CITIZENS INC
Form 10-K
March 13, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008
Commission file number 000-16509
CITIZENS, INC.
(Exact name of registrant as specified in its charter)

Colorado	**84-0755371**
(State of incorporation)	*(I.R.S. Employer Identification No.)*
400 East Anderson Lane, Austin, Texas	**78752**
(Address of principal executive offices)	*(Zip Code)*

(512) 837-7100
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No

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 requirement for the past 90 days. þ Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

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

As of the last business day of the registrant s most recently completed second fiscal quarter (June 30, 2008), the aggregate market value of the Class A voting stock held by non-affiliates of the registrant was approximately $231,917,000.

Number of shares of common stock outstanding as of March 1, 2009:

Class A:	45,646,015
Class B:	1,001,714

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Report incorporates certain portions of the definitive proxy materials of the registrant in respect to its 2009 Annual Meeting of Shareholders.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K are not statements of historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act), including, without limitation, statements specifically identified as forward-looking statements within this document. Many of these statements contain risk factors as well. In addition, certain statements in future filings by the Company with the Securities and Exchange Commission, in press releases, and in oral and written statements made by us or with the approval of the Company, which are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements, include, but are not limited to: (i) projections of revenues, income or loss, earnings or loss per share, the payment or non-payment of dividends, capital structure, and other financial items, (ii) statements of our plans and objectives by our management or Board of Directors including those relating to products or services, (iii) statements of future economic performance and (iv) statements of assumptions underlying such statements. Words such as believes, anticipates, expects, intends, targeted, may, will and similar expressions are intended to identify forward statements but are not the exclusive means of identifying such statements.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that could cause the Company s future results to differ materially from expected results include, but are not limited to:

- ***Changes in foreign and U.S. general economic conditions, including the performance of financial markets and interest rates;***
- ***Changes in consumer behavior, which may affect the Company s ability to sell its products and retain business;***
- ***The timely development of and acceptance of new products of the Company and perceived overall value of these products and services by existing potential customers;***
- ***Fluctuations in experience regarding current mortality, morbidity, persistency and interest rates relative to expected amounts used in pricing the Company s products;***
- ***Changes in assumptions related to deferred acquisition costs and the value of business acquired;***
- ***Regulatory, accounting or tax changes that may affect the cost of, or the demand for, the Company s products or services; and***
- ***Our concentration of business from persons residing in Latin America and the Pacific Rim; and***
- ***Our success at managing the risks involved in the foregoing.***

Such forward-looking statements speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events.

We make available, free of charge, through our Internet website (http://www.citizensinc.com), our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Section 16 reports filed by officers and directors, news releases, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such reports with, or furnish such reports to, the Securities and Exchange Commission. We are not including any of the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
PART I

Item 1. Business

Overview

We are an insurance holding company serving the life insurance needs of individuals in the United States and in more than 34 countries around the world. We pursue a strategy of offering ordinary whole life insurance with a focus on cash accumulation and final expense insurance products in niche markets where we believe we are able to achieve competitive advantages. Our core operations include issuing and servicing:

- U.S. Dollar-denominated ordinary whole life insurance policies predominantly to high net worth, high income foreign residents, principally in Latin America and the Pacific Rim, through approximately 2,200 independent marketing consultants;
- ordinary whole life insurance policies to middle income households in the midwest and the southern United States through approximately 300 independent marketing consultants; and
- final expense and limited liability property policies to middle to lower income households in Louisiana and Arkansas through approximately 540 employee and independent agents in our home service distribution channel.

We have provided our insurance products internationally since 1975 and domestically since 1969. We believe we are one of the leading writers of U.S. Dollar-denominated ordinary whole life insurance outside of the United States. In October 2004, we entered the home service distribution channel in Louisiana through our acquisition of Security Plan Life Insurance Company (SPLIC) and its subsidiary, Security Plan Fire Insurance Company (SPFIC), (collectively referred to as Security Plan), a provider of final expense ordinary whole life insurance and limited liability property insurance. In 2008, we purchased Ozark National Life Insurance Company (ONLIC), extending our Home Service business into Arkansas. ONLIC is also a provider of final expense whole life insurance.

We believe the foreign markets we target have a relatively limited number of competitors and that the domestic markets we target are underserved by the life insurance industry, and these markets therefore offer attractive opportunities for expansion. We capitalize on the experience of our management team in marketing operations and achieve economies of scale in administrative operations. We seek to generate above-average returns using knowledge of our niche markets and our well-established distribution channels. We believe our underwriting processes, policy terms, pricing practices and proprietary administrative systems enable us to generate meaningful gross profit margins.

We were formed in 1969 by our Chairman, Harold E. Riley. Prior to our formation, Mr. Riley had many years of experience in the international and domestic life insurance business. Our business has grown significantly, both internationally and domestically, in recent years. Revenues rose from $96.7 million in 2004 to $146.7 million in 2008. During the five years ended December 31, 2008, our assets grew from $661.2 million to $832.3 million. Total stockholders equity increased from $135.1 million at December 31, 2004 to $171.5 million at December 31, 2008. See Item 6. Selected Financial Data in this report.

Our Operating Segments

Our business is comprised of three primary operating business segments:

- Life Insurance;
- Home Service Insurance; and
- Other Non-insurance Enterprises.

See Note 10 of the Notes to Consolidated Financial Statements for operating results of our segments for each of the years ended December 31, 2008, 2007 and 2006.

Life Insurance

Our Life Insurance segment consists of issuing ordinary whole life insurance in U.S. Dollar-denominated amounts to foreign residents and domestically through independent marketing firms and consultants. For the majority of our business, we retain only the first $100,000 of risk on any one life.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

International

We focus on sales of U.S. Dollar-denominated ordinary whole life insurance policies to high net worth, high income residents in Latin America and the Pacific Rim. We have successfully participated in the foreign marketplace since 1975. We believe positive attributes of our international insurance business include:

- policies are typically larger face amounts than in our U.S. operations, resulting in lower underwriting and administrative costs per policy;
- premiums are paid annually rather than monthly or quarterly, which saves us administrative expenses, accelerates cash flow and results in lower policy lapse rates than premiums with more frequently scheduled payments;
- persistency is generally higher than U.S. policies;
- our mortality rates are as good or better than those in the United States, because our foreign insureds are high net worth individuals in the top income brackets in their respective countries, who have lifestyles less prone to early death than the general population; and
- we do not advance commissions, so we have limited financial exposure in the event monies are advanced and insurance revenues do not cover the advances.

We have implemented several policies and procedures to reduce the risks of asset and premium loss relating to our international business. We have no offices, employees or assets outside of the United States. All of our premiums must be paid in U.S. Dollars through a U.S. financial institution by check, wire or credit card. The policies we issue contain limitations on benefits for certain causes of death, such as homicide and careless driving. We have also developed disciplined underwriting criteria, which include medical reviews of applicants and background and reference checks. We have a claims policy that requires investigation of substantially all death claims. Additionally, we perform background reviews and reference checks of prospective marketing firms and consultants.

We accept applications for international insurance policies submitted by independent marketing firms and consultants. These persons specialize in marketing life insurance products and generally have several years of insurance marketing experience. We maintain standard contracts with the independent marketing firms pursuant to which they provide recruitment, training and supervision of their managers and associates in the placement of our products; however, all associates of these firms also contract directly with us as independent contractors and receive their compensation directly from us. Accordingly, should an arrangement between any independent marketing firm and us be terminated for any reason, we believe we would continue with the existing marketing arrangements with the associates of these firms without a material loss of sales. Our standard agreement with independent marketing firms and consultants provides they are independent contractors responsible for their own operation, expenses and that they are the representative of the prospective insured. In addition, the marketing firms also guarantee any debts of their associates to us. The marketing firms receive commissions on all new and renewal policies placed by them or their associates. All of these contracts provide that the independent marketing firms and consultants are aware of and responsible for compliance with local laws.

Insurance policy applications and premium payments in U.S. Dollars are submitted by the independent consultants to us and we review the applications in our home offices in Austin, Texas. We require medical exams of our prospective insureds through a network of physicians we have developed. Approvals for policy issuance are made in our Austin office and policies are issued and delivered to our independent consultants, who deliver the policies to the insureds.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

The following table sets forth, by territory, our total percentages of direct collected premiums from our international life insurance business for the periods indicated. The information is presented in accordance with statutory accounting practices prescribed by the state of Colorado, the state of domicile of our subsidiary that writes all of our international business, CICA Life Insurance Company of America (CICA).

Country	Years ended December 31, 2008		2007 (In thousands)		2006	
Colombia	$ 19,473	20.6%	$ 24,352	26.2%	$ 22,879	28.0%
Taiwan	13,793	14.6	12,567	13.5	10,077	12.3
Venezuela	12,594	13.4	11,631	12.5	8,907	10.9
Ecuador	10,889	11.5	9,641	10.4	7,410	9.1
Argentina	9,580	10.2	9,099	9.8	8,975	11.0
Other Non-U.S.	27,988	29.7	25,525	27.6	23,500	28.7
Total	$ 94,317	100.0%	$ 92,815	100.0%	$ 81,748	100.0%

The ordinary whole life policies issued to residents of foreign countries during 2008 had an average face amount of approximately $70,000.

International Products

We offer several ordinary whole life insurance products designed to meet the needs of our non-U.S. policy owners. These policies have been structured to provide:

- U.S. Dollar-denominated cash values that accumulate, beginning in the first policy year, to a policyholder during his or her lifetime;
- premium rates that are competitive with or better than most foreign local companies;
- a hedge against local currency inflation;
- protection against devaluation of foreign currency;
- capital investment in a more secure economic environment (i.e., the United States); and
- lifetime income guarantees for an insured or for surviving beneficiaries.

Our international products have living benefit features. Every policy contains guaranteed cash values and is participating (i.e., provides an annual cash dividend). The major portion of each premium payment is used to provide insurance protection and build guaranteed cash values, while a lesser portion is used for retirement benefit accumulation. Once a policy owner pays the annual premium and the policy is issued, we immediately pay a cash dividend to the owner. The policy owner has several options with regard to the dividend, including the right to assign dividends to our stock investment plan, registered under the Securities Act of 1933 (the Securities Act), and administered in the United States by our unaffiliated transfer agent.

International Competition

The life insurance business is highly competitive. We compete with a large number of stock and mutual life companies internationally and domestically, as well as with financial institutions that offer insurance products. There are more than 1,000 life insurance companies in the United States, some of which also provide insurance to foreign residents.

Given the variety of foreign markets in which we provide ordinary whole life insurance, it is not possible to ascertain our competitive position. We face competition primarily from companies formed and operated in the country in which the insureds reside, from companies that operate in the same manner as we do and from companies that are foreign to the countries in which policies are sold, but issue insurance policies denominated in the local currency of those countries. Competitors in our international markets who operate in the same manner as we do include National Western Life Insurance Company, Best Meridian Insurance Company and, to a lesser extent, Pan American Life Insurance Company and American International Group, although these companies tend to focus on non-traditional life

insurance and annuity products. A substantial number of companies may be deemed to have a competitive advantage over us due to their significantly greater financial resources, histories of successful operations and larger marketing forces.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

We believe that our experience, combined with the special features of our policies, allow us to compete effectively in pursuing new business.

