HOGAN BEVERLY W
Form 4
April 02, 2009

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
HOGAN BEVERLY W

(Last) (First) (Middle)

127 FLYNT ROAD

(Street)

LAUREL, MS 39443

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SANDERSON FARMS INC [SAFM]

3. Date of Earliest Transaction (Month/Day/Year)
03/31/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/31/2009		A		226	A	$ 37.55	10,615	D	
Common Stock	03/31/2009		A		56	A	$ 0 (1)	10,671	D	
Common Stock	03/31/2009		F		77	D	$ 37.55	10,594	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control

SEC 1474 (9-02)

number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
								Date Exercisable	Expiration Date	Title	Amount or Number of Shares		
				Code	V	(A)	(D)						

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HOGAN BEVERLY W 127 FLYNT ROAD LAUREL, MS 39443	X			

Signatures

/s/ D. Michael Cockrell, Attorney In Fact	04/02/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares granted by the Issuer pursuant to the matching contribution provisions of the Issuer's Management Share Purchase Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. **Actual For Capital**

Adequacy Purposes To Be Well Capitalized Under Prompt Corrective Actions Provisions Amount Ratio Amount Ratio Amount Ratio

As of March 31, 2008

Total Capital

$69,184,312 16.29% $33,985,498 >8.00% $42,481,872 >10.00%

(to Risk-Weighted Assets)

Tier 1 Capital

65,289,844 15.37% 16,992,749 >4.00% 25,489,123 >6.00%

(to Risk-Weighted Assets)

Tier 1 Capital

65,289,844 9.34% 27,969,291 >4.00% 34,961,613 >5.00%

(to Average Assets)

Table of Contents

The Corporation is currently in the process of constructing a new $1.4 million branch facility in Carthage, Mississippi with an estimated completion date in August 2008. All expenditures in connection with the completion of the construction of this branch are expected to be reflected in the second and third quarter financial statements.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated, certain items in the consolidated statements of income of the Corporation and the related changes between those periods:

	For the three months ended March 31,	
	2008	**2007**
Interest Income, including fees	$ 9,729,351	$ 9,445,105
Interest Expense	4,187,337	3,935,098
Net Interest Income	5,542,014	5,510,007
Provision for Loan Losses	97,617	76,748
Net Interest Income after Provision for Loan Losses	5,444,397	5,433,259
Other Income	2,004,344	1,638,871
Other Expense	5,359,194	4,544,433
Income before Provision For Income Taxes	2,089,547	2,527,697
Provision for Income Taxes	450,001	637,749
Net Income	$ 1,639,546	$ 1,889,948
Net Income Per share - Basic	$ 0.34	$ 0.38
Net Income Per Share-Diluted	$ 0.33	$ 0.37

See Note 3 to the Corporation s Consolidated Financial Statements for an explanation regarding the Corporation s calculation of Net Income Per Share - basic and - diluted.

Annualized return on average equity (ROE) was 9.43% for the three months ended March 31, 2008 and 10.98% for the corresponding period in 2007. The decrease in ROE

Table of Contents

was caused by the decrease in net income for the first three months of 2008 while the average equity increased.

The book value per share increased to $14.56 at March 31, 2008 compared to $14.02 at December 31, 2007. The increase in book value per share reflects the increase in equity due to the amount of earnings in excess of dividends and the increase in the FASB 115 adjustment. Average assets for the three months ended March 31, 2008 were $703,312,959 compared to $639,304,724 for the year ended December 31, 2007.

NET INTEREST INCOME / NET INTEREST MARGIN

One component of the Corporation s earnings is net interest income, which is the difference between the interest and fees earned on loans and investments and the interest paid for deposits and borrowed funds. The net interest margin is net interest income expressed as a percentage of average earning assets.

