

CITIZENS HOLDING CO /MS/  
Form DEF 14A  
March 23, 2005  
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## SCHEDULE 14A

### INFORMATION REQUIRED IN PROXY STATEMENT

#### SCHEDULE 14A INFORMATION

#### Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

**Citizens Holding Company**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

- 
- Fee paid previously with preliminary materials.
  - Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**Citizens Holding Company**  
**521 Main Street**  
**Philadelphia, Mississippi 39350**

March 23, 2005

Dear Fellow Shareholder:

On behalf of the board of directors, we cordially invite you to attend the 2005 Annual Meeting of Shareholders of Citizens Holding Company. The Annual Meeting will be held beginning at 3:30 p.m., Central time, on Tuesday, April 26, 2005, at the main office of The Citizens Bank of Philadelphia, 521 Main Street, Philadelphia, Mississippi 39350. The formal notice of the Annual Meeting appears on the next page.

The Annual Meeting has been called for the following purposes: (1) to set the number of directors to serve on the board at nine; (2) to elect two Class III directors, each for a three-year term; (3) to ratify the board of directors' appointment of the Company's independent public accountants for the fiscal year ending December 31, 2005; and (4) to transact such other business as may properly come before the Annual Meeting or any adjournments thereof.

The accompanying proxy statement provides detailed information concerning the matters to be voted on at the Annual Meeting. We are first distributing this proxy statement and accompanying proxy card to our shareholders on or about March 23, 2005. We urge you to review this proxy statement and each of the proposals carefully. Regardless of the number of shares you own, it is important that your views be represented whether or not you are able to be present at the Annual Meeting. Please take a moment now to sign, date and mail the enclosed proxy card in the postage prepaid envelope. Your board of directors recommends a vote FOR each proposal.

We are gratified by our shareholders' continued interest in Citizens Holding Company and are pleased that in the past so many of you have voted your shares either in person or by proxy. We hope that you will continue to do so and again urge you to return your proxy card as soon as possible.

Sincerely,

/s/ Greg L. McKee

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Greg L. McKee  
President and Chief Executive Officer

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**Citizens Holding Company**

**521 Main Street**

**Philadelphia, Mississippi 39350**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TIME** 3:30 p.m., Central time, on Tuesday, April 26, 2005

**PLACE** The Citizens Bank of Philadelphia

521 Main Street

Philadelphia, Mississippi 39350

**ITEMS OF BUSINESS** (1) To set the number of directors to serve on the board at nine.

(2) To elect two Class III directors who will each serve a three-year term expiring in 2008.

(3) To consider and act upon a proposal to ratify and approve the selection of HORNE LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2005.

(4) To transact any other business that may properly come before the annual meeting or any adjournments thereof.

**RECORD DATE** You can vote if you are a shareholder of record as of the close of business on March 17, 2005.

**ANNUAL REPORT** Our 2004 annual report, which is not a part of the proxy solicitation material, is enclosed.

**PROXY VOTING** It is important that your shares be represented and voted at the annual meeting. Please mark, sign, date and promptly return the enclosed proxy card in the postage paid envelope. Any proxy may be revoked at any time prior to its exercise at the annual meeting.

By Order of the Board of Directors

/s/ Carolyn K. McKee

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Carolyn K. McKee  
Secretary

Philadelphia, Mississippi

March 23, 2005

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**CITIZENS HOLDING COMPANY**

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**CITIZENS HOLDING COMPANY**

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD TUESDAY, APRIL 26, 2005**

This proxy statement is furnished to the shareholders of Citizens Holding Company in connection with the solicitation of proxies by the board of directors, for use at the annual meeting of shareholders to be held at 3:30 p.m., Central time, on Tuesday, April 26, 2005, at the Company's main office, 521 Main Street, Philadelphia, Mississippi 39350, and any adjournments or postponements. In this proxy statement, Citizens Holding Company is referred to as Citizens, we, our, us, or the Company, and The Citizens Bank of Philadelphia is referred to as the Bank.

**VOTING YOUR SHARES**

*Who is soliciting proxies from the shareholders?*

The board of directors of the Company is soliciting the enclosed proxy. The proxy provides you with the opportunity to vote on the proposals presented at the annual meeting, whether or not you attend the meeting.

*What will be voted on at the annual meeting?*

The enclosed proxy provides the opportunity for you to specify approval, disapproval or abstention for the following proposals:

1. The setting of the number of directors on the board of directors at nine;
2. The election of two Class III directors to serve until the expiration of their respective three-year term, or until their successors are elected and qualified; and
3. The ratification of the board's appointment of HORNE LLP as our independent registered public accounting firm for the fiscal year ended December 31, 2005.

The proxy card also gives the proxy holders discretionary authority to vote the shares represented by the proxy on any matter, other than the above proposals, that is properly presented for action at the annual meeting. Each proposal is a separate matter for the shareholders to vote on,



and no proposal's approval is subject to or conditioned upon the approval of any other proposal.

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*Who bears the cost of the proxy solicitation?*

The Company generally bears all costs of soliciting proxies. We have retained and pay a fee to American Stock Transfer and Trust Company to act as the Company's registrar and transfer agent and to assist in the solicitation of proxies, but the Company pays no separate compensation for the solicitation of proxies. We intend to solicit proxies primarily through the use of the mail. Our directors, officers and employees may solicit proxies by telephone, mail, facsimile, via the Internet or overnight delivery service. These individuals will not receive separate compensation for these services.

*Who can vote at the annual meeting?*

Our board of directors fixed the close of business on Monday, March 17, 2005, as the record date for our annual meeting. Only shareholders of record on that date are entitled to receive notice of and to vote at the annual meeting. As of March 17, 2005, the Company's only outstanding class of securities was common stock, \$.20 par value per share. On that date, the Company had 22,500,000 shares authorized, of which 5,000,278 shares were outstanding.

You can vote either in person at the annual meeting (if you, rather than your broker, are the record holder of the stock) or by proxy, whether or not you attend the annual meeting. To vote by proxy, you must fill out the enclosed proxy card, date and sign it, and return it in the enclosed postage-paid envelope.

*How many votes must be present to hold the annual meeting?*

A quorum must be present to hold the Company's annual meeting. A majority of the votes entitled to be cast at the annual meeting constitutes a quorum. Your shares, once represented for any purpose at the annual meeting, are deemed present for purposes of determining a quorum for the remainder of the meeting and for any adjournment, unless a new record date is set for the adjourned meeting. This is true even if you abstain from voting with respect to any matter brought before the annual meeting.

