CITIZENS HOLDING CO /MS/
Form 10-Q
November 09, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

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 incorporation or organization)	**(I. R. S. Employer 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. x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

¨ Large accelerated Filer x Accelerated Filer ¨ Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

Number of shares outstanding of each of the issuer s classes of common stock, as of November 6, 2007:

Title	Outstanding
Common Stock, $.20 par value	**4,867,142**

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CITIZENS HOLDING COMPANY

THIRD QUARTER 2007 INTERIM FINANCIAL STATEMENTS

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* Not Applicable

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CITIZENS HOLDING COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CONDITION

(Unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
Cash and due from banks	$ 16,417,553	$ 15,449,434
Interest bearing deposits with other banks	508,532	396,811
Federal funds sold		15,200,000
Investment securities available for sale, at fair value	223,923,339	174,617,149
Loans, net of allowance for loan losses of $3,748,266 in 2007 and $3,712,375 in 2006	351,654,882	369,280,664
Premises and equipment, net	13,276,985	12,106,456
Other real estate owned, net	2,784,577	2,707,885
Accrued interest receivable	5,680,696	5,015,574
Cash value of life insurance	17,460,411	16,846,557
Intangible assets, net	4,349,446	4,752,573
Other assets	5,487,414	4,824,393
TOTAL ASSETS	$ 641,543,835	$ 621,197,496
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 81,242,584	$ 82,867,220
Interest-bearing NOW and money market accounts	144,826,719	152,988,036
Savings deposits	31,654,012	32,636,927
Certificates of deposit	220,229,000	203,355,073
Total deposits	477,952,315	471,847,256
Accrued interest payable	1,572,778	1,153,890
Federal Funds Purchased	9,300,000	
Federal Home Loan Bank advances	49,400,000	59,400,000
Sweep Account Liability	32,003,154	12,767,483
Deferred compensation payable	2,930,169	2,699,783
Other liabilities	2,001,062	2,181,742
Total liabilities	575,159,478	550,050,154
Minority interest in consolidated subsidiary		1,482,069
STOCKHOLDERS EQUITY		
Common stock; $.20 par value, 22,500,000 shares authorized, 4,867,142 shares outstanding at September 30, 2007 and 5,020,228 shares at December 31, 2006	973,428	1,004,046
Additional paid-in capital	3,953,802	3,886,830

Retained earnings	63,316,611	65,285,558
Accumulated other comprehensive loss, net of taxes of $795,468 in 2007 and $304,082 in 2006	(1,859,484)	(511,161)
Total stockholders equity	66,384,357	69,665,273
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 641,543,835	$ 621,197,496

See notes to consolidated financial statements.

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CITIZENS HOLDING COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	For the Three Months Ended September 30, 2007	2006	For the Nine Months Ended September 30, 2007	2006
INTEREST INCOME				
Loan income, including fees	$ 7,281,956	$ 7,362,309	$ 21,621,371	$ 21,451,313
Investment securities	2,212,508	1,792,767	5,993,173	5,336,758
Other interest	124,989	109,729	1,010,091	299,049
Total interest income	9,619,453	9,264,805	28,624,635	27,087,120
INTEREST EXPENSE				
Deposits	3,302,320	2,681,484	9,567,546	7,528,398
Other borrowed funds	939,099	743,082	2,788,336	2,144,993
Total interest expense	4,241,419	3,424,566	12,355,882	9,673,391
NET INTEREST INCOME	5,378,034	5,840,239	16,268,753	17,413,729
PROVISION FOR LOAN LOSSES	396,349	(111,132)	553,396	(303,306)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,981,685	5,951,371	15,715,357	17,717,035
OTHER INCOME				
Service charges on deposit accounts	979,633	992,226	2,842,210	2,820,340
Other service charges and fees	272,401	167,853	537,025	443,647
Other income	772,673	422,220	2,192,450	1,382,168
Total other income	2,024,707	1,582,299	5,571,685	4,646,155
OTHER EXPENSES				
Salaries and employee benefits	2,705,828	2,523,016	7,827,309	7,640,424
Occupancy expense	800,095	699,211	2,269,964	2,229,470
Other operating expense	1,389,619	1,387,788	4,059,037	4,017,721
Earnings applicable to minority interest		47,051		136,457
Total other expenses	4,895,542	4,657,066	14,156,310	14,024,072
INCOME BEFORE PROVISION FOR INCOME TAXES	2,110,850	2,876,604	7,130,732	8,339,118
PROVISION FOR INCOME TAXES	362,549	751,675	1,632,384	2,178,431
NET INCOME	$ 1,748,301	$ 2,124,929	$ 5,498,348	$ 6,160,687
NET INCOME PER SHARE				
-Basic	$ 0.36	$ 0.42	$ 1.12	$ 1.23
-Diluted	$ 0.36	$ 0.42	$ 1.10	$ 1.21

