

CITIZENS HOLDING CO /MS/  
Form 10-Q  
May 11, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**  
**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2009

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-25221

**CITIZENS HOLDING COMPANY**

(Exact Name of Registrant as Specified in its Charter)

**MISSISSIPPI**  
(State or Other Jurisdiction of

**64-0666512**  
(I. R. S. Employer Identification Number)

Incorporation or Organization)

**521 Main Street, Philadelphia, MS**  
(Address of Principal Executive Offices)

**39350**  
(Zip Code)

Registrant's Telephone Number, Including Area Code: **601-656-4692**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Number of shares outstanding of each of the issuer's classes of common stock, as of May 6, 2009:

Title	Outstanding
Common Stock, \$0.20 par value	4,849,496

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CITIZENS HOLDING COMPANY

FIRST QUARTER 2009 INTERIM FINANCIAL STATEMENTS

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## PART I. FINANCIAL INFORMATION

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
CITIZENS HOLDING COMPANY

## CONSOLIDATED STATEMENTS OF CONDITION

(Unaudited)

	March 31, 2009	December 31, 2008
<b>ASSETS</b>		
Cash and due from banks	\$ 17,541,752	\$ 28,844,221
Interest bearing deposits with other banks	674,815	1,001,611
Federal funds sold	4,200,000	
Investment securities available for sale, at fair value	273,791,271	258,023,206
Loans, net of allowance for loan losses of \$4,683,113 in 2009 and \$4,479,585 in 2008	436,889,936	424,225,671
Premises and equipment, net	18,158,387	17,182,082
Other real estate owned, net	3,178,369	3,374,803
Accrued interest receivable	5,858,567	6,265,797
Cash value of life insurance	18,206,800	17,992,456
Intangible assets, net	3,734,512	3,780,685
Other assets	5,076,026	5,356,800
<b>TOTAL ASSETS</b>	<b>\$ 787,310,435</b>	<b>\$ 766,047,332</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand	\$ 80,602,784	\$ 95,650,137
Interest-bearing NOW and money market accounts	154,839,569	151,173,161
Savings deposits	34,100,812	32,162,992
Certificates of deposit	295,054,903	266,941,132
Total deposits	564,598,068	545,927,422
Federal funds purchased		21,000,000
Securities sold under agreement to repurchase	63,419,681	41,441,052
Federal Home Loan Bank advances	79,400,000	79,400,000
Accrued interest payable	1,808,812	1,365,679
Deferred compensation payable	3,332,991	3,257,631
Other liabilities	1,916,744	2,255,910
Total liabilities	714,476,296	694,647,694
<b>STOCKHOLDERS EQUITY</b>		
Common stock; \$.20 par value, 22,500,000 shares authorized, 4,852,696 shares outstanding at March 31, 2009 and 4,849,296 shares outstanding at December 31, 2008	970,539	969,859
Additional paid-in capital	3,472,759	3,530,390
Retained earnings	69,092,904	68,204,939
Accumulated other comprehensive loss, net of taxes of \$417,655 in 2009 and \$776,667 in 2008	(702,063)	(1,305,550)
Total stockholders equity	72,834,139	71,399,638

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 787,310,435	\$ 766,047,332
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The accompanying notes are an integral part of these financial statements.

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CITIZENS HOLDING COMPANY  
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	<b>For the Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>INTEREST INCOME</b>		
Loan income, including fees	\$ 7,341,401	\$ 7,362,527
Investment securities	2,631,710	2,226,197
Other interest	9,656	140,627
<b>Total interest income</b>	<b>9,982,767</b>	<b>9,729,351</b>
<b>INTEREST EXPENSE</b>		
Deposits	2,411,897	3,036,762
Other borrowed funds	820,039	1,150,575
<b>Total interest expense</b>	<b>3,231,936</b>	<b>4,187,337</b>
<b>NET INTEREST INCOME</b>	<b>6,750,831</b>	<b>5,542,014</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>316,012</b>	<b>97,617</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>6,434,819</b>	<b>5,444,397</b>
<b>OTHER INCOME</b>		
Service charges on deposit accounts	914,889	933,021
Other service charges and fees	323,431	269,894
Other income	323,396	801,429
<b>Total other income</b>	<b>1,561,716</b>	<b>2,004,344</b>
<b>OTHER EXPENSES</b>		
Salaries and employee benefits	3,143,628	3,008,381
Occupancy expense	953,411	865,597
Other operating expense	1,526,620	1,485,216
<b>Total other expenses</b>	<b>5,623,659</b>	<b>5,359,194</b>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>2,372,876</b>	<b>2,089,547</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>514,232</b>	<b>450,001</b>
<b>NET INCOME</b>	<b>\$ 1,858,644</b>	<b>\$ 1,639,546</b>
<b>NET INCOME PER SHARE</b>		
-Basic	\$ 0.38	\$ 0.34
-Diluted	\$ 0.38	\$ 0.33
<b>DIVIDENDS PAID PER SHARE</b>	<b>\$ 0.20</b>	<b>\$ 0.19</b>

The accompanying notes are an integral part of these financial statements.