*How many votes does a shareholder have per share?*

Our shareholders are entitled to one vote for each share held, except that as to the proposal to elect directors, shareholders may cumulate their votes. Cumulative voting is described below.

*What vote is required for approval of proposals at the annual meeting?*

For all proposals brought before the annual meeting, except the election of directors, each proposal is approved if the votes cast in favor of the proposal are greater than the votes cast opposing the proposal. The vote required to elect directors is described below.



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*How are directors elected?*

At the annual meeting, you will consider a proposal to elect two Class III directors. Directors are elected by plurality vote; the candidates who receive the highest number of votes cast, up to the number of directors to be elected, are elected. You may cumulate your votes to elect directors.

Cumulative voting entitles you to give one nominee a number of votes equal to the number of directors to be elected multiplied by the number of shares you hold or to distribute your total votes, computed on the same principle, among all or several nominees in the class. For example:

There are two nominees for election as Class III directors. If you own ten shares, you have twenty votes for Class III directors. You can elect to allocate the twenty votes among the Class III directors by casting all votes for a single director or by dividing the votes between the two nominees in any proportion.

The proxy card gives the proxy holders discretionary authority to cumulate votes to elect as many of the nominees for director as possible.

If the shareholders do not approve Proposal No. 1, the size of the board of directors will remain at ten, the number set at last year's annual meeting, and there will be three vacancies on the board. If no shareholder has properly submitted a nominee for election to the board, then the shareholders will elect two directors, as described above, and there will be one vacancy on the board. If, however, a shareholder has properly submitted a nominee, then the shareholders will elect three directors. You will have three votes for each share you hold, which votes may be cumulated as described above. If a shareholder has properly submitted a nominee, the board also intends to submit its own nominee. You will be entitled to vote on all of the candidates for election. Directors will still be elected by a plurality vote.

*How will the proxy be voted, and how are votes counted?*

When your proxy card is returned, properly signed and dated, the proxy holders will vote the shares represented by the proxy at the annual meeting as you instructed on the card, including any adjournments or postponements of the meeting. If your proxy card is signed, but no instructions are given, the proxy holders will vote the shares represented by the proxy at the annual meeting as follows:

1. **FOR** setting the number of directors to serve on the board of directors at nine;
2. **FOR** the election of nominees William M. Mars and A. T. Williams as Class III directors, each to serve a three-year term; and
3. **FOR** the approval of the appointment of HORNE LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2005.

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Under Mississippi law, an abstention by a shareholder who is either present in person at the annual meeting or represented by proxy is not a vote cast and is counted neither for nor against the matter subject to the abstention.

If you hold your shares in a broker's name (sometimes called street name or nominee name), you must provide voting instructions to your broker. If you do not provide instructions to your broker, the shares will not be voted on any matter on which your broker does not have discretionary authority to vote. A vote that is not cast for this reason is called a broker non-vote. We will treat broker non-votes as shares present for the purpose of determining whether a quorum is present at the meeting, but we will not consider broker non-votes present for purposes of calculating the vote on a particular matter, nor will we count broker non-votes as a vote **FOR** or **AGAINST** a matter or as an abstention on the matter.

*Can a proxy be revoked?*

Yes. You can revoke your proxy at any time before it is voted by giving written notice to the secretary of the Company before the annual meeting or by granting a subsequent proxy. If you, rather than your broker, are a record holder of our stock, a proxy can also be revoked by appearing in person and voting at the annual meeting. Written notice of the revocation of a proxy should be delivered to the following address: Secretary, Citizens Holding Company, 521 Main Street, Philadelphia, Mississippi 39350.

**STOCK OWNERSHIP**

*Does any person own more than 5% of the Company's common stock?*

The following table sets forth as of March 17, 2005, each person known to the Company to be the beneficial owner of more than 5% of the outstanding shares of our common stock:

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percentage of Class</u>
Herbert A. King 101 Littlejohn Lane Starkville, MS 39759	379,303 <sup>(1)</sup>	7.3%
The Molpus Company 502 Valley View Drive Philadelphia, MS 39350	388,749	7.8%

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- <sup>(1)</sup> Includes 132,868 owned by his children as to which Mr. King shares voting and investment power with his wife; includes 158,987 shares held in trust for his children as to which Mr. King exercises sole voting power but has no investment power; also includes 4,896 shares owned by K&D, L.P., a Mississippi limited partnership of which Mr. King and his spouse are the controlling general partners and as to which shares Mr. King and his spouse share voting and investment power.

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*How much stock do the directors and executive officers of the Company beneficially own?*

The following table includes information about the common stock owned by our directors, nominees and executive officers, as of January 31, 2005, including their name, position and the number of shares beneficially owned. Unless otherwise noted, these persons have sole voting power and investment power with respect to the listed shares (subject to any applicable community property laws).

	<b>Amount and Nature of Beneficial Ownership</b>				<b>Percent of Class</b>
	<b>Direct</b>	<b>Options Exercisable Within 60 Days</b>	<b>Other</b>	<b>Total</b>	
<b>Directors and Nominees:</b>					
Karl Brantley	15,240	10,050		25,290	*
Willis W. Dungan		4,500	189,270 <sup>(1)</sup>	193,770	3.7%
Don L. Fulton	14,408	9,750		24,158	*
Donald L. Kilgore	2,928	6,000		8,928	*
David A. King	75,597	9,300	6,503 <sup>(2)</sup>	91,400	1.8%
Herbert A. King	73,252	9,300	296,751 <sup>(3)</sup>	379,303	7.3%
William M. Mars	30,000	12,300		42,300	*
David P. Webb	27,205	9,150		36,355	*
Steve Webb	10,702	3,000	137,505 <sup>(4)</sup>	151,207	2.9%
A.T. Williams	4,170			4,170	*
<b>Named Executive Officers:</b>					
Greg L. McKee	5,344	26,250	1,225 <sup>(5)</sup>	32,819	*
Robert T. Smith	19,950	10,750		30,700	*
<b>Other Executive Officers:</b>					
<b>All directors, nominees and executive officers as a group (12 persons) :</b>	278,796	110,350	631,254	1,020,400	19.6%

\* Less than 1% of the outstanding common stock.