DIVIDENDS PAID PER SHARE	$ 0.18	$ 0.17	$ 0.54	$ 0.51

See notes to consolidated financial statements.

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CITIZENS HOLDING COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net income	$ 1,748,301	$ 2,124,929	$ 5,498,348	$ 6,160,687
Other comprehensive income (loss), net of tax				
Unrealized holding gains (losses)	1,295,326	1,965,706	(1,350,560)	169,582
Reclassification adjustment for (gains) losses included in net income		12,318	2,237	12,318
Total other comprehensive income (loss)	1,295,326	1,978,024	(1,348,323)	181,900
Comprehensive income	$ 3,043,627	$ 4,102,953	$ 4,150,025	$ 6,342,587

See notes to consolidated financial statements.

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CITIZENS HOLDING COMPANY AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the nine months ended September 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Cash Provided by Operating Activities	$ 6,814,181	$ 4,224,418
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of securities available for sale	11,577,120	12,852,916
Proceeds from sales of securities AFS	7,542,364	17,948,728
Purchases of investment securities available for sale	(50,918,401)	(28,857,288)
Net change in Shay Investments	(1,500,839)	
Purchases of bank premises and equipment	(1,913,187)	(2,983,010)
(Increase) decrease in interest bearing deposits with other banks	(111,721)	(677,494)
Net increase in federal funds sold	15,200,000	(5,450,000)
Redemption of FHLB Stock	869,000	
Proceeds from sale of other real estate acquired by foreclosure	1,425,194	691,132
Increase in ownership of subsidiary	(2,994,671)	
Net decrease in loans	15,570,500	4,940,563
Net Cash Provided by Investing Activities	(5,254,641)	(1,534,453)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	6,105,059	(6,747,978)
Proceeds from exercising stock options		186,324
Decrease in FHLB advances	(10,000,000)	(648,818)
Repurchase of Stock	(3,343,404)	
Increase (Decrease) in federal funds purchased	9,300,000	(1,600,000)
Payment of dividends	(2,653,076)	(2,557,868)
Net Cash Used by Financing Activities	(591,421)	(11,368,340)
Net Increase in Cash and Due from Banks	968,119	(8,678,375)
Cash and Due From Banks, beginning of period	15,449,434	26,743,200
Cash and Due from Banks, end of period	$ 16,417,553	$ 18,064,825

See notes to consolidated financial statements.

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CITIZENS HOLDING COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the three and nine months ended September 30, 2007

(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 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 September 30, 2007 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 a discussion of the Corporation s significant accounting policies, 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, 2006, filed with the Securities and Exchange Commission on March 15, 2007.

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 September 30, 2007, the Corporation had entered into loan commitments with certain customers with an aggregate unused balance of $23,324,589 compared to an aggregate unused balance of $22,150,442 at December 31, 2006. There were $540,083 of letters of credit outstanding at September 30, 2007 and $955,218 at December 31, 2006. 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.

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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 options using the treasury stock method. Earnings per share were computed as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Basic weighted average shares outstanding	4,870,737	5,014,460	4,930,961	5,012,762
Dilutive effect of granted options	49,201	69,137	52,517	71,098
Diluted weighted average shares outstanding	4,919,938	5,083,597	4,983,478	5,083,860
Net income	$ 1,748,301	$ 2,124,929	$ 5,498,348	$ 6,160,687
Net income per share-basic	$ 0.36	$ 0.42	$ 1.12	$ 1.23
Net income per share-diluted	$ 0.36	$ 0.42	$ 1.10	$ 1.21

Note 4. Legal Matters

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 5. Stock Option Plan

At September 30, 2007, 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

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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 has chosen to use the simplified method for plain vanilla options as detailed in SAB 107. The Corporation has determined that the options granted comply with the requirements under SAB 107 and will use this method for estimating the expected term of the options granted until the Corporation can gather more detailed information about the expected term of the options. SAB 107 discourages the application of the simplified method with respect to options granted after December 31, 2007. 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.

