CITIZENS HOLDING CO /MS/
Form 10-Q
May 10, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

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: 001-15375

CITIZENS HOLDING COMPANY

(Exact name of registrant as specified in its charter)

MISSISSIPPI	**64-0666512**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
521 Main Street, Philadelphia, MS	**39350**
(Address of principal executive offices)	**(Zip Code)**

601-656-4692

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer	¨	Accelerated filer	þ
Non-accelerated filer	¨	Smaller Reporting Company	¨

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

Number of shares outstanding of each of the issuer s classes of common stock, as of May 9, 2011:

Title	Outstanding
Common Stock, $0.20 par value	4,843,911

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CITIZENS HOLDING COMPANY

FIRST QUARTER 2011 INTERIM FINANCIAL STATEMENTS

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (Unaudited).

CITIZENS HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CONDITION

(Unaudited)

	March 31, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 22,658,093	$ 16,963,393
Interest bearing deposits with other banks	949,548	1,155,588
Investment securities available for sale, at fair value	341,247,801	324,730,301
Loans, net of allowance for loan losses of $6,524,218 in 2011 and $6,379,070 in 2010	407,084,466	415,496,720
Premises and equipment, net	21,189,652	20,751,478
Other real estate owned, net	3,146,889	3,068,209
Accrued interest receivable	5,569,872	4,823,227
Cash value of life insurance	19,701,892	19,535,300
Intangible assets, net	3,365,130	3,411,303
Other assets	7,229,233	8,297,213
TOTAL ASSETS	$ 832,142,576	$ 818,232,732
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 103,619,322	$ 95,324,759
Interest-bearing NOW and money market accounts	170,856,575	164,325,092
Savings deposits	40,431,262	37,778,537
Certificates of deposit	231,824,129	240,001,335
Total deposits	546,731,288	537,429,723
Federal Funds Purchased	5,000,000	2,500,000
Securities sold under agreement to repurchase	110,197,891	110,483,437
Federal Home Loan Bank advances	84,400,000	84,400,000
Accrued interest payable	435,634	538,881
Deferred compensation payable	4,442,785	4,330,069
Other liabilities	2,145,644	2,255,526
Total liabilities	753,353,242	741,937,636
STOCKHOLDERS EQUITY		
Common stock; $.20 par value, 22,500,000 shares authorized, 4,839,411 shares outstanding at March 31, 2011 and 4,838,411 shares outstanding at December 31, 2010	967,882	967,682
Additional paid-in capital	3,075,186	3,061,221
Retained earnings	75,354,338	74,464,123
Accumulated other comprehensive income (loss), net of tax benefit of $361,739 in 2011 and $1,307,540 in 2010	(608,072)	(2,197,930)
Total stockholders equity	78,789,334	76,295,096

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 832,142,576	$ 818,232,732

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

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CITIZENS HOLDING COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	For the Three Months Ended March 31, 2011	2010
INTEREST INCOME		
Loan income, including fees	$ 6,548,931	$ 7,253,309
Investment securities	2,784,546	2,611,138
Other interest	11,795	10,770
Total interest income	9,345,272	9,875,217
INTEREST EXPENSE		
Deposits	886,999	1,424,732
Other borrowed funds	879,954	885,180
Total interest expense	1,766,953	2,309,912
NET INTEREST INCOME	7,578,319	7,565,305
PROVISION FOR LOAN LOSSES	244,061	624,956
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,334,258	6,940,349
OTHER INCOME		
Service charges on deposit accounts	874,397	964,778
Other service charges and fees	413,959	373,826
Other income	296,039	746,092
Total other income	1,584,395	2,084,696
OTHER EXPENSES		
Salaries and employee benefits	3,519,609	3,400,361
Occupancy expense	1,088,947	945,388
Other operating expense	1,791,725	2,138,947
Total other expenses	6,400,281	6,484,696
INCOME BEFORE PROVISION FOR INCOME TAXES	2,518,372	2,540,349
PROVISION FOR INCOME TAXES	563,486	564,792
NET INCOME	$ 1,954,886	$ 1,975,557
NET INCOME PER SHARE		
-Basic	$ 0.40	$ 0.41
-Diluted	$ 0.40	$ 0.41
DIVIDENDS PAID PER SHARE	$ 0.22	$ 0.21

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

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CITIZENS HOLDING COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended March 31,	
	2011	2010
Net income	$ 1,954,886	$ 1,975,557
Other comprehensive income, net of tax		
Unrealized holding gains (losses)	1,589,426	2,059,782
Reclassification adjustment for gains included in net income	432	
Total other comprehensive income (loss)	1,589,858	2,059,782
Comprehensive income	$ 3,544,744	$ 4,035,339

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

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CITIZENS HOLDING COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash provided by operating activities	$ 2,168,211	$ 4,669,641
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of securities available for sale	20,767,696	42,977,236
Proceeds from sales of securities available for sale		29,454,187
Purchases of investment securities available for sale	(35,273,345)	(42,233,286)
Net change in securities sold under agreement to repurchase	(285,546)	(11,749,113)
Purchases of bank premises and equipment	(726,528)	(137,130)
Decrease (increase) in interest bearing deposits with other banks	206,040	(20,924,486)
Net Increase in Federal Funds Sold		(12,500,000)
Proceeds from sale of other real estate acquired by foreclosure	78,000	206,000
Net decrease in loans	8,009,113	141,160
Net cash used by investing activities	(7,224,570)	(14,765,432)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	9,301,565	5,473,085
Proceeds from exercising stock options	14,165	55,980
Increase in Federal Home Loan Bank advances		12,000,000
Repurchase of stock		(295,546)
Increase in federal funds purchased	2,500,000	
Payment of dividends	(1,064,671)	(1,014,208)
Net cash provided by financing activities	10,751,059	16,219,311
Net increase in cash and due from banks	5,694,700	6,123,520
Cash and due from banks, beginning of period	16,963,393	15,365,612
Cash and due from banks, end of period	$ 22,658,093	$ 21,489,132

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

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CITIZENS HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the three months ended March 31, 2011

(Unaudited)

Note 1. Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). However, these financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. The interim consolidated financial statements are unaudited and reflect all adjustments and reclassifications, which, in the opinion of management, are necessary for a fair presentation of the results of operations and financial condition as of and for the interim periods presented. All adjustments and reclassifications are of a normal and recurring nature. Results for the period ended March 31, 2011, 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). All significant intercompany transactions have been eliminated in consolidation.

