CITIZENS HOLDING CO /MS/
Form 10-Q
August 08, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

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	**64-0666512**
(State or other jurisdiction of	**(I. R. S. Employer**
incorporation or organization)	**Identification Number)**

521 Main Street, Philadelphia, MS	**39350**
(Address of principal executive offices)	**(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. þ 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 þ
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 þ No

Number of shares outstanding of each of the issuer s classes of common stock, as of August 7, 2008:

Title	**Outstanding**
Common Stock, $0.20 par value	4,856,446

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CITIZENS HOLDING COMPANY

SECOND QUARTER 2008 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)

	June 30, 2008	December 31, 2007
ASSETS		
Cash and due from banks	$ 27,305,103	$ 18,622,058
Interest bearing deposits with other banks	8,358,640	612,938
Federal funds sold	5,200,000	900,000
Investment securities available for sale, at fair value	211,116,455	244,720,367
Loans, net of allowance for loan losses of $4,240,266 in 2008 and $3,967,951 in 2007	390,931,753	368,025,286
Premises and equipment, net	14,783,550	14,288,797
Other real estate owned, net	2,591,184	2,046,584
Accrued interest receivable	5,495,570	5,210,201
Cash value of life insurance	17,585,252	17,693,476
Intangible assets, net	3,946,319	4,215,070
Other assets	5,695,603	4,568,854
TOTAL ASSETS	$ 693,009,429	$ 680,903,631
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 84,980,935	$ 78,224,936
Interest-bearing NOW and money market accounts	157,336,256	144,302,273
Savings deposits	32,514,740	29,763,885
Certificates of deposit	213,379,419	224,941,210
Total deposits	488,211,350	477,232,304
Federal Funds Purchased		4,200,000
Accrued interest payable	1,220,081	1,915,232
Federal Home Loan Bank advances	94,400,000	49,400,000
Sweep Account Liability	35,778,952	74,963,424
Deferred compensation payable	3,108,301	2,989,940
Other liabilities	1,912,930	2,011,299
Total liabilities	624,631,614	612,712,199
STOCKHOLDERS EQUITY		
Common stock; $.20 par value, 22,500,000 shares authorized, 4,857,996 shares outstanding at June 30, 2008 and 4,863,242 shares outstanding at December 31, 2007	970,994	972,648
Additional paid-in capital	3,762,651	3,979,717
Retained earnings	65,938,859	63,671,589
Accumulated other comprehensive loss, net of taxes of $1,365,102 in 2008 and $257,306 in 2007	(2,294,689)	(432,522)

Total stockholders equity	68,377,815	68,191,432
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 693,009,429	$ 680,903,631

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

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CITIZENS HOLDING COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
INTEREST INCOME				
Loan income, including fees	$ 7,154,282	$ 7,194,309	$ 14,516,809	$ 14,339,415
Investment securities	2,542,458	1,889,609	4,768,655	3,780,665
Other interest	18,057	476,159	158,684	885,102
Total interest income	9,714,797	9,560,077	19,444,148	19,005,182
INTEREST EXPENSE				
Deposits	2,329,153	3,263,567	5,365,915	6,265,226
Other borrowed funds	907,911	915,798	2,058,486	1,849,237
Total interest expense	3,237,064	4,179,365	7,424,401	8,114,463
NET INTEREST INCOME	6,477,733	5,380,712	12,019,747	10,890,719
PROVISION FOR LOAN LOSSES	559,192	80,299	656,809	157,047
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,918,541	5,300,413	11,362,938	10,733,672
OTHER INCOME				
Service charges on deposit accounts	1,021,771	981,575	1,954,792	1,862,577
Other service charges and fees	293,644	127,371	563,538	264,624
Other income	1,208,984	799,161	2,010,413	1,419,777
Total other income	2,524,399	1,908,107	4,528,743	3,546,978
OTHER EXPENSES				
Salaries and employee benefits	2,946,446	2,623,756	5,954,827	5,121,481
Occupancy expense	926,555	754,409	1,792,152	1,469,869
Other operating expense	1,587,975	1,338,170	3,073,191	2,669,418
Total other expenses	5,460,976	4,716,335	10,820,170	9,260,768
INCOME BEFORE PROVISION FOR INCOME TAXES	2,981,964	2,492,185	5,071,511	5,019,882
PROVISION FOR INCOME TAXES	506,388	632,086	956,389	1,269,835
NET INCOME	$ 2,475,576	$ 1,860,099	$ 4,115,122	$ 3,750,047
NET INCOME PER SHARE				
-Basic	$ 0.51	$ 0.38	$ 0.85	$ 0.76
-Diluted	$ 0.51	$ 0.37	$ 0.84	$ 0.75
DIVIDENDS PAID PER SHARE	$ 0.19	$ 0.18	$ 0.38	$ 0.36

