

CITIZENS INC
Form 10-Q
November 06, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 September 30, 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: 000-16509

CITIZENS, INC.

(Exact name of registrant as specified in its charter)

Colorado

84-0755371

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

400 East Anderson Lane, Austin, Texas

78752

(Address of principal executive offices)

(Zip Code)

(512) 837-7100

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report.)

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

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 (§232.405 of this chapter) during the preceding 12 months (or for 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. (Check one):

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 Act). ☐ Yes ☒ No

As of November 6, 2009, the Registrant had 48,687,093 shares of Class A common stock, no par value, outstanding and 1,001,714 shares of Class B common stock outstanding.

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Exhibit 32.2

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES****Consolidated Statements of Financial Position****(In thousands)**

	September 30, 2009 (Unaudited)	December 31, 2008
Assets		
Investments:		
Fixed maturities available-for-sale, at fair value (cost: \$335,817 and \$494,034 in 2009 and 2008, respectively)	\$ 339,290	485,155
Fixed maturities held-to-maturity, at amortized cost (fair value:\$200,496 in 2009)	202,197	
Equity securities available-for-sale, at fair value (cost: \$42,414 and \$42,908 in 2009 and 2008, respectively)	52,894	43,000
Mortgage loans on real estate	1,462	339
Policy loans	31,860	28,955
Real estate held for sale	3,007	4,156
Real estate held for investment (less \$352 and \$283 accumulated depreciation in 2009 and 2008, respectively)	6,178	4,717
Other long-term investments	74	680
Short-term investments	2,556	2,250
Total investments	639,518	569,252
Cash and cash equivalents	77,916	63,792
Accrued investment income	7,037	7,423
Reinsurance recoverable	12,059	13,241
Deferred policy acquisition costs	113,656	109,114
Cost of customer relationships acquired	35,385	33,805
Goodwill	16,809	15,687
Other intangible assets	1,088	1,073
Federal income tax receivable		2,090
Property and equipment, net	6,151	6,466
Due premiums, net (less \$1,493 and \$2,217 allowance for doubtful accounts in 2009 and 2008, respectively)	8,152	8,958
Prepaid expenses	1,079	454
Other assets	970	921
Total assets	\$ 919,820	832,276

(Continued)

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Financial Position, Continued
(In thousands, except share amounts)

Liabilities and Stockholders Equity	September 30, 2009 (Unaudited)	December 31, 2008
Liabilities:		
Future policy benefit reserves:		
Life insurance	\$ 580,013	547,621
Annuities	36,585	34,025
Accident and health	6,734	7,442
Dividend accumulations	5,550	4,795
Premiums paid in advance	19,571	18,566
Policy claims payable	9,936	9,318
Other policyholders funds	7,974	7,929
 Total policy liabilities	 666,363	 629,696
Commissions payable	1,893	2,350
Federal income tax payable	727	
Deferred Federal and state income tax	7,060	3,951
Payable for securities in process of settlement	13,793	
Warrants outstanding	1,892	4,973
Other liabilities	12,637	12,052
 Total liabilities	 704,365	 653,022
 Commitments and contingencies (Notes 8 and 10)		
Cumulative convertible preferred stock Series A (Series A-1 - \$1,000 stated value per share, 6,250 shares authorized, issued and outstanding in 2008; Series A-2 - \$935 stated value per share, 5,000 shares authorized, 4,014 issued and outstanding in 2008)		7,713
 Stockholders Equity:		
Common stock:		
Class A, no par value, 100,000,000 shares authorized, 51,822,831 shares issued in 2009 and 48,781,753 shares issued in 2008, including shares in treasury of 3,135,738 in 2009 and 2008	256,703	240,511
Class B, no par value, 2,000,000 shares authorized, 1,001,714 shares issued and outstanding in 2009 and 2008	3,184	3,184
Retained deficit	(46,091)	(55,432)
Accumulated other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities, net of tax	12,670	(5,711)
	226,466	182,552
Treasury stock, at cost	(11,011)	(11,011)
 Total stockholders equity	 215,455	 171,541

Total liabilities and stockholders' equity	\$	919,820	832,276
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See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Operations
Three Months Ended September 30,
(In thousands, except per share amounts)
(Unaudited)