For further information and significant accounting policies of the Corporation, see 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, 2010, filed with the Securities and Exchange Commission on March 15, 2011.

Note 2. Commitments and Contingent Liabilities

In the ordinary course of business, the Corporation enters into commitments to extend credit to its customers. The unused portion of these commitments is not reflected in the accompanying financial statements. As of March 31, 2011, the Corporation had entered into loan commitments with certain customers with an aggregate unused balance of $29,347,866 compared to an aggregate unused balance of $36,011,792 at December 31, 2010. There were $2,913,825 of letters of credit outstanding at March 31, 2011, and $3,141,959 at December 31, 2010. The fair value of such contracts is not considered material because letters of credit and loan commitments often are not used in their entirety, if at all, before they expire. The balances of such letters and commitments should not be used to project actual future liquidity requirements. However, the Corporation does incorporate expectations about the level of draws under its credit-related commitments into its asset and liability management program.

The Corporation is a party to lawsuits and other claims that arise in the ordinary course of business, all of which are being vigorously contested. In the regular course of business, management evaluates estimated losses or costs related to litigation, and provisions are made for anticipated losses whenever management believes that such losses are probable and can be reasonably estimated. At the present time, management believes, based on the advice of legal

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counsel, that the final resolution of pending legal proceedings will not have a material impact on the Corporation s consolidated financial condition or results of operations.

Note 3. Net Income per Share

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

	For the Three Months Ended March 31,	
	2011	2010
Basic weighted average shares outstanding	4,839,111	4,831,879
Dilutive effect of granted options	17,787	38,178
Diluted weighted average shares outstanding	4,856,898	4,870,057
Net income	$ 1,954,886	$ 1,975,557
Net income per share-basic	$ 0.40	$ 0.41
Net income per share-diluted	$ 0.40	$ 0.41

Note 4. Stock Option Plan

At March 31, 2011, the Corporation had one stock-based compensation plan, which is the 1999 Directors Stock Compensation Plan (the Directors Plan). Prior to its expiration, the Corporation also had the 1999 Employees Long-Term Incentive Plan, or the Employees Plan . The Corporation accounts for these plans under the stock compensation topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). This topic provides guidance related to share-based payment transactions, including valuation methods (including assumptions such as expected volatility and expected term), the classification of compensation expense, non-GAAP financial measures, first-time adoption in an interim period and disclosure in Management s Discussion and Analysis subsequent to adoption.

To determine the expected term of the options granted, the Corporation chose to use the simplified method for plain vanilla options as detailed in the stock compensation topic of the ASC for those options granted prior to December 31, 2007. Beginning with options granted after that date, the Corporation uses the Black-Scholes option pricing model. 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.

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Although the option grants are not subject to an explicit vesting schedule, the Corporation recognizes that the restriction on exercising options lapses six months and one day after the grant date, which constitutes a de facto vesting schedule and is considered the service period. Compensation costs are amortized over that six-month period.

On April 28, 2010, the members of the Board of Directors were granted a total of 13,500 options as specified in the Directors Plan. These options were granted at an exercise price of $25.72 per option, which was the closing price of Citizens Holding Company stock on that day. These options are first exercisable on October 29, 2010, and must be exercised no later than April 28, 2020.

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option-pricing model. The following assumptions were used in estimating the fair value of the options granted to the directors in the second quarter of 2010.

Assumption	Directors
Dividend Yield	4.86%
Risk-Free Interest Rate	2.24%
Expected Life	7.9 years
Expected Volatility	69.40%
Calculated Value per Option	$ 11.17
Forfeitures	0.00%

Using the Black-Scholes option-pricing model with the foregoing assumptions, it was determined that the cost of options granted under the Directors Plan in April 2010 was $150,748 and should be recognized as an expense of $25,124 per month over the six-month requisite service period, beginning in April 2010. This was recorded as salary expense with a credit to paid-in capital. A deferred tax on these options was recorded in the aggregate amount of $51,254, or $8,542 per month, over the six-month requisite service period, beginning in April 2010.

The following table below is a summary of the stock option activity for the three months ended March 31, 2011.

	Directors Plan		Employees Plan	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2010	93,000	$ 20.65	136,500	$ 19.92
Granted				
Exercised			(1,000)	14.65
Expired				
Outstanding at March 31, 2011	93,000	$ 20.65	135,500	$ 19.96

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The intrinsic value of options granted under the Directors Plan at March 31, 2011, was $129,750 and the intrinsic value of options granted under the Employees Plan at March 31, 2011, was $224,800 for a total intrinsic value at March 31, 2011, of $354,550.

Note 5. Income Taxes

The income tax topic of the ASC 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. This topic 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. As of March 31, 2011, the Corporation had no unrecognized tax benefits related to federal and state income tax matters. Therefore, the Corporation does not anticipate any material increase or decrease in the effective tax rate during 2011 relative to any tax positions taken. It is the Corporation s policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Corporation and its subsidiaries file a consolidated United States federal income tax return. The Corporation is currently open to audit under the statute of limitations by the Internal Revenue Service for all tax years after 2007. The Corporation and its subsidiaries state income tax returns are also open to audit under the statute of limitations for the same period.

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Note 6. Loans

The composition of net loans at March 31, 2011 and December 31, 2010 is as follows:

	March 31, 2011	December 31, 2010
	(In Thousands)	
Real Estate:		
Land Development and Construction	$ 11,173	$ 21,838
Farmland	42,964	44,734
1-4 Family Mortgages	145,073	143,627
Commercial Real Estate	137,628	139,760
Total Real Estate Loans	336,838	349,959
Business Loans:		
Commercial and Industrial Loans	33,486	28,429
Farm Production and other Farm Loans	2,274	2,429
Total Business Loans	35,760	30,858
Consumer Loans:		
Credit Cards	945	990
Other Consumer Loans	40,340	40,292
Total Consumer Loans	41,285	41,282
Total Gross Loans	413,883	422,099
Unearned income	(275)	(223)
Allowance for loan losses	(6,524)	(6,379)
Loans, net	$ 407,084	$ 415,497

Loans are considered to be past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status, when, in management s opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accruals are discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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Period-end non-accrual loans, segregated by class of loans, were as follows:

	March 31, 2011	December 31, 2010
	(in thousands)	
Real Estate:		
Land Development and Construction	$ 747	$ 553
Farmland	389	581
1-4 Family Mortgages	1,929	1,741
Commercial Real Estate	6,715	6,590
Total Real Estate Loans	9,780	9,465
Business Loans:		
Commercial and Industrial Loans	606	1,250
Farm Production and other Farm Loans		8
Total Business Loans	606	1,258
Consumer Loans:		
Credit Cards		
Other Consumer Loans	234	209
Total Consumer Loans	234	209
Total Non-Accrual Loans	$ 10,620	$ 10,932