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

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CITIZENS HOLDING COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	$ 2,475,576	$ 1,860,099	$ 4,115,122	$ 3,750,047
Other comprehensive income (loss), net of tax				
Unrealized holding gains (losses)	(3,764,942)	(2,469,391)	(1,862,167)	(2,645,886)
Reclassification adjustment for losses included in net income				2,237
Total other comprehensive loss	(3,764,942)	(2,469,391)	(1,862,167)	(2,643,649)
Comprehensive income (loss)	$ (1,289,366)	$ (609,292)	$ 2,252,955	$ 1,106,398

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)

	For the six months ended June 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Cash Provided by Operating Activities	$ 5,019,527	$ 4,823,083
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of securities available for sale	9,988,340	8,348,748
Proceeds from sales of securities AFS	20,043,585	7,542,364
Purchases of investment securities available for sale	(68,699,457)	(32,993,502)
Net change in Shay Investments	69,044,931	(213,231)
Net change in sweep accounts	(39,184,472)	
Purchases of bank premises and equipment	(1,088,305)	(885,823)
Increase in interest bearing deposits with other banks	(7,745,702)	(138,819)
Net (increase) decrease in federal funds sold	(4,300,000)	6,800,000
Proceeds from sale of other real estate acquired by foreclosure	130,400	963,586
Increase in ownership of subsidiary		(2,994,671)
Net (increase) decrease in loans	(24,238,276)	19,025,372
Net Cash (Used) Provided by Investing Activities	(46,048,956)	5,454,024
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	10,979,046	7,759,950
Proceeds from exercising stock options	124,741	
Increase (Decrease) in FHLB advances	45,000,000	(10,000,000)
Repurchase of Stock	(343,461)	(3,201,375)
Decrease in federal funds purchased	(4,200,000)	
Payment of dividends	(1,847,852)	(1,807,282)
Net Cash Provided (Used) by Financing Activities	49,712,474	(7,248,707)
Net Increase in Cash and Due from Banks	8,683,045	3,028,400
Cash and Due From Banks, beginning of period	18,622,058	15,449,434
Cash and Due from Banks, end of period	$ 27,305,103	$ 18,477,834

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

CITIZENS HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the three and six months ended June 30, 2008

(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 June 30, 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, 2007, filed with the Securities and Exchange Commission on March 12, 2008.

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 June 30, 2008, the Corporation had entered into loan commitments with certain customers with an aggregate unused balance of $44,831,173 compared to an aggregate unused balance of $27,293,147 at December 31, 2007. There were $3,011,477 of letters of credit outstanding at June 30, 2008 and $437,918 at December 31, 2007. 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 provision is 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.

Note 3. Net Income per Share

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:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Basic weighted average shares outstanding	4,864,980	4,912,748	4,865,375	4,961,572
Dilutive effect of granted options	34,899	54,796	36,192	54,598
Diluted weighted average shares outstanding	4,899,879	4,967,544	4,901,567	5,016,170
Net income	$ 2,475,576	$ 1,860,099	$ 4,115,122	$ 3,750,047
Net income per share-basic	$ 0.51	$ 0.38	$ 0.85	$ 0.76
Net income per share-diluted	$ 0.51	$ 0.37	$ 0.84	$ 0.75

Note 4. Stock Option Plan

At June 30, 2008, 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 (SFAS) 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 will use 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 15th 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 SFAS123R and the compensation costs should be amortized over this six month period.

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

On April 25, 2007, the members of the Board of Directors were granted a total of 13,500 options as specified in the 1999 Directors Stock Compensation Plan. These options were granted at an exercise price of $22.00 per option, which was the closing price of Citizens Holding Company stock on that day. These options were first exercisable on October 26, 2007 and must be exercised no later than April 25, 2017.

The following assumptions were used in estimating the fair value of the options granted to the directors in the second quarter of 2007.