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CITIZENS HOLDING COMPANY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

	<b>For the Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Net income	\$ 1,858,644	\$ 1,639,546
Other comprehensive income, net of tax Unrealized holding gains	603,487	1,902,775
<b>Total other comprehensive income</b>	<b>603,487</b>	<b>1,902,775</b>
Comprehensive income	\$ 2,462,131	\$ 3,542,321

The accompanying notes are an integral part of these financial statements.



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## CITIZENS HOLDING COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	<b>For the Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net cash provided by operating activities	\$ 3,408,292	\$ 2,114,838
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities of securities available for sale	41,940,317	5,791,670
Proceeds from sales of securities available for sale	3,114,536	10,000,000
Purchases of investment securities available for sale	(60,437,415)	(38,456,171)
Net change in Shay Investments		(2,935,505)
Net change in securities sold under agreement to repurchase	21,978,629	
Purchases of bank premises and equipment	(1,274,394)	(637,160)
Increase in interest bearing deposits with other banks	326,796	(581,576)
Net increase in federal funds sold	(4,200,000)	(7,900,000)
Proceeds from sale of other real estate acquired by foreclosure	340,434	400
Net increase in loans	(13,142,680)	(16,780,753)
Net cash used by investing activities	(11,353,777)	(51,499,095)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	18,670,646	26,048,440
Proceeds from exercising stock options	191,640	31,815
Increase in Federal Home Loan Bank advances		35,000,000
Repurchase of stock	(248,591)	
Increase in federal funds purchased	(21,000,000)	(4,200,000)
Payment of dividends	(970,679)	(924,776)
Net cash (used) provided by financing activities	(3,356,984)	55,955,479
Net (decrease) increase in cash and due from banks	(11,302,469)	6,571,222
Cash and due from banks, beginning of period	28,844,221	18,622,058
Cash and due from banks, end of period	\$ 17,541,752	\$ 25,193,280

The accompanying notes are an integral part of these financial statements.

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CITIZENS HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the three months ended March 31, 2009

(Unaudited)

**Note 1. Summary of Significant Accounting Policies**

These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. However, these financial statements do not include all of the information and footnotes required by generally accepted accounting principles (GAAP) for complete financial statements. The interim consolidated financial statements are unaudited and reflect all adjustments and reclassifications, which, in the opinion of management, are necessary for a fair presentation of the results of operations and financial condition as of and for the interim periods presented. All adjustments and reclassifications are of a normal and recurring nature. Results for the period ended March 31, 2008 are not necessarily indicative of the results that may be expected for any other interim periods or for the year as a whole.

The interim consolidated financial statements of Citizens Holding Company include the accounts of its wholly-owned subsidiary, The Citizens Bank of Philadelphia (the Bank) and collectively with Citizens Holding Company, the Corporation. On January 2, 2007, the Bank completed a one-for-one thousand (1-for-1,000) reverse stock split with all fractional shares paid in cash. As a result of this transaction, the Corporation became the 100% owner of the Bank on January 2, 2007. All significant intercompany transactions have been eliminated in consolidation.

For additional significant accounting policies of the Corporation, see Note 1 of the Notes to Consolidated Financial Statements of Citizens Holding Company included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 13, 2009.

**Note 2. Commitments and Contingent Liabilities**

In the ordinary course of business, the Corporation enters into commitments to extend credit to its customers. The unused portion of these commitments is not reflected in the accompanying financial statements. As of March 31, 2009, the Corporation had entered into loan commitments with certain customers with an aggregate unused balance of \$46,792,746 compared to an aggregate unused balance of \$44,441,409 at December 31, 2008. There were \$3,609,144 of letters of credit outstanding at March 31, 2009 and \$3,323,809 at December 31, 2008. The fair value of such contracts is not considered material because letters of credit and loan commitments often are not used in their entirety, if at all, before they expire. The balances of such letters and commitments should not be used to project actual future liquidity requirements. However, the Corporation does incorporate expectations about the level of draws under its credit-related commitments into its asset and liability management program.

The Corporation is a party to lawsuits and other claims that arise in the ordinary course of business, all of which are being vigorously contested. In the regular course of business, management evaluates estimated losses or costs related to litigation, and provisions are made for anticipated losses whenever management believes that such losses are probable and can be reasonably estimated. At the present time, management believes, based on the advice of legal counsel, that the final resolution of pending legal proceedings will not have a material impact on the Corporation's consolidated financial condition or results of operations.