	2009	2008
Revenues:		
Premiums:		
Life insurance	\$ 34,589	32,837
Accident and health insurance	371	384
Property insurance	1,192	820
Net investment income	7,413	7,543
Realized gains (losses), net	1,006	(226)
Increase in fair value of warrants		(1,483)
Other income	273	288
Total revenues	44,844	40,163
Benefits and expenses:		
Insurance benefits paid or provided:		
Claims and surrenders	14,494	13,855
Increase in future policy benefit reserves	10,305	10,214
Policyholders' dividends	1,827	1,636
Total insurance benefits paid or provided	26,626	25,705
Commissions	8,435	8,819
Other underwriting, acquisition and insurance expenses	6,772	7,312
Capitalization of deferred policy acquisition costs	(5,306)	(5,712)
Amortization of deferred policy acquisition costs	4,303	3,861
Amortization of cost of customer relationships acquired and other intangibles	946	676
Total benefits and expenses	41,776	40,661
Income (loss) before Federal income tax	3,068	(498)
Federal income tax expense	820	316
Net income (loss)	\$ 2,248	(814)
Net income (loss) applicable to common stockholders	\$ 2,091	(1,604)
Per Share Amounts:		
Basic and diluted earnings (loss) per share of Class A common stock	\$ 0.04	(0.04)
Basic and diluted earnings (loss) per share of Class B common stock	\$ 0.02	(0.02)

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Operations
Nine Months Ended September 30,
(In thousands, except per share amounts)
(Unaudited)

	2009	2008
Revenues:		
Premiums:		
Life insurance	\$ 101,858	97,178
Accident and health insurance	1,135	1,178
Property insurance	3,501	3,559
Net investment income	21,733	22,487
Realized gains (losses), net	2,827	(210)
Decrease (increase) in fair value of warrants	3,081	(1,674)
Other income	796	852
 Total revenues	 134,931	 123,370
 Benefits and expenses:		
Insurance benefits paid or provided:		
Claims and surrenders	44,254	41,663
Increase in future policy benefit reserves	28,021	24,944
Policyholders' dividends	4,742	4,590
 Total insurance benefits paid or provided	 77,017	 71,197
 Commissions	25,462	25,906
Other underwriting, acquisition and insurance expenses	21,889	21,243
Capitalization of deferred policy acquisition costs	(16,257)	(16,876)
Amortization of deferred policy acquisition costs	11,715	11,529
Amortization of cost of customer relationships acquired and other intangibles	2,630	2,155
 Total benefits and expenses	 122,456	 115,154
 Income before Federal income tax	12,475	8,216
Federal income tax expense	3,134	3,303
 Net income	\$ 9,341	4,913
 Net income applicable to common stockholders	\$ 6,836	3,112
 Per Share Amounts:		
Basic earnings per share of Class A common stock	\$ 0.14	0.07
Basic earnings per share of Class B common stock	\$ 0.07	0.04

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Diluted earnings per share of Class A common stock	\$	0.09	0.07
Diluted earnings per share of Class B common stock	\$	0.04	0.04

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Cash Flows
Nine Months Ended September 30,
(In thousands)
(Unaudited)

	2009	2008
Cash flows from operating activities:		
Net income	\$ 9,341	4,913
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized (gains) losses on sale of investments and other assets	(2,827)	210
Net deferred policy acquisition costs	(4,542)	(5,347)
Amortization of cost of customer relationships acquired and other intangibles	2,630	2,155
(Decrease) increase in fair value of warrants	(3,081)	1,674
Depreciation	908	827
Amortization of premiums and discounts on fixed maturities and short-term investments	1,466	216
Deferred Federal income tax (benefit) expense	(819)	2,562
Change in:		
Accrued investment income	434	887
Reinsurance recoverable	1,258	456
Due premiums and other receivables	856	591
Future policy benefit reserves	27,171	21,372
Other policyholders' liabilities	1,187	7,911
Federal income tax receivable (payable)	2,827	(2,557)
Commissions payable and other liabilities	58	95
Other, net	(583)	(1,270)
Net cash provided by operating activities	36,284	34,695
Cash flows from investing activities:		
Purchase of fixed maturities, held-to-maturity	(202,286)	
Sale of fixed maturities, available-for-sale	72,148	237
Maturity and calls of fixed maturities, available-for-sale	276,058	130,800
Purchase of fixed maturities, available-for-sale	(174,931)	(126,514)
Sale of equity securities, available-for-sale	1,184	
Purchase of equity securities, available-for-sale	(476)	(23,984)
Principal payments on mortgage loans	24	27
Mortgage loans funded	(170)	(115)
Increase in policy loans	(2,905)	(1,944)
Sale of other long-term investments and property and equipment	406	178
Purchase of other long-term investments and property and equipment	(2,172)	(868)
Maturity of short-term investments	2,250	18,000
Purchase of short-term investments	(2,604)	(7,923)
Cash acquired in acquisition	9,770	
Net cash used in investing activities	(23,704)	(12,106)