Assumption	2007
Dividend Yield	3.30%
Risk-Free Interest Rate	4.76%
Expected Life	5.25 years
Expected Volatility	34.88%
Calculated Value per Option	$ 6.23
Forfeitures	0.00%

Using the Black-Scholes option-pricing model with the foregoing assumptions, it was determined that the cost of options granted to directors in April 2007 was $84,090 and should be recognized as an expense of $14,015 per month over the six month requisite service period, beginning in April 2007. 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 $31,113, or $5,186 per month, over the six month requisite service period, beginning in April 2007.

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.

Assumption	Officer	Directors
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	$ 5.76	$ 5.92
Forfeitures	0.00%	0.00%

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

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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 six months ended June 30, 2008.

	Directors Plan		Employees Plan	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2007	100,650	$ 16.76	192,300	$ 18.60
Granted	13,500	18.00	1,500	18.00
Exercised	(16,800)	11.22	(2,750)	13.42
Expired	(3,000)	22.98	(6,500)	21.53
Outstanding at June 30, 2008	94,350	$ 17.73	184,550	$ 18.55

The intrinsic value of options granted under the Directors Plan at June 30, 2008 was $274,082 and the intrinsic value of options granted under the Employees Plan at June 30, 2008 was $426,087 for a total intrinsic value at June 30, 2008 of $700,168.

Note 5. Income Taxes

FASB Interpretation 48, Accounting for Income Tax Uncertainties (FIN 48), was issued in June 2006 and defines the threshold for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority. FIN 48 also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties, and includes guidance concerning accounting for income tax uncertainties in interim periods. The Corporation adopted the provisions of FIN 48, on January 1, 2007, and determined there was no need to make an adjustment to retained earnings upon adoption of FIN 48. As of January 1, 2007, the Corporation had no unrecognized tax benefits related to federal and state income tax matters. Therefore, the Corporation does not anticipate any material increase in the effective tax rate during 2008 relative to any tax positions taken prior to January 1, 2007. It is the Corporation s policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Corporation and its subsidiaries file a consolidated U. S. federal income tax return. The Corporation is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2004 through 2007. The Corporation and its subsidiaries state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2004 through 2007.

Note 6. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157), which establishes a hierarchy to be used in performing measurements of fair value. SFAS No. 157 emphasizes that fair value should be determined from the perspective of a market participant while also indicating that valuation methodologies should first reference available market data before using internally developed assumptions. Additionally, SFAS No. 157 provides expanded disclosure

requirements regarding the effects of fair value measurements on the financial statements. This statement applies whenever other standards require or permit assets and liabilities to be measured at fair value. This statement does not mandate the use of fair value in any circumstance. The Corporation adopted SFAS No. 157 on January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on the financial position or results of operations of the Corporation. See Note 7, Fair Value of Financial Instruments, for further disclosures in regards to the Corporation s adoption of SFAS No. 157.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132R) (SFAS No. 158), which requires an employer to: (1) recognize in its statement of financial position an asset for a plan s over funded status or a liability for a plan s under funded status; (2) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions); and (3) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income. The requirement by SFAS No. 158 to recognize the funded status of a benefit plan and the disclosure requirements of SFAS No. 158 are effective as of the end of the first fiscal year ending after December 15, 2006 for entities with publicly traded equity securities. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Corporation does not expect the adoption of SFAS No. 158 to have a material effect on the Corporation s financial condition or results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159), which allows an irrevocable election to measure certain financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with unrealized gains and losses recognized currently in earnings. Under SFAS No. 159, the fair value option may only be elected at the time of initial recognition of a financial asset or financial liability or upon the occurrence of certain specified events. SFAS No. 159 requires that assets and liabilities which are measured at fair value be reported in the financial statements in a manner that separates those fair values from the carrying amounts of similar assets and liabilities which are measured using another measurement attribute. SFAS No. 159 also provides expanded disclosure requirements regarding the effects of electing the fair value option on the financial statements. The Corporation adopted SFAS No. 159 on January 1, 2008. The adoption of SFAS No. 159 did not have an impact on the financial position or results of operations of the Corporation.

In December 2007, the FASB issued Statement No. 141(R), Business Combinations (Statement 141R), which replaces Statement No. 141, Business Combinations (Statement 141). Statement 141R retains the fundamental requirements in Statement 141 that the acquisition method of accounting (formerly referred to as purchase method) be used for all business combinations and that an acquirer be identified for each business combination. Statement 141R defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as of the date that the acquirer achieves control. Statement 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values. Statement 141R requires the acquirer to account for acquisition related costs and restructuring costs separately from the business combination as period expense. Statement 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of Statement 141R is not expected to have a material impact on the financial position or results of operations of the Corporation.