The annualized net interest margin was 4.24% for the first quarter of 2008 compared to 4.38% for the corresponding period of 2007. The decrease in net interest margin from 2007 to 2008 is the result of slower growth in yields on earnings assets compared to the growth in rates paid on deposits and borrowed funds, as detailed below. Earning assets averaged $638,293,130 for the three months ended March 31, 2008. This represents an increase of $66,099,948, or 11.6%, over average earning assets of $572,193,182 for the three month period ended March 31, 2007. The increase in earning assets is the result of the normal growth pattern of the Corporation and not due to any special investments or acquisitions.

Interest bearing deposits averaged $412,162,024 for the three months ended March 31, 2008. This represents an increase of $9,047,107, or 2.2%, over the average of interest bearing deposits of $403,114,917 for the three month period ended March 31, 2007. The increase was due to increases in both interest bearing deposits and certificates of deposit. Other borrowed funds averaged $135,912,973 for the three months ended March 31, 2008. This represents an increase of $55,755,979, or 69.6%, over the other borrowed funds of $80,156,994 for the three month period ended March 31, 2007. The increase in other borrowed funds was due to a $32,027,906 increase in the Sweep Account Liability and an increase in the Federal Home Loan Bank advances of $23,076,923 for the three month period ended March 31, 2008 when compared to the three month period ended March 31, 2007.

Net interest income was $5,542,014 and $5,510,007 for the three month periods ended March 31, 2008 and 2007, respectively, due to changes in both volume and rate. The changes in volume in earning assets and in deposits and in borrowed funds are discussed above. As to changes in rate, in the three month period ended March 31, 2008, the rates paid on deposits and borrowed funds rose faster than the yield on earning assets as

Table of Contents

compared to the changes in rates and yields in the same period in 2007. The yield on all interest bearing assets decreased 26 basis points to 6.84% in the first quarter of 2008 from 7.10% for the same period in 2007. At the same time, the rate paid on all interest bearing liabilities for the first quarter of 2008 decreased 17 basis points to 3.08% from 3.25% in the same period of 2007. As longer term interest bearing assets and liabilities mature and reprice, management believes that the yields on interest bearing assets and rates on interest bearing liabilities will both decrease.

The following table shows the interest and fees and corresponding yields for loans only.

	2008	2007
Interest and Fees	$ 7,362,527	$ 7,145,106
Average Loans	379,994,171	362,260,791
Annualized Yield	7.75%	7.89%

The decrease in interest rates in the three month period ended March 31, 2008 reflects the decrease in all loan interest rates for both new and refinanced loans in the period.

CREDIT LOSS EXPERIENCE

As a natural corollary to the Corporation s lending activities, some loan losses are to be expected. The risk of loss varies with the type of loan being made and the creditworthiness of the borrower over the term of the loan. The degree of perceived risk is taken into account in establishing the structure of, and interest rates and security for, specific loans and for various types of loans. The Corporation attempts to minimize its credit risk exposure by use of thorough loan application and approval procedures.

The Corporation maintains a program of systematic review of its existing loans. Loans are graded for their overall quality. Those loans, which the Corporation s management determines require further monitoring and supervision are segregated and reviewed on a periodic basis. Significant problem loans are reviewed on a monthly basis by the Corporation s Board of Directors.

The Corporation charges off that portion of any loan that management has determined to be a loss. A loan is generally considered by management to represent a loss in whole or in part when exposure beyond the collateral value is apparent, servicing of the unsecured portion has been discontinued or collection is not anticipated based on the borrower s financial condition. The general economic conditions in the borrower s industry influence this determination. The principal amount of any loan which is declared a loss is charged against the Corporation s allowance for loan losses.

The Corporation s allowance for loan losses is designed to provide for loan losses, which can be reasonably anticipated. The allowance for loan losses is established through charges to operating expenses in the form of provisions for loan losses. Actual loan

Table of Contents

losses or recoveries are charged or credited to the allowance for loan losses. Management of the Corporation determines the amount of the allowance. Among the factors considered in determining the allowance for loan losses are the current financial condition of the Corporation s borrowers and the value of security, if any, for their loans. Estimates of future economic conditions and their impact on various industries and individual borrowers are also taken into consideration, as are the Corporation s historical loan loss experience and reports of banking regulatory authorities. Because these estimates, factors and evaluations are primarily judgmental, no assurance can be given as to whether or not the Corporation will sustain loan losses in excess or below its allowance or that subsequent evaluation of the loan portfolio may not require material increases or decreases in such allowance.