The fair value of each option granted is estimated on the date of the grant using the Black-Sholes option-pricing model. On March 29, 2006, the Board of Directors awarded 40,500 options to certain officers of the Bank as authorized by the 1999 Employees Long-Term Incentive Plan at an exercise price of $23.46, which was the closing price of Citizens Holding Company stock on that day. These options were first exercisable on October 30, 2006 and must be exercised no later than March 29, 2016. The following assumptions were used in estimating the fair value of the options granted in the first quarter of 2006.

Assumption	**2006**
Dividend Yield	2.90%
Risk-Free Interest Rate	4.55%
Expected Life	5.25 years
Expected Volatility	28.85%
Calculated Value per Option	$ 5.87
Forfeitures	0.00%

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Using the Black-Scholes option-pricing model with the foregoing assumptions, it was determined that the total cost of options granted to employees in March 2006 was $237,552 and was recognized as an expense of $39,592 per month over the six month requisite service period, beginning March 2006. This was recorded as an expense to officer salary expense and a credit to paid-in capital. Since the options granted in the first quarter were incentive stock options, no deferred taxes were recorded.

No options have been granted to officers of the Corporation during the first nine months of 2007.

On April 26, 2006, the members of the Board of Directors were granted a total of 12,000 options as specified in the 1999 Directors Stock Compensation Plan. These options were granted at an exercise price of $23.70 per option, which was the closing price of Citizens Holding Company stock on that day. These options were first exercisable on October 27, 2006 and must be exercised no later than April 26, 2016.

Since the options granted to directors are substantially similar to the options granted to officers of the Corporation, the Corporation has chosen to use the same methods for calculating the term, volatility and vesting schedule of these options that were used in the calculation of the value per option for the options granted to officers. The following assumptions were used in estimating the fair value of the options granted to the directors in the second quarter of 2006.

Assumption	**2006**
Dividend Yield	2.90%
Risk-Free Interest Rate	4.99%
Expected Life	5.25 years
Expected Volatility	28.86%
Calculated Value per Option	$ 6.10
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 2006 was $73,258 and should be recognized as an expense of $12,210 per month over the six month requisite service period, beginning in April 2006. This is recorded as an expense to salary expense and a credit to paid-in capital. A deferred tax on these options is being recorded in the aggregate amount of $27,106, or $4,518 per month, over the six month requisite service period, beginning in April 2006.

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

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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	4.759%
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 will be recorded as an expense to salary expense and a credit to paid-in capital. A deferred tax on these options will be recorded in the aggregate amount of $31,113, or $5,186 per month, over the six month requisite service period, beginning in April 2007.

The following table below is a summary of the stock option activity for the nine months ended September 30, 2007.

	Directors Plan		Employees Plan	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2006	89,850	$ 15.68	196,800	$ 18.62
Granted	13,500	22.00		
Exercised				
Forfeited			(4,000)	20.22
Outstanding at September 30, 2007	103,350	$ 16.51	192,800	$ 18.59

The intrinsic value of options granted under the Directors Plan at September 30, 2007 was $679,644 and the intrinsic value of options granted under the Employees Plan at September 30, 2007 was $840,935 for a total intrinsic value at September 30, 2007 of $1,520,579.

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Note 6. Income Taxes

Financial Accounting Standards Board (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 at that time that no adjustments to retained earnings were necessary as a result of the adoption of FIN 48.

As of September 30, 2007, the Corporation has not accrued any interest 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, 2003 through 2006. The Corporation and its subsidiaries state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2003 through 2006.