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interest in Consolidated Financial Statements an Amendment to ARB No 51 (Statement 160). Statement 160 establishes new accounting and reporting standards that require the ownership interests in the subsidiaries held by parties other than the parent be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from the parent s equity. Statement 160 also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. In addition, when a subsidiary is deconsolidated, any retained

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noncontrolling equity investment in the former subsidiary shall be initially measured at fair value, with the gain or loss on the deconsolidation of the subsidiary measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment. Statement 160 also clarifies that changes in a parent s ownership in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. Statement 160 also includes expanded disclosure requirements regarding the interests of the parent and it noncontrolling interest. Statement 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. The Corporation is currently in the process of evaluating the impact of adopting Statement 160 on its financial statements.

In May 2008, the FASB issued SFAS 162, The Hierarchy of Generally Accepted Accounting Principles . SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 will be effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendment to AU 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles . The Corporation does not expect the implementation of SFAS 162 to have a material impact on its consolidated financial statements.

Note 7. Fair Value of Financial Instruments

FASB Statement 157, Fair Value Measurements (SFAS No.157) establishes a framework for measuring the fair value of assets and liabilities. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Corporation estimates the fair values of financial assets and liabilities on a recurring basis using the following methods and assumptions:

Securities available for sale: Fair values for securities are based on quoted market prices, where available. If quoted prices are not available, fair values are based on quoted market prices of similar instruments. Level 2 securities include debt securities including obligations of U. S. Government agencies and corporations, mortgage-backed securities, state, county and municipal bonds and preferred stock.

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2008:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Securities available for sale	$	$ 211,116,455	$	$ 211,116,455

The Corporation recorded no gains or losses in earnings for the period that were attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.

CITIZENS HOLDING COMPANY

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s discussion and analysis is written to provide greater insight into the results of operations and the financial condition of Citizens Holding Company and its wholly owned subsidiary, The Citizens Bank of Philadelphia (the Bank, and collectively with Citizens Holding Company, the Corporation).

LIQUIDITY

The Corporation has an asset and liability management program that assists management in maintaining net interest margins during times of both rising and falling interest rates and in maintaining sufficient liquidity. Liquidity is the ratio of net deposits and short-term liabilities divided by net cash, short-term investments and marketable assets. Liquidity of the Corporation at June 30, 2008 was 35.13% and at December 31, 2007 was 48.50%. Management believes it maintains adequate liquidity for the Corporation s current needs.

The Corporation s primary source of liquidity is customer deposits, which were $488,211,350 at June 30, 2008 and $477,232,304 at December 31, 2007. Other sources of liquidity include investment securities, the Corporation s line of credit with the Federal Home Loan Bank (FHLB) and federal funds lines with correspondent banks. The Corporation had $211,116,455 invested in investment securities at June 30, 2008 and $244,720,367 at December 31, 2007. The Corporation had secured and unsecured federal funds lines with correspondent banks in the amount of $40,500,000 at June 30, 2008 and $17,500,000 at December 31, 2007. In addition, the Corporation has the ability to draw on its line of credit with the FHLB. At June 30, 2008, the Corporation had unused and available $39,897,108 of its line of credit with the FHLB and at December 31, 2007, the Corporation had unused and available $72,441,868 of its line of credit with the FHLB. The decrease in the amount available under the Corporation s line of credit with the FHLB from the end of 2007 to June 30, 2008 resulted from the Corporation securing advances as an alternative to higher cost deposits.

At June 30, 2008, the Corporation had $5,200,000 in federal funds sold compared to $900,000 at December 31, 2007. The Corporation invests its excess liquidity in federal funds sold on a daily basis. The amount of increase in federal funds sold from December 31, 2007 to June 30, 2008 was the excess of the increase in deposits that were not utilized to fund loans or invested in investment securities.

When the Corporation has more funds than it needs for its reserve requirements or short-term liquidity needs, the Corporation increases its investment portfolio or sells federal funds. It is management s policy to maintain an adequate portion of its portfolio of assets and liabilities on a short-term basis to insure rate flexibility and to meet loan funding and liquidity needs. When deposits decline or do not grow sufficiently to fund loan demand, management will seek funding either through federal funds purchased or advances from the FHLB.