Because premiums on our international policies must be paid in U.S. Dollars drawn on U.S. banks, and we pay claims in U.S. Dollars, we provide a product that is different from the products provided by foreign-domiciled companies. Our international policies are usually acquired by significant net worth persons in the top income brackets of their respective countries. The policies sold by our local competitors are generally offered broadly and are priced using the mortality of the entire population of the geographic region. Because of the predominance of lower incomes in most of these countries, the mortality experience tends to be higher on average compared to the United States, causing mortality charges that are higher than they would be if they were based on the mortality experience of only the local population in the upper net worth and income categories. Additionally, the assets backing the reserves for the foreign company policies must be substantially invested in the respective countries and, therefore, are exposed to the inflationary risks and social or economic crises that tend to impact many foreign countries.

Domestic

In the midwest and the southern United States, we seek to serve middle income households through the sale of cash accumulation ordinary whole life insurance products. The majority of this business has been blocks of business of insurance companies we have acquired over the past 15 years.

Our distribution strategy is geared towards attracting marketing consultants, comprised primarily of part-time, second-career sales associates (such as teachers, coaches, community leaders and others) in rural and urban areas. In the United States, our domestic sales and marketing is conducted predominantly through independent marketing consultants.

Our product strategy is to introduce our cash accumulation ordinary whole life products to newly appointed independent marketing consultants of companies we have acquired, while continuing to service the needs of acquired policyholders.

Over the past three years, new product sales have trended downward as we have tightened underwriting on business that did not meet our profitability objectives.

The following table sets forth our direct collected premiums by state for the periods indicated, in accordance with statutory accounting practices prescribed by the states of domicile of our insurance company subsidiaries.

State	2008		2007		2006	
	Years ended December 31, (In thousands)					
Texas	$ 7,306	41.6%	$ 7,481	39.8%	$ 7,962	39.6%
Missouri	2,073	11.8	2,309	12.3	2,519	12.5
Oklahoma	1,920	10.9	2,136	11.4	2,363	11.8
Kentucky	1,838	10.5	2,224	11.8	2,436	12.1
Other States	4,415	25.2	4,635	24.7	4,829	24.0
Total	$ 17,552	100.0%	$ 18,785	100.0%	$ 20,109	100.0%

A number of domestic life insurance companies we have acquired also had issued blocks of accident and health insurance policies, which we did not consider to be a core part of our business. Effective January 1, 2004, we entered into a coinsurance agreement with an unaffiliated insurance company under which it assumed substantially all of our accident and health policies. The premium amounts ceded under the coinsurance agreement in the years ended December 31, 2008, 2007, and 2006 were $7.5 million, $8.2 million and $8.9 million, respectively.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Domestic Products

The life insurance products we sell domestically focus primarily on living needs and provide benefits focused toward accumulating money for the insured. The features of our domestic life insurance products include:

- cash accumulation/living benefits;
- tax-deferred interest earnings;
- guaranteed lifetime income options;
- monthly income for surviving family members;
- accidental death benefit coverage options; and
- an option to waive premium payments in the event of disability.

Our life insurance products are principally designed to address the insured s concern about outliving his or her monthly income, while at the same time providing death benefits in case of an early demise. The primary purpose of our product portfolio is to help the insured create capital for needs such as retirement income, children s higher educational funds, business opportunities, emergencies and health care needs.

Domestic Competition

The U.S. life insurance industry is a mature industry that, in recent years, has experienced little to no growth. Competition is intense because the life insurance industry is consolidating, with larger, more efficient and more effective organizations emerging from consolidation. Additionally, legislation became effective in the United States in the year 2000 that permits commercial banks, insurance companies and investment banks to combine. These factors have increased competitive pressures in general.

Many domestic life insurance companies have significantly greater financial, marketing forces and other resources, longer business histories and more diversified lines of insurance products than we do. We also face competition from companies marketing in person as well as with direct mail sales campaigns. Although we may be at a competitive disadvantage to these entities, we believe that our premium rates and policy features are generally competitive with those of other life insurance companies selling similar types of ordinary whole life insurance.

Home Service Insurance

SPLIC has conducted its operations since 1948. It focuses on the life insurance needs of the middle to lower income market in Louisiana. SPLIC predominantly sells ordinary whole life products to provide a means of funding individuals final expenses, primarily consisting of funeral and other burial costs. The policies are sold and serviced through SPLIC s home service marketing distribution system of approximately 320 employee agents who work full time on a route system to sell policies, collect premiums and service policyholders. Over its history, SPLIC s life insurance sales have been supplemented by the acquisition of numerous home service companies in Louisiana. The face amount of SPLIC s average life insurance policy is approximately $7,000 per policy issued in 2008, and therefore the underwriting performed on these applications is limited.

We offer limited-liability, named peril property coverage to middle to lower income residents of Louisiana through SPFIC, which utilizes many of the same employee agents as SPLIC. SPFIC s policies provide $30,000 maximum coverage on any one dwelling and contents, while content only coverage and dwelling only coverage is limited to $20,000. At December 31, 2008, SPFIC had total assets of approximately $7.9 million and revenues for the year then ended of approximately $5.0 million.

In the fourth quarter of 2008, the Company acquired Ozark National Life Insurance Company (ONLIC) for $8.0 million, plus $900,000 in acquisition related costs. ONLIC specializes in the sale of ordinary life insurance policies in Arkansas through its pre-need and home service distribution channels.

Home Service Products

Our home service insurance products consist primarily of small face amount ordinary whole life policies, which are designed to fund final expenses for the insured, primarily consisting of funeral and burial costs. To a much lesser extent, our Home Service Insurance segment sells limited-liability, named peril property policies covering dwellings and contents. We intend to continue emphasis upon growth within this segment via direct sales and acquisitions.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Home Service Competition

In the Home Service segment, we face competition in Louisiana and Arkansas from other companies that specialize in home service distribution of insurance. Competitors include American General Life Insurance Company, American National Life Insurance Company, Kilpatrick Life Insurance Company, Monumental Life Insurance Company and Union National Life Insurance Company. SPLIC also competes indirectly with other domestic life insurance companies operating in Louisiana. Security Plan competes based upon its emphasis on personal service to its customers.

Other Non-Insurance Enterprises

Other Non-insurance Enterprises includes Computing Technology, Inc., which provides data processing services to the Company, Insurance Investors, Inc., which provides aviation transportation to the Company, and Funeral Homes of America, a small Louisiana funeral home. This segment also includes the results of Citizens, Inc., the parent Company.

Operations and Technology

Our administrative operations are conducted primarily at our executive offices in Austin, Texas through approximately 105 administrative, operating and underwriting personnel. Operations of Security Plan are conducted to a large degree from our district offices and support center in Donaldsonville, Louisiana through approximately 70 operations personnel. ONLIC operations are conducted from Little Rock, Arkansas through approximately 10 employees. At our executive offices, we perform policy design, marketing oversight, underwriting, accounting, customer service, administration and investing activities.

Our senior management has significant experience in insurance company application system design and implementation. Since the mid-1960 s, our senior management has been leading development of evolving insurance applications. We have a single integrated system for our entire Company, which is a centrally-controlled, mainframe-based administrative system. Functions of our administrative system include policy set up, administration, billing and collections, commission calculation, valuation, automated audit functions, storage backup and related tasks. Each company we acquire is converted onto our administrative system. This system has been in place for many years, and we believe it is a significant asset to us. We update our administrative system on an ongoing basis. This system is also capable of significant expansion without substantial capital outlay or increase in staff. Therefore, we believe we can achieve additional growth without costly administrative system expenditures, delays or failures or addition of substantial staffing.

Regulation

Our U.S. insurance operations are subject to a wide variety of laws and regulations. State insurance laws establish supervisory agencies with broad regulatory authority to regulate most aspects of our U.S. insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of each of the states in which they are licensed. In addition, U.S. laws, such as the U.S.A. Patriot Act of 2001, the Gramm-Leach-Bliley Act of 1999, the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001, and the Sarbanes-Oxley Act of 2002, are examples of U.S. regulation that affect our business. We are subject to comprehensive regulations under the U.S. Patriot Act with respect to money laundering, as well as federal regulations regarding privacy and confidentiality. In addition, other federal laws and regulations apply to us in areas such as pension regulations, privacy, tort reform and taxation. Also, various forms of direct federal regulation of insurance have been proposed from time to time. Our insurance products and thus our businesses also are affected by U.S. federal, state and local tax laws.

The purpose of the laws and regulations that affect our insurance business is primarily to protect our insureds and not our stockholders. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. In addition, insurance regulatory authorities (including state law enforcement agencies and attorneys general) periodically make inquiries and regularly conduct examinations regarding compliance by us and our subsidiaries with insurance, and other laws and regulations regarding the conduct of our insurance businesses. We cooperate with such inquiries and examinations and take corrective action when warranted.

Our insurance subsidiaries are collectively licensed to transact business in 32 states. We have insurance subsidiaries domiciled in the states of Colorado, Louisiana, Arkansas and Texas. Our U.S. insurance subsidiaries are licensed and regulated in all jurisdictions in which they conduct insurance business. The extent of this regulation varies, but most jurisdictions have laws and regulations governing the financial condition of insurers, including standards of solvency, types and concentration of investments, establishment and maintenance of reserves, credit for reinsurance and requirements of capital adequacy, and the business conduct of insurers, including marketing and sales practices and claims handling. In addition, statutes and regulations usually require the licensing of insurers and their agents, the approval of policy forms and related materials and the approval of rates for certain types of insurance products.

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All U.S. jurisdictions in which our U.S. insurance subsidiaries conduct insurance business have enacted legislation that requires each U.S. insurance company in a holding company system, except captive insurance companies, to register with the insurance regulatory authority of its jurisdiction of domicile and to furnish that regulatory authority financial and other information concerning the operations of, and the interrelationships and transactions among, companies within its holding company system that may materially affect the operations, management or financial condition of the insurers within the system. These laws and regulations also regulate transactions between insurance companies and their parents and affiliates. Generally, these laws and regulations require that all transactions within a holding company system between an insurer and its affiliates be fair and reasonable and that the insurer s statutory capital and surplus following any transaction with an affiliate be both reasonable in relation to its outstanding liabilities and adequate to its financial needs. Statutory surplus is the excess of admitted assets over the sum of statutory liabilities and capital. For certain types of agreements and transactions between an insurer and its affiliates, these laws and regulations require prior notification to, and non-disapproval or approval by, the insurance regulatory authority of the insurer s jurisdiction of domicile.

The payment of dividends or other distributions to us by our U.S. insurance subsidiaries is regulated by the insurance laws and regulations of their respective states of domicile. The laws and regulations of some of these jurisdictions also prohibit an insurer from declaring or paying a dividend except out of its earned surplus or require the insurer to obtain regulatory approval before it may do so.

In addition, insurance regulators may prohibit the payment of ordinary dividends or other payments by our insurance subsidiaries to us (such as a payment under a tax sharing agreement or for employee or other services) if they determine that such payment could be adverse to our policyholders or contract holders of the subsidiary.

The laws and regulations of the jurisdictions in which our U.S. insurance subsidiaries are domiciled require that a controlling party obtain the approval of the insurance commissioner of the insurance company s jurisdiction of domicile prior to acquiring control of the insurer.