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
Nine Months Ended September 30,
(In thousands)
(Unaudited)

	2009	2008
Cash flows from financing activities:		
Warrants exercised	\$ 69	55
Series A-1 Preferred Stock capital contribution		1,125
Annuity deposits	3,990	1,862
Annuity withdrawals	(2,515)	(1,084)
Net cash provided by financing activities	1,544	1,958
Net increase in cash and cash equivalents	14,124	24,547
Cash and cash equivalents at beginning of period	63,792	21,123
Cash and cash equivalents at end of period	\$ 77,916	45,670
Supplemental disclosures of operating activities:		
Cash paid during the period for income taxes	\$ 1,125	3,298

Supplemental Disclosure of Non-Cash Investing Activities:

On February 27, 2009, the Company acquired Integrity Capital Corporation (ICC) for 1,294,000 shares of Class A common stock with a fair value of \$8.4 million. CICA Life Insurance Company of America held a 13% interest in ICC prior to the acquisition with a carrying value of \$551,000, making the total non-cash acquisition price approximately \$9.0 million.

In the third quarter of 2009, the Company sold two parcels of real estate and made mortgage loans totaling \$977,000.

Supplemental Disclosures of Non-Cash Financing Activities:

Dividends on the Company's Series A-1 Convertible Preferred Stock, issued in 2004, and Series A-2 Convertible Preferred Stock, issued in 2005, were paid by the Company through the issuance of Class A common stock to the preferred shareholders in the amounts of \$216,000 and \$514,000 for the first nine months of 2009 and 2008, respectively. Accretion of deferred issuance costs and discounts on the Convertible Preferred Stock recorded as a deduction to Class A common stock during the first nine months of 2009 and 2008 was \$2.3 million and \$1.3 million, respectively.

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2009
(Unaudited)

(1) Financial Statements

The interim consolidated financial statements include the accounts and operations of Citizens, Inc. (Citizens), incorporated in the state of Colorado on November 8, 1977, and its wholly-owned subsidiaries, CICA Life Insurance Company of America (CICA), Computing Technology, Inc. (CTI), Funeral Homes of America, Inc. (FHA), Insurance Investors, Inc. (III), Citizens National Life Insurance Company (CNLIC), Integrity Capital Corporation (ICC), Integrity Capital Insurance Company (ICIC), Ozark National Life Insurance Company (ONLIC), Security Plan Life Insurance Company (SPLIC), and Security Plan Fire Insurance Company (SPFIC). Citizens and its consolidated subsidiaries are collectively referred to as the Company, we, us, or our.

The consolidated statements of financial position for September 30, 2009, the consolidated statements of operations for the three and nine-month periods ended September 30, 2009 and 2008, and the consolidated statements of cash flows for the nine-month period then ended have been prepared by the Company without audit. In the opinion of management, all adjustments to present fairly the financial position, results of operations, and changes in cash flows at September 30, 2009, and for comparative periods, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States of America (U.S.) generally accepted accounting principles (U.S. GAAP) have been omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission. The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the operating results for the full year.

The Company completed its acquisition of ICC in exchange for 1,294,000 shares of its Class A common stock in the first quarter of 2009. ICC is the parent of ICIC, an Indiana life insurance company. The transaction was valued at \$9.0 million on the closing date of February 27, 2009.

