as a group (15 persons)	6,349,279(23)	23.8

* Less than one percent.

(1) Pursuant to Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act"), a person has beneficial ownership of any securities as to which such person, directly or indirectly, through any contract, arrangement, undertaking, relationship or otherwise has or shares voting power and/or investment power and as to which such person has the right to acquire such voting and/or investment power within 60 days. Percentage of beneficial ownership as to any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person by the sum of the number of shares outstanding as of such date and the number of shares as to which such person has the right to acquire voting and/or investment power within 60 days.

(2)

Except for the percentages of certain parties that are based on presently exercisable options which are indicated in the following footnotes to the table, the percentages indicated are based on 25,754,447 shares of Common Stock issued and outstanding on March 14, 2005. In the case of parties holding presently exercisable options, the percentage ownership is calculated on the assumption that the shares presently held or purchasable within the next 60 days underlying such options are outstanding.

Table of Contents

- (3) Consists of 55,000 shares held by Mr. Stroud directly, 4,937,750 shares held indirectly over which Mr. Stroud has voting and dispositive power and 134,409 shares that Mr. Stroud may acquire upon the exercise of options immediately or within 60 days after March 14, 2005.
- (4) According to Schedule 13G/ A, filed February 9, 2005. The address of Dimensional Fund Advisors Inc. (Dimensional) is 1299 Ocean Avenue, 11th Floor, Santa Monica, California 90401. Consists of shares held in investment companies, trusts and accounts over which Dimensional possesses investment and/or voting power in its role as investment advisor or manager. Dimensional disclaims beneficial ownership of the shares.
- (5) According to Schedule 13G, filed February 14, 2005. The address of Lord Abbett & Co. LLC is 90 Hudson Street, Jersey City, New Jersey 07302.
- (6) According to Schedule 13G/ A, filed February 8, 2005. The address of T. Rowe Price Associates, Inc, is 100 E. Pratt Street, Baltimore, Maryland 21202. These securities are owned by various individual and institutional investors, including T. Rowe Price Small-Cap Value Fund, Inc. (which owns 1,561,500 shares, representing approximately 6.1% of the shares outstanding), which T. Rowe Price Associates, Inc. (Price Associates) serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.
- (7) According to Schedule 13G, filed February 14, 2005. The address of Wasatch Advisors is 150 Social Hall Avenue, Salt Lake City, Utah 84111.
- (8) According to Schedule 13G, filed February 14, 2005. The address of Gruber and McBaine Capital Management, LLC (GMCM) is 50 Osgood Place, Penthouse, San Francisco, California 94133. GMCM is a registered investment advisor whose clients have the right to receive or the power to direct the receipt of dividends from, or the proceeds from, the sale of the shares. Jon D. Gruber and J. Patterson McBaine are the Managers, controlling persons and portfolio managers of GMCM. No individual clients holdings of the shares are more than five percent of the outstanding Stock. Lagunitas Partners (Lagunas) and Firefly Partners LP (Firefly) are investment limited partnerships of which GMCM is the general partner. GMCM, Mr. Gruber, Mr. McBaine, Eric B. Swergold and J. Lynn Rose constitute a group within the meaning of Rule 13d-5(b) under the Exchange Act. Lagunitas and Firefly are not members of any group and disclaims beneficial ownership of the shares.
- (9) Includes 136,850 shares over which Mr. Gruber has sole voting and dispositive power.
- (10) Includes 134,800 shares over which Mr. McBaine has sole voting and dispositive power.
- (11) According to Schedule 13G, filed January 28, 2005. The address for each of Mr. Hanerfeld and Mr. Feldman is 1919 Pennsylvania Avenue, NW, Suite 275, Washington, DC 20006. As sole stockholders, directors and executive officers of West Creek Capital, Inc., a Delaware corporation that is the general partner of West Creek Capital, L.P., a Delaware limited partnership that is the investment adviser to (i) West Creek Partners Fund L.P., a Delaware limited partnership (the Fund), and (ii) certain private accounts (the Accounts), Mr. Feldman and Mr. Hanerfeld may be deemed to have the shared power to direct the voting and disposition of the 642,000 shares of Common Stock owned by the Fund and 70,000 shares of Common Stock held in the Accounts. As voting members of Cumberland Investment Partners, L.L.C., a Delaware limited liability company (Cumberland), Mr. Feldman and Mr. Hanerfeld may be deemed to have the shared power to direct the voting and disposition of the 620,000 shares of Common Stock owned by Cumberland.
- (12) Includes 44,600 shares beneficially owned by Mr. Hanerfeld.

- (13) Includes 22,000 shares beneficially owned by Mr. Feldman.
- (14) According to Schedule 13G/ A, filed February 10, 2000. The address of J.&W. Seligman & Co. Incorporated (Seligman) and William C. Morris is 100 Park Avenue, New York, New York 10017. Seligman is an investment advisor in which Mr. Morris owns the majority of the outstanding voting securities. Accordingly, the shares reported herein by Mr. Morris include those shares separately reported by Seligman.
- (15) Consists of 454,100 shares held by Mr. Cohen directly, 300 shares held by family members of Mr. Cohen, and 222,409 shares that Mr. Cohen may acquire upon the exercise of options immediately or within 60 days after March 14, 2005.
- (16) Consists of 140,196 shares that Mr. Johannessen may acquire upon the exercise of options immediately or within 60 days after March 14, 2005.

Table of Contents

- (17) Consists of 82,324 shares that Mr. Brickman may acquire upon the exercise of options immediately or within 60 days after March 14, 2005.
- (18) Consists of 43,010 shares that Mr. Beattie may acquire upon the exercise of options immediately or within 60 days after March 14, 2005.
- (19) Consists of 4,800 shares held by Mr. Moore directly and 30,271 shares that Mr. Moore may acquire upon the exercise of options immediately or within 60 days after March 14, 2005.
- (20) Consists of 1,000 shares held by Dr. Nee directly, 1,000 shares held by Mimi Nee, the spouse of Dr. Nee, and 30,271 shares that Dr. Nee may acquire upon the exercise of options immediately or within 60 days after March 14, 2005.
- (21) Consists of 13,500 shares that Mr. Hartberg may acquire upon the exercise of options immediately or within 60 days after March 14, 2005.
- (22) Consists of 3,000 shares that Ms. Krueger may acquire upon exercise of options immediately or within 60 days after March 14, 2005.
- (23) Includes 894,579 shares that such officers and/or directors, collectively, may acquire upon the exercise of options immediately or within 60 days after March 14, 2005.

Table of Contents**ELECTION OF DIRECTORS
(PROPOSAL 1)****Nominees and Continuing Directors**

Unless otherwise directed in the enclosed proxy, it is the intention of the persons named in such proxy to nominate and to vote the shares represented by such proxy for the election of the following named nominees for the office of director of the Company, to hold office until the Annual Meeting to be held in 2008 and until his successor is duly qualified and elected or until his earlier resignation or removal. Each of the nominees is presently a director of the Company.