Income tax expense attributable to income from continuing operations for the nine months ended September 30, 2007 and 2006 consists of the following:

	2007	2006
Currently payable		
Federal	$ 1,639,936	$ 1,895,580
State	271,995	334,175
	1,911,931	2,229,755
Deferred tax expense (benefit)	(279,547)	(51,324)
Income tax expense	$ 1,632,384	$ 2,178,431

The Corporation s income tax expense differs from the amounts computed by applying the Federal income tax statutory rates of 34% to income before income taxes. A reconciliation of the differences for the nine months ended September 30, 2007 and 2006 is as follows:

	2007	2006
Federal taxes based on statutory rate	$ 2,724,449	$ 2,881,696
State income taxes, net of federal benefit	179,517	220,556
Tax-exempt investment interest	(694,073)	(823,717)
Other, net	(277,509)	(100,104)
Income tax expense	$ 1,632,384	$ 2,178,431

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The components of deferred income taxes included in other assets in the accompanying consolidated balance sheets at September 30, 2007 and December 31, 2006 are as follows:

	2007	2006
Deferred tax assets		
Allowance for loan losses	$ 1,398,103	$ 1,409,549
Deferred compensation liability	1,092,953	976,195
Unrealized loss on available-for-sale securities	1,106,200	491,955
Intangible assets	92,519	
Other	79,651	46,588
Total	3,769,426	2,924,287
Deferred tax liabilities		
Premises and equipment	973,926	510,773
Intangible assets		48,213
Other	774,280	548,623
Total	1,748,206	1,107,609
Net deferred tax asset	$ 2,021,220	$ 1,816,678

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Corporation will realize the benefit of these deductible differences. However, the amount of deferred tax asset considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Note 7. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 enhances existing guidance for measuring assets and liabilities using fair value. Prior to the issuance of SFAS No. 157, guidance for applying fair value was incorporated in several accounting pronouncements. SFAS No. 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. While SFAS No. 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Corporation has not determined the impact of adopting SFAS No. 157 on its financial statements.

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 adoption of SFAS No. 158 did not have a material effect on the financial position or results of operation of the Corporation at December 31, 2006.

In February 2007, the FASB issued SFAS No. 159, Establishing the Fair Value Option for Financial Assets and Liabilities (SFAS No. 159). The FASB has issued SFAS No. 159 to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on

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items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157, Fair Value Measurements. An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. SFAS No. 159 also applies to eligible items existing at November 15, 2007 (or early adoption date). The Corporation does not expect the adoption of SFAS No. 159 to have a material effect on the Corporation s financial condition or results of operations.

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CITIZENS HOLDING COMPANY AND SUBSIDIARY

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. One measure of liquidity is the ratio of net deposits and short-term liabilities divided by net cash, short-term investments and marketable assets. This liquidity ratio of the Corporation at September 30, 2007 was 55.58% and at December 31, 2006 was 56.87%. Management believes it maintains adequate liquidity for the Corporation s current needs.

The Corporation s chief source of liquidity is customer deposits, which were $477,952,315 at September 30, 2007 and $471,847,256 at December 31, 2006. 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 $223,923,339 invested in investment securities at September 30, 2007 and $174,617,149 at December 31, 2006. The Corporation had secured and unsecured federal funds lines with correspondent banks in the amount of $27,500,000 at September 30, 2007 and at December 31, 2006. In addition, the Corporation has the ability to draw on its line of credit with the FHLB. At September 30, 2007, the Corporation had unused and available $68,838,017 of its line of credit with the FHLB and at December 31, 2006, the Corporation had unused and available $52,529,532 of its line of credit with the FHLB. The increase in the amount available under the Corporation s line of credit with the FHLB from the end of 2006 to September 30, 2007 resulted from a $10,000,000 decrease in the amount borrowed from the FHLB and an increase in the total borrowing capacity.

At September 30, 2007, the Corporation had $9,300,000 in federal funds purchased compared to $15,200,000 federal funds sold at December 31, 2006.

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.

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CAPITAL RESOURCES

The Corporation s equity capital was $66,384,357 at September 30, 2007 as compared to $69,665,273 at December 31, 2006. The main reason for the decrease in equity capital was the cash paid to redeem the fractional shares outstanding after the 1-for-1,000 reverse stock split by the Bank on January 2, 2007. This was partially offset by an increase in the retention of net income.