Risk-based capital requirements are imposed on life and property and casualty insurance companies. The risk-based capital ratio is determined by dividing an insurance company s total adjusted capital, as defined, by its authorized control level risk-based capital. Companies that do not meet certain minimum standards require specified corrective action. The risk-based capital ratios for CICA, SPLIC and CNLIC exceed such minimum ratios. At December 31, 2008, SPFIC and ONLIC had total adjusted capital below minimum standards. The Company has a plan of action to remediate this issue in the near future and will be addressing the issue with the regulator in the respective domiciliary states.

Item 1A. Risk Factors

Investing in our Company involves risks. Set forth below are risks with respect to our Company. Readers should carefully review these risks, together with the other information contained in this report. The risks and uncertainties we have described in this report are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently deem not material, may also adversely affect our business. Any of the risks discussed in this report or that are presently unknown or not material, if they were to actually occur, could result in a significant adverse impact on our business, operating results, prospects or financial condition. References in the risk factors below to we, us, our, Citizens and like terms relate to Citizens, Inc. and its subsidiaries on a U.S. GAAP consolida financials basis, unless specifically identified otherwise. We operate our subsidiaries as separate and distinct entities with respect to corporate formalities.

Risks Relating to the Business of Citizens

A substantial amount of our revenue comes from foreign residents and is subject to risks associated with the possible application of foreign insurance and securities laws and regulations to our business, as well as risks from political and economic instability and currency or asset transfer restrictions.

A substantial part of our insurance policy sales are from foreign countries, primarily those in Latin America and the Pacific Rim. There is a risk that we may lose a significant portion of these sales should adverse events occur in these countries.

We do not accept insurance applications outside of the United States. All of our assets are in the United States and all policy premiums must be paid to us in U.S. Dollars drawn on U.S. banks. As a result, we have never qualified to do business in any foreign country and have never submitted our insurance policies issued to foreign residents for review by any insurance regulatory agency. We sell our policies to foreign residents using foreign independent marketing firms and consultants, and we rely on those persons to comply with applicable laws in selling our products and offering policyholders the opportunity to participate in our stock investment plan, which is administered in the United States by our transfer agent.

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The government of a foreign country could determine that its residents may not buy life insurance from us unless we became qualified to do business in that country or unless our policies purchased by its residents receive prior approval of its insurance regulators. If this were to occur, our policy sales to that country s residents would cease before any such approvals could be obtained. Also, there is no assurance that we would be able to qualify to do business in any foreign country or that its insurance regulatory authorities would approve our policies. We could also face sanctions, including fines and penalties, if a country s authorities determined any failure to qualify or otherwise comply with its laws was willful or ongoing. Any of the foregoing could reduce our revenues and materially adversely affect our results of operations and financial condition. Additionally, we do not determine whether our independent marketing consultants are required to be licensed to sell insurance in the countries in which they make insurance sales. If our marketing consultants were not in compliance with applicable laws, including licensing laws, they could be required to cease operations, which would reduce our revenues. We have not obtained any advice of counsel in any foreign jurisdictions with respect to these matters. We are unable to quantify the effect of foreign regulation on our business if regulation were to be imposed on us, but we believe we could expend substantial amounts of time and incur substantial expense in complying with any foreign regulation, and we may decide to avoid a market if foreign regulation were imposed.

The offer and sale of our Class A common stock through the Citizens, Inc. Stock Investment Plan (the Plan) is registered under the Securities Act of 1933. Most all of our foreign policyholders choose to invest certain cash benefits they receive with respect to their policies in our Class A common stock through the Plan, which is not registered in any foreign jurisdiction. We believe participation in the Plan by foreign policyholders broadens our shareholder base and enhances liquidity for our Class A shares. We have not obtained any advice of counsel in any foreign jurisdiction as to whether any such participation by foreign residents is subject to foreign securities laws or regulations or whether the independent marketing consultants are subject to licensing requirements in connection with foreign policyholder participation in the Plan. If a securities regulatory authority were to determine the offer and sale of our Class A common stock through the Plan were contrary to applicable laws and regulations, we could be faced with cease and desist orders, fines and penalties, and reduced participation in the Plan by our foreign policyholders. We could also be faced with private disputes relating to the Plan, including the possibility of securities law claims within the United States. In the absence of countervailing considerations, we would expect to defend any such claims and we could incur significant defense costs, including not only attorneys fees and other direct litigation costs, but also the expenditure of substantial amounts of management time that otherwise would be devoted to our business. This could materially, adversely affect our results of operations and financial condition.

Additionally, if economic or political crises were to occur in any of the countries where our foreign policyowners reside, our revenues would likely decline. Also, currency control laws, regulations and decrees in foreign countries, if implemented, could materially adversely affect our revenues by imposing restrictions on asset transfers outside of a country where our insureds reside.

While our management has more than 40 years of experience in writing life insurance policies for foreign residents without any significant regulatory action or any lengthy currency controls relating to our foreign resident insureds, there can be no assurance that such situations will not occur and that our revenues, results of operations and financial condition will not be materially, adversely affected if they do occur.

The United States and global financial markets have been experiencing extreme and unprecedented volatility and disruption. As a consequence, we are exposed to significant financial and capital markets risk, including changes in equity prices, which may have a material adverse effect on our results of operations, financial condition and liquidity.

Markets in the United States and elsewhere have experienced extreme volatility and disruption for more than 12 months, due largely to the stresses affecting the global banking system, which accelerated significantly in the second half of 2008. The global economy has entered a severe recession that is likely to persist through and beyond 2009, despite significant past and expected governmental intervention in the world s major economies. These circumstances have exerted significant downward pressure on prices of equity securities and virtually all other asset classes and have resulted in substantially increased market volatility, severely constrained credit and capital markets,

particularly for financial institutions, and an overall loss of investor confidence. Economic conditions have continued to deteriorate in 2009.

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As an insurance holding company with significant investment exposure, we have been adversely affected by the volatility and disruption in the global capital markets and face significant financial and capital markets risk in our operations. During the course of 2008, the significant declines in equity markets negatively impacted our invested assets. Unlike other life insurers, however, we were not invested in riskier debt investments, such as subprime, collateralized debt obligations or mortgage backed securities. Rather, throughout the history of the Company, including the current economic crisis, we have maintained a conservative investment portfolio in which we principally invest in debt securities of U.S. Government sponsored enterprises. Furthermore, we do not use leverage as part of our investment philosophy. Despite our conservative investment philosophy, we incurred $23.5 million in realized losses related to other-than-temporary impairments on our limited mutual fund positions in 2008, due to the significant volatility and decline in the financial markets. We expect continued downward pressure on these equity positions in 2009. In addition, the current severe recession could result in reduced persistency of our insurance policies in force, as well as reduced new insurance policy sales, which could be expected to materially, adversely affect our results of operations and financial condition.

***Unrealized losses may be realized*.**

Our total gross unrealized losses on our securities portfolio at December 31, 2008 were $10.4 million net of tax compared to $3.8 million net of tax at December 31, 2007. At December 31, 2008, the Company impaired its equity securities that were in a loss position and recorded a write-down to fair value in accordance with our other than temporary impairment (OTTI) analysis based on current accounting guidance. The realized loss was $23.5 million and was recorded through income. Furthermore, there is the potential for future write downs relative to these equity securities if their fair values continue to decline and our OTTI analysis indicates such write downs are necessary. Currently, our debt securities are marked to market as an unrealized loss through equity. Although we intend to hold these debt instruments to maturity, realized losses or impairments may be required and may have a material adverse impact on our results of operations and financial condition. In 2008, we also permanently impaired two debt securities related to credit quality.

Our actual claims losses may exceed our reserves for claims and we may be required to establish additional reserves, which in turn may adversely impact our results of operations and financial condition.

We maintain reserves to cover our estimated exposure for claims relating to our issued insurance policies. Reserves, whether calculated under accounting principles generally accepted in the United States, or GAAP, or statutory accounting practices prescribed by various state insurance regulators, do not represent an exact calculation of exposure, but instead represent our best estimates, generally involving actuarial projections, of what we expect claims will be based on mortality assumptions that are determined by various regulatory authorities. Many reserve assumptions are not directly quantifiable, particularly on a prospective basis. In addition, when we acquire other domestic life insurance companies, our assessment of the adequacy of acquired policy liabilities is subject to our estimates and assumptions. Reserve estimates are refined as experience develops, and adjustments to reserves are reflected in our statements of operations for the period in which such estimates are updated. Because establishment of reserves is an inherently uncertain process involving estimates of future losses, future developments may require us to increase claims reserves, which may have a material adverse effect on our results of operations and financial condition in the period in which such increase is reserved.

We may be required to accelerate the amortization of deferred acquisition costs and the costs of customer relationships acquired, which would increase our expenses and adversely affect our results of operations and financial condition.

At December 31, 2008, we had $109.1 million of deferred policy acquisition costs, or DAC. DAC represents costs that vary with and are primarily related to the sale and issuance of our insurance policies and are deferred and amortized over the estimated life of the related insurance policies. These costs include commissions in excess of ultimate renewal commissions, solicitation and printing costs, sales material and some support costs, such as underwriting and contract and policy issuance expenses. Under GAAP, DAC is amortized to income over the lives of the underlying policies, in relation to the anticipated recognition of premiums.

In addition, when we acquire a block of insurance policies, we assign a portion of the purchase price to the right to receive future net cash flows from existing insurance and investment contracts and policies. This intangible asset, called the cost of customer relationships acquired, or CCRA, represents the actuarially estimated present value of future cash flows from the acquired policies. At December 31, 2008, we had $33.8 million of CCRA. We amortize the value of this intangible asset in a manner similar to the amortization of DAC.

Our amortization of DAC and CCRA generally depends upon anticipated profits from investments, surrender and other policy charges, mortality, morbidity, persistency and maintenance expense margins. For example, if our insurance policy lapse and surrender rates were to exceed the assumptions upon which we priced our insurance policies, or if actual persistency proves to be less than our persistency assumptions, especially in the early years of a policy, we would be required to accelerate the amortization of expenses we deferred in connection with the acquisition of the policy. We regularly review the quality of our DAC and CCRA to determine if they are recoverable from future income. If these costs are not recoverable, they are charged to expenses in the financial period in which we make this determination.

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Unfavorable experience with regard to expected expenses, investment returns, surrender and other policy changes, mortality, morbidity, lapses or persistency may cause us to increase the amortization of DAC or CCRA, or both, or to record a current period expense to increase benefit reserves, any of which could have a material adverse effect on our results of operations and financial condition.

We may be required to recognize an impairment in the value of our goodwill, which would increase our expenses and materially adversely affect our results of operations and financial condition.

Goodwill represents the excess of the amount paid to acquire various life insurance companies over the fair value of their net assets at the date of the acquisition. Under GAAP, we test the carrying value of goodwill for impairment at least annually at the reporting unit level, which is either an operating segment or a business one level below the operating segment. Goodwill is impaired if its carrying value exceeds its implied fair value. This may occur for various reasons, including changes in actual or expected earnings or cash flows of a reporting unit, generation of earnings by a reporting unit at a lower rate than similar businesses or declines in market prices for publicly traded businesses similar to our reporting units. If any portion of our goodwill becomes impaired, we would be required to recognize the amount of the impairment as a current-period expense, which could have a material adverse effect on our results of operations and financial condition. We perform assessments of whether goodwill is impaired on an annual basis. No impairment of goodwill was identified by us in 2007 or 2008; however, we wrote off $1.0 million of goodwill in 2006.