Name	Age	Position(s) with the Company	Director s Term Expires
Nominees:			
Lawrence A. Cohen	51	Vice Chairman of the Board and Chief Executive Officer of the Company	2005
Craig F. Hartberg	68	Director	2005
Continuing Directors:			
James A. Stroud	54	Chairman of the Board and Chairman and Secretary of the Company	2006
Keith N. Johannessen	48	President and Chief Operating Officer of the Company and Director	2006
Jill M. Krueger	46	Director	2006
James A. Moore	70	Director	2007
Dr. Victor W. Nee	69	Director	2007

James A. Stroud has served as a director and officer of the Company and its predecessors since January 1986. He currently serves as Chairman of the Board and Chairman and Secretary of the Company. Mr. Stroud also serves on the boards of various educational and charitable organizations and in varying capacities with several trade organizations, including as a member of the Founder s Council and Leadership Counsel of the Assisted Living Federation of America. Mr. Stroud also serves as an Owner/ Operator Advisory Group member to the National Investment Conference and as a Founding Sponsor of The Johns Hopkins University Senior Housing and Care Program. Mr. Stroud was the past President and a member of the board of directors of the National Association for Senior Living Industry Executives. He was also a Founder of the Texas Assisted Living Association and served as a member of its board of directors. Mr. Stroud has earned a Masters in Law, is a licensed attorney and is also a Certified Public Accountant. Mr. Stroud has had positions with businesses involved in senior living for 20 years.

Lawrence A. Cohen has served as a director and Vice Chairman of the Board since November 1996. He has served as Chief Executive Officer of the Company since May 1999 and was Chief Financial Officer from November 1996 to May 1999. From 1991 to 1996, Mr. Cohen served as President and Chief Executive Officer of Paine Webber Properties Incorporated, which controlled a real estate portfolio having a cost basis of approximately \$3.0 billion, including senior living facilities of approximately \$110.0 million. Mr. Cohen serves on the boards of various charitable organizations and was a founding member and is on the executive committee of the Board of the American Seniors Housing Association. Mr. Cohen has earned a Masters in Law, is a licensed attorney and is also a Certified Public Accountant. Mr. Cohen has had positions with businesses involved in senior living for 20 years.

Keith N. Johannessen has served as President of the Company and its predecessors since March 1994, and previously served as Executive Vice President from May 1993 to February 1994. Mr. Johannessen has served as a director and Chief Operating Officer since May 1999. From 1992 to 1993, Mr. Johannessen served as Senior Manager in the health care practice of Ernst & Young. From 1987 to 1992, Mr. Johannessen was Executive Vice President of Oxford Retirement Services, Inc. Mr. Johannessen has served on the State of the

Table of Contents

Industry and Model Assisted Living Regulations Committees of the American Seniors Housing Association. Mr. Johannessen has been active in operational aspects of senior housing for 26 years.

Craig F. Hartberg has been a director since February 2001. Mr. Hartberg currently serves as a Small Business Advisor for the Louisiana Department of Development. Mr. Hartberg was in the banking industry for 28 years. From 1991 to 2000, Mr. Hartberg served as First Vice President, Senior Housing Finance for Bank One, Texas, N.A. From 1989 to 1991, Mr. Hartberg was the Senior Vice President, Manager Private Banking for Team Bank in Dallas, Texas. Mr. Hartberg graduated from the Southwestern Graduate School of Banking at Southern Methodist University. He earned his Masters of Business Administration at the University of Wyoming. Mr. Hartberg served as a member of the Board of Directors of the National Association of Senior Living Industry Executives and as a member of the Assisted Living Federation of America.

James A. Moore is President of Moore Diversified Services, Inc., a senior living consulting firm engaged in market feasibility studies, investment advisory services, and marketing and strategic consulting in the senior living industry. Mr. Moore has over 40 years of industry experience and has conducted over 1,800 senior living consulting engagements in approximately 600 markets, in 47 states and six countries. Mr. Moore has authored numerous senior living and health care industry technical papers and trade journal articles, as well as the books *Assisting Living Pure & Simple Development and Operating Strategies* and *Assisted Living 2000*, which are required assisted living certification course materials for the American College of Health Care Administrators. Mr. Moore's latest book, *Assisted Living Strategies for Changing Markets*, was released in May 2001. Mr. Moore holds a Bachelor of Science degree in Industrial Technology from Northeastern University in Boston and an MBA in Marketing and Finance from Texas Christian University in Fort Worth, Texas.

Dr. Victor W. Nee has been a Professor in the Department of Aerospace and Mechanical Engineering at the University of Notre Dame since 1965. Dr. Nee is currently Professor Emeritus at the University of Notre Dame. In addition to his professorial duties, Dr. Nee served as Director of the Advanced Technology Center at the University of Massachusetts, Dartmouth from 1993 to 1995, and as Director of the Advanced Engineering Research Laboratory at the University of Notre Dame from 1991 to 1993. Dr. Nee received a Bachelors of Science from the National Taiwan University in Civil Engineering and a Ph.D. in Fluid Mechanics from The Johns Hopkins University. Dr. Nee holds international positions as an advisor to governmental, educational and industrial organizations in China.

Jill M. Krueger has served as President and Chief Executive of Health Resources Alliance, Inc. (HRA), a company specializing in providing for rehabilitative and wellness services, institutional pharmacy services and products and programs designed to promote independence, health and wellness for elderly persons. Ms. Krueger also manages Senior Care Network, a St. Louis based alliance, and Alliance Continuing Care Network, a New York based alliance, both of which create and implement innovative programs and services either to enhance quality of life for seniors through wellness and prevention or create cost efficiencies. Ms. Krueger was a partner at KPMG responsible for overseeing the firm's national Long-term Care and Retirement Housing Practice. Ms. Krueger served as a public commissioner for the Continuing Care Accreditation Commission (CCAC) and as a member of the CCAC financial advisory board from 1997 to 2001. Ms. Krueger also served on the American Association for Homes and Services for Aged (AAHSA) House of Delegates, the AAHSA Managed Care Committee, and has been a member of the Alexian Brothers Health Systems Strategic Planning Committee since 1996. Ms. Krueger has served on the Board of Directors and the Finance/ Audit Committee for The Children Place, an organization dedicated to assisting children that are HIV or drug affected. Ms. Krueger has served on the Board of Directors and is the Chairperson for the Audit Committee for Franciscan Sisters Communities of Chicago since 2003.

The Board of Directors does not anticipate that any of the aforementioned nominees for director will refuse or be unable to accept election as a director of the Company, or be unable to serve as a director of the Company. Should any of them become unavailable for nomination or election or refuse to be nominated or to accept election as a director of the Company, then the persons named in the enclosed form of proxy intend to vote the shares represented in such proxy for the election of such other person or persons as may be nominated or designated by the Board of Directors.

Table of Contents

There are no family relationships among any of the directors, director nominees or executive officers of the Company.

The Board of Directors unanimously recommends a vote FOR the election of each of the individuals nominated for election as a director.

BOARD OF DIRECTORS AND COMMITTEES

The Company's Board of Directors currently consists of seven directors. The Board of Directors has determined that Craig F. Hartberg, James A. Moore, Dr. Victor W. Nee and Jill M. Krueger are independent within the meaning of the corporate governance rules of the NYSE. The Company has adopted a Director Independence Policy, a copy of which, as amended, is included as Appendix A to this Proxy Statement. The Board of Directors determined that Ms. Krueger, Messrs. Hartberg and Moore and Dr. Nee are independent in accordance with this Policy.

The Board of Directors held eleven meetings during 2004. No director attended fewer than 75% of the aggregate of (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings held by all committees of the Board on which such director served. Under the Company's Corporate Governance Guidelines, each director is expected to attend meetings of the Board of Directors, the annual shareholders meeting and meetings of the committees of the Board on which they serve. All directors then serving on the Board attended the Company's 2004 Annual Meeting of Stockholders.

Committees of the Board of Directors include the Audit Committee, the Nominating Committee and the Compensation Committee.