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An age analysis of past due loans, segregated by class of loans, as of March 31, 2011, was as follows (in thousands):

	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Real Estate:						
Land Development and Construction	$ 283	$ 64	$ 347	$ 10,826	$ 11,173	$ 101
Farmland	1,702	297	1,999	40,965	42,964	
1-4 Family Mortgages	6,389	831	7,220	137,853	145,073	46
Commercial Real Estate	1,398	4,537	5,935	131,693	137,628	
Total Real Estate Loans	9,772	5,729	15,501	321,337	336,838	147
Business Loans:						
Commercial and Industrial Loans	633	148	781	32,705	33,486	13
Farm Production and other Farm Loans	63		63	2,211	2,274	
Total Business Loans	696	148	844	34,916	35,760	13
Consumer Loans:						
Credit Cards	18	57	75	870	945	57
Other Consumer Loans	1,489	120	1,609	38,781	40,340	21
Total Consumer Loans	1,507	177	1,684	39,601	41,285	78
Total Loans	$ 11,975	$ 6,054	$ 18,029	$ 395,854	$ 413,883	$ 238

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An age analysis of past due loans, segregated by class of loans, as of December 31, 2010 was as follows (in thousands):

	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Real Estate:						
Land Development and Construction	$ 312	$ 808	$ 1,120	$ 20,718	$ 21,838	$ 447
Farmland	1,675	417	2,092	42,642	44,734	115
1-4 Family Mortgages	5,231	808	6,039	137,588	143,627	63
Commercial Real Estate	1,564	95	1,659	138,101	139,760	
Total Real Estate Loans	8,782	2,128	10,910	339,049	349,959	625
Business Loans:						
Commercial and Industrial Loans	1,763	502	2,265	26,164	28,429	300
Farm Production and other Farm Loans	39	5	44	2,385	2,429	5
Total Business Loans	1,802	507	2,309	28,549	30,858	305
Consumer Loans:						
Credit Cards	21	70	91	899	990	70
Other Consumer Loans	2,268	139	2,407	37,885	40,292	23
Total Consumer Loans	2,289	209	2,498	38,784	41,282	93
Total Loans	$ 12,873	$ 2,844	$ 15,717	$ 406,382	$ 422,099	$ 1,023

Loans are considered impaired when, based on current information and events, it is probable the Corporation will be unable to collect all the amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. In determining which loans to evaluate for impairment, management looks at past due loans, bankruptcy filing and any situation that might lend itself to cause a borrower to be unable to repay the loan according to the original contract terms. If a loan is determined to be impaired and the collateral is deemed to be insufficient to fully repay the loan, a specific reserve will be established. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans or portions thereof, are charged-off when deemed uncollectible.

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Impaired loans as of March 31, 2011 and December 31, 2010, by class of loans, are as follows (in thousands):

March 31, 2011	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Real Estate:						
Land Development and Construction	$ 747	$ 590	$ 157	$ 747	$ 156	$ 650
Farmland	389	254	135	389	59	485
1-4 Family Mortgages	3,146	1,211	1,935	3,146	550	2,493
Commercial Real Estate	7,105	4,641	2,464	7,105	832	7,043
Total Real Estate Loans	11,387	6,696	4,691	11,387	1,597	10,671
Business Loans:						
Commercial and Industrial Loans	697	464	233	697	124	1,020
Farm Production and other Farm Loans						3
Total Business Loans	697	464	233	697	124	1,023
Consumer Loans:						
Credit Cards						
Other Consumer Loans	234	197	37	234	13	222
Total Consumer Loans	234	197	37	234	13	222
Total Loans	$ 12,318	$ 7,357	$ 4,961	$ 12,318	$ 1,734	$ 11,916

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December 31, 2010	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Real Estate:						
Land Development and Construction	$ 553	$ 391	$ 162	$ 553	$ 156	$ 630
Farmland	581	394	187	581	79	534
1-4 Family Mortgages	1,840	967	873	1,840	196	1,801
Commercial Real Estate	6,981	4,443	2,538	6,981	832	6,975
Total Real Estate Loans	9,955	6,195	3,760	9,955	1,263	9,940
Business Loans:						
Commercial and Industrial Loans	1,342	1,017	325	1,342	194	1,436
Farm Production and other Farm Loans	7	7		7		17
Total Business Loans	1,349	1,024	325	1,349	194	1,453
Consumer Loans:						
Credit Cards						
Other Consumer Loans	209	135	74	209	21	206
Total Consumer Loans	209	135	74	209	21	206
Total Loans	$ 11,513	$ 7,354	$ 4,159	$ 11,513	$ 1,478	$ 11,599

The Corporation utilizes a risk grading matrix to assign a risk grade to each of its loans when originated and is updated as factors related to the strength of the loan changes. Loans are graded on a scale of 1 to 9. A description of the general characteristics of the 9 risk grades is as follows.

Grade 1. MINIMAL RISK - Those loans without loss exposure to the Corporation. This classification is reserved for only the best, well secured loans to borrowers with significant capital strength, low leverage, stable earnings and growth and other readily available financing alternatives. This type of loan would also include loans secured by a program of the government.

Grade 2. MODEST RISK - These loans include borrowers with solid credit quality and moderate risk of loss. These loans may be fully secured by certificates of deposit with another reputable financial institution, or secured by readily marketable securities with acceptable margins.

Grade 3. AVERAGE RISK - Grade 3 is the rating assigned to most of the loans held by the Corporation. This includes loans with average loss exposure and average overall quality. These loans should liquidate through possessing adequate collateral and adequate earnings of the borrower. In addition, these loans are properly documented and are in accordance with all aspects of the current loan policy.

Grade 4. ACCEPTABLE RISK-Borrower generates sufficient cash flow to fund debt service but

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most working asset and capital expansion needs are provided from external sources. Profitability and key balance sheet ratios are usually close to peers but one or more may be higher than peers.

Grade 5. MANAGEMENT ATTENTION - Borrower has significant weaknesses resulting from performance trends or management concerns. The financial condition of the borrower has taken a negative turn and may be temporarily strained. Cash flow is weak but cash reserves remain adequate to meet debt service. Management weakness is evident.