During the third quarter of 2009, the Company discovered an overstatement of ICIC s policyholder dividend liability that existed at the February 27, 2009 acquisition date in the amount of \$328,000. The correction of this error, net of tax of \$115,000, was recognized as a reduction of goodwill of \$213,000.

A purchase price accounting adjustment was recorded as of June 30, 2009 to increase policy reserves by \$307,000 and increase cost of insurance acquired (COIA) by \$326,000, due to the discovery of additional policy reserve items during the conversion of ONLIC, which were missing at acquisition. The difference of \$19,000 was recorded as a reduction of goodwill. ONLIC was acquired during the fourth quarter of 2008 and was fully converted to the Company s internal system in the third quarter of 2009.

Certain amounts presented in prior years have been reclassified to conform to the current presentation.

(2) Accounting Pronouncements

Accounting Standards Recently Adopted

Effective July 1, 2009, the Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC) became the single official source of authoritative, nongovernmental generally accepted accounting principles. The historical U.S. GAAP hierarchy was eliminated and the ASC became the only level of authoritative U.S. GAAP, other than guidance issued by the Securities and Exchange Commission. Our accounting policies were not affected by the conversion to ASC. However, references to specific accounting standards in the footnotes to our consolidated financial statements have been changed to refer to the appropriate section of ASC.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
September 30, 2009
(Unaudited)

On June 30, 2009, in our consolidated financial statements, we adopted the provisions of a new accounting standard relating to subsequent events, which establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The standard defines two types of subsequent events: recognized subsequent events, which provide additional evidence about conditions that existed at the balance sheet date, and nonrecognized subsequent events, which provide evidence about conditions that did not exist as of the balance sheet date, but arose after that date. Recognized subsequent events are required to be recognized in the financial statements, and certain nonrecognized subsequent events are required to be disclosed. The Standard also requires the disclosure of the date through which an entity has evaluated subsequent events. (See Note 12 for disclosure of subsequent events.)

On June 30, 2009, we adopted an update to accounting standards for disclosures about the fair value of financial instruments, which requires publicly-traded companies to provide disclosures on the fair value of financial instruments in interim financial statements.

On January 1, 2009, we adopted an update to existing accounting standards for business combinations. The update, which retains the underlying concepts of the original standard in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting, changes the method of applying the acquisition method in a number of ways. Acquisition costs are no longer considered part of the fair value of an acquisition and will generally be expensed as incurred, noncontrolling interests are valued at fair value at the acquisition date, in-process research and development is recorded at fair value as an indefinite-lived intangible asset at the acquisition date, restructuring costs associated with a business combination are generally expensed subsequent to the acquisition date, and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. In April 2009, the FASB issued a further update in relation to accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies, which amends the previous guidance to require contingent assets acquired and liabilities assumed in a business combination to be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the measurement period. If fair value cannot be reasonably estimated during the measurement period, the contingent asset or liability would be recognized in accordance with standards and guidance on accounting for contingencies and reasonable estimation of the amount of a loss. Further, this update eliminated the specific subsequent accounting guidance for contingent assets and liabilities, without significantly revising the original guidance. However, contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination would still be initially and subsequently measured at fair value. These updates are effective for all business acquisitions occurring on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted the provisions of these updates for business combinations with an acquisition date on or after January 1, 2009 and these adoptions did not have a material effect on the Company's consolidated financial statements. There were no noncontrolling interests in the ICC acquisition.

On January 1, 2009, we adopted without material impact on our consolidated financial statements the provisions of the fair value measurement accounting standard related to nonfinancial assets and nonfinancial liabilities that are not required or permitted to be measured at fair value on a recurring basis, which include those measured at fair value in goodwill impairment testing, indefinite-lived intangible assets measured at fair value for impairment assessment, nonfinancial long-lived assets measured at fair value for impairment assessment, asset retirement obligations initially measured at fair value, and those initially measured at fair value in a business combination.