Audit Committee

The Audit Committee consists of Messrs. Hartberg and Moore and Ms. Krueger, each of whom is independent, as defined by the listing standards of the NYSE in effect as of the date of this Proxy Statement. The Board of Directors has determined that Ms. Krueger qualifies as an audit committee financial expert within the meaning of Securities and Exchange Commission regulations. The Board of Directors adopted in 2004 an amended and restated Audit Committee Charter which is available on the Company's website at <http://www.capitalsenior.com> in the Investor Relations section. Pursuant to this Charter, the Audit Committee serves as an independent party to oversee the Company's financial reporting process and internal control system, to appoint, replace, provide for compensation of and to oversee the Company's independent accountants and provide an open avenue of communication among the independent accountants and the Company's senior management and the Board of Directors. The Audit Committee held seven meetings during 2004.

Nominating Committee

The Nominating Committee consists of Messrs. Hartberg and Moore and Dr. Nee, each of whom is independent, as defined by the listing standards of the NYSE in effect as of the date of this Proxy Statement. The Nominating Committee identifies individuals qualified to become Board members and recommends Board nominees to the Board of Directors. The Nominating Committee also oversees the evaluation of the Board of Directors and management and develops and recommends for Board of Directors approval the Company's Code of Business Conduct and Ethics and Corporate Governance Guidelines. The amended and restated Nominating Committee Charter and the Company's Code of Business Conduct and Ethics and Corporate Governance Guidelines are available on the Company's website at <http://www.capitalsenior.com> in the Investor Relations section. The Nominating Committee held two meetings during 2004.

Compensation Committee

The Compensation Committee consists of Messrs. Hartberg and Moore and Dr. Nee. The Compensation Committee held six meetings during 2004 and is responsible for approval of the compensation and objectives and goals of the Chief Executive Officer of the Company and for making recommendations to the Board of

Table of Contents

Directors concerning the Company's executive compensation policies for other senior officers and administering the 1997 Omnibus Stock and Incentive Plan. The Compensation Committee Charter is available on the Company's website at <http://www.capitalsenior.com> in the Investor Relations section.

Director Nominations

The Nominating Committee of the Board of Directors is responsible under its charter for identifying and recommending qualified candidates for election to the Board of Directors. In addition, shareholders who wish to recommend a candidate for election to the Board of Directors may submit the recommendation to the chairman of the Nominating Committee, in care of the General Counsel of the Company. Any recommendation must include name, contact information, background, experience and other pertinent information on the proposed candidate and must be received in writing by December 9, 2005 for consideration by the Nominating Committee for the 2006 Annual Meeting of Stockholders.

Although the Nominating Committee is willing to consider candidates recommended by shareholders, it has not adopted a formal policy with regard to the consideration of any director candidates recommended by security holders. The Nominating Committee believes that a formal policy is not necessary or appropriate because of the small size of the Board of Directors and because the Company's current Board of Directors already has a diversity of business background, shareholder representation and industry experience.

The Nominating Committee does not have specific minimum qualifications that must be met by a candidate for election to the Board of Directors in order to be considered for nomination by the Committee. In identifying and evaluating nominees for director, the Committee considers each candidate's qualities, experience, background and skills, as well as any other factors which the candidate may be able to bring to the Board that the Board currently does not possess. The process is the same whether the candidate is recommended by a shareholder, another director, management or otherwise. The Company does not pay a fee to any third party for the identification of candidates, but the Company has paid a fee in the past to a third party for a background check for a candidate.

With respect to this year's nominees for director, each of Mr. Cohen and Mr. Hartberg is a current director standing for re-election.

Website

The Company's internet website www.capitalsenior.com contains an Investor Relations section, which provides links to the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Section 16 filings, amendments to those reports and filings, corporate governance guidelines and charters of the committees of the Board of Directors. These documents are available in print free of charge to any stockholder who requests it as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

Communication with Directors

Correspondence may be sent to the directors, including the non-management directors individually or as a group, in care of James A. Stroud, Chairman, with a copy to the General Counsel, David R. Brickman, at the Company's principal business office, 14160 Dallas Parkway, Suite 300, Dallas, Texas 75254.

All communication received as set forth above will be opened by the Chairman and General Counsel for the sole purpose of determining whether the contents represent a message to the Company's directors. Appropriate communications other than advertising, promotions of a product or service, or patently offensive material will be forwarded promptly to the addressee.

Director Compensation

Directors who are employees of the Company do not receive additional compensation for serving as directors of the Company. Non-employee directors are entitled to an annual retainer of \$15,000 payable, in arrears, on the date of each Annual Meeting. Non-employee directors are also entitled to a fee of \$750 for

Table of Contents

each Board meeting attended by such director, and \$500 for each committee meeting attended by such director. All directors are entitled to reimbursement for their actual out-of-pocket expenses incurred in connection with attending meetings. In addition, non-employee directors receive options to purchase shares of Common Stock or shares of restricted stock in accordance with the provisions of the 1997 Omnibus Stock and Incentive Plan.

Executive Compensation

The following table sets forth certain summary information concerning the compensation paid to any person who served as the Company's Chief Executive Officer and each of the other four most highly compensated executive officers whose salary exceeded \$100,000 for services rendered in all capacities to the Company for the fiscal years ended December 31, 2004, 2003 and 2002, respectively. All of the executive officers named below are referred to herein as the Named Executive Officers.

Summary Compensation Table

Name and Principal Positions	Year	Annual Compensation(1)			Long-Term Compensation
		Salary	Bonus	Other Annual Compensation (2)	Options/SARs
Lawrence A. Cohen Chief Executive Officer and Vice Chairman of the Board	2004	366,753	317,619	6,000	100,000
	2003	352,647	254,262	6,000	
	2002	339,084	187,446	6,000	
James A. Stroud Chairman and Secretary of the Company and Chairman of the Board	2004	305,627	216,114	10,035	
	2003	293,872	197,756	8,151	
	2002	282,570	144,227	5,189	
Keith N. Johannessen President and Chief Operating Officer	2004	234,000	167,123	6,500	56,540
	2003	225,000	151,516	6,000	
	2002	201,986	111,661	5,500	
Ralph A. Beattie Executive Vice President and Chief Financial Officer	2004	218,468	159,104	7,481	
	2003	210,066	138,835	6,000	
	2002	201,986	111,661	5,500	
David R. Brickman Vice President General Counsel	2004	174,446	45,000	3,255	41,120
	2003	168,547	30,000	3,018	
	2002	162,064	30,000	1,549	

(1) Annual compensation does not include the cost to the Company of benefits that certain executive officers receive in addition to salary and cash bonuses. The aggregate amounts of such personal benefits, however, did not exceed the lesser of either \$50,000 or 10% of the total annual compensation of such executive officer.

(2) Other annual compensation includes Employer 401(k) match and auto allowance.

Table of Contents**Aggregated Stock Option/ SAR Exercises During 2004 and Stock Option/ SAR Values as of December 31, 2004**

The following table provides information regarding the exercise of stock options during 2004 by the Named Executive Officers and describes for each of the Named Executive Officers the potential realizable values for their options at December 31, 2004:

Aggregated Option/SAR Exercises in Last Fiscal Year and Option/SAR Values at December 31, 2004

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at Fiscal	Value of Unexercised In-the-Money Options/SARs at Fiscal
			Year End(#)	Year End(1)
			Exercisable/Unexercisable	Exercisable/Unexercisable
Lawrence A. Cohen			222,409/0	\$ 409,530/0
James A. Stroud			134,409/0	\$ 69,850/0
Keith N. Johannessen			140,196/0	\$ 279,622/0
Ralph A. Beattie	60,000	\$ 192,000	43,010/0	\$ 87,310/0
David R. Brickman			82,324/0	\$ 127,564/0

(1) All of the options reflected above were granted at exercise prices ranging from \$1.80 to \$7.06. The closing price per share of the Company's Common Stock on December 31, 2004 was \$5.66.