Certain employees and directors exercised stock options for 10,950 shares of stock in 2006. These option exercises brought the number of shares outstanding to 5,020,228 at December 31, 2006. In the first nine months of 2007, no options were exercised. 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 September 30, 2007, the Corporation had purchased 153,086 shares at an average price of $21.86. This reduced the number of shares outstanding at September 30, 2007 to 4,867,142. Cash dividends in the amount of $2,653,076, or $0.54 per share, have been paid in 2007 as of the end of the third quarter.

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 September 30, 2007 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 September 30, 2007						
Total Capital (to Risk-Weighted Assets)	$ 67,642,661	17.77%	$ 30,451,949	> 8.00%	$ 38,064,937	> 10.00%
Tier 1 Capital (to Risk-Weighted Assets)	63,894,395	16.79%	15,225,975	> 4.00%	22,838,962	> 6.00%
Tier 1 Capital (to Average Assets)	63,894,395	10.12%	25,250,817	> 4.00%	31,563,521	> 5.00%

The Corporation completed the construction of a new $1.4 million branch facility in Starkville, Mississippi and opened the facility for operation in October 2007. Most of the

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expenditures in connection with the completion of the construction of this branch are reflected in the second and third quarter financial statements with a final payment due in the fourth quarter.

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 September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Interest Income, including fees	$ 9,619,453	$ 9,264,805	$ 28,624,635	$ 27,087,120
Interest Expense	4,241,419	3,424,566	12,355,882	9,673,391
Net Interest Income	5,378,034	5,840,239	16,268,753	17,413,729
Provision for Loan Losses	396,349	(111,132)	553,396	(303,306)
Net Interest Income after Provision for Loan Losses	4,981,685	5,951,371	15,715,357	17,717,035
Other Income	2,024,707	1,582,299	5,571,685	4,646,155
Other Expense	4,895,542	4,657,066	14,156,310	14,024,072
Income before Provision For Income Taxes	2,110,850	2,876,604	7,130,732	8,339,118
Provision for Income Taxes	362,549	751,675	1,632,384	2,178,431
Net Income	$ 1,748,301	$ 2,124,929	$ 5,498,348	$ 6,160,687
Net Income Per share Basic	$ 0.36	$ 0.42	$ 1.12	$ 1.23
Net Income Per Share Diluted	$ 0.36	$ 0.42	$ 1.10	$ 1.21

See Note 4 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 10.61% for the three months ended September 30, 2007 and 12.73% for the corresponding period in 2006. For the nine months ended September 30, 2007, ROE was 10.88% compared to 12.49% for the nine months ended September 30, 2006.

The book value per share decreased to $13.64 at September 30, 2007 compared to $13.88 at December 31, 2006. The decrease in book value per share reflects the cash paid by the Bank in connection with the declaration by the board of directors of the Bank of a 1-for-1,000 reverse stock split on the Bank s outstanding stock, which resulted in the Corporation owning 100% of the outstanding stock of the Bank. Average assets for the nine months ended September 30, 2007 were $635,794,334 compared to $604,136,987 for the year ended December 31, 2006.

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 4.39% for the third quarter of 2007 compared to 4.55% for the corresponding period of 2006. For the nine months ended September 30, 2007, annualized net interest margin was 4.34% as compared to 4.52% for the nine months ended September 30, 2006. The decrease in net interest margin from 2006 to 2007 is the result of slower growth in yields on earnings assets compared to the growth in rates paid on deposits and borrowed funds, as detailed below. Earning assets averaged $570,968,423 for the three months ended September 30, 2007. This represents an increase of $33,778,217, or 6.3%, over average earning assets of $537,190,206 for the three month period ended September 30, 2006. Earning assets averaged $572,250,212 for the nine months ended September 30, 2007. This represents an increase of $32,787,053, or 6.1%, over average earning assets of $539,463,159 for the nine months ended September 30, 2006. The increase in earning assets is the result of the normal growth pattern of the Corporation and not due to any special investments or acquisitions.

Interest bearing deposits averaged $401,573,042 for the three months ended September 30, 2007. This represents an increase of $31,092,416, or 8.4%, over average interest bearing deposits of $370,480,626 for the three month period ended September 30, 2006. Other borrowed funds averaged $81,292,576 for the three months ended September 30, 2007. This represents an increase of $20,469,387, or 33.7%, over the other borrowed funds of $60,823,189 for the three month period ended September 30, 2006. Interest bearing deposits averaged $403,984,446 for the nine months ended September 30, 2007. This represents an increase of $20,455,085, or 5.3%, over average interest bearing deposits of $383,529,361 for the nine month period ended September 30, 2006. Other borrowed funds averaged $80,130,044 for the nine months ended September 30, 2007. This represents an increase of $19,057,612, or 31.2%, over the other borrowed funds of $61,072,432 for the nine month period ended September 30, 2006.