The following table summarizes the Corporation s allowance for loan losses for the dates indicated:

	Quarter Ended March 31, 2008	Year to Date December 31, 2007	Amount of Increase (Decrease)	Percent of Increase (Decrease)
BALANCES:				
Gross Loans	$ 388,004,857	$ 372,493,878	$ 15,510,979	4.16%
Allowance for Loan Losses	3,894,468	3,967,951	(73,483)	-1.85%
Nonaccrual Loans	1,824,739	1,441,251	383,488	26.61%
Ratios:				
Allowance for loan losses to gross loans	1.00%	1.07%		
Net loans charged off to allowance for loan losses	4.39%	13.32%		

The provision for loan losses for the three months ended March 31, 2008 was $97,617, an increase of $20,869 over the $76,748 provision for the same period in 2007. The provision in the three month period ended March 31, 2008 reflects an increase in the amount of loans outstanding and the need to replenish the allowance for loans charged-off in the first quarter of 2008.

For the three months ended March 31, 2008, net loan losses charged to the allowance for loan losses totaled $171,100, an increase of $75,534 over the $95,566 charged off in the same period in 2007.

Management of the Corporation reviews with the Board of Directors the adequacy of the allowance for loan losses on a quarterly basis. The loan loss provision is adjusted when specific items reflect a need for such an adjustment. Management believes that there were no material loan losses during the first quarter of 2008 that have not been charged off. Management also believes that the Corporation s allowance will be adequate to

Table of Contents

absorb probable losses inherent in the Corporation s loan portfolio. However, in light of overall economic conditions in the Corporation s geographic area and the nation as a whole, it is possible that additional provisions for loan loss may be required.

NON-INTEREST INCOME

Non-interest income includes service charges on deposit accounts, wire transfer fees, safe deposit box rentals and other revenue not derived from interest on earning assets.

Non-interest income for the three months ended March 31, 2008 was $2,004,344, an increase of $365,473, or 22.3%, over the same period in 2007. Service charges on deposit accounts increased $52,019, or 5.9%, to $933,021 in the three months ended March 31, 2008 compared to $881,002 for the same period in 2007. Other service charges and fees increased $132,641, or 96.6%, in the three months ended March 31, 2008 compared to the same period in 2007. The difference in fee income was the result of fluctuations in volume and not a direct result of fee changes.

The following is a detail of the other major income classifications that are included in Other Income under Non-Interest Income on the income statement.

	Three months ended March 31,	
Other Income	**2008**	**2007**
BOLI Insurance	$ 181,005	$ 142,432
Mortgage Loan Origination Income	37,799	70,133
Shay Investments Income	369,713	229,325
Other Income	212,912	180,963
Total Other Income	$ 801,429	$ 622,853

NON-INTEREST EXPENSE

Non-interest expenses include salaries and employee benefits, occupancy and equipment, and other operating expenses. Aggregate non-interest expenses for the three month periods ended March 31, 2008 and 2007 were $5,359,194 and $4,544,433, respectively, an increase of $814,761, or 17.9%, from 2007 to 2008. Salaries and benefits increased to $3,008,381 for the three months ended March 31, 2008 from $2,497,725 for the same period in 2007. This represents an increase of $510,656, or 20.4%. This increase was the result of an increase in the number of officers of the Corporation to staff the four new branches added since the first half of 2007. Occupancy expense increased $150,137, or 21.0%, to $865,597 in the three months ended March 31, 2008 when compared to the same period of 2007. This also reflects the increase is expenses due to the adding of four new branches.