Employment Agreements

The Company has entered into employment agreements with each of its named executive officers. Mr. Cohen entered into an employment agreement in November 1996 which was subsequently amended in May 1999, January 2003 and February 2004. Mr. Stroud entered into an employment agreement with the Company in May 1997 which was subsequently amended in March and May 1999, November 2000 and January 2003. Mr. Johannessen entered into an employment agreement with the Company in November 1996 which was subsequently amended in May 1999 and January 2003. Mr. Beattie entered into an employment agreement with the Company in May 1999 which was subsequently amended in January 2003. Mr. Brickman entered into an employment agreement with the Company in December 1996 which was subsequently amended in January 2003.

Mr. Cohen's employment agreement is for a term of three years and automatically extends for a two-year term on a consecutive basis, and the compensation thereunder consists of a minimum annual base salary of \$300,000, subject to annual adjustments, and a bonus of not less than 33% of his base salary in the event certain performance standards are met. Mr. Stroud's employment agreement contains terms that renew annually for successive four-year periods, and the compensation thereunder consists of a minimum base salary of \$250,000, subject to annual adjustments, and a bonus of not less than 33% of his base salary in the event certain performance standards are met. Mr. Johannessen's employment agreement is for a term of three years and automatically extends for a two-year term on a consecutive basis, and the compensation thereunder consists of an annual base salary of \$180,000, subject to annual adjustments, and a bonus of not less than 33% of his base salary in the event certain performance standards are met. Mr. Beattie's employment agreement is for a term of three years and automatically extends for a two-year term on a consecutive basis, and the compensation thereunder consists of an annual base salary of \$180,000 per annum, subject to

adjustments, and a bonus of not less than 33% of his base salary in the event certain performance standards are met. Mr. Brickman's employment agreement is for a term of three years and automatically extends for a two-year term on a consecutive basis, and the compensation thereunder consists of an annual base salary of \$146,584 for 2001, subject to annual adjustments.

Annual bonus awards are determined by the Board of Directors or the Compensation Committee. Included in each employment agreement is a covenant of the employee not to compete with the Company during the term of his employment and for a period of one year thereafter.

Table of Contents

Messrs. Cohen, Stroud, Johannessen and Beattie's employment agreements provide that if the employee is terminated by the Company, other than for cause or for reasons of death or disability or if he voluntarily resigns for good reason, then the Company will pay his base salary plus his annual bonus paid during the term of the employment agreement in the past 12 months for the balance of the term of the agreement, but not less than two years (base salary plus annual bonus paid during the term of his employment agreement in the past 12 months for three years if the termination is due to a Fundamental Change, as defined therein). Mr. Brickman's employment agreement provides that if the employee is terminated by the Company, other than for cause or for reasons of death or disability or the employee voluntarily resigns for good reason, then the Company will pay the employee his base salary for the balance of the term of the employment agreement, but in any event not to exceed two years, and not less than two years from the date of notice of the termination.

Under the Company's employment agreements with Mr. Cohen and Mr. Stroud, Mr. Cohen and Mr. Stroud are each entitled to certain rights with respect to the registration under the Securities Act of 1933, as amended (the Securities Act), of securities of the Company they hold. Under Mr. Cohen's employment agreement, if the Company proposes to register any of its securities under the Securities Act either for its own account or the account of other security holders, Mr. Cohen is entitled to notice of the registration and has the right to include the securities of the Company that he holds in the registration. Under Mr. Stroud's employment agreement he has similar registration rights as Mr. Cohen. These registration rights are subject to certain conditions, including the right of any underwriters of these offerings to limit the number of shares included in any of these registrations. The Company has agreed to pay all expenses related to these registrations, except for underwriting discounts and selling commissions. In addition to the rights described above, under Mr. Stroud's employment agreement, upon a registration event, as defined in the employment agreement, he has certain rights to require the Company to register the securities of the Company that he holds for resale.

Compensation Committee Report on Executive Compensation

The Board of Directors has established a Compensation Committee to review and approve the compensation levels of executive officers of the Company, evaluate the performance of the executive officers and to review any related matters for the Company. The Compensation Committee is charged with reviewing with the Board of Directors in detail all aspects of the cash compensation for the executive officers of the Company. Equity compensation and other forms of compensation for the executive officers is also considered by the Compensation Committee. In 2004, the Compensation Committee consisted of Messrs. Hartberg and Moore and Dr. Nee.

The philosophy of the Company's compensation program is to employ, retain and reward executives capable of leading the Company in achieving its business objectives. These objectives include preserving a strong financial posture, increasing the assets of the Company, positioning the Company's assets and business operations in geographic markets and industry segments offering long-term growth opportunities, enhancing stockholder value and ensuring the competitiveness of the Company. The accomplishment of these objectives is measured against conditions prevalent in the industry within which the Company operates. In recent years, these conditions reflect a highly competitive market environment and rapidly changing regional, geographic and industry market conditions. However, the Compensation Committee is also mindful of the fact that several of the Company's executive officers have entered into employment agreements in connection with their agreements to join the Company; accordingly, with respect to those executive officers, the Compensation Committee recognizes that, to a large degree, compensation for such persons is set by contract.

In general, the Compensation Committee has determined that the available forms of executive compensation should include base salary, cash bonus awards, stock options and restricted stock. Performance of the Company will be a key consideration (to the extent that such performance can fairly be attributed or related to such executive's performance), as well as the nature of each executive's responsibilities and capabilities. The Company's compensation philosophy recognizes, however, that stock price performance is only one measure of performance and, given industry business conditions and the long-term strategic direction and goals of the Company, it may not necessarily be the best current measure of executive performance. Therefore, the Company's compensation philosophy also will give consideration to the Company's achieve-

Table of Contents

ment of specified business objectives in the areas of earnings per share, corporate goals, individual goals and stock price goals when determining executive officer compensation. The Compensation Committee will endeavor to compensate the Company's executive officers based upon a Company-wide salary structure consistent for each position relative to its authority and responsibility compared to industry peers.

An additional objective of the Compensation Committee in determining compensation is to reward executive officers with equity compensation in addition to salary in keeping with the Company's overall compensation philosophy, which attempts to place equity in the hands of its employees in an effort to further instill stockholder considerations and values in the actions of all employees and executive officers. In making its determinations, some consideration will be given by the Compensation Committee to the number of options already held by such persons and the existing amount of Common Stock already owed by such persons. The Compensation Committee believes that the award of stock options and restricted stock represents an effective incentive to create value for the stockholders. During 2004, additional grants were authorized for new and existing key employees.

On the recommendation of the Compensation Committee, the 2004 base salary for Lawrence A. Cohen, the Company's Chief Executive Officer, was established at \$366,753 by the Company's Board of Directors effective for fiscal 2004. Mr. Cohen's base salary was generally based on the same factors and criteria outlined above, being compensation paid to chief executives of comparable companies, individual as well as corporate performance and a general correlation with compensation of other executive officers of the Company. The \$317,619 bonus paid to Mr. Cohen in 2004 was determined under the incentive compensation criteria described above. In considering whether a cash bonus would be awarded to Mr. Cohen, the Compensation Committee recognized Mr. Cohen's efforts to execute on the Company's 2004 Business Plan. The Compensation Committee also considered the goals and criteria which had been established for Mr. Cohen for fiscal 2004, the Company's results and the other factors described in its analysis above.