We are a defendant in lawsuits, which may adversely affect our financial condition and detract from the time our management is able to devote to our business, and we are subject to risks related to litigation and regulatory matters.

We and certain of our insurance subsidiaries are defendants in various lawsuits described in Item 3 of this report, which could expose us to class action damages and have a material adverse affect on our results of operations and financial condition. These lawsuits are in various stages of discovery and procedural processes, and it is not possible to evaluate potential monetary exposure to us or our subsidiaries. In addition, litigating these cases is costly and can be time consuming.

Reinsurers with which we do business could increase their premium rates and may not honor their obligations, leaving us liable for the reinsured coverage.

We reinsure certain risks underwritten by our various operating segments. Market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. The high cost of reinsurance or lack of affordable coverage could adversely affect our results of operations and financial condition.

Our reinsurance facilities are generally subject to annual renewal. We may not be able to maintain our current reinsurance facilities and, even if highly desirable or necessary, we may not be able to obtain replacement reinsurance facilities in adequate amounts or at favorable rates. If we are unable to renew our expiring facilities or to obtain new reinsurance facilities, either our net exposures would increase or, if we are unwilling or unable to bear an increase in net exposures, we may have to reduce the level of our underwriting commitments. In addition, our reinsurance facilities may be cancelled, pursuant to their terms, upon the occurrence of certain specified events, including a change of control of our Company (generally defined as the acquisition of 10% or more of our voting equity securities) or the failure of our insurance company subsidiaries to maintain the minimum required levels of statutory surplus. Any of these potential developments could materially adversely affect our revenues, results of operations and financial condition.

For the majority of our business, we retain only the first $100,000 of risk on any one life and cede the remaining risk to our reinsurers. In 2008, we reinsured $302 million of face amount of our life insurance policies, and in 2007 we reinsured $274 million of face amount of our life insurance policies. Amounts reinsured in 2008 and 2007 represented 6.1% and 5.7%, respectively, of the face amount of life insurance in effect in those years. Although the cost of reinsurance is, in some cases, reflected in premium rates, under certain reinsurance agreements, the reinsurer may increase the rate it charges us for reinsurance. If our cost of reinsurance were to increase, we might not be able to recover these increased costs, and our results of operations and financial condition could be materially and adversely affected.

Although our reinsurers are liable to us to the extent of the ceded reinsurance, we remain liable to our policyholders as the direct insurer with respect to all reinsured risks. As a result, ceded reinsurance arrangements do not eliminate our obligation to pay claims. We are subject to the credit risks of our reinsurers. Our reinsurers may not pay the reinsurance recoverables that they owe to us or they may not pay such recoverables on a timely basis. A reinsurer s insolvency, underwriting results or investment returns may affect its ability to fulfill its reinsurance obligations to us. Our receivable from reinsurers was $13.2 million at December 31, 2008 and $13.5 million at December 31, 2007.

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In addition, effective January 1, 2004, one of our insurance subsidiaries entered into a coinsurance agreement with an unaffiliated company under which it ceded substantially all of the accident and health insurance policies issued. Our subsidiary has established trust accounts totaling $5.5 million for payment to the coinsurance company for claims under these policies, which is in excess of statutory liabilities. To the extent the sums in the trust accounts are not sufficient to cover claims under such policies and the coinsurance company does not meet its obligations under the coinsurance agreement, our subsidiary would be contingently liable to the policyholders.

We may not be able to continue our past strategy of acquiring other U.S. life insurance companies, and we may not realize improvements to our financial results as a result of our past or any future acquisitions.

We have acquired 15 U.S. life insurance companies since 1987. Our objective in this strategy has been to increase our assets, revenues and capital, improve our competitive position and increase our earnings, in part by realizing certain operating efficiencies associated with economies of scale. Prior to 2004, increases in earnings from the completed acquisitions were not significant.

We evaluate possible acquisitions of other insurance companies on an ongoing basis. While our business model is not dependent primarily upon acquisitions, the time frame for achieving or further improving our market positions can be shortened through acquisitions. There can be no assurance that suitable acquisitions presenting opportunities for continued growth and operating efficiencies will be available to us, or that we will realize the anticipated financial results from completed acquisitions.

Even if we identify and complete insurance company acquisitions, we may be unable to integrate them on an economically favorable basis. Implementation of an acquisition strategy entails a number of risks, including, among others, inaccurate assessment of assets, liabilities or contingent liabilities and the failure to achieve anticipated revenues, earnings or cash flow. The occurrence of any of these events could have a material adverse effect on our results of operations and financial condition.

Our international and domestic operations face significant competition.

Our international marketing plan focuses on making available U.S. Dollar-denominated life insurance products to high net worth, high income individuals residing in more than 35 countries. New competition could cause the supply of insurance to change, which could affect our ability to price our products at attractive rates thereby adversely affecting our revenues, results of operations and financial condition. Although there are some impediments facing potential competitors that wish to enter the foreign markets we serve, the entry of new competitors into these markets may occur, affording our customers reason to change to other insurance providers. We experience competition primarily from the following sources with respect to our business with foreign residents, many of which have substantially greater financial, marketing and other resources than we have:

Foreign operated companies with U.S. Dollar policies. We face direct competition from companies that operate in the same manner as we operate in our international markets. These competitors include National Western Life Insurance Company, Best Meridian Insurance Company and, to a lesser extent, Pan American Life Insurance Company and American International Group.

Companies foreign to the countries in which policies are sold but that issue local currency policies. Another group of our competitors in the international marketplace consists of companies that are foreign to the countries in which the policies are sold but issue life insurance policies denominated in the local currencies of those countries. Local currency policies provide the benefit of assets located in the country of foreign residents, but entail risks of uncertainty due to local currency fluctuations, as well as the perceived instability and weakness of local currencies.

Locally operated companies with local currency policies. We compete with companies formed and operated in the country in which our foreign insureds reside. Generally, these companies are subject to risks of currency fluctuations, and they primarily use mortality tables based on experience of the local population as a whole. These mortality tables are typically based on significantly shorter life spans than those we use. As a result, the cost of insurance from these companies tends to be higher than ours. Although these companies typically market their policies to a broader section of the population than do our independent marketing firms and consultants, there can be no assurance that these companies will not endeavor to place a greater emphasis on our target market

and compete more directly with us.

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In the United States, we compete with more than 1,000 other life insurance companies of various sizes. The life insurance business in the United States is highly competitive, in part because it is a mature industry that, in recent years, has experienced little to no growth in life insurance sales. Many domestic life insurance companies have substantially greater financial resources, longer business histories and more diversified lines of insurance coverage than we do. These companies also have larger sales forces than we have. Competition in the United States has also increased recently because the life insurance industry is consolidating, with larger, more efficient organizations emerging from the consolidation. In addition, legislation became effective in 2000 that permits commercial banks, insurance companies and investment banks to combine. This legislation permits, for instance, a commercial bank to acquire or form an insurance company. We believe these factors have increased competitive pressures in the life insurance market in general.

In addition, from time to time, companies enter and exit the markets in which we operate, thereby increasing competition at times when there are new entrants. We may lose business to competitors offering competitive products at lower prices, or for other reasons.

There can be no assurance that we will be able to compete effectively in any of our markets. If we do not, our business, results of operations and financial condition will be materially and adversely affected.

Sales of our products may be reduced if we are unable to (i) establish and maintain commercial relationships with independent marketing firms and consultants (ii) attract and retain employee agents or (iii) develop and maintain our distribution sources.

We distribute our insurance products through several distribution channels, including independent marketing firms and consultants and our employee agents. These relationships are significant for both our revenues and our profits. In our life insurance segment, we depend almost exclusively on the services of independent marketing firms and consultants. In our home service insurance segment, we depend on employee agents whose role in our distribution process is integral to developing and maintaining relationships with policyholders. Significant competition exists among insurers to form relationships with marketers of demonstrated ability. Some of our competitors may offer better compensation packages for marketing firms, consultants and agents and broader arrays of products and have a greater diversity of distribution resources, better brand recognition, more competitive pricing, lower cost structures and greater financial strength or claims paying ratings than we do. We compete with other insurers for marketing firms, independent consultants and employee agents primarily on the basis of our compensation and support services. Any reduction in our ability to attract and retain effective sales representatives could materially adversely affect our revenues, results of operations and financial condition.

Loss of the services of our senior management team would likely hinder development of our operating and marketing programs and our strategy for expanding our business.

We rely on the active participation of our Chairman of the Board and Chief Executive Officer, Harold E. Riley (age 80), and our Vice Chairman of the Board and President, Rick D. Riley (age 55), in connection with the development and execution of our operating and marketing plans and strategy for expanding our business. We anticipate that their expertise will continue to be of substantial value in connection with our operations. The loss of the services of either of these individuals could have a significant adverse effect on our business and prospects. We do not have an employment agreement with either of these persons nor do we carry a key-man insurance policy on either of their lives.

We are subject to extensive governmental regulation in the United States, which increases our costs of doing business and could restrict the conduct of our business.

We are subject to extensive regulation and supervision in U.S. jurisdictions wherein we do business, as well as anti-money laundering regulations adopted under the U.S. Patriot Act. Insurance company regulation is generally designed to protect the interests of policyholders, with substantially lesser protections to shareholders of the regulated insurance companies. To that end, laws of the various states in which we do business establish insurance regulatory agencies with broad powers with respect to such things as: licensing companies to transact business; mandating capital and surplus requirements; regulating trade and claims practices; approving policy forms; and restricting companies ability to enter and exit markets.

The capacity for an insurance company s growth in premiums is partially a function of its required statutory surplus. Maintaining appropriate levels of statutory surplus, as measured by statutory accounting practices prescribed or permitted by a company s state of domicile, is considered important by insurance regulatory authorities. Failure to maintain required levels of statutory surplus could result in increased regulatory scrutiny and enforcement action by regulatory authorities.

Most insurance regulatory authorities have relatively broad discretion to grant, renew, suspend and revoke licenses and approvals, and could preclude or temporarily suspend us from carrying on some or all of our activities, including acquisitions of other insurance companies, require us to add capital to our insurance company subsidiaries, or fine us. If we are unable to maintain all required licenses and approvals, or if our insurance business is determined not to comply fully with the wide variety of applicable laws and regulations, including the U.S. Patriot Act, or a relevant authority s interpretation of the laws and regulations, our revenues, results of operations and financial condition could be materially adversely affected.

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Changes in U.S. regulation may adversely affect our results of operations and financial condition and limit our prospective growth.

Currently, the U.S. federal government does not directly regulate the insurance business. However, federal legislation and administrative policies in several areas can materially and adversely affect insurance companies, including our business. These areas include the U.S. Patriot Act, financial services regulation, securities regulation, including the Sarbanes-Oxley Act of 2002, pension regulation, privacy, tort reform legislation and taxation. In addition, various forms of direct federal regulation of insurance have been proposed from time to time.

Our failure to maintain effective information systems could adversely affect our business.

Our business is dependent upon our ability to keep up to date with technological advances. This is particularly important in our life insurance operations, where our information systems are critical to the operation of our business. Our failure to update these systems to reflect technological advancements or to protect our systems may adversely affect our business.