Table of Contents

The following is a detail of the major expense classifications that make up the other operating expense line item in the income statement.

Other Operating Expense	**Three months ended March 31, 2008**	**2007**
Intangible Amortization	$ 134,376	$ 134,376
Advertising	196,585	116,745
Office Supplies	168,845	126,897
Legal and Audit Fees	90,504	77,865
Telephone expense	113,155	98,924
Postage and Freight	86,719	71,260
Loan Collection Expense	39,708	70,864
Other Losses	30,259	113,385
Other expenses	625,065	520,932
Total Other Expense	$ 1,485,216	$ 1,331,248

The Corporation s efficiency ratio for the three months ended March 31, 2008 was 68.55% compared to the 61.27% for the same period in 2007. The efficiency ratio is the ratio of non-interest expenses divided by the sum of net interest income (on a fully tax equivalent basis) and non-interest income.

BALANCE SHEET ANALYSIS

	March 31, 2008	**December 31, 2007**	**Amount of Increase (Decrease)**	**Percent of Increase (Decrease)**
Cash and Cash Equivalents	$ 25,193,280	$ 18,622,058	$ 6,571,222	35.29%
Investment Securities	242,686,204	244,720,367	(2,034,163)	-0.83%
Loans, net	383,631,919	368,025,286	15,606,633	4.24%
Total Assets	709,470,503	680,903,631	28,566,872	4.20%
Total Deposits	503,280,744	477,232,304	26,048,440	5.46%
Total Stockholders Equity	70,840,792	68,191,432	2,649,360	3.89%

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are made up of cash, balances at correspondent banks and items in process of collection. The balance at March 31, 2008 was $25,193,280, an increase of $6,571,222 from the balance of $18,622,058 at December 31, 2007 due to

22

Table of Contents

larger than normal cash letters on the last day of the quarter that had not been fully collected.

PREMISES AND EQUIPMENT

During the three month period ended March 31, 2008, premises and equipment increased $346,849, or 2.4%, to $14,635,646, when compared to $14,288,797 at December 31, 2007. The increase was due to the addition of new branches. The Bank is currently in the process of constructing a new full service branch in Carthage, Mississippi. This building is scheduled to be completed in August 2008.

INVESTMENT SECURITIES

The investment securities portfolio is made up of U. S. Treasury Notes, U. S. Agency debentures, mortgage-backed securities, obligations of states, counties and municipal governments and FHLB stock. Investments at March 31, 2008 decreased $2,034,163, or 0.8%, to $242,686,204 from the balance at December 31, 2007.

LOANS

The loan balance increased by $15,606,633 during the three month period ended March 31, 2008 to $383,631,919 from $368,025,286 at December 31, 2007. Residential housing loans continue to be in demand along with commercial and industrial loans. No material changes were made to the loan products offered by the Corporation during this period.

DEPOSITS

The following table shows the balance and percentage change in the various deposits:

	Quarter Ended March 31, 2008	Year to Date December 31, 2007	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Noninterest-bearing Deposits	$ 89,244,637	$ 78,224,936	$ 11,019,701	14.09%
Interest-bearing Deposits	153,589,659	144,302,273	9,287,386	6.44%
Savings	31,930,743	29,763,885	2,166,858	7.28%
Certificates of Deposit	228,515,705	224,941,210	3,574,495	1.59%
Total Deposits	$ 503,280,744	$ 477,232,304	$ 26,048,440	5.46%

All classifications of deposits increased during the three months ended March 31, 2008. The Corporation increased its rates paid on interest bearing deposits to compete more aggressively with the other banks in its market area. Higher rates paid on deposits could

23

Table of Contents

further compress future net interest rate margins if market pressures do not allow the Corporation to increase loan rates at the same pace. Management continually monitors the interest rates on loan and deposit products to ensure that the Corporation is in line with the rates dictated by the market.

OFF-BALANCE SHEET ARRANGEMENTS

Refer to Note 2 in the notes to the consolidated financial statements included in this report for a discussion of the nature and extent of the Corporation s off-balance sheet arrangements, which consist of commitments to fund loans and letters of credit.