CAPITAL RESOURCES

The Corporation s equity capital was $68,377,815 at June 30, 2008 as compared to $68,191,432 at December 31, 2007. The main reason for the increase in equity capital was net earnings in excess of dividends paid. Equity capital was negatively impacted by the FASB 115 adjustment due to a decrease in the market value of the Corporation s investment portfolio. This market value decrease was due to general market conditions, specifically the increase in short term interest rates which caused a decrease in the market price of the investment portfolio.

Certain employees and directors exercised stock options for 3,200 shares of stock in 2007. These option exercises brought the number of shares outstanding to 4,863,242 at December 31, 2007. In the first six months of 2008, four directors exercised stock options for 16,800 shares of stock. Commencing March 1,

2007, the Corporation implemented a stock repurchase program under which the Corporation may repurchase up to 250,000 shares of its stock on the open market. At the end of the program, February 29, 2008, the Corporation had purchased 160,186 shares at an average price of $21.66. This reduced the number of shares outstanding at June 30, 2008 to 4,857,996. Cash dividends in the amount of $1,847,852, or $0.19 per share, have been paid in 2008 as of the end of the second quarter.

Commencing May 1, 2008 the Corporation implemented a stock repurchase program under which the Corporation may repurchase up to 250,000 shares of the Company s common stock on the open market. The Plan is effective as of May 1, 2008 and will terminate no later than April 30, 2009. At June 30, 2008, the Corporation had purchased 16,384 shares at an average price of $20.34. This reduced the number of shares outstanding at June 30, 2008 to 4,857,996.

Quantitative measures established by federal regulations to ensure capital adequacy require the Corporation to maintain minimum amounts and ratios of Total and Tier 1 capital (primarily common stock and retained earnings, less goodwill) to risk weighted assets, and of Tier 1 capital to average assets. Management believes that as of June 30, 2008 the Corporation meets all capital adequacy requirements to which it is subject.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Actions Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2008						
Total Capital (to Risk-Weighted Assets)	$ 70,966,451	16.54%	$ 34,333,148	>8.00%	$ 42,916,434	>10.00%
Tier 1 Capital (to Risk-Weighted Assets)	$ 66,726,185	15.55%	$ 17,166,574	>4.00%	$ 25,749,861	>6.00%
Tier 1 Capital (to Average Assets)	$ 66,726,185	9.65%	$ 27,648,959	>4.00%	$ 34,561,698	>5.00%

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.

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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 June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Interest Income, including fees	$ 9,714,797	$ 9,560,077	$ 19,444,148	$ 19,005,182
Interest Expense	3,237,064	4,179,365	7,424,401	8,114,463
Net Interest Income	6,477,733	5,380,712	12,019,747	10,890,719
Provision for Loan Losses	559,192	80,299	656,809	157,047
Net Interest Income after Provision for Loan Losses	5,918,541	5,300,413	11,362,938	10,733,672
Other Income	2,524,399	1,908,107	4,528,743	3,546,978
Other Expense	5,460,976	4,716,335	10,820,170	9,260,768
Income before Provision For Income Taxes	2,981,964	2,492,185	5,071,511	5,019,882
Provision for Income Taxes	506,388	632,086	956,389	1,269,835
Net Income	$ 2,475,576	$ 1,860,099	$ 4,115,122	$ 3,750,047
Net Income Per share - Basic	$ 0.51	$ 0.38	$ 0.85	$ 0.76
Net Income Per Share-Diluted	$ 0.51	$ 0.37	$ 0.84	$ 0.75

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 14.00% for the three months ended June 30, 2008 and 11.04% for the corresponding period in 2007. The increase in ROE was caused by the increase in net income for the first six months of 2008 while the average equity increased. For the six months ended June 30, 2008, ROE was 11.74% compared to 11.01% for the six months ended June 30, 2007.

The book value per share increased to $14.08 at June 30, 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 six months ended June 30, 2008 were $699,241,623 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 4.52% for the second quarter of 2008 compared to 4.26% for the corresponding period of 2007. For the six months ended June 30, 2008 annualized net interest margin was 4.40% as compared to 4.33% for the six months ended June 30, 2007. The increase in net interest margin from 2007 to 2008 is the result of slower decrease in yields on earnings assets compared to the decrease in rates paid on deposits and borrowed funds, as detailed below. Earning assets averaged $629,084,566 for the three months ended June 30, 2008. This represents an increase of $55,482,076, or 9.67%, over average earning assets of $573,602,490 for the three month period ended June 30, 2007. Earnings assets averaged

$633,688,763 for the six months ended June 30, 2008. This represents an increase of $60,787,034, or 10.61% over average earning assets of $572,901,729 for the six months ended June 30, 2007. The increase in earning assets for the three and six months ended June 30, 2008 is the result of the normal growth pattern of the Corporation and not due to any special investments or acquisitions.