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Net income per share - basic has been computed based on the weighted average number of shares outstanding during each period. Net income per share - diluted has been computed based on the weighted average number of shares outstanding during each period plus the dilutive effect of outstanding granted stock options using the treasury stock method. Earnings per share was computed as follows:

	<b>For the Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Basic weighted average shares outstanding	4,851,339	4,865,769
Dilutive effect of granted options	36,138	37,431
<b>Diluted weighted average shares outstanding</b>	<b>4,887,477</b>	<b>4,903,200</b>
Net income	\$ 1,858,644	\$ 1,638,546
Net income per share-basic	\$ 0.38	\$ 0.34
Net income per share-diluted	\$ 0.38	\$ 0.33

**Note 4. Stock Option Plan**

At March 31, 2009, the Corporation had two stock-based compensation plans, which are the 1999 Employees Long-Term Incentive Plan and the 1999 Directors Stock Compensation Plan. As of January 1, 2006, the Corporation began accounting for these plans under the recognition and measurement principles of fair value set forth in Statement of Financial Accounting Standards No. 123R, Share-Based Payment, ( SFAS 123R ) and the Securities and Exchange Commission Staff Accounting Bulletin 107 ( SAB 107 ). SAB 107 provides guidance related to share-based payments transactions, including valuation methods (including assumptions such as expected volatility and expected term), the classification of compensation expense, non-GAAP financial measures, first time adoption of SFAS 123R in an interim period and disclosure in Management s Discussion and Analysis subsequent to the adoption of SFAS 123R.

To determine the expected term of the options granted, the Corporation chose to use the simplified method for plain vanilla options as detailed in SAB 107 for those options granted prior to December 31, 2007. The Corporation determined that those options granted comply with the requirements under SAB 107 and used this method for estimating the expected term of the options granted until December 31, 2007. Beginning with options granted after this date, the Corporation uses the methods prescribed by SFAS 123R. Volatility is determined by using the standard deviation of the differences of the closing stock price of the Corporation s common stock as quoted on the American Stock Exchange (through November 15, 2006, the date of the transfer of the listing of the Corporation s common stock to The NASDAQ Global Market) or The NASDAQ Global Market (since November 16, 2006) on or about the 15<sup>th</sup> of each month starting January 15, 2002. Stock prices prior to that date experienced volatility that is not representative of the volatility experienced since that time and therefore are not used in this calculation.

Although the option grants are not subject to an explicit vesting schedule, the Corporation recognizes that the restriction on exercising options before six months and one day after the grant date constitutes a de facto vesting schedule and must be considered when applying SFAS 123R. SFAS 123R states that a requisite service period may be explicit, implicit or derived and that an implicit service period is one that may be inferred from an analysis of the award s terms. Based on its analysis of the terms of the option awards, management concluded that the restriction on exercising options until six months and one day have passed since the date of grant constitutes a service period under SFAS 123R and the compensation costs should be amortized over this six month period.

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option-pricing model.

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On April 23, 2008, the members of the Board of Directors were granted a total of 13,500 options as specified in the 1999 Directors' Stock Compensation Plan and 1,500 options were granted to an officer under the 1999 Employees' Stock Incentive Plan. These options were granted at an exercise price of \$18.00 per option, which was the closing price of Citizens Holding Company stock on that day. These options are first exercisable on October 24, 2008 and must be exercised no later than April 23, 2018.

The following assumptions were used in estimating the fair value of the options granted to the directors and the officer in the second quarter of 2008.

<b>Assumption</b>	<b>Officer</b>	<b>Directors</b>
Dividend Yield	4.10%	4.10%
Risk-Free Interest Rate	3.15%	3.15%
Expected Life	8.46 years	6.75 years
Expected Volatility	44.82%	44.82%
Calculated Value per Option	\$ 5.92	\$ 5.76

Using the Black-Scholes option-pricing model with the foregoing assumptions, it was determined that the cost of options granted to directors in April 2008 was \$79,952 and should be recognized as an expense of \$13,325 per month over the six month requisite service period, beginning in April 2008. This was recorded as salary expense with a credit to paid-in capital. A deferred tax on these options was recorded in the aggregate amount of \$29,582, or \$4,930 per month, over the six month requisite service period, beginning in April 2008.

Using the assumptions in the previous table, it was also determined that the cost of options granted to the officer was \$8,462 and should be recognized as an expense of \$1,440 over the six month requisite service period, beginning in April 2008. This was recorded as salary expense with a credit to paid-in capital. No deferred taxes were recorded on this option grant.

The following table below is a summary of the stock option activity for the three months ended March 31, 2009.