CONTRACTUAL OBLIGATIONS

There have been no material changes outside of the ordinary course of the Corporation s business to the contractual obligations set forth in Note 12 to the Corporation s financial statements contained in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007.

FORWARD LOOKING STATEMENTS

In addition to historical information, this report contains statements which constitute forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are based on management s beliefs, plans, expectations and assumptions and on information currently available to management. The words may, should, expect, anticipate, intend, plan, continue, believe, seek, estimate, and similar expressions used in this report that do not r historical facts are intended to identify forward-looking statements. These statements appear in a number of places in this report, including, but not limited to, statements found in Item 1, Notes to Consolidated Financial Statements and in Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations. The Corporation notes that a variety of factors could cause the actual results or experience to differ materially from the anticipated results or other expectations described or implied by such forward-looking statements. The risks and uncertainties that may affect the operation, performance, development and results of the Corporation s business include, but are not limited to, the following: (a) the risk of adverse changes in business conditions in the banking industry generally and in the specific markets in which the Corporation operates; (b) changes in the legislative and regulatory environment that negatively impact the Corporation through increased operating expenses; (c) increased competition from other financial institutions; (d) the impact of technological advances; (e) expectations about the movement of interest rates, including actions that may be taken by the Federal Reserve Board in response to changing economic conditions; (f) changes in asset quality and loan demand; (g) expectations about overall economic strength and the performance of the

Table of Contents

economies in the Corporation s market area and (h) other risks detailed from time to time in the Corporation s filings with the Securities and Exchange Commission. The Corporation does not undertake any obligation to update or revise any forward-looking statements subsequent to the date on which they are made.

Table of Contents

CITIZENS HOLDING COMPANY AND SUBSIDIARY

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item outlines specific risks that could affect the Corporation s ability to compete, change the Corporation s risk profile, or eventually impact the Corporation s financial results. The risks the Corporation faces generally are similar to those experienced, to varying degrees, by all financial services companies.

Our strategies and management s ability to react to changing competitive and economic environments have enabled us historically to compete effectively and manage risks to acceptable levels. The Corporation has outlined potential risk factors below that we presently believe could be important; however, other risks may prove to be important in the future. New risks may emerge at any time and the Corporation cannot predict with certainty all potential developments which could affect the Corporation s financial performance. The following discussion highlights potential risks which could intensify over time or shift dynamically in a way that might change the Corporation s risk profile.

Competition Risks

The market in which the Corporation competes is saturated with community banks seeking to provide a service oriented banking experience to individuals and businesses compared with what the Corporation believes, is the more rigid and less friendly environment found in large banks. This requires us to offer most, if not all, of the products and conveniences that are offered by the larger banks with a service differentiation. In doing so, it is imperative that the Corporation identify the lines of business that the Corporation can excel in, prudently utilize the Corporation s available capital to acquire the people and platforms required thereof and execute on the strategy.

Credit Risks

Like all lenders, the Corporation faces the risk that the Corporation s customers may not repay their loans and that the realizable value of collateral may be insufficient to avoid a loss of principal. In the Corporation s business, some level of credit loss is unavoidable and overall levels of credit loss can vary over time. Our ability to manage credit risks depends primarily upon the Corporation s ability to assess the creditworthiness of customers and the value of collateral, including real estate. We control credit risk by diversifying the Corporation s loan portfolio and managing its composition, and by recording and managing an allowance for expected loan losses in accordance with applicable accounting rules. At the end of March 2008, the Corporation had $3.894 million of available reserves to cover such losses. The models and approaches the Corporation use to originate and manage loans are regularly updated to take into account

Table of Contents

changes in the competitive environment, in real estate prices and other collateral values, and in the economy, among other things based on the Corporation s experience originating loans and servicing loan portfolios.