Section 162(m) of the Internal Revenue Code, enacted in 1993, generally disallows a tax deduction to public companies for compensation over \$1 million paid to the Chief Executive Officer or to any of the four other most highly compensated executive officers. Certain performance-based compensation, however, is specifically exempt from the deduction limit. The Company does not have a policy that requires or encourages the Compensation Committee to qualify stock options or restricted stock awarded to executive officers for deductibility under Section 162(m) of the Internal Revenue Code. However, the Compensation Committee will consider the net cost to the Company in making all compensation decisions.

Compensation Committee

Craig F. Hartberg

James A. Moore

Dr. Victor W. Nee

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is or has been an officer or employee of the Company or any of its subsidiaries or had any relationship requiring disclosure pursuant to Item 404 of Regulation S-K promulgated pursuant to the Securities Act. No executive officer of the Company served as a member of the compensation committee (or other board committee performing similar functions or, in the absence of any such committee, the entire board of directors) of another corporation, one of whose executive officers served on the Compensation Committee. No executive officer of the Company served as a director of another corporation, one of whose executive officers served on the Compensation Committee. No executive officer of the Company served as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another corporation, one of whose executive officers served as a director of the Company.

Table of Contents

Report of the Audit Committee

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in the Annual Report on Form 10-K with management, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Audit Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards. The Audit Committee also discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). The Company's independent auditors also provided to the Audit Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independent Discussions with Audit Committees), and the Audit Committee discussed with the independent auditors their independence and the compatibility of nonaudit services with such independence.

The Audit Committee discussed with the independent auditors the overall scope and plans for their respective audits. The Audit Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The Audit Committee held seven meetings during fiscal year 2004.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2004 for filing with the Securities and Exchange Commission.

Audit Committee

Craig F. Hartberg, Chairman

James A. Moore

Jill M. Krueger

14

Table of Contents**COMPARATIVE TOTAL RETURNS**

As of the date of this proxy statement, seven of eight non-employee directors have elected to participate in the share purchase plan. The following table sets forth for the fiscal year ended October 31, 2005 the number of shares purchased with each director's deferral, the number of shares matched by the Company, the aggregate market value of the shares issued as of the dates of issuance and the value of the shares as of October 31, 2005.

Name Of Director	Number of Shares Purchased	Number of Shares Contributed By Company	Aggregate Market Value of Shares on Dates of Issuance (\$)	Market Value Of Shares At Fiscal Year End (\$)
John H. Baker, III	576	143	29,503	24,813
Beverly Hogan	300	74	15,372	12,907
Phil K. Livingston	115	28	5,883	4,935
Gail Jones Pittman	141	34	7,194	6,039
Charles W. Ritter, Jr.	324	80	16,603	13,942
Robert B. Sanderson	0	0	0	0
Rowan H. Taylor	300	74	15,372	12,907
Donald Zacharias	283	69	14,499	12,148

Following the shareholders' approval of the Stock Incentive Plan, the Board of Directors accepted the recommendation of the Nominating and Governance Committee to award restricted stock under the Stock Incentive Plan to non-employee directors on March 3, 2005. The Board of Directors awarded 3,000 shares of restricted stock to each of the non-employee directors, which grant of restricted stock does not vest until the third anniversary of the grant date, so long as the recipient has continued to serve as a director on the Company's board continuously from the grant date to such date. As of the date of grant, the value of the 3,000 restricted shares issued to each director was \$134,190 and the value at October 31, 2005 was \$103,530. The Nominating and Governance Committee has also recommended that, upon reelection to the board of any incumbent director or election of a new director, such new director will receive an additional grant of 3,000 shares of restricted stock, which grant will vest when the three-year term of such newly elected board member terminates. In order to vest in such grant of restricted stock, the newly elected board member will be required to serve out his or her term. The Board of Directors expects to grant such awards.

Table of Contents**Report on Executive Compensation; Compensation Committee Interlocks; and Insider Participation**

The Board established a standing Compensation Committee in January 2004. The Compensation Committee's charter was adopted in February 2004 and is posted on the Company's website at www.sandersonfarms.com. Under it, the committee sets the compensation for the chief executive officer (CEO) and recommends to the full board the compensation for the Company's other executive officers, who are its President and Chief Operating Officer (COO), its Treasurer and Chief Financial Officer (CFO), and its Corporate Secretary. The Compensation Committee set the CEO's fiscal 2005 compensation at its meetings held in October 2004. In determining the total compensation package for the executive officers, the committee considered the recommendations of an outside consultant specializing in the study of such matters.

Generally, because of the cyclical nature of the Company's business, executive officer compensation, including the compensation of the CEO, is not directly related to factors such as profitability, sales growth, return on equity or market share. In especially profitable years and/or years during which the company performs extremely well when compared to its competition, the Company may award bonuses, as described below.

The components of the annual compensation paid in 2005 to the CEO, CFO, COO and Secretary are as follows: (i) base salary; (ii) a bonus calculated pursuant to the provisions of the Company's Bonus Award Program; (iii) restricted share awards made under the Company's Stock Incentive Plan; (iv) matching contributions made under the Company's 401(k) plan and its share purchase plan and (v) allocation of contributions made by the Company to the respective accounts of the CEO, CFO, COO and Secretary under the ESOP.

Base salaries for executive officers of the Company are originally fixed using a comparison of similarly situated officers of other poultry companies. However, the Company does not target the base salaries of its executive officers at any particular point in the range established by that comparison. Also taken into account are benefits, years of service, responsibilities, Company growth, future plans and the Company's current ability to pay. Periodic increases in base salary are based on evaluations of the executive officers' past and current performance, as well as current market conditions and the Company's ability to pay. In addition, in accordance with the Company's Wage and Salary Administration manual in effect since 1979, the base salary of each salaried employee of the Company, including the executive officers, is increased on January 1 of each year to reflect cost of living increases, provided that the Company is in a financial position to make an increase. In January 2003, the base salary of all salaried employees of the Company, including the executive officers, was increased for the cost of living adjustment by 1.0%. The cost of living increase for 2004, which took effect January 1, 2004, was 1.5%. The cost of living increase for 2005, which took effect on January 1, 2005, was 2.0%. The cost of living increase for 2006, which took effect on January 1, 2006, was 2.5%. The CEO's salary was not adjusted for the 2006 cost of living increase.

The following table shows the base salaries of the executive officers for fiscal 2006:

Executive Officer	Base Salary
Joe F. Sanderson, Jr., CEO	\$899,187
Lampkin Butts, COO	\$458,400
D. Michael Cockrell, CFO	\$392,904
James A. Grimes, Secretary	\$187,512

The executive officers of the Company are participants in the Company's Stock Option Plan and have received awards of stock options from time to time since the plan was adopted by the full Board of Directors and approved by the shareholders in 1993. The Board of Directors also approved the award of phantom stock to certain of the Company's executive officers and key employees on April 21, 2000, pursuant to Phantom Stock Agreements of the same date which comprise the Company's Phantom Stock Plan. The Phantom Stock Plan was approved by the stockholders on February 28, 2002. The timing and amount of awards under the Stock Option Plan and pursuant to the Phantom Stock Plan were determined by the full Board of Directors of the Company, and were based on factors such as years of service, responsibilities, individual performance and long-term incentives awarded to similarly situated officers and executives of other poultry companies. At their meeting held February 17, 2005, the shareholders of the Company approved the Sanderson Farms, Inc. and Affiliates Stock Incentive Plan, which provides that no additional awards may be made under the Stock Option Plan, although outstanding awards under the Stock Option Plan remain

in effect.