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- (1) Includes 102,070 shares owned by Mr. Dungan's spouse who exercises sole voting and investment power with respect to the shares and as to which Mr. Dungan disclaims beneficial ownership; also includes 87,200 shares held in a limited partnership of which Mr. Dungan is the managing general partner and as to which he exercises sole voting and investment power.
- (2) Includes 1,441 shares owned by David King's spouse who exercises sole voting and investment power with respect to the shares and as to which Mr. King disclaims beneficial ownership; also includes 5,062 shares owned by his children as to which Mr. King shares voting and investment power with his wife.
- (3) Includes 132,868 owned by his children as to which Herbert King shares voting and investment power with his wife; includes 158,987 shares held in trust for his children as to which Mr. King exercises sole voting power but has no investment power; also includes 4,896 shares owned by K&D, L.P., a Mississippi limited partnership of which Mr. King and his spouse are the controlling general partners and as to which shares Mr. King and his spouse share voting and investment power.
- (4) Chairman of the board of directors of the Company and the Bank. Includes 255 shares owned by Mr. Webb's spouse who exercises sole voting and investment power with respect to such shares and as to which Mr. Webb disclaims beneficial ownership; also includes 137,250 shares held in a limited partnership of which Mr. Webb is the managing general partner and as to which he exercises sole voting and investment power.
- (5) Also a director of the Company. Includes 1,225 shares owned by Mr. McKee's spouse in a retirement account of which Mr. McKee is the beneficiary.

*Section 16(a) Beneficial Ownership Reporting Compliance*

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors and persons who own more than 10% of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission (the "SEC") and the American Stock Exchange reports of ownership of Company securities and changes in their ownership on Forms 3, 4 and 5. SEC rules require officers, directors and greater than 10% shareholders to furnish the Company with copies of all Section 16(a) reports they file.

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company during the 2004 fiscal year, any Form 5 and amendments thereto furnished to the Company with respect to the 2004 fiscal year, and certain written representations made by the Company's directors and officers, we have determined that all required filings have been made.

**BOARD OF DIRECTORS**

*How many directors serve on the board and who are the current directors?*

A total of ten directors currently serve on our board. There are three classes of directors: four



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directors are in Class I, three directors are in Class II and three directors are in Class III. The term of office of a Class I director expires at the 2006 annual meeting, the term of office of a Class II director expires at the 2007 annual meeting, and the term of office of a Class III director expires at the 2008 annual meeting.

As described below, two Class III directors are retiring effective at the annual meeting. The following table provides certain information about the other current directors of the Company

<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Business Experience During Past Five Years</u>
Don L. Fulton (Class I)	58	1994	Mr. Fulton has been President and General Manager of Nemanco, Inc., a company primarily engaged in garment manufacturing, since 1977.
Donald L. Kilgore (Class I)	55	2001	Mr. Kilgore, was engaged in the practice of law for the past twenty-six years as a partner of the law firm of Alford, Thomas and Kilgore until March 2005 when he became Attorney General for the Mississippi Band of Choctaw Indians.
Herbert A. King (Class I)	53	1997	Mr. King has served as an engineer with King Engineering, Inc., a company primarily engaged in general civil engineering and land surveying, since 1990.
David P. Webb (Class I)	45	1998	Mr. Webb has been engaged in the practice of law since 1988 as a partner of the law firm of Phelps Dunbar LLP.
Karl Brantley (Class II)	68	1992	Mr. Brantley was Plant Manager at U.S. Electrical Motors, a Company primarily engaged in the manufacture of commercial electric motors, from 1982 until his retirement in March of 2004.
David A. King (Class II)	50	1997	Mr. King has been the proprietor of Philadelphia Motor Company, a company primarily engaged in wholesale and retail auto parts sales, since 1977.
Greg L. McKee (Class II)	43	2001	Mr. McKee has been employed as President and Chief Executive Officer of the Company and as Chief Executive Officer of the Bank since January 1, 2003. He has been employed as President of the Bank since January, 2002. He was previously employed as an Executive Vice-President, Senior Vice-President and Vice President of the Bank during the immediately preceding five years.
William M. Mars (Class III)	67	1982	Mr. Mars is a retired attorney who was engaged in the practice of law as a partner of the law firm of Mars, Mars, Mars & Chalmers, P.A. since 1982.

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*Are any directors retiring?*

Mr. Steve Webb and Mr. W. W. Dungan, both Class III directors, will retire effective at this year's annual meeting because they have reached the age of 70 years. It is board policy that a director may not stand for re-election to the board after reaching the age of 70, although a director may serve beyond age 70 in order to complete his entire term of office.

*Are the directors independent?*

Our board has determined that a majority of its are independent directors as defined under Section 121(A) of the American Stock Exchange listing standards. All of the continuing directors also presently serve on the board of directors of the Bank.

There are no family relationships between any director, executive officer or persons nominated to become a director, except that David A. King and Herbert A. King are brothers and Steve Webb is the father of David P. Webb.

*How are directors compensated?*

During 2004, each director of the Company, including Mr. McKee who is an employee of the Company and the Bank, received an annual retainer of \$12,300, a year-end payment of \$1,025 and an additional \$125 for each board meeting attended. Directors who serve on the Bank's loan committee received an additional \$50 per month and an additional \$50 year-end bonus.

The Company maintains a stock option plan for the benefit of the Company's nonemployee directors, called the 1999 Directors' Stock Compensation Plan. During 2004, each nonemployee director was granted options to purchase 1,500 shares of the Company's common stock, at an exercise price of \$22.25 per share, which was the fair market value of the stock on the date of grant. The options became exercisable six months following the date of grant, which was October 27, 2004.

Directors may elect to participate in the Directors' Deferred Fee Plan maintained by the Bank. A participating director may elect to defer all or part of his fees to a bookkeeping account for a ten-year deferral period. Benefits under the plan are equal to the amount credited to each director's individual account, including interest. Interest is credited at 130% of Moody's Average Corporate

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Bond Rate, or 9.62% during 2004, for directors whose participation in the plan commenced on or before April 28, 1987. Interest is credited at 100% of the rate, or 6.54% during 2004, for all other participating directors. Benefits are generally payable when a director ceases to serve on the board or attains age 70. The Bank has elected to purchase individual life insurance policies to fund its obligations under the plan.

*How many meetings did the board hold during 2004?*

The board of directors of the Company meets monthly, generally in a joint session with the board of directors of the Bank. During 2004, the board met 15 times. There were 12 regular monthly meetings and 3 special meetings. Each director attended at least 75% of all meetings held by the board and the committees on which he served.