Financing, Funding and Liquidity Risks

One of the most important aspects of management s efforts to sustain long-term profitability for the Corporation is the management of interest rate risk. Management s goal is to maximize net interest income within acceptable levels of interest-rate risk and liquidity.

The Corporation s assets and liabilities are principally financial in nature and the resulting earnings thereon are subject to significant variability due to the timing and extent to which the Corporation can reprice the yields on interest-earning assets and the costs of interest bearing liabilities as a result of changes in market interest rates. Interest rates in the financial markets affect the Corporation s decisions on pricing its assets and liabilities which impacts net interest income, an important cash flow stream for the Corporation. As a result, a substantial part of the Corporation s risk-management activities are devoted to managing interest-rate risk. There is also focus on managing the risks associated with the volatility of fair value in both mortgage loan servicing rights and mortgage banking assets. Currently, the Corporation does not have any significant risks related to foreign exchange, commodities or equity risk exposures.

Interest Rate and Yield Curve Risks

A significant portion of the Corporation s business involves borrowing and lending money. Accordingly, changes in interest rates directly impact the Corporation s revenues and expenses, and potentially could compress the Corporation s net interest margin. The Corporation actively manages its balance sheet to control the risks of a reduction in net interest margin brought about by ordinary fluctuations in rates.

The Corporation s mortgage lending and servicing businesses also are affected by changes in interest rates. Generally, when rates increase demand for mortgage loans decreases (and the Corporation s revenues from new originations fall), and when rates decrease, demand increases (and the Corporation s origination revenues increase). In a contrary fashion, when interest rates increase the value of mortgage servicing rights (MSR) that the Corporation retain generally increases, and when rates decline the value of MSR declines. Within the Corporation s mortgage businesses, therefore, there is a partial natural hedge against ordinary interest rate changes.

Like all financial services companies, the Corporation faces the risks of abnormalities in the yield curve. The yield curve simply shows the interest rates applicable to short and long term debt. The curve is steep when short-term rates are much lower than long-term

Table of Contents

rates: it is flat when short-term rates are equal, or nearly equal, to long-term rates: and it is inverted when short-term rates exceed long-term rates. Historically, the yield curve is positively sloped. However, during much of 2006 the yield curve was inverted and the degree of inversion generally worsened as the year progressed. A flat or inverted yield curve tends to decrease net interest margin, as funding costs increase relative to the yield on assets.

Regulatory and Legal Risks

We operate in a heavily regulated industry and therefore are subject to many banking, deposit, and consumer lending regulations in addition to the rules applicable to all companies publicly traded in the U.S. securities markets. Failure to comply with applicable regulations could result in financial, structural, and operational penalties. In addition, efforts to comply with applicable regulations may increase the Corporation s costs and, or limit the Corporation s ability to pursue certain business opportunities. Federal and state regulations significantly limit the types of activities in which the Corporation, as a financial institution, may engage. In addition, the Corporation is subject to a wide array of other regulations that govern other aspects of how the Corporation conducts the Corporation s business, such as in the areas of employment and intellectual property. Federal and state legislative and regulatory authorities occasionally consider changing these regulations or adopting new ones. Such actions could limit the amount of interest or fees the Corporation can charge, could restrict the Corporation s ability to collect loans or realize on collateral, or could materially affect us in other ways. Additional federal and state consumer protection regulations also could expand the privacy protections afforded to customers of financial institutions, restricting the Corporation s ability to share or receive customer information and increasing the Corporation s costs. In addition, changes in accounting rules can significantly affect how the Corporation records and reports assets, liabilities, revenues, expenses, and earnings.

We also face litigation risks from customers (singly or in class actions) and from federal or state regulators. Litigation is an unavoidable part of doing business, and the Corporation manages those risks through internal controls, personnel training, insurance, litigation management, the Corporation s compliance and ethics processes and other means. However, the commencement, outcome, and magnitude of litigation cannot be predicted or controlled with certainty.