Interest bearing deposits averaged $403,611,527 for the three months ended June 30, 2008. This represents a decrease of $3,670,796, or 0.9%, over the average of interest bearing deposits of $407,282,323 for the three month period ended June 30, 2007. This was due to a decrease in certificates of deposit outstanding. Other borrowed funds averaged $132,230,165 for the three months ended June 30, 2008. This represents an increase of $52,302,081, or 65.44%, over the other borrowed funds of $79,928,084 for the three month period ended June 30, 2007. Interest bearing deposits averaged $407,886,775 for the six months ended June 30, 2008. This represents an increase of $2,676,643, or 0.66%, over the average of interest bearing deposits of $405,210,132 for the six month period ended June 30, 2007. The net increase was due to an increase in interest bearing deposits offset by a decrease in both savings accounts and certificates of deposit. Other borrowed funds averaged $134,071,568 for the six months ended June 30, 2008. This represents an increase of $54,532,424, or 68.56%, over the other borrowed funds of $79,539,144 for the six month period ended June 30, 2007. The increase in other borrowed funds was due to a $14,824,637 increase in the Sweep Account Liability, a $9,673,032 increase in the Commercial Repo Liability, a $4,515,736 increase in Federal Funds Purchased and an increase in the Federal Home Loan Bank advances of $25,759,714 for the six month period ended June 30, 2008 when compared to the six month period ended June 30, 2007.

Net interest income was $6,477,733 for the three month period ended June 30, 2008, an increase of $1,097,021 from the $5,380,712 for the three month period ended June 30, 2007, primarily 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 June 30, 2008, the rates paid on deposits and borrowed funds decreased faster than the yield on earning assets as compared to the changes in rates and yields in the same period in 2007. The yield on all interest bearing assets decreased 56 basis points to 6.54% in the second 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 second quarter of 2008 decreased 91 basis points to 2.48% from 3.39% in the same period of 2007. Net interest income was $12,019,747 for the six months ended June 30, 2008, an increase of $1,129,028 from the $10,890,719 for the six month period ended June 30, 2007, primarily 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 six month period ended June 30, 2008, the rates paid on deposits and borrowed funds decreased faster than the yield on earning assets as compared to the changes in rates and yields in the same period in 2007. The yield on all interest bearing assets decreased 39 basis points to 6.71% in the first six months 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 six months of 2008 decreased 54 basis points to 2.78% from 3.32% 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.

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
	2008	**2007**	**2008**	**2007**
Interest and Fees	$ 7,154,282	$ 7,194,309	$ 14,516,809	$ 14,339,415
Average Loans	391,579,553	354,782,390	385,786,862	358,500,932
Annualized Yield	7.31%	8.11%	7.53%	8.00%

The decrease in interest rates in the three and six month period ended June 30, 2008 reflects the decrease in all loan interest rates for both new and refinanced loans in the period.

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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 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. As 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 June 30, 2008	Year to Date December 31, 2007	Amount of Increase (Decrease)	Percent of Increase (Decrease)
BALANCES:				
Gross Loans	$ 395,590,774	$ 372,493,878	$ 23,096,896	6.20%
Allowance for Loan Losses	4,240,266	3,967,951	272,315	6.86%
Nonaccrual Loans	2,707,214	1,441,251	1,265,963	87.84%
Ratios:				
Allowance for loan losses to gross loans	1.07%	1.07%		
Net loans charged off to allowance for loan losses	4.04%	13.32%		

The provision for loan losses for the three months ended June 30, 2008 was $559,192, an increase of $478,893 over the $80,299 provision for the same period in 2007. The provision for loan losses was $656,809 for the six months ended June 30, 2008 compared to a provision of $157,047 for the six months ended June 30, 2007. The provision in the three month period ended June 30, 2008 reflects an increase in the amount of loans outstanding and the need to replenish the allowance for loans charged-off in the second quarter of 2008.