Net interest income was $5,378,034 and $5,840,239 for the three month periods ended September 30, 2007 and 2006, respectively, due to changes in both volume and rate. The changes in volume in earning assets and in deposits and in borrowed funds are discussed above. As to changes in rate, in the three month period ended September 30, 2007, the rates paid on deposits and borrowed funds rose faster than the yield on earning assets as compared to the changes in rates and yields in the same period in 2006. The yield on all interest bearing assets increased twenty three basis points to 7.25% in the third quarter of 2007 compared to 7.02% for the same period in 2006. At the same time, the rate paid on all interest bearing liabilities for the third quarter of 2007 increased thirty one basis points to 3.46% from 3.15% in the same period of 2006. Net interest income was $16,268,753 for the nine months ended September 30, 2007, a decrease of $1,144,976 from the $17,413,729 in the same period in 2006, primarily due to changes in rate. In the nine month period ended September 30, 2007, the rates paid on deposits and borrowed funds increased more than the yields on earnings assets when compared to the same period in 2006. The yield on all interest bearing assets increased twenty four basis points to 7.14% in the first nine months of 2007 compared to 6.90% for the same period in 2006. At the same time, the rate paid on all interest bearing liabilities for the first nine months of 2007 increased twenty seven basis points to 3.17% from 2.90% in the same period of 2006. 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 increase.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Interest and Fees	$ 7,281,956	$ 7,362,309	$ 21,621,371	$ 21,451,313
Average Loans	355,677,162	375,901,154	357,549,332	376,299,330
Annualized Yield	8.19%	7.83%	8.06%	7.60%

The increase in interest rates in the three and nine month period ended September 30, 2007 reflects the increase in all loan interest rates for both new and refinanced loans in the period.

CREDIT LOSS EXPERIENCE

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

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

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The Corporation charges off that portion of any loan which management has determined to be a loss. A loan is generally considered by management to represent a loss in whole or in part when an 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. Because these estimates, factors and evaluations are primarily judgmental, no assurance can be given as to whether or not the Corporation will sustain loan losses in excess or below its allowance or that subsequent evaluation of the loan portfolio may not require material increases or decreases in such allowance.

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

	Quarter Ended September 30, 2007	**Year to Date December 31, 2006**	**Amount of Increase (Decrease)**	**Percent of Increase (Decrease)**
BALANCES:				
Gross Loans	$ 356,017,737	$ 380,887,181	$ (24,869,444)	-6.53%
Allowance for Loan Losses	3,748,266	3,712,375	35,891	0.97%
Nonaccrual Loans	1,004,289	1,628,651	(624,362)	-38.34%
Ratios:				
Allowance for loan losses to gross loans	1.05%	0.97%		
Net loans charged off to allowance for loan losses	13.81%	13.16%		

The provision for loan losses for the three months ended September 30, 2007 was $396,349, an increase of $507,481 over the $111,132 negative provision for the same period in 2006. The provision for loan loss was $553,396 for the nine months ended September 30, 2007 compared to a negative provision of $303,306 for the same period in 2006. The increase in the provision in the three and nine-month periods ended September 30, 2007 as compared to the corresponding periods in 2006 was the result of the negative provision in the respective periods of 2006. This negative provision in 2006 was a product of improved credit quality and lower charge-offs in 2006 than in the years prior to 2006.

For the three months ended September 30, 2007, net loan losses charged to the allowance for loan losses totaled $339,965, an increase of $55,427 over the $284,538 charged off in the same period in 2006. For the nine months ended September 30, 2007, net loan losses charged to the allowance totaled $517,506, an increase of $165,642 over the $351,864 charged off in the same period in 2006.