Grade 6. OTHER LOANS ESPECIALLY MENTIONED (OLEM) - Loans in this category are fundamentally sound but possess some weaknesses. OLEM loans have potential weaknesses which may, if not checked or corrected, weaken the asset or inadequately protect the bank s credit position at some future date. These loans have an identifiable weakness in credit, collateral, or repayment ability but there is no expectation of loss.

Grade 7. SUBSTANDARD ASSETS - Assets classified as Substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets classified as Substandard must have a well-defined weakness based upon objective evidence. Assets classified as Substandard are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. The possibility that liquidation would not be timely requires a Substandard classification even if there is little likelihood of total loss.

Grade 8. DOUBTFUL - A loan classified as doubtful has all the weaknesses of a substandard classification and the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. A doubtful classification could reflect the fact that the primary source of repayment is gone and serious doubt exists as to the quality of a secondary source of repayment.

Grade 9. LOSS - Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may occur in the future. Also included in this classification is the defined loss portion of loans rated substandard assets and doubtful assets.

These internally assigned grades are updated on a continual basis throughout the course of the year and represent management s most updated judgment regarding grades at March 31, 2011.

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The following table details the amount of gross loans by loan grade and class for the year ended March 31, 2011 (in thousands):

Grades	Satisfactory 1, 2, 3, 4	Special Mention 5,6	Substandard 7	Doubtful 8	Loss 9	Total Loans
Real Estate:						
Land Development and Construction	$ 9,557	$ 64	$ 1,552	$	$	$ 11,173
Farmland	38,588	2,486	1,890			42,964
1-4 Family Mortgages	129,714	2,188	13,119	44	8	145,073
Commercial Real Estate	125,066	1,399	11,163			137,628
Total Real Estate Loans	302,925	6,137	27,724	44	8	336,838
Business Loans:						
Commercial and Industrial Loans	30,720	1,321	1,381	60	4	33,486
Farm Production and other Farm Loans	2,218	19	37			2,274
Total Business Loans	32,938	1,340	1,418	60	4	35,760
Consumer Loans:						
Credit Cards	888		57			945
Other Consumer Loans	38,421	395	1,518	6		40,340
Total Consumer Loans	39,309	395	1,575	6		41,285
Total Loans	$ 375,172	$ 7,872	$ 30,717	$ 110	$ 12	$ 413,883

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The following table details the amount of gross loans by loan grade and class for the year ended December 31, 2010:

Grades	Satisfactory 1, 2, 3,4	Mention 5,6	Substandard 7	Doubtful 8	Loss 9	Total Loans
Real Estate:						
Land Development and Construction	$ 20,165	$ 65	$ 1,608	$	$	$ 21,838
Farmland	40,462	2,210	2,062			44,734
1-4 Family Mortgages	128,505	1,966	13,130	26		143,627
Commercial Real Estate	127,851	542	11,367			139,760
Total Real Estate Loans	316,983	4,783	28,167	26		349,959
Business Loans:						
Commercial and Industrial Loans	26,062	608	1,739	16	4	28,429
Farm Production and other Farm Loans	2,363	14	52			2,429
Total Business Loans	28,425	622	1,791	16	4	30,858
Consumer Loans:						
Credit Cards	920		70			990
Other Consumer Loans	38,674	34	1,571	10	3	40,292
Total Consumer Loans	39,594	34	1,641	10	3	41,282
Total Loans	$ 385,002	$ 5,439	$ 31,599	$ 52	$ 7	$ 422,099

The allowance for loan losses is a reserve established through a provision for possible loan losses charged to expense, which represents management s best estimate of probable losses that will occur within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio.

The allowance on the majority of the loan portfolio is calculated using a historical chargeoff percentage applied to the current loan balances by loan segment. This historical period is the average of the previous 5 years with the most current years weighted to show the effect of the most recent chargeoff activity. This percentage is also adjusted for economic factors such as local unemployment and general business conditions, both local and nationwide.

The group of loans that are considered to be impaired are individually evaluated for possible loss and a specific reserve is established to cover any loss contingency. Loans that are determined to be a loss with no benefit of remaining in the portfolio are charged off to the allowance. These specific reserves are reviewed periodically for continued impairment and adequacy of the specific reserve and adjusted when necessary.

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The following table details activity in the allowance for possible loan losses by portfolio segment for the year ended March 31, 2011:

March 31, 2011	Real Estate	Business Loans	Consumer	Total
Beginning Balance, January 1, 2011	$ 4,306,691	$ 1,104,706	$ 967,673	$ 6,379,070
Provision for possible loan losses	(71,461)	(52,912)	368,434	244,061
Chargeoffs	45,645	15,104	74,367	135,116
Recoveries	4,819	3,130	28,254	36,203
Net Chargeoffs	40,826	11,974	46,113	98,913
Ending Balance	$ 4,194,404	$ 1,039,820	$ 1,289,994	$ 6,524,218
Period end allowance allocated to:				
Loans individually evaluated for impairment	1,597,351	123,846	13,145	1,734,342
Loans collectively evaluated for impairment	2,597,053	915,974	1,276,849	4,789,876
Ending Balance, March 31, 2011	$ 4,194,404	$ 1,039,820	$ 967,673	$ 6,524,218

Activity in the allowance for possible loan losses for the three months ended March 31, 2010 was as follows:

	March 31, 2010
Balance, beginning of period	$ 5,525,927
Provision for loan losses	624,956
Loans charged off	(472,544)
Recoveries of loans previously charged off	48,454
Balance, end of period	$ 5,726,793

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The Company s recorded investment in loans as of March 31, 2011 and December 31, 2010 related to each balance in the allowance for possible loan losses by portfolio segment and disaggregated on the basis of the Company s impairment methodology was as follows (in thousands):

March 31, 2011	Real Estate	Business Loans	Consumer	Total
Loans individually evaluated for impairment	$ 11,387	$ 697	$ 234	$ 12,318
Loans collectively evaluated for impairment	325,451	35,063	41,051	401,565
	$ 336,838	$ 35,760	$ 41,285	$ 413,883

December 31, 2010	Real Estate	Business Loans	Consumer	Total
Loans individually evaluated for impairment	$ 9,955	$ 1,349	$ 209	$ 11,513
Loans collectively evaluated for impairment	340,004	29,509	41,073	410,586
	$ 349,959	$ 30,858	$ 41,282	$ 422,099

Note 7. Recent Accounting Pronouncements

In January 2010, the FASB issued an update to ASC Topic 820, which requires the addition of new disclosures and clarifies existing disclosure requirements already included in the guidance for fair value measurements. The new disclosures related to significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers, as well as the clarifications of existing disclosures are effective for interim or annual reporting periods beginning after December 15, 2009. The new disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for interim or annual reporting periods beginning after December 15, 2010. The adoption has not had a material effect on the Company s financial position, results of operations or stockholders equity.