The board does not have a policy regarding director attendance at the annual meeting. Last year, all of the directors attended the annual meeting, and we expect that all directors will attend this year's annual meeting.

*What committees has the board of directors established?*

The board of directors has established an audit committee, a compensation committee, and a nominating committee.

*Who serves on the audit committee and what are its responsibilities?*

Karl Brantley, Don L. Fulton, and Herbert A. King are the members of the audit committee. The board has determined that each member of the audit committee is an independent director as defined in Section 121(A) of the American Stock Exchange listing standards and that each meets the criteria for independence set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended. The board has determined that none of the current members of the audit committee qualify as an audit committee financial expert as such term is defined under SEC regulations. The board has nominated A. T. Williams for election to the board this year. The board believes Mr. Williams will qualify as an audit committee financial expert if elected. If he is elected to the board at the 2005 meeting, the board will subsequently appoint him to the audit committee.

The board has adopted a written charter for the audit committee. The charter was most recently amended on July 21, 2003 and was reviewed and approved without modification by the Board in February 2004. A copy of the amended charter was attached as Appendix A to our definitive proxy statement dated March 23, 2004 for the 2004 Annual Meeting of Shareholders.

The audit committee reviews the Company's financial reporting process on behalf of the board of directors. The audit committee's duties and responsibilities include the following:

Appointing, compensating and overseeing the Company's independent auditors;

Monitoring the integrity of the Company's financial reporting process and system of internal controls;

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Monitoring the independence and performance of the Company's independent auditors and internal auditing department;

Reviewing and establishing internal policies and procedures regarding audits, accounting and other financial controls;

Reviewing the adequacy of the Company's internal controls and determining whether new controls or procedures are necessary;

Pre-approving all auditing and permitted non-audit services provided by the Company's independent auditors;

Providing an avenue of communication among the Company's independent auditors, management, the internal auditing department, and the board of directors; and

Establishing procedures for (1) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (2) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

During 2004, the audit committee held 4 meetings.

*Who serves on the compensation committee and what are its responsibilities?*

In the second quarter of 2004, the board established a compensation committee and appointed Don L. Fulton, Donald L. Kilgore and William M. Mars as the members of the compensation committee. The board has determined that each member of the compensation committee is an independent director as defined under Section 121(A) of the AMEX listing standards. The compensation committee is responsible for approving the compensation of the executive officers of the Company, reviewing compensation plans relating to executive officers and directors, determining other benefits under the Company's compensation plans, and performing general reviews of the Company's compensation policies. Their findings are presented to the full board for ratification. Because the compensation committee was formed in 2004, the entire board performed the function of the compensation committee for purposes of setting 2004 compensation.

The compensation committee held 1 meeting in 2004.

*Who serves on the nominating committee and what are its responsibilities?*

The members of the nominating committee are Steve Webb, David P. Webb and Herbert A. King. Herbert A. King is an independent director as defined in Section 121(A) of the American Stock Exchange listing standards, but Steve Webb and David P. Webb are not independent directors. The board believes that it is not necessary that all of the members of the nominating committee be independent directors because a majority of the independent directors on the board of directors must approve the nominating committee's candidates for election before such individuals may be submitted to the shareholders for election.



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The nominating committee is responsible for interviewing, evaluating, nominating and recommending individuals for membership on the Company's board of directors and the board's committees. The nominating committee prepared the slate of candidates for election at the 2005 annual meeting and presented this list to the full board for their approval and vote.

The nominating committee does not have a charter and the board has not otherwise adopted a resolution concerning the nomination of directors. It is the board's unwritten policy, however, to seek recommendations from the Company's existing directors to identify potential candidates to fill a vacancy on the board. The board will also consider nominees who are recommended by the Company's shareholders. Our bylaws require that shareholders' nominations be made in writing and delivered or mailed to the president of the Company not less than 14 or more than 50 days prior to the annual meeting at which the election of directors is to be held. The board generally evaluates nominees for election as director, whether such individuals are recommended by the Company's current directors, by shareholders or otherwise, using the following criteria:

The candidate's independence as defined under American Stock Exchange listing standards and SEC rules;

The candidate's experience in banking, or in marketing, finance, legal, accounting or other professional disciplines;

The candidate's capacity and desire to represent the best interests of the shareholders as a whole and not a special interest group or constituency;

The candidate's familiarity with and participation in the local community and prominence and reputation in his or her profession; and

The candidate's record of honest and ethical conduct, personal integrity and independent judgment.

The nominating committee held 1 meeting in 2004.

### *How does the board respond to shareholder questions?*

The board has not adopted a formal procedure that you must follow to send communications to it. However, the board does receive communications from shareholders, from time to time, and addresses the communications as appropriate. You can send communications to the board by contacting the Company's Treasurer, Robert T. Smith, in one of the following ways:

In writing, to Citizens Holding Company, 521 Main Street Philadelphia, Mississippi 39350, Attention: Robert T. Smith, Treasurer;

By email at [rsmith@netdoor.com](mailto:rsmith@netdoor.com); and

By phone at (601) 656-4692.





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If you request information or ask questions that can more efficiently be addressed by management, the Treasurer will respond to your questions. The Treasurer will forward to the audit committee any shareholder communication concerning employee fraud or accounting matters. The Treasurer will forward to the full board any communication relating to corporate governance or requiring action by the board.

*Are any directors or executive officers indebted to the Bank?*

Certain directors and officers of the Company, businesses with which they are associated and members of their immediate families are customers of the Bank and have had transactions with the Bank in the ordinary course of the Bank's business. In the opinion of the board of directors, such transactions were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and do not involve more than the normal risk of collectibility or present other unfavorable features.

*What related party transactions involve the board of directors?*

The Company and the Bank engaged in certain transactions in 2004 with the Company's directors, which are summarized below:

The Company employed Phelps Dunbar LLP to represent the Company in various legal areas, including tax audits, employee benefits, civil lawsuit defense and general corporate law. David Webb, a current director of the Company and the Bank, is a partner of Phelps Dunbar LLP.

The Bank employed Alford, Thomas and Kilgore to represent the Bank in several legal areas, including title certificates, garnishment proceedings, civil lawsuit defense and general law. Donald L. Kilgore, a current director of the Company and the Bank, was a partner of Alford, Thomas and Kilgore until March 2005 when he left to become Attorney General for the Mississippi Band of Choctaw Indians.