We must maintain and enhance our existing information systems and develop new information systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards and changing customer preferences. If we do not maintain adequate systems, we could experience adverse consequences, including: inadequate information on which to base pricing, underwriting and reserve decisions, regulatory problems, failure to meet prompt payment obligations, increases in administrative expenses and loss of customers.

Some of our information technology systems and software are mainframe-based, legacy-type systems that require an ongoing commitment of resources to maintain current standards. We continuously enhance and update our systems to keep pace with changes in our products and business models, information processing technology, evolving industry and regulatory standards and policyholder needs. Our success is in large part dependent on maintaining and enhancing the effectiveness of existing systems, as well as continuing to integrate, develop and enhance our information systems to support business processes in a cost-effective manner.

Our failure to maintain effective and efficient information systems, or our failure to efficiently and effectively consolidate our information systems to eliminate redundant or obsolete applications, could have a material adverse effect on our results of operations and financial condition.

We have in the past identified material weaknesses in our disclosure controls and controls over financial reporting. To the extent that we may have not remedied these weaknesses or fail to maintain our current system of internal controls to an effective level with regard to material weaknesses, we may not be able to report our financial results accurately. As a result, we could be required to restate our financial statements and be exposed to increased regulatory scrutiny and litigation from investors and others.

Effective internal controls are necessary for us to provide reliable financial reports. If we are unable to provide reliable financial reports, we could become subject to SEC and other regulatory review and sanctions, as well as litigation that could result in substantial fines, penalties or liabilities; and, our results of operations and financial condition and the market value of our securities could be materially and adversely affected as a result. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement.

Our failure to protect confidential information and privacy could result in the loss of customers, subject us to fines and penalties and adversely affect our results of operations and financial condition.

Our insurance subsidiaries are subject to privacy regulations and to confidentiality obligations. We also have legal obligations to protect certain confidential information we obtain from our existing vendors. These obligations generally include protecting confidential information in the same manner and to the same extent as we protect our own confidential information. The actions we take to protect confidential information include among other things: monitoring our record retention plans and policies and any changes in state or federal privacy and compliance requirements; maintaining secure storage facilities for tangible records; and limiting access to electronic information in order to safeguard certain current information.

In addition, the Gramm-Leach-Bliley Act requires that we deliver a notice regarding our privacy policy both at the delivery of an insurance policy and annually thereafter. Certain exceptions are allowed for sharing of information

under joint marketing agreements. However, certain state laws may require us to obtain a policyholder s consent before we share information.

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We have a written information security program with appropriate administrative, technical and physical safeguards to protect such confidential information. If we do not comply with privacy regulations and protect confidential information, we could experience adverse consequences, including regulatory sanctions, loss of reputation and litigation, any of which could have a material adverse effect on our business, results of operations and financial condition.

The insurance industry in which we operate may be subject to periodic negative publicity, which may negatively impact our financial results.

We interface with and distribute our products to individual consumers. There may be a perception that these purchasers may be unsophisticated and in need of consumer protection. Accordingly, from time to time, consumer advocate groups or the media may focus attention on our products, thereby subjecting us to periodic negative publicity. We may also be negatively impacted if another insurance company engages in practices resulting in increased public attention to our businesses. Negative publicity may result in lower sales of insurance, lower persistency of our insurance products, increased regulation and legislative scrutiny of industry practices as well as increased litigation, which may further increase our costs of doing business and impede our ability to market our products. As a result, our business, results of operations and financial condition could be materially and adversely affected.

General economic, financial market and political conditions may materially and adversely affect our results of operations and financial condition.

Our results of operations and financial condition may be materially and adversely affected from time to time by general economic, financial market and political conditions, both in the United States and in the foreign countries where our policy owners reside. These conditions include economic cycles such as: levels of consumer spending; levels of inflation; movements of the financial markets; availability of credit; fluctuations in interest rates, monetary policy or demographics; and legislative and competitive changes.

During periods of economic downturn, such as the one occurring in 2008 and 2009, our insureds may choose not to purchase our insurance products, may terminate existing policies or contracts, permit them to lapse or may choose to reduce the amount of coverage purchased, any of which could have a material adverse effect on our results of operations and financial condition. Also, our sales of new business policies would decrease.

Our insurance subsidiaries are restricted by applicable laws and regulations in the amounts of fees, dividends and other distributions they may make to us. The inability of our subsidiaries to make payments to us in sufficient amounts for us to conduct our operations could adversely affect our ability to meet our obligations or expand our business.

As a holding company, our principal asset is the capital stock of our subsidiaries. We rely primarily on statutorily permissible payments from our insurance company subsidiaries, principally through service agreements we have with our subsidiaries, to meet our working capital and other corporate expenses. The ability of our insurance company subsidiaries to make payments to us is subject to regulation by the states in which they are domiciled, and these payments depend primarily on approved service agreements between us and these subsidiaries and, to a lesser extent, the statutory surplus (which is the excess of assets over liabilities as determined under statutory accounting practices prescribed by an insurance company s state of domicile), future statutory earnings (which are earnings as determined in accordance with statutory accounting practices) and regulatory restrictions.

Generally, the net assets of our insurance company subsidiaries available for dividends are limited to either the lesser or greater (depending on the state of domicile) of the subsidiary net gain from operations during the preceding year and 10% of the subsidiary s net statutory surplus as of the end of the preceding year as determined in accordance with accounting practices prescribed by insurance regulatory authorities. Total surplus of CICA as of December 31, 2008 was approximately $35.1 million, and gain from operations was $10.5 million. Based upon statutory net gain from operations and surplus of CICA for the year ended December 31, 2008, approximately $10.5 million of dividends could be paid to us in 2009 without prior regulatory approval. In late 2007 and 2008, SPLIC paid a $4.6 million and $5.7 million dividend to CICA, respectively. Funeral Homes of America paid a $255,000 dividend to CICA in 2007, but did not pay a dividend in 2008.

Except to the extent that we are a creditor with recognized claims against our subsidiaries, claims of our subsidiaries creditors, including policyholders, have priority with respect to the assets and earnings of the subsidiaries over the claims of our creditors and shareholders. If any of our subsidiaries becomes insolvent, liquidates or otherwise reorganizes, our creditors and shareholders will have no right to proceed in their own right against the assets of that subsidiary or to cause the liquidation, bankruptcy or winding-up of the subsidiary under applicable liquidation, bankruptcy or winding-up laws.

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Adverse capital and credit market conditions may significantly affect our access to debt and equity capital and our cost of capital in seeking to expand our business.

The capital and credit markets have been experiencing extreme volatility and disruption for over a year. In recent months, the volatility and disruption reached unprecedented levels. In some cases, the markets exerted significant downward pressure on availability of debt and equity capital for certain issuers (including short term liquidity and credit capacity). We believe the availability of debt and equity capital has decreased significantly compared to prior years.

The availability of equity and debt financing to us will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry, our credit capacity, as well as the possibility that investors or lenders could develop a negative perception of our long- or short-term financial prospects. Disruptions, uncertainty or volatility in the capital markets may also limit our access to equity capital for us to seek to expand our business. As such, we may be forced to delay raising debt or equity capital, or bear an unattractive cost of capital, which could adversely affect our ability to complete any acquisitions and negatively impact profitability numbers of an acquisition.

Difficult conditions in the global capital markets and the world economy, which we do not expect to improve in the near future, generally may materially adversely affect our business and results of operations.

Our results of operations are materially affected by conditions in the economy generally, both in the U.S. and elsewhere around the world. The stress experienced by global capital markets that began in the second half of 2007 continued and substantially increased during the third and fourth quarters of 2008. The current recession in the U.S. and elsewhere has contributed to increased volatility and diminished expectations for the world economy and the equity and debt markets going forward. These factors, combined with volatile commodity prices, declining business and consumer confidence and increased unemployment, have precipitated a global recession. As a result, domestic and international equity markets have been experiencing heightened volatility and turmoil, with issuers in the financial services industry particularly affected. These events and the continuing market upheavals may have an adverse impact on us, in part because we are dependent upon customer behavior. Our revenues could decline in such circumstances and our profit margins could erode.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, and the value of money all affect the business and economic environment and, ultimately, the amount and profitability of our business. In an economic downturn characterized by higher unemployment, lower personal incomes, lower corporate earnings, lower business investment and lower consumer spending, the demand for our insurance products could be adversely affected. In addition, we may experience an elevated incidence of lapses or surrenders of our insurance policies. Our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Adverse changes in the domestic and global economy could therefore affect earnings negatively and could have a material adverse effect on our business, results of operations and financial condition.

There can be no assurance that actions of the U.S. Government, the Federal Reserve and other governmental and regulatory bodies for the purpose of stabilizing the financial markets will achieve the intended effect.

In response to the financial crises affecting the U.S. banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, President Bush signed the Emergency Economic Stabilization Act of 2008 (the EESA) into law. Pursuant to the EESA, the U.S. Treasury has the authority to, among other things, purchase up to $700 billion of mortgage-backed and other securities from financial institutions for the purpose of stabilizing the financial markets and invest in financial services companies. The Federal Government, the Federal Reserve and other governmental and regulatory bodies have taken or are considering taking other actions to address the current financial crisis, including purchases of commercial paper. On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009, which provided for federal spending and tax cuts, estimated in the aggregate to be approximately $789 billion, for the purpose of job preservation and creation, infrastructure investment, energy efficiency and science, unemployment assistance, state and local government fiscal stabilization and other associated purposes. There can be no assurance as to what impact such

actions will have on the financial markets, including the high levels of volatility currently being experienced. Such continued volatility could materially and adversely affect our business, financial condition and results of operations, or the trading price of our Class A common stock.

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Risks Relating to Our Class A Common Stock

The price of our Class A common stock may be volatile and may be affected by market conditions beyond our control.

Our Class A common stock price is likely to fluctuate in the future and could decline materially because of the volatility of the stock market in general and as a result of a variety of other factors, many of which are beyond our control, including: quarterly or annual variations in actual or anticipated results of our operations; interest rate fluctuations; changes in financial estimates by securities analysts; competition and other factors affecting the life insurance business generally; and conditions in the U.S. and world economies.

Our Class A common shareholders will not control us for the foreseeable future, will have a limited ability to influence our business policies and corporate actions and will not by themselves be able to elect any directors.

It is difficult for minority shareholders to elect any of our directors or otherwise exert influence over our business. Holders of our outstanding Class B common stock are entitled to elect a simple majority of our board of directors and are therefore deemed our ultimate controlling party. All of our Class B common stock is currently owned indirectly by the Harold E. Riley Trust of which Harold E. Riley, our Chairman of the Board and Chief Executive Officer, is the sole trustee. Additionally, Harold E. Riley beneficially owns approximately 7.3% of the outstanding shares of our Class A common stock.

Our articles of incorporation and bylaws, as well as applicable state insurance laws, may discourage takeovers and business combinations that our shareholders might consider to be in their best interests.

Our articles of incorporation and bylaws, as well as various state insurance laws, may delay, deter, render more difficult or prevent a takeover attempt our shareholders might consider in their best interests. As a result, our shareholders will be prevented from receiving the benefit from any premium to the market price of our Class A common stock that may be offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our Class A common stock if they are viewed as discouraging takeover attempts in the future.