In July 2010, the FASB issued an update to ASC Topic 310, that requires additional disclosures that facilitate financial statement users evaluation of the nature of credit risk inherent in the entity s portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses and the changes and reasons for those changes in the allowance for credit losses. The update makes changes to existing disclosure requirements and includes additional disclosure requirements about financing receivables, including credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables, the

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aging of past due financing receivables at the end of the reporting period by class of financing receivables, and the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses. The disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The update has not had a material effect on our consolidated financial statements other than the new required disclosures.

Note 8. Fair Value of Financial Instruments

The Fair Value Topic of the ASC establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. This topic clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. This topic also requires disclosure about how fair value was determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities;
Level 2	Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or
Level 3	Unobservable inputs, such as discounted cash flow models or valuations.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2011:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Securities available for sale				
Obligations of U.S. Government Agencies	$	$ 203,859,457	$	$ 203,859,457
Mortgage-backed Securities		35,031,898		35,031,898
Other investments		100,126,069	2,230,377	102,356,446
Total	$	$ 339,017,424	$ 2,230,377	$ 341,247,801

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The following table presents assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2010:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Securities available for sale				
Obligations of U.S. Government Agencies	$	$ 186,157,928	$	$ 186,157,928
Mortgage-backed Securities		37,759,943		37,759,943
Other investments		98,927,753	1,884,677	100,812,430
Total	$	$ 322,845,624	$ 1,884,677	$ 324,730,301

The following table reports the activity for 2011 in assets measured at fair value on a recurring basis using significant unobservable inputs.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Structured Financial Product
Balance at January 1, 2011	$ 1,884,677
Unrealized gains included in other comprehensive income	345,700
Balance at March 31, 2011	$ 2,230,377

As of March 31, 2011, management determined, based on the current credit ratings, known defaults and deferrals by the underlying banks and the degree to which future defaults and deferrals would be required to occur before the cash flow for the Corporation s tranche is negatively impacted, that no other than temporary impairment exists.

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

For assets measured at fair value on a nonrecurring basis during 2011 that were still held in the balance sheet at March 31, 2011, the following table provides the hierarchy level and the fair value of the related assets:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Impaired loans	$	$	$ 3,226,961	$ 3,226,961
Other real estate owned			159,076	159,076
Total	$	$	$ 3,386,037	$ 3,386,037

For assets measured at fair value on a nonrecurring basis during 2010 that were still held in the balance sheet at December 31, 2010, the following table provides the hierarchy level and the fair value of the related assets:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Impaired loans	$	$	$ 2,680,775	$ 2,680,775
Other real estate owned			2,172,198	2,172,198
Total	$	$	$ 4,852,973	$ 4,852,973

Impaired loans with a carrying value of $4,961,303 and $4,159,181 had an allocated allowance for loan losses of $1,734,342 and $1,478,406 at March 31, 2011 and December 31, 2010, respectively. The allocated allowance is based on the carrying value of the impaired loan and the fair value of the underlying collateral less estimated costs to sell.

Other real estate owned (OREO) acquired during the three-month period ended March 31, 2011, and recorded at fair value, less costs to sell, was $159,076. There were no writedowns during the period on OREO previously acquired. OREO acquired during 2010 and recorded at fair value, less costs to sell, was $973,758. Additional writedowns during 2010 on OREO previously acquired was $112,060 on five properties valued at $1,198,440.

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The Financial Instruments Topic of the ASC requires disclosure of financial instruments fair values, as well as the methodology and significant assumptions used in estimating fair values. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The Financial Instruments Topic of the ASC excludes certain financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation and may not be indicative of amounts that might ultimately be realized upon disposition or settlement of those assets and liabilities.

The following represents the carrying value and estimated fair value of the Corporation s financial instruments at March 31, 2011, and December 31, 2010:

	March 31, 2011		**December 31, 2010**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Cash and due from banks	$ 22,658,093	$ 22,658,093	$ 16,963,393	$ 16,963,393
Interest bearing deposits with banks	949,548	949,548	1,155,588	1,155,588
Securities available-for-sale	341,247,801	341,247,801	324,730,301	324,730,301
Net loans	407,084,466	407,020,916	415,496,720	415,605,513
Financial liabilities				
Deposits	$ 546,731,288	$ 546,961,250	$ 537,429,723	$ 537,751,275
Federal Home Loan Bank advances	84,400,000	87,772,677	84,400,000	88,038,797
Federal funds purchased	5,000,000	5,000,000	2,500,000	2,500,000
Securities Sold under agreement to repurchase	110,197,891	110,197,891	110,483,437	110,483,437

The fair value estimates, methods and assumptions used by the Corporation in estimating its fair value disclosures for financial statements were as follows:

Cash and Due from Banks and Interest Bearing Deposits with Banks

The carrying amounts reported in the balance sheet for these instruments approximate fair value because of their immediate and shorter-term maturities, which are considered to be three months or less when purchased.

Securities Available-for-Sale

Fair values for investment securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. When neither quoted prices nor comparable instruments are available, unobservable inputs are needed to form an expected future cash flow analysis to establish fair values. Level 2 securities include debt securities such as obligations of United States

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government agencies and corporations, mortgage-backed securities and state, county and municipal bonds. Level 3 securities consist of a pooled trust preferred security.

Net Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans (i.e., commercial real estate and rental property mortgage loans, commercial and industrial loans, financial institution loans, and agricultural loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest receivable approximates its fair value.

Impaired Loans

Loans considered impaired are reserved for at the time the loan is identified as impaired taking into account the fair value of the collateral less estimated selling costs. Collateral may be real estate and/or business assets including but not limited to, equipment, inventory and accounts receivable. The fair value of real estate is determined based on appraisals by qualified licensed appraisers. The fair value of the business assets is generally based on amounts reported on the business financial statements. Appraised and reported values may be adjusted based on management s historical knowledge, changes in market conditions from the time of valuation and management s knowledge of the client and the client s business. Since not all valuation inputs are observable, these nonrecurring fair value determinations are classified Level 3. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors previously identified.