The Company expects that these firms will continue to represent the Company and the Bank on similar matters in the future.

## **EXECUTIVE OFFICERS AND EXECUTIVE COMPENSATION**

*Who are the executive officers of the Company?*

The names, ages, positions and business experience of the Company's principal executive officers, except for Mr. McKee, are listed below. Because he is also a member of our board, information about Mr. McKee appears previously under the heading Board of Directors. All of our executive officers are appointed annually by the board of directors and serve at the discretion of the board.



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<u>Name</u>	<u>Age</u>	<u>Position</u>
Robert T. Smith	53	Mr. Smith has been employed as Treasurer and Chief Financial Officer of the Company since February 1996. He has been employed by the Bank as Senior Vice-President and Chief Financial Officer since January 2001. Prior to that, he served as Vice-President and Controller from 1987 to 2001 and Assistant Vice-President from 1986 to 1987.

*How does the Company compensate its executive officers?*

The following Summary Compensation Table describes the compensation earned or paid to our chief executive officer and our other named executive officer:

**Summary Compensation Table**

Name and  Principal Position	Annual Compensation				Long-Term Compensation	
	Year	Salary	Bonus	Other Annual Compensation	Securities Underlying	All Other
					Options (#)	Compensation
<b>Greg L. McKee</b> <sup>(1)</sup> President and Chief Executive Officer of the Company	2004	\$ 175,000	\$ 40,000	\$ 16,025 <sup>(2)</sup>	7,500	\$ 20,462 <sup>(3)</sup>
	2003	135,000	40,000	14,175	7,500	18,884
	2002	120,000	20,000	13,425	7,500	14,168
<b>Robert T. Smith</b> <sup>(4)</sup> Treasurer and Chief Financial Officer of the Company	2004	\$ 100,000	\$ 15,000		3,500	\$ 16,232 <sup>(5)</sup>

(1) Prior to January 1, 2003, Mr. McKee was employed only as the President of the Bank.

(2) Represents the amount paid to Mr. McKee in the form of cash directors' fees.

(3) For 2004, includes Company matching and profit sharing contributions in the amount of \$18,705 under the Citizens Bank Profit Sharing and Savings Plan; and the value of group life insurance premiums in the aggregate amount of \$1,757.

(4) Mr. Smith was not a named executive officer prior to 2004.

(5) For 2004, includes Company matching and profit sharing contributions in the amount of \$10,005 under the Citizens Bank Profit Sharing and Savings Plan; and the value of group life insurance premiums in the aggregate amount of \$6,227.

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*Do executive officers receive equity compensation?*

Yes. The Company maintains a stock option plan, the 1999 Employees Long-Term Incentive Plan, which provides for the grant of options and the award of restricted stock to employees of the Company and the Bank. The Company has reserved for grant, award or issuance under the plan 7% of our issued and outstanding common stock, as determined from time to time. At December 31, 2004, 347,712 shares were reserved under the plan. As of December 31, 2004, options grants representing an aggregate of 151,450 shares of the Company's common stock have been made; no restricted stock has been awarded. The following table provides information about stock option grants made to the named executives during 2004:

**Option Grants in 2004**

Name	Number of Securities Underlying Option Granted <sup>(1)</sup>	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price	Expiration Date	Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation For Option Term <sup>(2)</sup>	
					5%	10%
Greg L. McKee	7,500	17.2%	\$ 21.85	3/24/2014	\$ 103,060	\$ 261,175
Robert T. Smith	3,500	8.0%	\$ 21.85	3/24/2014	\$ 48,095	\$ 121,881

<sup>(1)</sup> Option grants are made to selected officers of the Company at the discretion of the Board, usually on a yearly basis. These options are priced at the closing stock price on the day of the grant. These options may be exercised starting six months and one day from date of grant and must be exercised within a ten year period. Options may be exercised in whole or in part upon payment of the option price to the Company. The plan has provisions that the grantee may tender other owned shares of Company stock with a fair market value equal to the option price in lieu of cash.

<sup>(2)</sup> Potential realizable value assumes that our common stock appreciates at the rates shown above (compounded annually) from the grant date until the expiration date. Based upon the assumed rates, the stock price at the expiration date would be \$35.59 per share, assuming a 5% annual increase, and \$56.67 per share, assuming a 10% annual increase. These calculations are based upon rates specified by the SEC and do not represent the Company's estimate of the future growth of the stock price of the Company.

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The following table provides information about the unexercised options that the named executive officers held on December 31, 2004. Our named executive officers did not exercise any options in 2004.

**Aggregated Option Exercises in 2004  
and Year-End Option Values**

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2004		Value of Unexercised In- the-Money Options at December 31, 2004 <sup>(1)</sup>	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Greg L. McKee	0	\$0	26,250	0	\$ 120,878	0
Robert T. Smith	0	\$0	10,750	0	\$ 50,573	0

<sup>(1)</sup> Based upon the closing sales price of the Company's common stock as of December 31, 2004, or \$20.50 per share, less the option exercise price payable per share.

*Does the Company have any agreements with its named executive officers?*

Yes. The Bank has entered into a change in control agreement with its chief executive officer, Greg L. McKee, effective as of January 1, 2003. In the event a change in control occurs, Mr. McKee will be paid an amount equal to 2.99 times his average annual compensation for the five whole calendar years immediately preceding the year of the change in control. The payment will be made in 12 equal monthly installments commencing on the first business day of the month next following the date of the change in control. Based upon Mr. McKee's current compensation, the aggregate amount of the payments to be made over a one-year period is \$445,510.

The term "change in control" is defined in the agreement and generally includes the following events:

Any person or group becomes the direct or indirect beneficial owner of more than 50% of the Bank's outstanding voting stock;

As a result of a merger or consolidation of the Bank, less than 50% of the surviving corporation's outstanding voting securities are owned by the Company;

A transfer of substantially all of the property of the Bank other than to an entity in which the Bank owns at least 50% of the voting stock; or

The majority of the Bank's board of directors changes without recommendation or approval of a majority of the incumbent board.



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**REPORT OF THE COMPENSATION COMMITTEE**

With respect to executive officer compensation in 2004, our full board was responsible for setting the amount of compensation of the Company's and the Bank's executive officers, including the chief executive officer, developing executive benefit plans and establishing other employee benefit plans or programs for the benefit of the Company's and the Bank's executive officers. Mr. McKee, a director who is also an employee of the Company, did not participate in the determination of the salaries and other compensation for the executive officers.