The following provisions in our articles of incorporation and bylaws make it difficult for our Class A shareholders to replace or remove our directors and have other anti-takeover effects that may delay, deter or prevent a takeover attempt:

- holders of shares of our Class B common stock elect a simple majority of our board of directors, and all of these shares are owned by the Harold E. Riley Trust; and
- our board of directors may issue one or more series of preferred stock without the approval of our shareholders.

State insurance laws generally require prior approval of a change in control of an insurance company. Generally, such laws provide that control over an insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of the insurer. In considering an application to acquire control of an insurer, an insurance commissioner generally will consider such factors as the experience, competence and financial strength of the applicant, the integrity of the applicant s board of directors and executive officers, the acquirer s plans for the management and operation of the insurer, and any anti-competitive results that may arise from the acquisition. In addition, a person seeking to acquire control of an insurance company is required in some states to make filings prior to completing an acquisition if the acquirer and the target insurance company and their affiliates have sufficiently large market shares in particular lines of insurance in those states. These state insurance requirements may delay, deter or prevent our ability to complete an acquisition.

We have never paid any cash dividends on our Class A common stock and do not anticipate doing so in the foreseeable future.

We have never paid cash dividends on our Class A common stock, as it is our policy to retain earnings for use in the operation and expansion of our business.

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There are a substantial number of shares of our Class A common stock eligible for future sale in the public market. The sale of a large number of these shares could cause the market price of our Class A common stock to fall.

There were 45,646,015 shares of our Class A common stock outstanding, excluding treasury shares, as of March 1, 2009. Our executive officers, directors and management owned approximately 5,300,000 shares of our Class A common stock as of this date, representing approximately 10% of our then outstanding Class A common stock. These shares have been registered for public resale and may be sold freely.

In addition, a total of 2,749,372 shares of our Class A common stock are issuable upon the conversion of our Series A-1 and Series A-2 preferred stock and the exercise of warrants granted in connection therewith. We have a registration statement currently in effect that allows the public resale of all such shares of Class A common stock.

If our preferred and common shareholders sell a large number of shares of our Class A common stock, the market price of shares of our Class A common stock could decline significantly. Moreover, the perception in the public market that our shareholders might sell shares of our Class A common stock could depress the market price of our Class A common stock.

Holders of our Series A preferred stock may obtain the right to require us to redeem their Series A preferred stock and we will be required to redeem any shares of Series A preferred stock that remain outstanding on July 12, 2009.

We will be required to redeem any shares of our Series A preferred stock that remain outstanding on July 12, 2009 at the original investment price, plus all accrued but unpaid dividends. We can elect to pay the redemption price in shares of our Class A common stock if: (i) the average closing price of the stock is in excess of $3.50 per share for a period of ten consecutive trading days prior to (but not including) the date that is three trading days prior to the date of redemption; (ii) the stock is listed on NYSE or other eligible market; and (iii) the stock to be issued is registered under a registration statement effective with the SEC.

We intend to pay the redemption price of our Series A preferred stock in shares of our Class A common stock to the extent the conditions described above are satisfied and we are permitted to do so. The number of shares of our Class A common stock that we issue to redeem these shares of Series A preferred stock could have a dilutive effect on the book value of the shares of Class A common stock held by existing holders. However, provisions of our Series A preferred stock could require us to pay part or all of the redemption price in cash, rather than in shares of our Class A common stock, under certain circumstances, including failure to meet the conditions described above.

The provisions of our Series A preferred stock require that if (i) the closing price of our Class A common stock for any 42 trading days, including a period not less than five consecutive trading days, is less than $4.80, or (ii) we issue Class A common stock or common stock equivalents for less than $6.11 per share, then the holders of our Series A preferred stock may require us to redeem their shares of Series A preferred stock at a price equal to the amount of the original holder s original investment, plus all accrued but unpaid dividends thereon to the date of payment. If we are required, or elect, to redeem shares of our Series A preferred stock for cash, we may have to curtail our growth and acquisition plans.

Provisions applicable to our Series A preferred stock may make it more difficult or prevent us from raising funds or taking certain other actions.

Certain provisions applicable to the outstanding shares of our Series A preferred stock trigger rights of first refusal or payment provisions and require us to obtain the approval of the holders of such shares to (i) incur debt or allow liens on our property, other than certain permitted debt and liens, (ii) amend our articles of incorporation so as to affect adversely any rights of the preferred stockholders, (iii) authorize or create a new class of stock that will be senior or equal to our Series A preferred stock in terms of dividends, redemption or distribution of assets or (iv) take certain other specified actions. These provisions may make it more difficult for us to take certain corporate actions and could delay, deter or prevent future financings and our ability to make acquisitions.

In all other offerings of our shares of Class A common stock, such as a private placement of shares, unless certain limited exceptions apply, the holders of our Series A preferred stock will generally be entitled to purchase up to 50% of the number of shares of our Class A common stock offered by us. These preemptive rights could delay, deter or prevent future equity financings.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own our principal office in Austin, Texas, consisting of an 80,000 square foot office building and approximately one acre of land nearby that house storage facilities. Approximately 50,000 square feet is occupied or reserved for our operations. We also own a training facility at Lake Buchanan, Texas. In addition, we own other properties in Texas, Arkansas and Louisiana that are incidental to our operations.

Item 3. Legal Proceedings

We are a defendant in a lawsuit originally filed on August 6, 1999 in the Texas District Court, Austin, Texas, now styled *Citizens Insurance Company of America, Citizens, Inc., Harold E. Riley and Mark A. Oliver, Petitioners v. Fernando Hakim Daccach*, *Respondent*, in which a class was originally certified by the trial court and affirmed by the Court of Appeals for the Third District of Texas. We appealed the grant of class status to the Texas Supreme Court, which on March 2, 2007, reversed the Court of Appeal s affirmation of the trial court s class certification order, decertified the class and remanded the case to the trial court for further proceedings consistent with the Texas Supreme Court s opinion. As a result, no class action is presently certified, and plaintiffs counsel is seeking to recertify the class. In order to recertify the class, the lead plaintiff must establish that he is qualified to represent the purported class and that the res judicata effect of a class action will not have a deleterious effect on the putative class members. The underlying lawsuit alleges that certain life insurance policies we made available to non-U.S. residents, when combined with a policy feature that allowed certain cash benefits to be assigned to two non-U.S. trusts for the purpose of accumulating ownership of our Class A common stock, along with allowing the policyholders to make additional contributions to the trusts, were actually offers and sales of securities that occurred in Texas by unregistered dealers in violation of the Texas securities laws. The remedy sought was rescission and return of the insurance premium payments. We believe the lawsuit is without merit and intend to continue a vigorous defense in any remaining proceedings, including any class recertification. If the class is recertified, we could be exposed to costly and time-consuming litigation, and an adverse judgment could have a material adverse effect on our results of operations and financial condition. The case is now before the Texas District Court judge for an analysis of evidence presented to determine if it warrants recertification of a class.

Security Plan Fire Insurance Company (SPFIC) is a defendant in a suit styled *The State of Louisiana v. AAA Insurance*, or *Road Home Litigation*, which was filed in the Civil District Court for the Parish of Orleans on August 23, 2007 by the state of Louisiana as subrogee/assignee of the insureds of more than 200 different insurance companies. The suit was filed to recover money that the state of Louisiana paid to certain insureds under the Louisiana Road Home Program for damages resulting from Hurricanes Katrina and Rita. The suit was removed to the United States District Court for the Eastern District of Louisiana on September 11, 2007 and appeals of the removal have been denied. The *Road Home Litigation* is in the early stages of litigation, and no discovery has yet occurred. Therefore, it is not possible to evaluate how many claims relate to SPFIC, or the potential exposure to SPFIC. However, in the event of an adverse outcome, the potential exposure to SPFIC could be significant.

On November 8, 2005, SPLIC was named as a defendant in a suit styled *Lilac Todd vs. Security Plan Life Insurance Company*, on behalf of Lilac Todd, which alleges that SPLIC failed to pay Ms. Todd s claim for medical expenses arising out of the loss of one of her limbs. On December 20, 2007, a Supplemental and Amended Petition for Damages was filed pursuant to which the plaintiff has asserted class action allegations. The purported class is defined as all Louisiana insureds of SPLIC whose policies contained an incontestability provision identical or similar to Ms. Todd s policy, and whose claims were denied within 10 years of the petition filing on the basis of illnesses, injuries or diseases diagnosed or which occurred at any time preceding the incontestability. This matter is in the early stages of litigation relative to the class allegations. Plaintiffs have not established how many, if any, individuals are within the class definition proposed by plaintiff. SPLIC intends to aggressively defend this action. However, in the event of an adverse outcome, the potential exposure to SPLIC could be significant.

In addition to the legal proceedings described above, we may from time to time be subject to a variety of legal and regulatory actions relating to our future, current and past business operations, including, but not limited to:

disputes over insurance coverage or claims adjudication;

regulatory compliance with insurance and securities laws in the United States and in foreign countries;

disputes with our marketing firms, consultants and employee agents over compensation and termination of contracts and related claims;

disputes regarding our tax liabilities;

disputes relative to reinsurance and coinsurance agreements; and

disputes relating to businesses acquired and operated by us.

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In the absence of countervailing considerations, we would expect to defend any such claims vigorously. However, in doing so, we could incur significant defense costs, including not only attorneys fees and other direct litigation costs, but also the expenditure of substantial amounts of management time that otherwise would be devoted to our business. If we suffer an adverse judgment as a result of any claim, it could have a material adverse effect on our business, results of operations and financial condition. We have not established any material reserve account on our consolidated financial statements for the adverse financial impact of any of our litigation matters.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of our security holders during the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities

Our Class A common stock is traded on the New York Stock Exchange under the symbol CIA. As of December 31, 2008, the approximate number of record owners of our Class A common stock was 78,000. Management estimates the number of beneficial owners to be approximately 125,000.

Quarterly high and low closing prices per share of our Class A common stock as reported by the NYSE are shown below.

	2008		2007	
Quarter Ended	High	Low	High	Low
March 31	$ 6.95	5.14	$ 7.71	6.69
June 30	7.96	6.02	8.00	6.10
September 30	9.15	5.79	8.39	4.84
December 31	9.70	6.99	8.90	5.53

We have not paid cash dividends in any of the past five years and do not expect to pay cash dividends in the foreseeable future. For restrictions on our present and future ability to pay dividends, see Note 7 of the Notes to Consolidated Financial Statements.

We did not purchase any of our equity securities during any quarter in 2006, 2007 or 2008.

Securities Authorized for Issuance Under Equity Compensation Plans

We do not maintain any equity compensation plans or arrangements. Thus, we do not have any securities authorized for issuance under these types of plans, nor have we issued any options, warrants or similar instruments to purchase any of our equity securities, except for warrants issued in conjunction with the convertible preferred stock issued in 2004 and 2005. See Note 8 of the Notes to Consolidated Financial Statements.

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Item 6. Selected Financial Data

The table below sets forth, in summary form, selected financial data of the Company. This data, which is not covered in the reports of our independent registered public accounting firms, should be read in conjunction with our consolidated financial statements and notes, which are included elsewhere herein. The net income per share amounts have been adjusted retroactively for all periods presented to reflect the 7% common stock dividends paid on December 31, 2005 and 2004.