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 nine months of 2007 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 September 30, 2007 was $2,024,707, an increase of $442,408, or 28.0%, over the same period in 2006. Service charges on deposit accounts decreased $12,593, or 1.3%, to $979,633 in the three months ended September 30, 2007 compared to $992,226 for the same period in 2006. Other service charges and fees increased $104,548, or 62.3%, in the three months ended September 30, 2007 compared to the same period in 2006.

Non-interest income for the nine months ended September 30, 2007 was $5,571,685, an increase of $925,530, or 19.9%, over the same period in 2006. Service charges on deposit accounts increased $21,870, or .8%, to $2,842,210 in the nine months ended September 30, 2007 compared to $2,820,340 for the same period in 2006. Other service charges and fees increased $93,378, or 21.0%, in the nine months ended September 30, 2007 compared to the same period in 2006. The difference in fee income was the result of fluctuations in volume and not a direct result of fee changes.

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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 September 30,		Nine months ended September 30,	
Other Income	**2007**	**2006**	**2007**	**2006**
BOLI Insurance	$ 222,783	$ 138,498	$ 510,960	$ 409,333
Mortgage Loan Origination Income	70,599	118,767	234,404	298,431
Shay Investments Income	342,878	109,228	831,651	488,773
Other Income	136,413	55,727	615,435	185,631
Total Other Income	$ 772,673	$ 422,220	$ 2,192,450	$ 1,382,168

NON-INTEREST EXPENSE

Non-interest expenses include salaries and employee benefits, occupancy and equipment, and other operating expenses. Aggregate non-interest expenses for the three month periods ended September 30, 2007 and 2006 were $4,895,542 and $4,657,066, respectively, an increase of $238,476, or 5.1%, from 2006 to 2007. Salaries and benefits increased to $2,705,828 for the three months ended September 30, 2007 from $2,523,016 for the same period in 2006. This represents an increase of $182,812, or 7.2%. Occupancy expense increased $100,884, or 14.4%, to $800,095 in the three months ended September 30, 2007 when compared to the same period of 2006.

Total non-interest expenses for the nine month periods ended September 30, 2007 and 2006 were $14,156,310 and $14,024,072, respectively, an increase of $132,238, or ..9%, from 2006 to 2007. Salaries and benefits increased to $7,827,309 for the nine months ended September 30, 2007 from $7,640,424 for the same period in 2006. This represents an increase of $186,885, or 2.4%. Occupancy expense increased $40,494, or 1.8%, to $2,269,964 in the nine months ended September 30, 2007 when compared to the same period of 2006.

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 September 30,		Nine months ended September 30,	
Other Operating Expense	**2007**	**2006**	**2007**	**2006**
Intangible Amortization	$ 134,376	$ 134,376	$ 403,127	$ 403,127
Advertising	126,220	128,706	381,542	368,319
Office Supplies	154,552	144,671	402,766	387,880
Legal and Audit Fees	75,804	69,308	280,339	335,051
Telephone expense	105,070	95,282	305,186	279,892
Postage and Freight	96,790	91,984	221,166	229,533
Loan Collection Expense	16,283	100,536	127,864	154,491
Other Losses	173,133	167,422	393,290	415,546
Other expenses	507,391	455,503	1,543,757	1,443,882
Total Other Expense	$ 1,389,619	$ 1,387,788	$ 4,059,037	$ 4,017,721

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The Corporation s efficiency ratio for the three months ended September 30, 2007 was 63.76% compared to the 60.27% for the same period in 2006. For the nine months ended September 30, 2007 and 2006, the Corporation s efficiency ratio was 62.50% and 61.00%, 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

	September 30, 2007	December 31, 2006	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Cash and Cash Equivalents	$ 16,417,553	$ 15,449,434	$ 968,119	6.27%
Investment Securities	223,923,339	174,617,149	49,306,190	28.24%
Loans, net	351,654,882	369,280,664	(17,625,782)	-4.77%
Total Assets	641,543,835	621,197,496	20,346,339	3.28%
Total Deposits	477,952,315	471,847,256	6,105,059	1.29%
Total Stockholders Equity	66,384,357	69,665,273	(3,280,916)	-4.71%

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 September 30, 2007, increased $968,119 from $15,449,434 at December 31, 2006 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 nine month period ended September 30, 2007, premises and equipment increased $1,170,529, or 9.7%, to $13,276,985, when compared to $12,106,456 at December 31, 2006. The increase reflects the progress payments made on the construction of the Starkville branch and new equipment purchases exceeding depreciation during this period. The Bank is currently in the process of constructing a new full service branch in Starkville, Mississippi.