Table of Contents

The CEO, CFO, COO and Secretary are participants in the Company's Bonus Award Program, which covers all salaried employees of the Company. The amounts payable to all salaried employees, including the executive officers, are based on the Company's financial performance and its operating performance relative to other companies in the industry. The bonus for the CEO, CFO, COO and Secretary is calculated by multiplying such person's average monthly salary by 12 and multiplying that product by a percentage ranging from 25% to 100% for the CEO, CFO and COO, and from 17.5% to 50% for the Secretary, depending on the performance of the Company. Bonuses were paid in January 2003 for fiscal 2002, and were paid in January 2004 for fiscal 2003. Bonuses for fiscal 2004 were paid in fiscal 2005, and were paid in fiscal 2006 for fiscal 2005.

For income tax purposes, the Company may not deduct the portion of compensation that is in excess of \$1 million paid in a taxable year to any one of certain employees, generally its CEO, CFO, COO and Secretary, unless that compensation qualifies as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended. Certain compensation that may be used by the Company, such as the Bonus Award Program and certain awards that the Company would have discretion to issue under the Stock Incentive Plan does not qualify as performance-based compensation. While the Compensation Committee generally strives to structure employee compensation in order to preserve maximum deductibility, the Compensation Committee may from time to time make non-performance based awards that would vest and result in the recognition of income to an employee in a taxable year such that the \$1 million limit would be exceeded, resulting in a loss of deductibility. The Company does not anticipate, however, that compensation for any employee under the Company's current plans or compensation program, or under the Stock Incentive Plan, would result in a material loss of tax deductions.

In addition, all executive officers participate in the Company's Employee Stock Ownership Plan, which covers all employees of the Company. Allocations to the executive officers under this plan are made on the same basis as allocations to all other participants. On October 31, 2005, the Company made a contribution to the ESOP in the amount of \$5.5 million for fiscal 2005, which contribution was allocated to the accounts of participants during fiscal 2006. On October 31, 2004, the Company made a contribution to the ESOP in the amount of \$7.0 million, which contribution was allocated to the participants' accounts during fiscal 2005. On October 31, 2003, the Board of Directors authorized a contribution to the ESOP in the amount of \$4.0 million, which contribution was allocated to the participant's accounts during fiscal 2004.

The stockholders approved a Stock Incentive Plan at the 2005 Annual Shareholders' Meeting and the Board of Directors thereafter adopted the Plan. The Board of Directors subsequently awarded restricted stock under the Stock Incentive Plan to executive officers and adopted under the Stock Incentive Plan a program to award share purchase rights (as described under Directors' Fees above) in which executive officers and other key employees are permitted to participate. The share purchase plan allows executive officers and other key employees to forego a portion of their annual cash compensation and/or bonuses earned under the Company's Bonus Award Program, and to have those amounts applied to purchase common stock of the Company for their individual accounts. The Compensation Committee also recommended to the Board that the Company match 25% of the portion of each such employee's compensation used to purchase common stock under the share purchase plan, to purchase additional Company common stock for his or her account. A three-year vesting period applies to all shares of common stock acquired under the share purchase plan, with exceptions in the case of the holder's death, disability, or retirement or a change of control of the Company. During fiscal 2005, the COO was the only executive officer who elected to participate in the share purchase plan. Mr. Butts contributed \$42,840 into the plan during fiscal 2005, with which 909 shares of common stock were purchased. The Company contributed 226 shares as the match of such purchases.

The Board of Directors also, pursuant to recommendations made by the Compensation Committee, approved a grant of restricted stock during fiscal 2005. On March 3, 2005, the Board of Directors awarded restricted stock in the amount of 100,000 shares for the CEO, 20,000 shares each for both the CFO and COO, and 10,000 shares for the Secretary. This grant of restricted stock does not vest unless the recipient remains in the employ of the Company for ten years after the award, with exceptions that apply to death, permanent disability and retirement of the recipient, and a change of control in the Company. In addition, on November 28, 2005, the Board of Directors awarded 3,250 shares of restricted stock each to both the CFO and COO, and 1,400 shares to the Secretary. This grant of restricted stock does not vest unless the recipient remains in the employ of the Company for four years after the award, with

exceptions that apply to death, permanent disability and retirement of the recipient, and a change of control in the Company. The CEO received no additional grant of restricted stock in November, and has indicated to the Compensation Committee and to the Board of Directors that he does not intend to accept any additional grants of stock under the Stock Incentive Plan at this time.

Table of Contents

In November 2005, the Company also awarded 9,750 performance shares to both the CFO and COO, and 2,600 performance shares to the Secretary. Under the Performance Share Agreements associated with this grant, the shares will vest only if the Company meets certain performance targets over the three years following the grant as set forth in the Performance Share Agreements.

The members of the Compensation Committee are listed at the end of this section. Each of them is independent within the meaning of applicable Nasdaq rules and they constitute all of the independent directors. During fiscal 2005, and at the present time, none of the Company's executive officers served on the board of directors of any entity whose directors or officers serve on the Company's Compensation Committee. No current or past executive officers of the Company or its subsidiaries serve on the Compensation Committee.

By the Compensation Committee:

Phil K. Livingston, Chairman
John H. Baker, III
Beverly Wade Hogan
Gail Jones Pittman
Charles W. Ritter, Jr.
Rowan H. Taylor
Donald W. Zacharias

15

Table of Contents**Performance Graph**

The following graph presents a comparison of the five-year cumulative total stockholder return among the Company, the NASDAQ Composite Index, and a group of peer companies. The peer group consists of the following companies: Cagles, Inc., Pilgrim's Pride, Inc. and Tyson Foods, Inc. (the Peer Group Index). The Company selected the Peer Group Index because the return reflected in the Peer Group Index presents stockholders with a comparison of total stockholder return with other publicly held companies in our industry.

	Year Ended October 31					
	2000	2001	2002	2003	2004	2005
Sanderson Farms, Inc.	100	195	273	538	763	819
NASDAQ Stock Market (U.S.)	100	51	41	59	60	63
Peer Group	100	100	106	144	162	196

Table of Contents**INDEPENDENT AUDITORS**

Ernst & Young LLP, New Orleans, Louisiana, were the independent auditors for the Company during the fiscal year ended October 31, 2005. A representative of Ernst & Young LLP is expected to be present at the Annual Meeting. The representative will have the opportunity to make a statement at the meeting if he desires to do so, and will be available to respond to any appropriate questions.

Fees related to services performed for the Company by Ernst & Young LLP in fiscal years 2005, 2004 and 2003 are as follows:

	2003	2004	2005
Audit Fees	\$ 161,300	\$ 186,600	\$ 437,700
Audit-Related Fees	64,500	46,300	55,400
Tax Fees	59,000	65,200	87,700
All Other Fees	0	0	0
Total	\$ 284,800	\$ 298,100	\$ 580,800

Audit Fees include amounts paid for the audit of the Company's annual financial statements and reviews of the financial statements included in the Company's Forms 10-Q and other regulatory filings. In 2005, Audit Fees also included \$217,000 in fees related to audit procedures performed with respect to the Company's internal control over financial reporting, as required by Sarbanes-Oxley Act Section 404. Audit-Related Fees include fees for the audit the Company's benefit plans and accounting consultations related to financial accounting and reporting standards, and Tax Fees consists of amounts paid for tax compliance, advice and planning, which include the preparation and filing of required federal and state income and other tax forms. The Audit Committee has considered whether the provision of services by Ernst & Young LLP for the Company other than audit services is compatible with maintaining Ernst & Young LLP's independence, and has concluded that it is compatible.