	Years ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except per share data)				
Total Revenues	$ 146,673	169,637	154,189	139,024	96,697
Net Income (loss)	(15,707)	16,557	8,677	7,302	7,732
Basic and Diluted Earnings (loss) Per Class A Share	(0.42)	0.35	0.16	0.13	0.17
Total Assets at December 31	832,276	787,909	711,184	661,889	661,212
Long-term Debt					30,000
Total Liabilities	653,022	597,532	558,690	513,380	520,179
Total Stockholders Equity	171,541	176,157	139,611	136,963	135,131
Book Value Per Share	3.68	4.00	3.38	3.33	3.29

See Item 1 and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, for information that may affect the comparability of the financial data contained in the above table.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation

Overview

We conduct operations as an insurance holding company emphasizing ordinary life insurance products in niche markets where we believe we can achieve competitive advantages. Our core operations include issuing:

- U.S. Dollar-denominated ordinary whole life insurance policies predominantly to high net worth, high income foreign residents, located principally in Latin America and the Pacific Rim, through approximately 2,200 independent marketing consultants;
- ordinary whole life insurance policies to middle income households in the midwest and the southern United States through approximately 300 independent marketing consultants; and
- final expense and limited liability property policies to middle to lower income households in Louisiana and Arkansas through approximately 540 employee and independent agents in our home service distribution segment.

We operate through two segments as follows:

Life Insurance. For over the past 30 years, CICA and its predecessors have accepted policy applications from foreign nationals for U.S. Dollar-denominated ordinary whole life insurance. Traditionally, this market has been concentrated in the top 3-5% of the population of a country in terms of income and net worth. In recent years, however, there has been a shift to encompass a broader spectrum of the population, as upper middle classes develop in Latin America and the Pacific Rim. We make our insurance products available using third-party marketing organizations and independent marketing consultants. The number of our producing independent consultants has expanded over the years in this segment to approximately 2,200, and we received applications from residents of 34 countries outside of the U.S. in 2008. Historically, the majority of our international business has come from Latin America. However, in 2004 the Pacific Rim began to represent a meaningful and growing source of new business, and in 2008 was one of the leading sources of new premium income.

In 2008, our Life Insurance segment generated revenue of $105.5 million, which accounted for 71.9% of our total revenue. For the year ended December 31, 2007, this segment produced revenue of $114.8 million or 67.7% of our total revenue, compared to 2006 when it produced approximately $101.9 million or 66.1% of total revenue. The decrease in 2008 revenues was due to the write-down of $13.6 million of equity mutual funds in this segment. Our strategy in operating our Life Insurance segment is to increase new business written through our existing marketers as well as expand the number of countries from which we receive policy applications. The development of new markets in the Pacific Rim and the expansion of existing markets in Latin America were the primary contributors to the insurance revenue growth in this segment.

From time to time we will issue new products to stay abreast of changes in the market and in our clients. In 2008, CICA introduced a new set of international products, which caused new production of insurance from non-U.S. residents to slow in the first nine months of 2008 compared to the same period in 2007. This was due to our less than optimum introduction process and slower than anticipated acceptance of these new policies. However, the products were well accepted in the international market during the latter half of 2008, as fourth quarter new business production exceeded the prior year s fourth quarter.

Through the domestic market of our Life Insurance segment, we provide ordinary whole life, credit life insurance, and final expense policies to middle income families or individuals in certain markets in the midwest and southern U.S. The majority of our revenues in this regard are the result of acquisitions of domestic life insurance companies since 1987.

We also realize revenues from our investment portfolio. Life insurance companies earn profits on the investment float, which reflects the investment income earned on the premiums paid to the insurer between the time of receipt and the time benefits are paid out under policies. Changes in interest rates, changes in economic conditions and volatility in the capital markets, such as the ones caused by our impairment of our equity mutual funds in 2008, can all impact the amount of earnings that we realize from our investment portfolio.

Home Service Insurance. Through our subsidiaries, SPLIC and ONLIC, we provide final expense ordinary life insurance to middle to lower income individuals in Louisiana and Arkansas. Our policies in this segment are sold and

serviced through home service marketing distribution system utilizing employee-agents who work on a route system to collect premiums and service policyholders or through networks of funeral homes who collect premium and provide personal service to policyholders.

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During 2008, revenue from this segment was $42.2 million, which accounted for 28.8% of our total revenue. For the year ended December 31, 2007, revenue from this segment was $52.9 million or 31.2% of our total revenue compared to $51.2 million or 33.2% of our total revenue in 2006. The decrease in revenue in 2008 was primarily due to the write-down of $9.9 million of equity mutual funds during 2008. Our business strategy in this segment is to continue to serve existing customers in Louisiana as well as expand the business through new marketing management that we put in place in early 2005.

In 2008, SPLIC s property insurance subsidiary, SPFIC, was negatively impacted by Hurricanes Gustav and Ike. Losses incurred by SPFIC were $500,000 for Hurricane Gustav and $285,000 for Hurricane Ike. The Company also incurred $478,000 in reinstatement premiums. During 2005, Hurricane Katrina devastated the Gulf Coast. Commencing in 2005 and through December 31, 2007, total incurred losses related to Hurricane Katrina not covered by reinsurance amounted to $4.0 million, resulting in SPLIC s need to provide $4 million of additional capital to SPFIC. Legislative and judicial decrees further extended for an additional year the period for filing claims beyond that provided under SPFIC s insurance contracts. Due to this extended claims filing period, an incurred but not reported claim and loss adjustment expense (LAE) liability of $500,000 was recorded at December 31, 2006 to cover any claims filed in 2007. When the extended deadline for filing of claims expired in the third quarter of 2007, SPFIC released approximately $425,000 of liabilities, which SPFIC determined were not payable under the contracts.

As discussed earlier, the Company completed the acquisition of ONLIC in the fourth quarter of 2008. ONLIC writes both final expense and home service ordinary life insurance in Arkansas and is included in the Home Service segment. As the income statement contains only two months of ONLIC operations, there is an insignificant impact upon revenue, expenses or net income. ONLIC increased the Home Service operation assets by $26.0 million and liabilities by $17.2 million.

Marketplace Conditions and Trends

Described below are some of the significant recent events and trends affecting the life insurance industry and the possible effects they may have on our future operations.

- As an increasing percentage of the world population reaches retirement age, we believe we will benefit from increased demand for living products rather than death products, as aging consumers will require cash accumulation to provide expenses to meet their lifetime needs. Our ordinary life products are designed for our policyowners to accumulate cash values to provide for living expenses in a policy owner s later years, while continuously providing a death benefit.
- We are exposed to a variety of risks, including the current financial recession as well as the credit crisis and corresponding potential changes in the fair value of our investments. Financial markets in the United States and elsewhere have experienced extreme volatility and disruption, due largely to stresses affecting the global banking system, which accelerated significantly in the second half of 2008. The global economies have entered a severe recession that is likely to persist well into and perhaps through and even beyond 2009, despite past and expected governmental intervention in the world s major economies. These circumstances have exerted significant downward pressure on prices of equity securities and virtually all other asset classes and have resulted in substantially increased market volatility, severely constrained credit and capital markets, particularly for financial institutions, and an overall loss of investor confidence. The current economic environment could also reduce the persistency of our existing insurance policies.
- As a financial institution and life insurer with significant investment exposure, we have been adversely affected by the volatility and disruption in the global capital markets and face significant financial and capital markets risk in our operations. Corporate bond defaults and credit downgrades, which have resulted in other-than-temporary impairments in the value of some securities, have had a material impact on life insurers in the past few years. The majority of our investment portfolio is held in debt instruments carrying the full faith and credit of the U.S. Government, or in U.S. Government-sponsored enterprises. Most of the municipal bonds we own are privately insured. We have not experienced any material impairments in the value of our debt securities due to the current credit crisis in world financial markets. We intend to manage our investment portfolio conservatively in the future by continuing to utilize these types of debt instruments. During the course of 2008, the significant declines in equity markets have negatively impacted our assets

under management. We incurred realized losses relative to limited equity positions we took during 2007 and the first half of 2008 under the current accounting guidance for OTTI analysis. Due to current economic forecasts, we expect continued pressure on our equity positions in 2009.

Because of the trends described above coupled with increasing costs of regulatory compliance such as the Sarbanes-Oxley Act of 2002, we believe there is a trend towards consolidation of domestic life insurance companies. We believe this should be a benefit to our acquisition strategy because there should be more complementary acquisition candidates available for us to consider.

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Many of the events and trends affecting the life insurance industry have had an impact on the life reinsurance industry. These events led to a decline in the availability of reinsurance. While we currently cede a limited amount of our primary insurance business to reinsurers, we may find it difficult to obtain reinsurance in the future, forcing us to seek reinsurers who are more expensive to us. If we cannot obtain affordable reinsurance coverage, either our net exposures will increase or we would have to reduce our underwriting commitments.

Recent Acquisitions

In the fourth quarter of 2008, the Company completed its acquisition of ONLIC for $8.0 million and had additional acquisition related expenses of $900,000. The Company completed its acquisition of Integrity Capital Corporation in exchange for 1,292,000 shares of Citizens, Inc. Class A common stock in the first quarter of 2009. Integrity Capital Corporation is the parent of Integrity Capital Insurance Company, an Indiana life insurance company. The transaction was valued at $8.4 million when the transaction closed on February 27, 2009.

Consolidated Results of Operations

The following table sets forth our net income for the periods indicated:

Years ended December 31,	Net Income (loss) (In thousands)	Net Income (loss) per Class A Share	Increase (decrease) from Previous Year
2008	$ (15,707)	$ (0.42)	(194.9)%
2007	16,557	0.35	90.8
2006	8,677	0.16	18.8

As further discussed below, the impairment of $23.5 million of equity securities plus the tax valuation allowance thereon, the property losses incurred by SPFIC from Hurricanes Gustav and Ike and the increase in fair value of the warrants associated with the Company s Preferred stock contributed to a 194.9% decrease in earnings for 2008.

Total revenues for 2008 were $146.7 million, a 13.5% decrease compared to 2007 revenues of $169.6 million. Total revenues for 2006 were $154.2 million. Total revenues from Home Service were $42.2 million in 2008 and $52.9 million in 2007, compared to $51.2 million in 2006. Total revenues from our Life Insurance segment amounted to $105.5 million during 2008, compared to $114.8 million for 2007 and $101.9 million for 2006.

Premium Income. Premium income during 2008 increased to $141.3 million from $136.7 million in 2007, or 3.3%, and $124.6 million in 2006. The 2008 increase was attributable to the new international business written in 2007 and 2008 in the Life Insurance segment, which had $102.0 million of premium income during 2008. Additionally, we continued to experience improved persistency in our international life business, which contributed largely to the increase. First year premium in the Life Insurance segment in 2008 was up slightly from its 2007 level.

Net Investment Income. Net investment income decreased slightly during 2008 to $30.5 million, compared to $30.7 million during 2007 and $27.0 million in 2006. The decrease was primarily from lower income earned on equity mutual funds. Mutual fund income was $2.2 million in 2007 but only $1.0 million in 2008. Although investments were flat, cash grew substantially during 2008, investment income was only marginally up. Aside from lower mutual fund income, the low interest rate environment coupled with larger amounts invested in lower yielding cash balances reduced income in 2008. We continue to invest primarily in bonds of U.S. Government-sponsored enterprises, such as Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Association (FHLMC), although the Company expects lower investment yields with these instruments due to historically low interest rates.