In April 2009, the FASB further updated the fair value measurement standard to provide additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This update re-emphasizes that, regardless of market conditions, the fair value measurement is an exit price concept as defined in the original standard. It clarifies and includes additional factors to consider in determining whether there has been a significant decrease in market activity for an asset or liability and provides additional clarification on

estimating fair value when the market activity for an asset or liability has declined significantly. The scope of this update does not include assets and liabilities measured under Level 1 inputs. We adopted this update on June 30, 2009 prospectively to all fair value measurements as appropriate without material impact on our consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
September 30, 2009
(Unaudited)

Accounting Standards Not Yet Adopted

In August 2009, the FASB further updated the fair value measurement guidance to clarify how an entity should measure liabilities at fair value. The update reaffirms fair value is based on an orderly transaction between market participants, even though liabilities are infrequently transferred due to contractual or other legal restrictions. However, identical liabilities traded in the active market should be used when available. When quoted prices are not available, the quoted price of the identical liability traded as an asset, quoted prices for similar liabilities or similar liabilities traded as an asset, or another valuation approach should be used. This update also clarifies that restrictions preventing the transfer of a liability should not be considered as a separate input or adjustment in the measurement of fair value. We adopted the provisions of this update for fair value measurements of liabilities effective October 1, 2009, and its adoption did not have a material impact on our consolidated financial statements.

(3) Segment Information

The Company has three reportable segments: Life Insurance, Home Service Insurance, and Other Non-Insurance Enterprises. The accounting policies of the segments are in accordance with U.S. GAAP and are the same as those used in the preparation of the consolidated financial statements. The Company evaluates profit and loss performance based on U.S. GAAP income before Federal income taxes for its three reportable segments, and has no reportable differences between segments and consolidated operations.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
September 30, 2009
(Unaudited)

Below is a summary of the segment information for the three and nine month periods ended September 30, 2009 and 2008.

Three Months Ended September 30, 2009

	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	\$ 25,795	10,357		36,152
Net investment income	4,232	3,126	55	7,413
Realized gains, net	650	356		1,006
Other income	108	20	145	273
 Total revenue	 30,785	 13,859	 200	 44,844
 Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	10,035	4,459		14,494
Increase in future policy benefit reserves	8,850	1,455		10,305
Policyholders' dividends	1,809	18		1,827
 Total insurance benefits paid or provided	 20,694	 5,932		 26,626
 Commissions	 4,827	 3,608		 8,435
Other underwriting, acquisition and insurance expenses	2,563	3,588	621	6,772
Capitalization of deferred policy acquisition costs	(3,975)	(1,331)		(5,306)
Amortization of deferred policy acquisition costs	3,757	546		4,303
Amortization of cost of customer relationships acquired and other intangibles	397	549		946
 Total benefits and expenses	 28,263	 12,892	 621	 41,776
 Income (loss) before Federal income tax	 \$ 2,522	 967	 (421)	 3,068

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
September 30, 2009
(Unaudited)

Nine Months Ended September 30, 2009

	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	\$ 75,570	30,924		106,494
Net investment income	12,196	9,396	141	21,733
Realized gains, net	1,068	1,682	77	2,827
Decrease in fair value of warrants			3,081	3,081
Other income	267	84	445	796
Total revenue	89,101	42,086	3,744	134,931
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	30,259	13,995		44,254
Increase in future policy benefit reserves	24,258	3,763		28,021
Policyholders' dividends	4,687	55		4,742
Total insurance benefits paid or provided	59,204	17,813		77,017
Commissions	14,531	10,931		25,462
Other underwriting, acquisition and insurance expenses	7,873	11,577	2,439	21,889
Capitalization of deferred policy acquisition costs	(12,227)	(4,030)		(16,257)
Amortization of deferred policy acquisition costs	10,677	1,038		11,715
Amortization of cost of customer relationships acquired and other intangibles	1,105	1,525		2,630
Total benefits and expenses	81,163	38,854	2,439	122,456
Income before Federal income tax	\$ 7,938	3,232	1,305	12,475

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
September 30, 2009
(Unaudited)