Other real estate owned

OREO is comprised of commercial and residential real estate obtained in partial or total satisfaction of loan obligations. OREO acquired in settlement of indebtedness is recorded at fair value of the real estate, less costs to sell. Subsequently, it may be necessary to record nonrecurring fair value adjustments for decline in fair value. Fair value, when recorded, is determined based on appraisals by qualified licensed appraisers and adjusted for management s estimates of costs to sell. As such, values for OREO are classified as Level 3.

Deposits

The fair values for demand deposits, NOW and money market accounts and savings accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts for variable-rate, fixed-term money market accounts and time deposits approximate their fair values at the reporting date. Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

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Federal Home Loan Bank (FHLB) Borrowings

The fair value of FHLB advances is based on discounted cash flow analysis.

Federal Funds Sold and Purchased and Commercial Repurchase Agreements

Due to the short term nature of these instruments, which is considered to be three months or less, the carrying amount is equal to the fair value.

Off-Balance Sheet Instruments

The fair value of commitments to extend credit and letters of credit are estimated using fees currently charged to enter into similar agreements. The fees associated with these financial instruments are not material.

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CITIZENS HOLDING COMPANY

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

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 re 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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Management s discussion and analysis is intended 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). The following discussion should be read in conjunction with the consolidated financial statements and notes appearing elsewhere in this report.

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. A measurement of liquidity is the ratio of net deposits and short-term liabilities divided by the sum of net cash, short-term investments and marketable assets. This measurement for liquidity of the Corporation at March 31, 2011, was 22.60% and at December 31, 2010, was 19.98%. Management believes it maintains adequate liquidity for the Corporation s current needs.

The Corporation s primary source of liquidity is customer deposits, which were $546,731,288 at March 31, 2011, and $537,429,723 at December 31, 2010. 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 $341,247,801 invested in investment securities at March 31, 2011, and $324,730,301 at December 31, 2010. The Corporation had secured and unsecured federal funds lines with correspondent banks in the amount of $46,400,000 at March 31, 2011 and at December 31, 2010. In addition, the Corporation has the ability to draw on its line of credit with the FHLB. At March 31, 2011, the Corporation had unused and available $116,869,847 of its line of credit with the FHLB and at December 31, 2010, the Corporation had unused and available $119,501,966 of its line of credit with the FHLB. The decrease in the amount available under the Corporation s line of credit with the FHLB from the end of 2010 to March 31, 2011, was the result of a decrease in collateral available, as calculated quarterly by the FHLB.

At March 31, 2011, and at December 31, 2010, the Corporation had federal funds purchased in the amounts of $5,000,000 and $2,500,000, respectively. The Corporation usually purchases funds from correspondent banks on a temporary basis to meet short term funding needs.

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

CAPITAL RESOURCES

The Corporation s equity capital was $78,789,334 at March 31, 2011, as compared to $76,295,096 at December 31, 2010. One of the reasons for the increase in equity capital was net

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earnings in excess of dividends paid. Equity capital was also positively impacted by the investment securities market value adjustment due to an increase in the market value of the Corporation s investment portfolio. This market value increase was due to general market conditions, specifically the decrease in short term interest rates, which caused an increase in the market price of the investment portfolio.

Commencing May 1, 2009, the Corporation renewed its stock repurchase program whereby the Corporation may purchase up to 250,000 shares of the Corporation s common stock on the open market. This plan terminated April 30, 2010, and the Corporation had purchased 49,326 shares at an average price of $22.75. This reduced the number of shares outstanding at December 31, 2010, to 4,838,411.

Cash dividends in the amount of $1,064,671, or $0.22 per share, have been paid in 2011 as of the end of the first 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 March 31, 2011, 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 March 31, 2011						
Total Capital	$ 82,257,293	16.53%	$ 39,817,470	>8.00%	$ 49,771,838	>10.00%
(to Risk-Weighted Assets)						
Tier 1 Capital	76,032,076	15.28%	19,908,735	>4.00%	29,863,103	>6.00%
(to Risk-Weighted Assets)						
Tier 1 Capital	76,032,076	9.29%	32,749,458	>4.00%	40,936,823	>5.00%
(to Average Assets)						

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RESULTS OF OPERATIONS

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

	For the Three Months Ended March 31, 2011	2010
Interest Income, including fees	$ 9,345,272	$ 9,875,217
Interest Expense	1,766,953	2,309,912
Net Interest Income	7,578,319	7,565,305
Provision for Loan Losses	244,061	624,956
Net Interest Income after Provision for Loan Losses	7,334,258	6,940,349
Other Income	1,584,395	1,623,131
Other Expense	6,400,281	6,023,131
Income before Provision For Income Taxes	2,518,372	2,540,349
Provision for Income Taxes	563,486	564,792
Net Income	$ 1,954,886	$ 1,975,557
Net Income Per share - Basic	$ 0.40	$ 0.41
Net Income Per Share - Diluted	$ 0.40	$ 0.41

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

Annualized return on average equity (ROE) was 10.04% for the three months ended March 31, 2011, and 10.35% for the corresponding period in 2010. The decrease in ROE was caused by an increase in average equity along with a slight decrease in net income for the three months of 2011.

The book value per share increased to $16.28 at March 31, 2011, compared to $15.77 at December 31, 2010. The increase in book value per share reflects the increase in equity due to the amount of earnings in excess of dividends and the increase in other comprehensive income due to the increase in market value of the Corporation s investment securities. Average assets for the three months ended March 31, 2011, were $822,108,590 compared to $839,212,189 for the year ended December 31, 2010.

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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 4.25% for the first quarter of 2011 compared to 4.18% for the corresponding period of 2010. The increase in net interest margin from 2010 to 2011 is the result of a smaller decrease in yields on earning assets compared to the decrease in rates paid on deposits and borrowed funds, as detailed below. Earning assets averaged $749,736,942 for the three months ended March 31, 2011. This represents a decrease of $13,103,746, or 1.7%, over average earning assets of $762,840,688 for the three month period ended March 31, 2010. The decrease in earning assets for the three months ended March 31, 2011, is the result of the declining loan demand and decline in deposits due to current local and national economic conditions.

Interest bearing deposits averaged $439,191,051 for the three months ended March 31, 2011. This represents a decrease of $33,543,134, or 7.1%, from the average of interest bearing deposits of $472,734,185 for the three month period ended March 31, 2010. This was due to a decrease in interest bearing accounts and in certificates of deposit partially offset by an increase in savings accounts.