In the second quarter of 2004, the board of directors established a compensation committee. The compensation committee set the compensation of the Company's executive officers, including its chief executive officer, for 2005. The compensation committee now performs all of the functions relating to executive compensation previously undertaken by the full board of directors.

*Compensation Goals and Program Components.* The Company's executive compensation program presently consists of three components: base salary, a short-term cash incentive, and long-term, equity-based incentives.

The determinations of the board with respect to each executive officer's salary, bonus and long-term incentives were primarily based upon an analysis of industry and peer group standards and regional and national economic considerations. The board also relied upon external legal counsel, from time to time, and upon survey data produced by independent third parties. The board believes that base salary levels and other short and long-term incentives have historically been reasonable and sufficiently competitive. The board further believes that the degree of performance sensitivity in the compensation program is reasonable, taking into consideration the historical practices of the Company and the Bank and the interests of its shareholders.

*Base Salary.* The board sets base salary at levels somewhat below the average of regional, competitive peer Banks. Base salary is reviewed annually and is subject to adjustment based upon individual performance and changes in the regional competitive market.

During 2003, the board used this process to set Mr. McKee's 2004 base salary, effective January 1, 2004 at \$175,000, which was 29.6% more than his base salary in 2003.

During 2004, the compensation committee, using the same process described above, set Mr. McKee's 2005 base salary, effective January 1, 2005 at \$192,500, which was 10.0% more than his base salary in 2004.

*Annual Cash Incentive.* Executives and employees are eligible to receive annual cash bonuses. Bonuses are awarded based upon an analysis of individual and Company performance. There are no preestablished performance goals or objectives. For services he rendered in 2004, Mr. McKee received a bonus in the amount of \$40,000.

*Long-Term Incentives.* The Company has established a long-term incentive plan, called the 1999 Employees' Long-Term Incentive Plan, which permits the grant of stock options and restricted stock. During 2004, Mr. McKee received a grant of incentive stock options in the aggregate amount





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of 7,500 options. The grants were made in recognition of his service as a member of the Company's board of directors and for his service as the Chief Executive Officer of the Company. The exercise price of the options is the fair market value of Company common stock on the date of grant, or \$21.85 per share, with respect to options granted on March 24, 2004. Each option grant is first exercisable six months and one day following the date of grant.

*Section 162(m)*. Section 162(m) of the Internal Revenue Code of 1986, as amended, limits to \$1 million in a taxable year the deduction a company may claim for compensation paid to its chief executive and four other highest paid officers, unless certain performance-based conditions are met. Base salary and incentive bonuses are subject to the limitation. Options granted under the long-term incentive plan have been granted at fair market value. As a result, the value of the options is deemed performance-based and is not subject to the limitation. Based on the treatment of the options as performance-based, the board does not anticipate the payment of any compensation to an executive officer that would be affected by the limit.

The following members of our board of directors, a majority of the board, ratified the compensation recommendations. Each of the individuals below is an independent director as such term is defined in Section 121(A) of the American Stock Exchange listing standards.

Karl Brantley	Willis W. Dungan
Don L. Fulton	Donald L. Kilgore
David A. King	Herbert A. King
William M. Mars	

March 8, 2005

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

With respect to 2004 compensation, our entire board of directors, except for directors who are also employees of the Company, participated in deliberations concerning the compensation of the Company's executive officers. Steve Webb is a former officer of the Company. David P. Webb is a partner in a law firm that received compensation from the Company in 2004.

Don L. Fulton, Donald L. Kilgore and William M. Mars are the members of the board's compensation committee. None of the members of the compensation committee were officers or employees of the Company or any of its subsidiaries during 2004 or were formerly officers of the Company. Donald L. Kilgore is a partner of a law firm that received compensation from the Company in 2004.

**STOCK PERFORMANCE GRAPH**

The following performance graph compares the performance of the Company's common stock to the AMEX Market Index and to a peer group of 61 other regional bank holding companies for the Company's reporting period. The graph assumes that the value of the investment in the Company's common stock and each index was \$100 at December 31, 1999 and that all dividends were reinvested.



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All information relating to the Company's common stock in the performance graph has been adjusted to give effect to the three-for-two stock split of the Company's common stock effective January 2, 2002.

**Performance Graph****December 31, 1999 - December 31, 2004**

	<u>12/31/1999</u>	<u>12/31/2000</u>	<u>12/31/2001</u>	<u>12/31/2002</u>	<u>12/31/2003</u>	<u>12/31/2004</u>
Citizens Holding Company	100.00	84.51	127.68	125.98	185.92	171.59
AMEX Market Index	100.00	102.09	128.39	137.41	175.45	201.74
Regional-Southeast Banks	100.00	98.77	94.22	90.46	123.12	140.99

- (1) The bank holding companies included in the peer group are as follows: Alabama National Bancorp, AmSouth Bancorporation, Auburn National Banc Inc., Banc Corporation, Bancorpsouth Inc., Banctrust Financial Group, Bank of the Ozarks Inc., Beach First National Bankshares, Britton & Koontz Capital Corporation, Capital Bancorp Inc., Cardinal Financial Corp., Centerstate Banks of Florida, Citizens First Corp., Civitas Bankgroup, Inc., Colonial Bancgroup CL A, Community Bancshrs Inc. (Delaware), Community First Bancorp, Community National Bancorp, Community Trust BNCP Inc., Compass Bancshares Inc., Cornerstone Bancshares, Crescent Banking Company, Eastern Virginia Bankshares, Farmers Capital Bank CP, Fauquier Bancshares Inc., First Bancshares Inc. (Mississippi), First Capital Bank, First Community Bank Corp, First Horizon National, First M&F Corporation, First National Bancshares, First Security Bancorp, FNB Corporation (Florida), FNB Corporation (Virginia), Four Oaks Fincorp, Globe Bancorp Inc., Hancock Holding Co., Heritage Bankshares (Virginia), Hibernia Corporation, Iberiabank Corporation, Metairie Bank & Trust (Louisiana), Midsouth Bancorp Inc, Minden Bancorp Inc., Mountain National Bank, NB&T Financial Group, NBC Capital Corporation, Pensco Financial Services Corp., Peoples Banctrust Co., The Peoples Holding Company, Pinnacle Bancshares Corp., Pinnacle Financial

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PARTN, Premier Financial Bancorp, Regions Financial Corp., Republic Bancorp Inc. CLA, S.Y. Bancorp Inc., Security Bank Corp, Simmons First National. Corp., Southcoast Financial, Trustmark Corp., United Security Bancshares, and Whitney Holding Corporation.