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For the three months ended June 30, 2008, net loan losses charged to the allowance for loan losses totaled $213,394, an increase of $131,419 over the $81,975 charged off in the same period in 2007. For the six months ended June 30, 2008, net loan losses charged to the allowance for loan losses totaled $384,494, an increase of $206,953 over the $177,541 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 six months of 2008 that have not been charged off. Management also believes that the Corporation s allowance will be adequate to 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 June 30, 2008 was $2,524,399, an increase of $616,292, or 32.30%, over the same period in 2007. Service charges on deposit accounts increased $40,196, or 4.10%, to $1,021,771 in the three months ended June 30, 2008 compared to $981,575 for the same period in 2007. Other service charges and fees increased $166,273, or 130.54%, in the three months ended June 30, 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.

Non-interest income for the six months ended June 30, 2008 was $4,528,743, an increase of $981,765, or 27.68%, over the same period in 2007. Service charges on deposit accounts increased $92,215, or 4.95%, to $1,954,792 in the six months ended June 30, 2008 compared to $1,862,577 for the same period in 2007. Other service charges and fees increased $298,914, or 112.96%, in the six months ended June 30, 2008 compared to the same period in 2007. The difference in fee income was the result of an increase in volume and not a direct result of fee changes.

During the second quarter of 2008, the Bank received proceeds from bank owned life insurance that insured the life of one of its officers. These net proceeds resulted in an additional $772,771 in other income for the quarter and year to date.

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 June 30,		Six months ended June 30,	
Other Income	**2008**	**2007**	**2008**	**2007**
BOLI Insurance	$ 177,748	$ 145,745	$ 358,753	$ 288,177
Mortgage Loan Origination Income	89,253	93,672	127,052	163,805
Shay Investments Income	71,875	259,448	441,588	488,773
Other Income	870,108	300,296	1,083,020	479,022
Total Other Income	$ 1,208,984	$ 799,161	$ 2,010,413	$ 1,419,777

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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 period ended June 30, 2008 and 2007 were $5,460,976 and $4,716,335, respectively, an increase of $744,641, or 15.79%, from 2007 to 2008. Salaries and benefits increased to $2,946,446 for the three months ended June 30, 2008 from $2,623,756 for the same period in 2007. This represents an increase of $322,690, or 12.30%. 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 $172,146, or 22.82%, to $926,555 in the three months ended June 30, 2008 when compared to the same period of 2007. This also reflects the increase is expenses due to the adding of four new branches.

Total non-interest expenses for the six month period ended June 30, 2008 and 2007 were $10,820,170 and $9,260,768, respectively, an increase of $1,559,402, or 16.84%, from 2007 to 2008. Salaries and benefits increased to $5,954,827 for the six months ended June 30, 2008 from $5,121,481 for the same period in 2007. This represents an increase of $833,346, or 16.27%. 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 $322,283, or 21.93%, to $1,792,152 in the six months ended June 30, 2008 when compared to the same period of 2007. This also reflects the increase is expenses due to the adding of four new branches.

During the second quarter of 2008, benefits were paid out to the beneficiary of an officer of the bank under the Bank s Supplemental Executive Retirement Plan in the amount of $259,945. This amount is reflected in the increase of the three and six months other non-interest expense.

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

	Three months ended June 30,		Six months ended June 30,	
Other Operating Expense	**2008**	**2007**	**2008**	**2007**
Intangible Amortization	$ 134,375	$ 134,375	$ 268,751	$ 268,751
Advertising	179,523	138,577	376,108	255,322
Office Supplies	147,177	121,317	316,022	248,214
Legal and Audit Fees	101,010	126,670	191,514	204,535
Telephone expense	102,763	101,192	215,918	200,116
Postage and Freight	85,591	53,116	172,310	124,376
Loan Collection Expense	18,960	40,717	58,668	111,581
Other Losses	49,554	106,772	79,813	220,157
Other expenses	769,022	515,434	1,394,087	1,036,366
Total Other Expense	$ 1,587,975	$ 1,338,170	$ 3,073,191	$ 2,669,418

The Corporation s efficiency ratio for the three months ended June 30, 2008 was 58.87% compared to the 60.29% for the same period in 2007. For the six months ended June 30, 2008 and 2007, the Corporation s efficiency ratio was 63.29% and 62.97%, respectively. 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

	June 30, 2008	December 31, 2007	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Cash and Due From Banks	$ 27,305,103	$ 18,622,058	$ 8,683,045	46.63%
Investment Securities	211,116,455	244,720,367	(33,603,912)	-13.73%
Loans, net	390,931,753	368,025,286	22,906,467	6.22%
Total Assets	693,009,429	680,903,631	12,105,798	1.78%
Total Deposits	488,211,350	477,232,304	10,979,046	2.30%
Total Stockholders Equity	68,377,815	68,191,432	186,383	0.27%

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 June 30, 2008 was $27,305,103, an increase of $8,683,045 from the balance of $18,622,058 at December 31, 2007 due to larger than normal cash letters on the last day of the quarter that had not been fully collected.