Other borrowed funds averaged $204,759,362 for the three months ended March 31, 2011. This represents an increase of $8,604,805, or 4.4%, over the other borrowed funds of $196,154,557 for the three month period ended March 31, 2010. This increase in other borrowed funds was due to a $13,018,791 increase in the Commercial Repo Liability, a $190,653 decrease in the ABE Loan Liability, a $3,956,667 decrease in Federal Funds Purchased and a decrease in the FHLB advances of $266,666 for the three month period ended March 31, 2011, when compared to the three month period ended March 31, 2010.

Net interest income was $7,578,319 for the three month period ended March 31, 2011, an increase of $13,014 from $7,565,305 for the three month period ended March 31, 2010, primarily due to changes in rate. The changes in volume in earning assets and in deposits and in borrowed funds are discussed above. As to changes in rate, in the three month period ended March 31, 2011, the yield on earning assets decreased slower than the rates paid on deposits and borrowed funds as compared to the changes in rates and yields in the same period in 2010. The yield on all interest bearing assets decreased 19 basis points to 5.20% in the first quarter of 2011 from 5.39% for the same period in 2010. At the same time, the rate paid on all interest bearing liabilities for the first quarter of 2011 decreased by 28 basis points to 1.11% from 1.39% in the same period of 2010. As longer term interest bearing assets and liabilities mature and reprice, management believes that the yields on interest bearing assets and rates on interest bearing liabilities will both decrease.

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

	For the Three Months Ended March 31, 2011	2010
Interest and Fees	$ 6,548,931	$ 7,253,309
Average Loans	417,343,795	451,829,997
Annualized Yield	6.28%	6.42%

The decrease in interest rates in the three month period ended March 31, 2011, reflects the decrease in all loan interest rates for both new and refinanced loans in the period.

CREDIT LOSS EXPERIENCE

As a natural corollary to the Corporation s lending activities, some loan losses are to be expected. The risk of loss varies with the type of loan being made and the overall 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 regular basis. Significant problem loans are reviewed on a monthly basis by the Corporation s Board of Directors.

The Corporation charges off that portion of any loan that management has determined to be a loss. A loan is generally considered by management to represent a loss in whole or in part when exposure beyond the collateral value is apparent, servicing of the unsecured portion has been discontinued or collection is not anticipated based on the borrower s financial condition. The general economic conditions in the borrower s industry influence this determination. The principal amount of any loan that 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 that can be reasonably anticipated. The allowance for loan losses is established through charges to operating expenses in the form of provisions for loan losses. Actual loan losses or recoveries are charged or credited to the allowance for loan losses. Management of the Corporation determines the amount of the allowance. Among the factors considered in determining the allowance for loan losses are the current financial condition of the Corporation s borrowers and the value of security, if any, for their loans. Estimates of future economic conditions and their impact on various industries and individual borrowers are also taken into consideration, as are the Corporation s historical loan loss experience and reports of banking regulatory authorities. As these estimates, factors and evaluations are primarily judgmental, no assurance can be given as to

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whether the Corporation will sustain loan losses in excess or below its allowance or that subsequent evaluation of the loan portfolio may not require material increases or decreases in such allowance.

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

	Quarter Ended March 31, 2011	Year Ended December 31, 2010	Amount of Increase (Decrease)	Percent of Increase (Decrease)
BALANCES:				
Gross Loans	$ 413,882,988	$ 422,098,362	$ (8,215,374)	-1.95%
Allowance for Loan Losses	6,524,218	6,379,070	145,148	2.28%
Nonaccrual Loans	10,619,610	10,931,670	(312,060)	-2.85%
Ratios:				
Allowance for loan losses to gross loans	1.58%	1.51%		
Net loans charged off to allowance for loan losses	1.52%	25.12%		

The provision for loan losses for the three months ended March 31, 2011, was $244,061, a decrease of $380,895 from the $624,596 provision for the same period in 2010. The decrease in our loan loss provisions for the three month period is a result of a decrease in outstanding loans, loan losses recorded for the respective periods and management s assessment of inherent loss in the loan portfolio, including the impact caused by current local and national economic conditions. The Corporation s model used to calculate the provision is based on the percentage of historical charge-offs applied to the current loan balances by loan segment and specific reserves applied to certain impaired loans. Nonaccrual loans decreased during this period due to the improvement of loans classified as non-accrual due to payments received on these loans in excess of new loans added to the list.

For the three months ended March 31, 2011, net loan losses charged to the allowance for loan losses totaled $98,913, a decrease of $325,153 from the $424,066 charged off in the same period in 2010. This decrease was due to an overall decrease in the number of charge offs in 2011 when compared to the same period in 2010 and not the result of any one loan segment.

Management 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 three months of 2011 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.

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NON-INTEREST INCOME

Non-interest income includes service charges on deposit accounts, wire transfer fees, safe deposit box rentals and other revenue not derived from interest on earning assets. Non-interest income for the three months ended March 31, 2011, was $1,584,395, a decrease of $500,301, or 24.0%, from the same period in 2010. The decrease in non-interest income is the result of investment security gains realized in 2010 that did not repeat in 2011. Service charges on deposit accounts decreased by $90,381, or 9.4%, to $874,397 in the three months ended March 31, 2011, compared to $964,778 for the same period in 2010. Other service charges and fees increased by $40,133, or 10.7%, in the three months ended March 31, 2011, compared to the same period in 2010. The difference in fee income was the result of fluctuations in volume and not a direct result of fee changes.

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

	Three months ended March 31, 2011	Three months ended March 31, 2010
Other Income		
BOLI Insurance	$ 115,385	$ 105,000
Mortgage Loan Origination Income	98,500	26,795
Income from Security Sales, net	432	558,682
Other Income	81,722	55,615
Total Other Income	$ 296,039	$ 746,092

NON-INTEREST EXPENSE

Non-interest expenses include salaries and employee benefits, occupancy and equipment, and other operating expenses. Aggregate non-interest expenses for the three month period ended March 31, 2011 and 2010 were $6,400,281 and $6,484,696, respectively, a decrease of $84,415, or 1.3%, from 2010 to 2011. Salaries and benefits increased to $3,519,609 for the three months ended March 31, 2011, from $3,400,361 for the same period in 2010. This represents an increase of $119,248, or 3.5%. This increase was the result of an increase in employees related to expansion of administration functions and normal yearly salaries increases. Occupancy expense increased by $143,559, or 15.2%, to $1,088,947 for the three months ended March 31, 2011, when compared to the same period of 2010. This increase is due in part to the expenses related to the new branch located in Hattiesburg, Mississippi.