Source: CoreData, Richmond Virginia

There can be no assurance that the Company's common stock performance will continue in the future with the same or similar trends depicted in the performance graph above. The Company will not make or endorse any predictions as to future stock performance.

**PROPOSAL NOS. 1 AND 2 SIZE OF THE BOARD AND THE  
ELECTION OF DIRECTORS**

Proposals Nos. 1 and 2 relate to the size of our board of directors and the election of two Class III directors to the board of directors.

*Proposal 1: Setting the Number Of Directors on the Board at Nine*

The board of directors currently consists of ten directors divided into three classes, with members of each class elected for a three-year term. The terms of the three classes are staggered in a manner so that only one class is elected by the shareholders annually. Our articles of incorporation provide for a board of directors consisting of not less than nine nor more than 25 directors and require the shareholders to set the actual number of directors to serve on the board at the annual meeting each year.

Proposal No. 1 sets the number of directors to serve on the board for the ensuing year at nine.

*How does Proposal No. 1 affect the election of directors?*

If the shareholders approve Proposal No. 1, the number of directors will be fixed at nine. Two Class III directors will be elected, each to serve a three-year term. If the shareholders do not approve Proposal No. 1, then the number of directors to serve on the board will remain at ten, as fixed by the shareholders at the 2004 annual meeting.

If the shareholders do not approve Proposal No. 1 and no shareholder has submitted a nominee or nominees for election as director(s) in accordance with the Company's bylaws, two Class III directors will still be elected, each to serve a three-year term, and one vacancy will remain on the board of directors until the 2006 annual meeting.

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If the shareholders do not approve Proposal No. 1 and a shareholder has properly submitted a nominee or nominees for election as director(s), you will be entitled to vote on all of the candidates for election as directors. In this event, the board of the Company intends to also nominate an individual for election as director to fill the position existing because the number of directors to serve on the board of directors remained at ten rather than being set at nine. The proxy holders, however, will not have discretionary authority to vote for any individuals nominated at the meeting, whether nominated by the board or by shareholders of the Company. This could result in an individual being elected to the board of directors whom the board of directors has not evaluated and approved.

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*What are the voting procedures?*

Shares represented by a properly signed and dated proxy card will be voted in accordance with the instructions on the card at the annual meeting. If the proxy card is signed but no instructions are given with respect to setting the number of directors to serve on the board, the proxy holders will vote the proxies received by them **FOR** setting the number of directors to serve on the board at nine.

**The board of directors unanimously recommends a vote **FOR** setting  
the number of directors to serve on the board at nine.**

*Proposal No. 2 Election of Two Class III Directors*

The board has nominated William M. Mars and A.T. Williams for election as Class III directors to serve until the 2008 annual meeting or until their successors are duly elected and qualified. The following table provides certain information about A.T. Williams. Mr. Mars presently serves as a member of our board of directors; information about his age and experience is provided above.

<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Business Experience During Past Five Years</u>
A.T. Williams	58	N/A	Mr. Williams, a CPA, has been the proprietor of A.T. Williams, CPA, since 1981. He is a member of the American Institute of Certified Public Accountants and the Mississippi Society of Certified Public Accountants.

Mr. McKee, the President and Chief Executive Officer of the Company, along with other Board members, recommended Mr. Williams for election to the board of directors.

*What happens if Proposal No. 1 is approved?*

If shareholders approve Proposal No. 1, the number of directors on the board will be fixed at nine. Two directors will be elected from the candidates listed above and any candidate that a shareholder has properly submitted as a nominee for election. Shareholders will be entitled to two votes for each share held and may cumulate votes as described above under the heading **Voting Your Shares**. The proxy holders will not have discretionary authority to vote for any nominee submitted by a shareholder. The two Class III nominees receiving the highest number of votes will be elected to serve as Class III directors.

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*What happens if the shareholders do not approve Proposal No. 1 and a shareholder has submitted a nominee for election as director?*

As stated above, the board intends to nominate an additional individual for election as a Class III director if Proposal No. 1 is not approved. Shareholders will be entitled to three votes for each

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share held and may cumulate votes. The three Class III nominees receiving the highest number of votes cast will be elected to serve as Class III directors. Cumulative voting is described above under the heading *Voting Your Shares*.

*What are the voting procedures?*

Shares represented by a properly signed and dated proxy card will be voted in accordance with the instructions on the card at the annual meeting. If the proxy card is signed but no instructions are given with respect to the election of directors, the proxy holders will vote the proxies received by them for the nominees listed above, and reserve the right to cumulate votes and distribute them among the nominees, in their discretion. If Proposal No. 1 is not approved, however, the proxy holders will not have discretionary authority to vote for any nominees, if any, nominated at the meeting, whether nominated by the board or by shareholders of the Company.

If for any reason one or more of the nominees named above is not available as a candidate for director, an event that the board of directors does not anticipate, the proxy holders will vote, in their discretion, for another candidate or candidates nominated by the board. If shareholders attending the annual meeting cumulate their votes such that all of the nominees above cannot be elected, the proxy holders will cumulate votes to elect as many of the nominees listed above as possible.

**The Company's board of directors unanimously recommends a vote FOR the election of**

**William M. Mars and A.T. Williams as Class III directors to the board of directors.**

### **PROPOSAL NO. 3 APPOINTMENT OF HORNE LLP AS THE COMPANY'S**

#### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

*Who are the Company's auditors?*

HORNE LLP, an independent registered public accounting firm, has served as auditor of the Company since December 31, 1998. The audit committee has appointed HORNE LLP to serve as auditor for the fiscal year ending December 31, 2005. Although the appointment of an independent auditor does not require approval by the shareholders, the board of directors has chosen to submit its selection for ratification by the shareholders. The audit committee, however, reserves the right to change independent auditors at any time, notwithstanding shareholder approval.

A representative of HORNE LLP is expected to attend the annual meeting. If present, the representative will have the opportunity to make a statement and will be available to respond to appropriate questions.