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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 September 30, 2007 increased $49,306,190, or 28.2%, to $223,923,339 from the balance at December 31, 2006.

LOANS

Loan balances outstanding decreased by $17,625,782 during the nine month period ended September 30, 2007 to $351,654,882 from $369,280,664 at December 31, 2006. Loan demand in the Corporation s service area has lessened with increased competition for quality loans. Residential housing loans continue to be in demand but quality commercial and industrial loans are in shorter supply and management believes that this loan environment will continue for the remainder of 2007. No material changes were made to the loan products offered by the Corporation during this period other than to adjust rates to attract quality loans.

DEPOSITS

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

	September 30, 2007	December 31, 2006	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Noninterest-bearing Deposits	$ 81,242,584	$ 82,867,220	$ (1,624,636)	-1.96%
Interest-bearing Deposits	144,826,719	152,988,036	(8,161,317)	-5.33%
Savings	31,654,012	32,636,927	(982,915)	-3.01%
Certificates of Deposit	220,229,000	203,355,073	16,873,927	8.30%
Total Deposits	$ 477,952,315	$ 471,847,256	$ 6,105,059	1.29%

Non-interest bearing demand deposits, savings and certificates of deposit increased during the nine months ended September 30, 2007 while interest bearing demand deposits decreased. The Corporation has 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.

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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.

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, 2006.

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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CITIZENS HOLDING COMPANY AND SUBSIDIARY

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

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

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

Competition Risks

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

Credit Risks

Like all lenders, the Corporation faces the risk that the Corporation s customers may not repay their loans and that the realizable value of collateral may be insufficient to avoid a loss of principal. In the Corporation s business, some level of credit loss is unavoidable and overall levels of credit loss can vary over time. Our ability to manage credit risks depends primarily upon the Corporation s ability to assess the creditworthiness of customers and the value of collateral, including real estate. We control credit risk by diversifying the Corporation s loan portfolio and managing its composition, and by recording and managing an allowance for expected loan losses in accordance with applicable accounting rules. At the end of September 2007, the Corporation had $3.748 million of available reserves to cover such losses. The models and approaches the Corporation use to originate and manage loans are regularly updated to take into account 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.

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Financing, Funding, and Liquidity Risks

One of the most important aspects of management s efforts to sustain long-term profitability for the Company 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 Company 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 Company 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 Company s decisions on pricing its assets and liabilities which impacts net interest income, an important cash flow stream for the Company. As a result, a substantial part of the Company 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 Company does not have any significant risks related to foreign exchange, commodities or equity risk exposures.

Interest Rate and Yield Curve Risks

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

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

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

ITEM 4. CONTROLS AND PROCEDURES

The Corporation carried out an evaluation, under the supervision and with the participation of its principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Corporation s disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, the Corporation s principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, the Corporation s disclosure controls and procedures are effective in providing reasonable assurances that all material information relating to the Corporation that is required to be included in the reports the Corporation files with the Securities and Exchange Commission (the SEC) is recorded, processed, summarized and reported, within the time period specified in the SEC s rules and forms.

There were no changes to the Corporation s internal control over financial reporting that occurred in the nine months ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

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, 2006. 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 September 30, 2007:

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]**
July 1 to July 31	300	22.00	300	103,414
August 1 to August 31	5,800	20.62	5,800	97,614
September 1 to September 30	700	20.09	700	96,914
Total for the period	6,800	$ 20.63	6,800	96,914

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

(2) On February 27, 2007, the Corporation s board of directors adopted a stock repurchase program which authorizes the Corporation to repurchase up to 250,000 shares of its outstanding common stock. The plan will remain in effect until all authorized shares are repurchased or until otherwise instructed by the board of directors. As of September 30, 2007, 153,086 shares of the Corporation s common stock had been purchased and 96,914 shares remained authorized under the plan. All share purchases during 2007 were made pursuant to open market transactions.

ITEM 6. EXHIBITS
Exhibits

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

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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: November 8, 2007	DATE: November 8, 2007

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EXHIBIT INDEX

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