	Three Months Ended September 30, 2008			
	Life	Home	Other	
	Insurance	Service	Non-Insurance	Consolidated
		Insurance	Enterprises	
		(In thousands)		
Revenues:				
Premiums	\$ 24,634	9,407		34,041
Net investment income	4,309	3,072	162	7,543
Realized losses, net	(223)	(3)		(226)
Increase in fair value of warrants			(1,483)	(1,483)
Other income	89	1	198	288
Total revenue	28,809	12,477	(1,123)	40,163
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	8,644	5,211		13,855
Increase in future policy benefit reserves	8,335	1,879		10,214
Policyholders' dividends	1,618	18		1,636
Total insurance benefits paid or provided	18,597	7,108		25,705
Commissions	5,206	3,613		8,819
Other underwriting, acquisition and insurance expenses	2,813	3,947	552	7,312
Capitalization of deferred policy acquisition costs	(4,526)	(1,186)		(5,712)
Amortization of deferred policy acquisition costs	3,500	361		3,861
Amortization of cost of customer relationships acquired and other intangibles	209	467		676
Total benefits and expenses	25,799	14,310	552	40,661
Income (loss) before Federal income tax	\$ 3,010	(1,833)	(1,675)	(498)

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
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September 30, 2009
(Unaudited)

Nine Months Ended September 30, 2008

	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	\$ 72,584	29,331		101,915
Net investment income	12,519	9,255	713	22,487
Realized gains (losses), net	(220)	(8)	18	(210)
Increase in fair value of warrants			(1,674)	(1,674)
Other income	245	12	595	852
Total revenue	85,128	38,590	(348)	123,370
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	26,462	15,201		41,663
Increase in future policy benefit reserves	23,430	1,514		24,944
Policyholders' dividends	4,533	57		4,590
Total insurance benefits paid or provided	54,425	16,772		71,197
Commissions	15,136	10,770		25,906
Other underwriting, acquisition and insurance expenses	8,020	10,791	2,432	21,243
Capitalization of deferred policy acquisition costs	(13,017)	(3,859)		(16,876)
Amortization of deferred policy acquisition costs	10,038	1,491		11,529
Amortization of cost of customer relationships acquired and other intangibles	730	1,425		2,155
Total benefits and expenses	75,332	37,390	2,432	115,154
Income (loss) before Federal income tax	\$ 9,796	1,200	(2,780)	8,216

(4) Total Comprehensive Income (Loss)

**Three Months Ended
September 30,
2009**

**Three Months Ended
September 30,
2008**

**Nine Months Ended
September 30,
2009**

**Nine Months Ended
September 30,
2008**

(In thousands)

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Net income (loss)	\$ 2,248	(814)	9,341	4,913
Other comprehensive income (loss) net of effects of deferred acquisition costs and taxes:				
Unrealized gains (losses) on available-for-sale securities	16,963	(19,870)	22,614	(29,514)
Tax benefit (expense)	(3,678)	6,954	(4,233)	10,330
Other comprehensive income (loss)	13,285	(12,916)	18,381	(19,184)
Total comprehensive income (loss)	\$ 15,533	(13,730)	27,722	(14,271)

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(5) Earnings Per Share

The following tables sets forth the computation of basic and diluted earnings (loss) per share:

	Three Months Ended September 30,	
	2009	2008
	(In thousands, except per share amounts)	
Basic and diluted earnings (loss) per share:		
Numerator:		
Net income (loss)	\$ 2,248	(814)
Less: Preferred stock dividends	(13)	(171)
Accretion of deferred issuance costs and discounts on preferred stock	(144)	(619)
Net income (loss) available to common stockholders	\$ 2,091	(1,604)
Net income (loss) allocated to Class A common stock	\$ 2,070	(1,585)
Net income (loss) allocated to Class B common stock	21	(19)
Net income (loss) available to common stockholders	\$ 2,091	(1,604)
Denominator:		
Weighted average shares of Class A outstanding basic and diluted	48,441	43,198
Weighted average shares of Class B outstanding basic and diluted	1,002	1,002
Total weighted average shares outstanding basic and diluted	49,443	44,200
Basic and diluted earnings (loss) per share of Class A common stock	\$ 0.04	(0.04)
Basic and diluted earnings (loss) per share of Class B common stock	\$ 0.02	(0.02)