*What fees were paid to the auditors in 2004?*



Fees related to services performed for the Company by HORNE LLP in fiscal years 2004 and 2003 are as follows:

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	2004	2003
Audit Fees <sup>(1)</sup>	\$ 189,020	\$ 114,615
Audit-Related Fees <sup>(2)</sup>	7,500	5,800
Tax Fees <sup>(3)</sup>	14,445	15,970
All Other Fees <sup>(4)</sup>		1,100
<b>Total</b>	<b>\$ 210,965</b>	<b>\$ 137,485</b>

- (1) Audit fees include fees and expenses associated with the audit of the Company's annual financial statements, the reviews of the financial statements in the Company's quarterly reports on Form 10-Q, and regulatory and statutory filings. Approximately \$67,500 was related to the audit of internal controls under Section 404 of the Sarbanes-Oxley Act of 2002.
- (2) Audit-related fees primarily include professional services rendered for the audit of our employee benefit plans and technical accounting, consulting and research.
- (3) Tax fees and expenses include tax compliance services, tax advice, and tax planning assistance, all of which were pre-approved by the audit committee. All tax fees were permissible tax fees under SEC rules.
- (4) Other services consisted of assistance with data conversion for fixed assets and depreciation accounting.

In accordance with the procedures set forth in its charter, the audit committee pre-approves all auditing services and permitted non-audit services (including the fees and terms of those services) to be performed for the Company by its independent auditor prior to engagement for the services, subject to the de minimus exceptions for non-audit services permitted by SEC rules and regulations. For fiscal years 2004 and 2003, none of the fees listed under Audit-Related Fees, Tax Fees or All Other Fees were covered by the de minimus exception. The chairman of the audit committee has been delegated the authority by the committee to pre-approve the engagement of the independent auditors when the entire committee is unable to do so. The chairman must report all such pre-approvals to the entire audit committee at the next committee meeting.

*What are the voting procedures?*

Shares represented by a properly signed and dated proxy card will be voted in accordance with the instructions on the card at the annual meeting. If the proxy card is signed but no instructions are given with respect to the ratification of the appointment of the independent accountants, the proxy holders will vote **FOR** the ratification of the appointment of HORNE LLP as the Company's independent registered public accounting firm for the fiscal year 2005.

**The board of directors has unanimously approved the appointment of HORNE LLP as the Company's independent registered public accounting firm and recommends a vote FOR ratification of the appointment of HORNE LLP as the Company's independent registered public accounting firm for the fiscal year 2005.**

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**REPORT OF THE AUDIT COMMITTEE**

*The following Report of the Audit Committee shall not be deemed to be proxy soliciting material or to be filed with the SEC or subject to its proxy regulations or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, other than provided in Item 7(d)(3)(v) of Regulation 14A-101. The information provided in this section shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.*

The audit committee oversees the Company's financial reporting process on behalf of the board of directors. Management has the primary responsibility for the preparation, consistency and fair presentation of the financial statements, the accounting and financial reporting process, the systems of internal control, and procedures designed to ensure compliance with accounting standards, applicable laws and regulations. Management is also responsible for its assertion on the design and effectiveness of the Company's internal control over financial reporting. The Company's independent auditors are responsible for performing an audit in accordance with auditing standards generally accepted in the United States of America to obtain reasonable assurance that the Company's consolidated financial statements are free from material misstatement and for expressing an opinion on the conformity of the financial statements of the Company with accounting principles generally accepted in the United States of America. The internal auditors are responsible to the audit committee and the board of directors for testing the integrity of the financial accounting and reporting control systems and such other matters as the audit committee and the board of directors determine.

In fulfilling its oversight responsibilities, the committee reviewed and discussed the audited financial statements of the Company for the year ended December 31, 2004, and management's assertion on the design and effectiveness of the Company's internal control over financial reporting as of December 31, 2004, with management. The discussion addressed the quality, and not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The committee held 4 meetings during 2004.

The committee reviewed and discussed with the independent auditors, who are responsible for expressing an opinion on the conformity of the audited financial statements of the Company with generally accepted accounting principles, their judgments as to the quality of the Company's accounting principles and such other matters as are required to be discussed with the committee under generally accepted auditing standards including, without limitation, the matters required to be discussed by SAS 61 (Codification of Statements of Auditing Standards, AU §380). In addition, the committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), has discussed with the independent auditors the auditors' independence from management and the Company, and has considered the compatibility of non-audit services with the auditors' independence.

The committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The committee meets with the internal and independent

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auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the committee recommended to the board of directors (and the board has approved) that the audited financial statements and management's assertion on the design and effectiveness of internal control over financial reporting be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004, for filing with the SEC.

The members of the audit committee are:

Karl Brantley, Chairman  
Don L. Fulton  
Herbert A. King

March 8, 2005

**SHAREHOLDER PROPOSALS**

Shareholders having proposals that they desire to present at next year's annual meeting of shareholders of the Company should submit such proposals to the Company. If they desire that such proposals be included in the Company's proxy statement relating to such meeting, then the shareholders must deliver the proposals to the Company no later than November 23, 2005. To be included in the Company's proxy statement, all submissions must comply with the requirements of Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended. The board of directors directs interested shareholders to that rule. Proposals should be addressed to Greg L. McKee, Citizens Holding Company, 521 Main Street, Philadelphia, Mississippi 39350.

If a shareholder of the Company wishes to present a proposal at next year's annual meeting, but does not wish to have the proposal considered for inclusion in the Company's proxy statement, the shareholder must give written notice to the Company at the address noted above. The Company must receive the notice not later than February 6, 2006. If a shareholder fails to provide timely notice of a proposal to be presented at next year's annual meeting, the proxies designated by the board of directors of the Company will have discretionary authority to vote on such proposal.

**OTHER MATTERS**

As of the time this proxy statement was printed, management of the Company was unaware of any other matters to be brought before the annual meeting other than those set forth herein. However, if any other matters are properly brought before the annual meeting, the persons named in the enclosed form of proxy will have discretionary authority to vote all proxies with respect to such matters in accordance with their best judgment.



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**AVAILABILITY OF ANNUAL REPORT ON FORM 10-K**

The Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Securities Exchange Commission, have been mailed to shareholders prior to or with this proxy statement. The annual report does not form any part of the material for the solicitation of proxies.

Upon written request of any record holder or beneficial owner of shares entitled to vote at the annual meeting, the Company, without charge, will provide an additional copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2004. Requests should be mailed to Robert T. Smith, Treasurer and Chief Financial Officer, Citizens Holding Company, 521 Main Street, Philadelphia, Mississippi 39350.

By Order of the Board of Directors,

/s/ Greg L. McKee

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Greg L. McKee, President and Chief Executive Officer

March 23, 2005

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