The Audit Committee preapproves all auditing services and permitted non-audit services (including the fees and terms of those services) to be performed for the Company by its independent auditor prior to engagement, subject to the de minimus exceptions for non-audit services permitted by the Securities Exchange Act of 1934 which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee may form and delegate authority to subcommittees of one or more Audit Committee members, including authority to grant preapprovals of audit and non-audit services, provided that any decision of that subcommittee to grant preapproval is presented to the full Audit Committee at its next scheduled meeting.

The Audit Committee of the Company's Board of Directors has selected the firm of Ernst & Young LLP as the Company's independent auditors for the fiscal year ended October 31, 2006. Stockholder approval and ratification of this selection is not required by law or by the By-Laws of the Company. Nevertheless, the Board has chosen to submit it to the stockholders for their approval and ratification as a matter of good corporate practice. Of the shares represented and entitled to vote at the Annual Meeting (whether in person or by proxy), more votes must be cast in favor of than votes cast against the proposal to ratify and approve the selection of Ernst & Young LLP as the Company's independent auditors for the fiscal year ended October 31, 2006, in order for this proposal to be adopted. The Proxyholder named in the accompanying proxy card will vote FOR the foregoing proposal unless otherwise directed therein. Abstentions will not be counted either as a vote FOR or as a vote AGAINST the proposal to ratify and approve the selection of Ernst & Young LLP as the Company's independent auditors for the fiscal year ended October 31, 2006. Broker non-votes will be treated as not present for purposes of calculating the vote with respect to the foregoing proposal, and will not be counted either as a vote FOR or AGAINST or as an ABSTENTION with respect thereto. If more votes are cast AGAINST this proposal than FOR, the Board of Directors will take such decision into consideration in selecting independent auditors for the Company.

The Board of Directors recommends a vote FOR the approval and ratification of the selection of Ernst & Young LLP as the Company's independent auditors for the fiscal year ended October 31, 2006.

Table of Contents

OTHER MATTERS

As of the date of this Proxy Statement, the Board of Directors knows of no matters likely to be brought before the Annual Meeting other than those set forth in the Notice of the Meeting. If other matters properly come before the Meeting, each Proxy will be voted in accordance with the discretion of the Proxyholder named therein.

STOCKHOLDER PROPOSALS

Procedure

The Company's By-laws provide that stockholders may nominate individuals for election as directors from the floor at any annual or special meeting of stockholders called for the election of directors only if timely written notice of such nomination has been given to the Secretary of the Company. To be timely, such notice must be received at the principal office of the Company no later than the close of business on the 15th day following the day on which notice of the date of the meeting is given or made to stockholders in accordance with the By-laws. The By-laws specify what such a notice of such nomination must include. In addition, the By-laws set forth the procedure that must be followed by stockholders to properly bring a matter before a stockholders' meeting. If a stockholder wishes to bring a matter before the meeting that has not been specified in the notice of the meeting, the stockholder must deliver written notice of said stockholder's intent to bring the matter before the meeting of stockholders so that the notice is received by the Secretary of the Company no later than the close of business on the 15th day following the day on which notice of the date of the meeting is given or made to stockholders in accordance with the By-laws. The By-laws also specify what such a notice must include.

2007 Annual Meeting

A stockholder who intends to present a proposal, which relates to a proper subject for stockholder action, at the 2007 Annual Meeting of Stockholders and who wishes such proposal to be considered for inclusion in the Company's proxy materials for such meeting must cause such proposal to be received, in proper form, at the Company's principal executive offices no later than September 22, 2006. Any such proposals, as well as any questions relating thereto, should be directed to the Company to the attention of its Chief Financial Officer. Any proposal submitted after September 22, 2006 shall be considered untimely and will not be considered for inclusion in the Company's proxy material for the 2007 annual meeting.

METHODS AND COST OF SOLICITING PROXIES

The Proxy card enclosed with this Proxy Statement is solicited by and on behalf of the Board of Directors of the Company. In addition to solicitation of stockholders of record by mail, telephone or personal contact, arrangements will be made with brokerage houses to furnish proxy materials to their customers, and the Company will reimburse them for their mailing expenses. Custodians and fiduciaries will be supplied with proxy materials to forward to beneficial owners of common stock. Whether or not you expect to be present at the Annual Meeting, please sign, date and return the enclosed Proxy card promptly. No postage is necessary if mailed in the United States. The cost of solicitation, including the preparation, printing and mailing, is being paid by the Company.

ADDITIONAL INFORMATION AVAILABLE

Upon written request of any stockholder, the Company will furnish a copy of the Company's 2005 Annual Report on Form 10-K, as filed with the United States Securities and Exchange Commission, including the financial statements and schedules thereto. The written request should be sent to D. Michael Cockrell, Treasurer and Chief Financial Officer, Sanderson Farms, Inc., P. O. Box 988, Laurel, Mississippi 39441. The written request must state that as of January 9, 2006, the person making the request was a beneficial owner of capital stock of the Company.

BY ORDER OF THE BOARD OF DIRECTORS:

/s/ James A. Grimes
Secretary

Dated: January 20, 2006

Table of Contents

**SANDERSON FARMS, INC.
AMENDED AND RESTATED
AUDIT COMMITTEE CHARTER**

Purpose

The Audit Committee is appointed by the Board from among its members to assist the Board in monitoring (1) the integrity of the financial statements of the Company, (2) the independent auditor's qualifications and independence, (3) the performance of the Company's internal audit function and independent auditors, and (4) the compliance by the Company with legal and regulatory requirements.

The Audit Committee shall prepare the report required by the rules of the Securities and Exchange Commission (the Commission) to be included in the Company's annual proxy statement.

Committee Membership

The Audit Committee shall consist of no fewer than three members. The members of the Audit Committee shall meet the independence and experience requirements of the NASDAQ Stock Market, Inc., Section 10A(m)(3) of the Securities Exchange Act of 1934 (the Exchange Act) and the rules and regulations of the Commission. At least one member of the Audit Committee shall be an audit committee financial expert as defined by the Commission. Audit Committee members shall not simultaneously serve on the audit committees of more than two other public companies. The members of the Audit Committee shall be appointed by the Board on the recommendation of the Nominating and Governance Committee. Audit Committee members serve at the pleasure of the Board.

Meetings

The Audit Committee shall meet as often as it determines, but not less frequently than quarterly. The Audit Committee shall meet periodically in separate executive sessions with management (including the chief financial officer and chief accounting officer), the internal auditors and the independent auditor and have such other direct and indirect interaction with such persons from time to time as the members of the Audit Committee deem appropriate. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

Committee Authority and Responsibilities

The Audit Committee shall have the sole authority to appoint or replace the independent auditor (subject, if applicable, to stockholder ratification). The Audit Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Audit Committee.

The Audit Committee shall preapprove all auditing services, internal control-related services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant preapprovals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant preapprovals shall be presented to the full Audit Committee at its next scheduled meeting. Any such subcommittee shall consist solely of persons who are members of the Audit Committee.