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

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	Three months ended March 31, 2011	2010
Other Operating Expense		
Intangible Amortization	$ 46,173	$ 46,173
Advertising	170,762	129,953
Office Supplies	179,776	111,667
Legal and Audit Fees	120,906	118,352
Telephone expense	96,382	140,309
Postage and Freight	92,650	76,611
Loan Collection Expense	73,374	146,033
Other Losses	13,320	478,711
FDIC and State Assessment	265,069	256,147
Debit Card/ATM expense	181,378	131,508
Travel and Convention	63,201	74,274
Other expenses	488,734	429,209
Total Other Expense	$ 1,791,725	$ 2,138,947

The Corporation s efficiency ratio for the three months ended March 31, 2011, was 67.51% compared to the 63.26% for the same period in 2010. The efficiency ratio is the ratio of non-interest expenses divided by the sum of net interest income (on a fully tax equivalent basis) and non-interest income.

BALANCE SHEET ANALYSIS

	March 31, 2011	December 31, 2010	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Cash and Due From Banks	$ 22,658,093	$ 16,963,393	$ 5,694,700	33.57%
Interest Bearing deposits with Other Banks	949,548	1,155,588	(206,040)	-17.83%
Investment Securities	341,247,801	324,730,301	16,517,500	5.09%
Loans, net	407,084,466	415,496,720	(8,412,254)	-2.02%
Total Assets	832,142,576	818,232,732	13,909,844	1.70%
Total Deposits	546,731,288	537,429,723	9,301,565	1.73%
Total Stockholders Equity	78,789,334	76,295,096	2,494,238	3.27%

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash, balances at correspondent banks and items in process of collection. The balance at March 31, 2011, was $23,607,641, an increase of $5,488,660 from the balance of $18,118,981 at December 31, 2010, due to an increase in the availability of cash letters sent for collection on the last day of the period.

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PREMISES AND EQUIPMENT

During the three month period ended March 31, 2011, premises and equipment increased by $438,174, or 2.1%, to $21,189,652 when compared to $20,751,478 at December 31, 2010. The increase was due to the addition of property and equipment exceeding the amount of depreciation in the normal course of business. During this time, additions were made for interim construction costs on a new branch building in Hattiesburg.

INVESTMENT SECURITIES

The investment securities portfolio consists of United States Agency debentures, mortgage-backed securities, obligations of states, counties and municipal governments and FHLB stock. Investments at March 31, 2011, increased $16,517,500, or 5.1%, to $341,247,801 from the balance at December 31, 2010. This increase is due to the Corporation s strategy of investing funds not needed for the declining loan demand in the highest yielding asset.

LOANS

The loan balance decreased by $8,412,254 during the three months ended March 31, 2011, to $407,084,466 from $415,496,720 at December 31, 2010. Loan demand, especially in the commercial and industrial loan and consumer categories, was weak during the first three months of 2011. No material changes were made to the loan products offered by the Corporation during this period.

DEPOSITS

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

	March 31, 2011	December 31, 2010	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Noninterest-Bearing Deposits	$ 103,619,322	$ 95,324,759	$ 8,294,563	8.70%
Interest-Bearing Deposits	170,856,575	164,325,092	6,531,483	3.97%
Savings Deposits	40,431,262	37,778,537	2,652,725	7.02%
Certificates of Deposit	231,824,129	240,001,335	(8,177,206)	-3.41%
Total Deposits	$ 546,731,288	$ 537,429,723	$ 9,301,565	1.73%

Interest-bearing deposits, noninterest-bearing deposits and savings increased while certificates of deposit decreased during the three months ended March 31, 2011. 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 and our asset and liability management. These rate adjustments impact deposit balances.

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OFF-BALANCE SHEET ARRANGEMENTS

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

CONTRACTUAL OBLIGATIONS

There have been no material changes outside of the ordinary course of the Corporation s business to the contractual obligations set forth in Note 12 to the Corporation s financial statements contained in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The following discussion 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.

The Corporation s strategies and its management s ability to react to changing competitive and economic environments have enabled the Corporation historically to compete effectively and manage risks to acceptable levels. The Corporation has outlined potential risk factors below that it 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 the Corporation 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

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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. The Corporation controls credit risk by diversifying the Corporation s loan portfolio and managing its composition, and by recording and managing an allowance for expected loan losses in accordance with applicable accounting rules. At the end of March 31, 2011, the Corporation had $6.524 million of available reserves to cover such losses. The models and approaches the Corporation uses to originate and manage loans are regularly updated to take into account changes in the competitive environment, in real estate prices and other collateral values, and in the economy, among other things based on the Corporation s experience originating loans and servicing loan portfolios.

Financing, Funding and Liquidity Risks

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

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

Interest Rate and Yield Curve Risks

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

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. A flat or inverted yield curve tends to decrease net interest margin, as funding costs increase relative to the yield on assets. Currently, the yield curve is positively sloped.

Regulatory and Legal Risks

The Corporation operates in a heavily regulated industry and therefore is 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 business, such as in the areas of employment and intellectual property. Federal and state legislative and regulatory authorities occasionally consider changing these regulations or adopting new ones. Such actions could limit the amount of interest or fees the Corporation can charge, could restrict the Corporation s ability to collect loans or realize on collateral or could materially affect us in other ways. Additional federal and state consumer protection regulations also could expand the privacy protections afforded to customers of financial institutions, restricting the Corporation s ability to share or receive customer information and increasing the Corporation s costs. In addition, changes in accounting rules can significantly affect how the Corporation records and reports assets, liabilities, revenues, expenses and earnings.

The Corporation also faces 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 United States generally accepted accounting principles requires management to make significant estimates that affect the financial statements. The Corporation s most critical estimate is the level of the allowance for credit losses. 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 or sustain credit losses that are significantly higher than the provided allowance, 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. The Corporation s ability to successfully manage expenses is important to its 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.

ITEM 4. CONTROLS AND PROCEDURES.

The management of the Corporation, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, including ensuring that such information is accumulated and communicated to the Corporation s management as appropriate to allow timely decision regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of March 31, 2011 (the end of the period covered by this Quarterly Report on Form 10-Q).

There were no changes to the Corporation s internal control over financial reporting that occurred in the three months ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS.

Information regarding risk factors appears in Part I, Item 1A, Risk Factors, of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2010. There have been no material changes in the risk factors previously disclosed in such Annual Report on Form 10-K.

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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
Greg L. McKee
President and Chief Executive Officer

BY: /s/ ROBERT T. SMITH
Robert T. Smith
Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer)

DATE: May 9, 2011

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EXHIBIT INDEX

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