PREMISES AND EQUIPMENT

During the six month period ended June 30, 2008, premises and equipment increased $494,753, or 3.46%, to $14,783,550, 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 June 30, 2008 decreased $33,603,912, or 13.73%, to $211,116,455 from the balance at December 31, 2007. This decline is primarily due to the discontinuance of the sweep investments provided by Shay Financial Service which was replaced by instituting a security repurchase agreement program with select large commercial customers.

LOANS

The loan balance increased by $22,906,467 during the six month period ended June 30, 2008 to $390,931,753 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.

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DEPOSITS

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

	June 30, 2008	December 31, 2007	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Noninterest-bearing Deposits	$ 84,980,935	$ 78,224,936	$ 6,755,999	8.64%
Interest-bearing Deposits	157,336,256	144,302,273	13,033,983	9.03%
Savings	32,514,740	29,763,885	2,750,855	9.24%
Certificates of Deposit	213,379,419	224,941,210	(11,561,791)	-5.14%
Total Deposits	$ 488,211,350	$ 477,232,304	$ 10,979,046	2.30%

All classifications of deposits, with the exception of certificates of deposit, increased during the six months ended June 30, 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 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 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.

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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 June 2008, the Corporation had $4.24 million of available reserves to cover such losses. The models and approaches the Corporation uses to originate and manage loans are regularly updated to take into account 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.

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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 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, 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.

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ITEM 4. CONTROLS AND PROCEDURES

The management of the Corporation, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, including ensuring that such information is accumulated and communicated to the Corporation s management as appropriate to allow timely decision regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of June 30, 2008 (the end of the period covered by this Quarterly Report on Form 10-Q).

There were no changes to the Corporation s internal control over financial reporting that occurred in the three months ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

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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 June 30, 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]
April 1 to April 30				
May 1 to May 30	16,084	20.36	16,084	
June 1 to June 30	300	19.41	300	233,616
Total	16,384	$ 20.34	16,384	233,616

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

(2) On April 30, 2008, 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 is effective May 1, 2008 and will terminate no later than April 30, 2009. As of June 30, 2008, 16,384 shares of the Corporation s common stock had been purchased and 233,616 shares under the plan were not purchased. All share purchases during 2007 and 2008 were made pursuant to open market transactions.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Corporation held its Annual Meeting of Shareholders on April 22, 2008. There were 4,006,345 shares, or 82.31%, of the Corporation s issued and outstanding shares of common stock represented either in person or by proxy at the Annual Meeting. The Corporation solicited proxies pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, and there were no solicitations in opposition to management s solicitations.

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The shareholders considered and voted upon three proposals at the Annual Meeting. The first proposal was to set the number of directors to serve on the Board of Directors at ten members. The shareholders of the Corporation adopted this proposal by a vote of 3,994,300 shares for the proposal and 11,432 shares against the proposal, with 613 abstentions.

The second proposal concerned the election of three Class III directors to a three-year term expiring in 2011. The votes for each nominee were:

	Shares Voted For	**Shares Withheld**
Craig Dungan	3,998,061	8,284
Daniel Adam Mars	3,977,864	28,481
David P. Webb	4,001,286	5,059
A. T. Williams	4,003,368	2,977

Finally, the shareholders considered and voted upon a proposal to ratify HORNE LLP as the Corporation s independent auditors for the fiscal year ending December 31, 2008. The shareholders of the Corporation adopted this proposal by a vote of 3,999,480 for the proposal to 6,052 votes against, with 813 abstentions.

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.

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SIGNATURES

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

CITIZENS HOLDING COMPANY

BY: /s/ Greg L. McKee	BY: /s/ Robert T. Smith
Greg L. McKee	Robert T. Smith
President and Chief Executive Officer	Treasurer and Chief Financial Officer
DATE: August 7, 2008	DATE: August 7, 2008

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.