Accounting Estimate Risks

The preparation of the Corporation s consolidated financial statements in conformity with U.S generally accepted accounting principles requires management to make significant estimates that affect the financial statements. Two of the Corporation s most critical estimates are the level of the allowance for credit losses and the valuation of mortgage servicing rights. However, other estimates occasionally become highly significant,

Table of Contents

especially in volatile situations such as litigation and other loss contingency matters. Estimates are made at specific points in time; as actual events unfold, estimates are adjusted accordingly. Due to the inherent nature of these estimates, it is possible that, at some time in the future, the Corporation may significantly increase the allowance for credit losses and/or sustain credit losses that are significantly higher than the provided allowance, or the Corporation may recognize a significant provision for impairment of the Corporation s mortgage servicing rights, or the Corporation may make some other adjustment that will differ materially from the estimates that the Corporation make today.

Expense Control

Expenses and other costs directly affect the Corporation s earnings. Our ability to successfully manage expenses is important to the Corporation s long-term profitability. Many factors can influence the amount of the Corporation s expenses, as well as how quickly they grow. As the Corporation s businesses change or expand, additional expenses can arise from asset purchases, structural reorganization evolving business strategies, and changing regulations, among other things. The Corporation manages expense growth and risk through a variety of means, including actual versus budget management, imposition of expense authorization, and procurement coordination and processes.

Table of Contents

CITIZENS HOLDING COMPANY AND SUBSIDIARY

ITEM 4. CONTROLS AND PROCEDURES

The Corporation carried out an evaluation, under the supervision and with the participation of its principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Corporation s disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, the Corporation s principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, the Corporation s disclosure controls and procedures are effective to allow them to make timely decisions regarding the disclosure of information required to be included in its periodic reports filed with the Securities and Exchange Commission. There have been no significant changes in the Corporation s internal controls or in other factors that could significantly affect internal controls subsequent to the date the Corporation carried out its evaluation.

There were no changes to the Corporation s internal control over financial reporting that occurred in the three months ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

Table of Contents

PART II. - OTHER INFORMATION

ITEM 1A. RISK FACTORS.
Information regarding risk factors appears in Part I, Item 1A, Risk Factors, of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007. There have been no material changes in the risk factors previously disclosed in such Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.
Repurchases of Securities

The following table summarizes the Corporation s purchases of its own securities for the three-month period ended March 31, 2008:

Period	(a) Total Number of Shares Purchased[1]	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1][2]	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs[2]
January 1 to January 31	400	$ 20.42		
February 1 to February 29	100	20.00	160,686	
March 1 to March 31				
Total	500	$ 20.34	160,686	89,314

(1) All shares were purchased through the Corporation s publicly announced share buy-back plan.

31

Table of Contents

(2) On February 27, 2007, the Corporation s board of directors adopted a stock repurchase program which authorizes the Corporation to repurchase up to 250,000 shares of its outstanding common stock. The plan remained in effect until February 29, 2008. As of February 29, 2008, 160,686 shares of the Corporation s common stock had been purchased and 89,314 shares under the plan were not purchased. All share purchases during 2007 and 2008 were made pursuant to open market transactions.

ITEM 6. EXHIBITS.
Exhibits

31(a) Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).

31(b) Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).

32(a) Certification of the Chief Executive Officer pursuant to 18 U.S.C. § 1350.

32(b) Certification of the Chief Financial Officer pursuant to 18 U.S.C. § 1350.

Table of Contents

SIGNATURES

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

CITIZENS HOLDING COMPANY

BY: /s/ Greg L. McKee
Greg L. McKee
President and Chief Executive Officer

DATE: May 7, 2008

BY: /s/ Robert T. Smith
Robert T. Smith
Treasurer and Chief Financial Officer

DATE: May 7, 2008

33

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
31(a)	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)
31(b)	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)
32(a)	Certification of the Chief Executive Officer pursuant to 18 U.S.C. §1350.
32(b)	Certification of the Chief Financial Officer pursuant to 18 U.S.C. §1350.

34