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	Nine Months Ended September 30,	
	2009	2008
	(In thousands, except per share amounts)	
Basic and diluted earnings per share:		
Numerator:		
Net income	\$ 9,341	4,913
Less: Preferred stock dividends	(216)	(514)
Accretion of deferred issuance costs and discounts on preferred stock	(2,289)	(1,287)
Net income available to common stockholders	\$ 6,836	3,112
Net income allocated to Class A common stock	\$ 6,764	3,076
Net income allocated to Class B common stock	72	36
Net income available to common stockholders	\$ 6,836	3,112
Denominator:		
Weighted average shares of Class A outstanding basic and diluted	47,177	43,121
Weighted average shares of Class B outstanding basic and diluted	1,002	1,002
Total weighted average shares outstanding basic and diluted	\$ 48,179	44,123
Basic earnings per share of Class A common stock	\$ 0.14	0.07
Basic earnings per share of Class B common stock	\$ 0.07	0.04
Diluted earnings per share of Class A common stock	\$ 0.09	0.07
Diluted earnings per share of Class B common stock	\$ 0.04	0.04

As discussed in Note 9, on July 13, 2009, the Series A-1 and A-2 Convertible Preferred Stock was converted to Class A common stock. For the three and nine month periods ended September 30, 2008, the effects of Series A-1 and A-2 Convertible Preferred Stock were anti-dilutive; therefore, diluted income per share is reported the same as basic income per share. The Series A-1 and A-2 Convertible Preferred Stock was anti-dilutive because the amount of the dividend and accretion of deferred issuance costs and discounts for the three and nine months ended September 30, 2009 and 2008 per Class A common stock share obtainable on conversion exceeds basic income per share available to common stockholders. For the three and nine months ended September 30, 2009, certain warrants on the Convertible Preferred Stock became dilutive. As such, the diluted weighted average shares of Class A common stock outstanding for the period was 47,204,000. Total diluted weighted average shares was 48,206,000. The warrants were anti-dilutive for the three and nine months ended September 30, 2008.

(6) Investments

Investments are an integral part of the Company's overall insurance operations. We maintain a conservative investment philosophy with investment purchases primarily in high quality investment grade securities that provide a secure return to meet cash flow requirements related to our insurance business. Approximately 93% of our investment holdings are in fixed maturity and equity securities as of September 30, 2009. The equity securities were purchased to diversify our overall investment holdings.

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The following tables represent gross unrealized gains and losses for fixed maturity securities for the periods indicated.

		September 30, 2009		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
		(In thousands)		
Available-for-sale securities:				
U.S. Treasury securities	\$ 11,134	1,913		13,047
U.S. Government-sponsored enterprises	151,134	549	(739)	150,944
Securities issued by states and political subdivisions	50,349	1,004	(2,564)	48,789
Securities issued by foreign governments	105	21		126
Public utilities	24,529	619	(324)	24,824
Corporate	78,778	3,640	(1,377)	81,041
Securities not due at a single maturity date	19,788	776	(45)	20,519
Total available-for-sale securities	335,817	8,522	(5,049)	339,290
Held-to-maturity securities:				
U.S. Government-sponsored enterprises	202,197	505	(2,206)	200,496
Total fixed maturities	\$ 538,014	9,027	(7,255)	539,786
Total equity securities	\$ 42,414	10,424	(56)	52,894

		December 31, 2008		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
		(In thousands)		
Available-for-sale securities:				
U.S. Treasury securities	\$ 11,306	3,113		14,419
U.S. Government-sponsored enterprises	280,434	1,128	(500)	281,062
Securities issued by states and political subdivisions	64,152	156	(6,203)	58,105
Securities issued by foreign governments	105	29		134
Public utilities	4,231	22	(100)	4,153
Corporate	83,089	1,112	(8,826)	75,375
Securities not due at a single maturity date	50,717	1,564	(374)	51,907
Total fixed maturities	\$ 494,034	7,124	(16,003)	485,155

Total equity securities	\$	42,908	92	43,000
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The tables below present the fair values and gross unrealized losses of fixed maturities that have remained in a continuous unrealized loss position for the periods indicated.

	September 30, 2009								
	Less than 12 months			Greater than 12 months			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
(In thousands, except for # of securities)									
Available-for-sale securities:									
U.S. Government sponsored enterprises	\$ 68,786	(711)	110	4,192	(28)	3	72,978	(739)	113
Security issued by states and political subdivisions									