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of: (i) compensation to the independent auditor for the purpose of rendering or issuing an audit report or performing other audit, review or attest services for the Company and to any advisors employed by the Audit Committee and (ii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

Table of Contents

The Audit Committee shall make regular reports to the Board. The Audit Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Audit Committee shall annually review the Audit Committee's own performance.

The Audit Committee, to the extent it deems necessary or appropriate, shall:

Financial Statement and Disclosure Matters

1. Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures made in management's discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.
2. Review and discuss with management and the independent auditor the Company's quarterly financial statements prior to the filing of its Form 10-Q, including the results of the independent auditor's review of the quarterly financial statements.
3. Review and discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant consultations with national or industry resources outside the audit engagement team, any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies and the adequacy of disclosures about changes in internal control over financial reporting.
4. Review and discuss with management (including the senior internal auditor) and the independent auditor the Company's internal controls report and the independent auditor's attestation of the report prior to the filing of the Company's Form 10-K.
5. Review and discuss quarterly reports from the independent auditors on:
 - a) All critical accounting policies and practices to be used.
 - b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
 - c) Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
6. Discuss with management the Company's earnings press releases, including the use of pro forma or adjusted non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).
7. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
8. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
9. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
10. Review disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.

Table of Contents

Oversight of the Company's Relationship with the Independent Auditor

11. Review and evaluate the lead partner of the independent auditor team.
12. Obtain and review a report from the independent auditor at least annually regarding (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent auditor and the Company. Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and internal auditors. The Audit Committee shall present its conclusions with respect to the independent auditor to the Board.
13. Ensure the rotation of the audit partners as required by law. Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.
14. Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditor.
15. If consultations are reported by the independent auditor in accordance with paragraph 3, discuss with the person consulted any material issues raised in that consultation.
16. Meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.

Oversight of the Company's Internal Audit Function

17. Review the appointment and replacement of the chief internal auditor.
18. Review the significant reports to management prepared by the internal auditing department and management's responses.
19. Discuss with the independent auditor and management the internal audit department responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.

Compliance Oversight Responsibilities

20. Obtain from the independent auditor assurance that Section 10A(b) of the Exchange Act has not been implicated.
21. Obtain reports from management, the Company's senior internal auditing executive and the independent auditor that the Company and its subsidiary/foreign affiliated entities are in conformity with applicable legal requirements and the Company's Corporate Code of Conduct and Code of Ethics for Chief Executive Officer and Senior Financial Personnel. Review reports and disclosures of insider and affiliated party transactions. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Corporate Code of Conduct and Code of Ethics for Chief Executive Officer and Senior Financial Personnel.
22. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
23. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company's financial statements or accounting policies.
24. Discuss with the Company's General Counsel any legal matters that may have a material impact on the financial statements or the Company's compliance policies and internal controls.

Table of Contents

25. Review on an on-going basis all related party transactions to which the Company is a party for conflict of interest situations, and recommend to a special committee appointed for the purpose of approving such transaction whether such transaction should be approved. The special committee must be appointed by a majority vote of qualified directors (as that term is defined in Section 79-4-8.62(d) of the Mississippi Business Corporation Act) and composed solely of qualified directors who meet the independence requirements of the NASDAQ Stock Market, Inc. The special committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. Related party transactions are those business relationships or transactions (including loans) that (1) are between the Company and its directors, officers or major stockholders, between the Company and those persons family members, or between the Company and entities to which those persons are related, and (2) are required to be disclosed under Item 404 of SEC Regulation S-K.

Limitation of Audit Committee s Role

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company s financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditor.

Table of Contents

THIS PROXY WILL BE VOTED AS DIRECTED, OR IF NO DIRECTION IS INDICATED, WILL BE VOTED FOR THE PROPOSALS. Please Mark Here for Address Change or Comments **SEE REVERSE SIDE**

1. To elect four Class B Directors to serve until the 2009 annual meeting.

Nominees:

01 John H. Baker, III	FOR all nominees	WITHHOLD
02 John Bierbusse	listed to the left.	AUTHORITY
03 D. Michael Cockrell	(except as marked	(to vote for all
04 Rowan H. Taylor	to the contrary)	nominees listed)
	o	o

INSTRUCTIONS: To withhold authority to vote for any individual nominee, write the nominee's name here:

	FOR	AGAINST	AGAINST
2. To consider and act upon a proposal to ratify and approve the selection of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending October 31, 2006.	o	o	o

Choose **MLinkSM** for fast, easy and secure 24/7 online access to your future proxy materials, investment plan statements, tax documents and more. Simply log on to **Investor ServiceDirect[®]** at www.melloninvestor.com/isd where step-by-step instructions will prompt you through enrollment.

Signature	Signature	Date
------------------	------------------	-------------

Executors, Administrators, Trustees, etc. should give full title. This proxy should be signed as name appears on certificate(s).

5 FOLD AND DETACH HERE 5
Vote by Internet or Telephone or Mail
24 Hours a Day, 7 Days a Week

Internet and telephone voting is available through 11:59 PM Eastern Time
the day prior to annual meeting day.

Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

Internet

<http://www.proxyvoting.com/safm>

Use the internet to vote your proxy.
Have your proxy card in hand when
you access the web site.

OR

Telephone

1-866-540-5760

Use any touch-tone
telephone to vote
your proxy. Have
your proxy card in
hand when you call.

OR

Mail

Mark, sign and date
your proxy card and
return it in the
enclosed
postage-paid
envelope.

**If you vote your proxy by Internet or by telephone,
you do NOT need to mail back your proxy card.**

**You can view the Annual Report and Proxy Statement
on the internet at www.sandersonfarms.com**

Table of Contents

**PROXY
SANDERSON FARMS, INC.**

The undersigned hereby appoints D. Michael Cockrell as proxy for the undersigned, with full power of substitution, to vote all of the undersigned's shares of common stock, \$1.00 per share par value, of Sanderson Farms, Inc. at the Annual Meeting on February 23, 2006 (and any adjournments thereof), as instructed herein with respect to the matters herein set forth (and, to the extent not so instructed, as set forth in the related Proxy Statement), and according to his discretion upon all other matters which may properly come before such Meeting.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED UPON THE MATTERS SET FORTH ON THE REVERSE. IF NO DIRECTION IS INDICATED, THIS PROXY WILL BE VOTED FOR PROPOSALS 1 and 2. THIS PROXY CONFERS DISCRETIONARY VOTING AUTHORITY AS TO ALL OTHER MATTERS WHICH MAY PROPERLY COME BEFORE THE ANNUAL MEETING. SEE ACCOMPANYING PROXY STATEMENT.

**THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS OF SANDERSON FARMS, INC.
(Continued and to be marked, dated and signed, on the other side)**

Address Change/Comments (Mark the corresponding box on the reverse side)

5 FOLD AND DETACH HERE 5

You can now access your Sanderson Farms account online.

Access your Sanderson Farms shareholder account online via Investor ServiceDirect® (ISD). Mellon Investor Services LLC, Transfer Agent for Sanderson Farms, now makes it easy and convenient to get current information on your shareholder account.

View account status	View payment history for dividends
View certificate history	Make address changes
View book-entry information	Obtain a duplicate 1099 tax form
	Establish/change your PIN

***Visit us on the web at <http://www.melloninvestor.com/isd>
For Technical Assistance Call 1-877-978-7778 between 9am-7pm
Monday-Friday Eastern Time***

Investor ServiceDirect® is a registered trademark of Mellon Investor Services LLC