Realized Gains (Losses) on Investments. As previously mentioned, the Company recognized OTTI write-downs of $23.5 million on its holdings of mutual funds during the fourth quarter of 2008, as these securities experienced an unrealized loss position for more than twelve months. These mutual funds are well diversified and have a history of out-performing the overall market, although past performance is not a guarantee of future results. The Company believes these funds will recover as the overall market recovers. During 2008, the Company also permanently impaired two bonds due to credit quality, recognizing a realized loss of $288,000.

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Increase in Fair Value of Warrants. As the market value of our Class A common stock increased during 2008, we incurred a loss on the increase in fair value of warrants of $2.7 million in 2008, compared to a gain of $828,000 in 2007 and a loss of $244,000 in 2006. The sizeable loss in 2008 was directly related to the increase in the price of our Class A common stock, as well as an increase in volatility. The warrant liability is calculated using the Black-Scholes option pricing model, which attempts to predict the value of the warrants when they expire in July 2011 and 2012. Current accounting standards require the change in the value of the warrant liability be recorded as a component of revenues. When the liability increases we incur a loss, and when the liability decreases we generate income. The warrant liability has no affect on the Company s cash flows, as the Company expects the warrants will be converted into our Class A common stock in July 2011, or sooner, at the election of the warrant holders, or expire.

Claims and Surrenders. As noted in the table below, claims and surrenders increased 11.2% from $50.6 million in 2007 to $56.3 million in 2008. The 2008 increase primarily related to an increase in property claims in SPFIC from Hurricanes Gustav and Ike, as well as an increase in death claims, surrender expense and endowments.

	Years ended December 31,		
	2008	2007	2006
		(In thousands)	
Death claims	$ 22,529	20,720	21,686
Surrender expenses	15,222	13,832	13,335
Endowments	13,814	12,835	10,786
Property claims	2,657	1,090	5,194
Other policy benefits	1,604	1,783	849
Accident and health benefits	427	311	541
Total claims and surrenders	$ 56,253	50,571	52,391

Death benefits increased in 2008 compared to 2007, primarily in the Home Service segment, where death claims were up $1.9 million. However, there was a $650,000 decrease in 2007 to correct an overstatement of prior years claim liability. Death benefits decreased slightly in 2007 compared to 2006.

Policy surrenders increased 10.0% in 2008 to $15.2 million from $13.8 million in 2007, up from $13.3 million in 2006. The increase in surrender expense is in line with management expectations, considering the inforce business has increased over the last three years. Surrenders as a percent of inforce business were 0.4% in 2008, 2007 and 2006.

Endowment benefits increased 7.6% from $12.8 million in 2007 to $13.8 million in 2008. Endowments totaled $10.8 million in 2006. We have a series of international policies that carry an immediate endowment benefit of an amount elected by the policy owner. These benefits have been particularly popular in the Pacific Rim, where the Company has experienced increased business in recent years. Like policy dividends, endowments are factored into the premium and, as such, the increase has no impact on profitability.

Property claims increased 143.8% in 2008, from $1.1 million in 2007 to $2.7 million in 2008, and were $5.2 million in 2006. In 2008, Hurricanes Gustav and Ike swept through Louisiana resulting in an increase in property claims of $1.6 million over 2007. In 2007, the Company began to experience a dramatic decline in property claims that adversely affected the business in 2006. Hurricane claims in 2007 were a negative $711,000, as the Company released claim liabilities that were no longer required due to the expiration of the statute of limitations. Of the 2006 property claims, $3.0 million were due to Hurricane Katrina.

Reserves. The change in future policy benefit reserves increased from $36.4 million in 2007 to $37.1 million in 2008, predominantly due to an improvement in persistency on our international life business, as well as the continued sale of international policies. During 2007 and 2006, a shift in products sold occurred with the addition of sales in the Pacific Rim, which resulted in a more rapid rise in reserves. The change in future policy benefit reserves increased from $30.7 million in 2006 to $36.4 million in 2007, due predominantly to increased persistency on our business and an

increase and change in product mix in new business. Additionally, sales of certain endowment products, which build reserves at a much higher rate, contributed to the increase.

Policyholder Dividends. Policyholder dividends increased 7.2% during 2008 to $6.9 million from $6.4 million in 2007 and $5.4 million in 2006, due to improved persistency and the continued sale of participating ordinary whole life products in the international market. All of our international policies are participating, and the improvement in persistency and increase in new business on our international business have contributed to the growth in dividends. Policyholder dividends are factored into the premiums and have no impact on profitability.

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Commissions. Commissions increased slightly during 2008 to $36.0 million from $35.6 million in 2007 and $35.7 million in 2006, primarily due to the new business issued during the period. Commissions were essentially flat all three years, even though premiums were up due to the increased amount of renewal premiums, which pay a lower commission.

Underwriting, Acquisition and Insurance Expense. Underwriting, acquisition and insurance expenses increased to $28.6 million in 2008 from $27.6 million in 2007. The 2008 increase was largely due to an increase in employee compensation and increased fees for international shipping.

Deferred Policy Acquisition Costs. Capitalized deferred policy acquisition costs (DAC) decreased 8.0% from $26.2 million in 2007 to $24.1 million in 2008. These costs were $27.0 million in 2006. The 2008 decrease from 2007 was primarily related to flat new life production discussed above, and tracked consistently with the slight increase in commissions. Amortization of these costs was $15.6 million, $12.5 million and $11.4 million in 2008, 2007 and 2006, respectively. Amortization is higher due to higher deaths and surrenders. In addition, the DAC asset has grown 8.4% since December 31, 2007, which resulted in higher amortization in 2008. Also, the write-off of DAC on internal replacements under the American Institute of Certified Public Accountants (AICPA) Statement of Position, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* (SOP 05-1), added $917,000 to amortization in 2007.

Cost of Customer Relationships Acquired and Other Intangibles. Amortization of cost of customer relationships acquired and other intangibles decreased from $4.7 million in 2006, to $3.2 million in 2007 and $2.9 million in 2008. Analysis of goodwill for CNLIC, a reporting unit within the Life Insurance segment, showed it to be impaired at December 31, 2006. Due to significant declines in new business issued by CNLIC, the fair value of this reporting unit was below its carrying value. As a result, an impairment loss of $1.0 million was recognized in the fourth quarter of 2006. The fair value of that reporting unit was estimated using the present value of estimated future cash flows. The remaining goodwill is associated with CICA and ONLIC. At December 31, 2007 and 2008, there was no impairment of goodwill.

Federal Income Tax. The federal income tax expense was $3.1 million, $6.9 million and $4.7 million in 2008, 2007 and 2006, respectively, resulting in effective tax rates of 24.7%, 29.5% and 35.0%, respectively. The Company established a tax valuation allowance related to OTTI losses on its mutual funds of $6.9 million in 2008. The establishment of the valuation allowance had the effect of decreasing the effective tax rate. In 2007, our valuation allowance was released, as the CNLIC sale agreement was terminated and the Company s plan is to now consolidate CNLIC in the Company s life-nonlife tax return for 2008. CICA had sufficient life income to absorb the CNLIC net operating losses in 2008. In 2006, this release of the valuation allowance reduced our effective tax rate by 4.7%. The 2006 tax rate was higher due to a write-off of $1.0 million of goodwill, which has no resulting tax benefit. The write-off of goodwill added 2.7% to the effective tax rate. (See Note 11 of the Notes to Consolidated Financial Statements for additional information on federal income tax.)

Investments

State insurance statutes prescribe the quality and percentage of the various types of investments that may be made by insurance companies and generally permit investment in qualified state, municipal, federal and foreign government obligations, high quality corporate bonds, preferred and common stock, real estate, mortgage loans and real estate within certain specified percentages.

The administration of our investment portfolios is handled by our management, pursuant to board-approved investment guidelines, with all trading activity approved by a committee of the respective boards of directors of our insurance company subsidiaries. The guidelines used require that bonds, both government and corporate, are of high quality and comprise a majority of the investment portfolio. The assets selected are intended to mature in accordance with the average maturity of the insurance products and to provide the cash flow for our insurance company subsidiaries to meet their respective policyholder obligations.

Valuation of Investments in Fixed Maturity and Equity Securities

At December 31, 2008, investments in fixed maturity and equity securities were 92.8% of our total investments. All of our fixed maturities were classified as available-for-sale securities at December 31, 2008 and thus are reported on our

consolidated financial statements at fair value; equity securities are also reported at fair value. We had no fixed maturity or equity securities that were classified as trading securities at December 31, 2008.

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At December 31, 2008, 70.5% of our fixed maturity securities were invested in U.S. Government-sponsored enterprises or securities backed by the U.S. Government. We evaluate the carrying value of our fixed maturity and equity securities at least quarterly. The Company monitors all debt and equity securities on an on-going basis relative to changes in credit ratings, market prices, earnings trends and financial performance, in addition to specific region or industry reviews. The Company determines other-than-temporary impairment by reviewing all relevant evidence related to the specific security issuer as well as the Company s intent and ability to hold the investment for a period of time sufficient for a forecasted recovery. The Company s intent to hold investments for the long term can be evidenced by security maturities as opposed to sales within the portfolios and the long term nature of our insurance contracts and the strategy of matching assets and liabilities as key business drivers. A decline in the fair value of any fixed maturity or equity security below cost that is deemed other-than-temporary is charged to earnings resulting in the establishment of a new cost basis for the security. The new cost basis is not changed for subsequent recoveries in the fair value of the fixed maturity or equity security. With the exception of Security Plan, virtually all of our subsidiaries fixed maturity investments are in U.S. Government or U.S. Government-sponsored enterprises or U.S. Government instruments. Security Plan has significant investments in corporate and municipal bonds. Based upon our emphasis on investing in fixed maturity securities primarily composed of obligations of U.S. Government-sponsored corporations, our intent and ability to hold temporarily impaired fixed maturities until recovery, and our analysis of whether declines in fair value below cost are temporary or other-than-temporary, management believes that our investments in fixed maturity investments at December 31, 2008 were not impaired, and no other-than-temporary losses needed to be recorded. The Company did impair one Lehman Brothers bond and a Ford Motor Credit bond during 2008, because the Company does not expect these securities to recover in value in the near term. The Company will closely monitor its fixed income portfolio going forward. The Company s equity securities consist of mutual funds acquired in 2007 and 2008. The recent financial crisis has caused our equity securities to significantly decrease in value. The Company took an other-than-temporary impairment charge on its equity securities in 2008 in the amount of $23.5 million, although the Company does expect these securities to recover in value as the overall financial market recovers.

Gross unrealized losses on fixed maturities available-for-sale amounted to $16.0 million as of December 31, 2008 and $4.7 million as of December 31, 2007. The increase in unrealized losses from year end 2007 to year end 2008 was primarily due to the substantial decline in the overall financial markets, which put downward pricing pressure on the fair values of our corporate and municipal bonds. There were no gross unrealized losses on equity securities as of December 31, 2008, as all of these securities were deemed impaired and have been written down to their fair value as of the reporting date. Information on unrealized gains and losses by category is set forth in our consolidated financial statements, Note 2 Investments, in the Notes to the Consolidated Financial Statements.

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The following table shows the carrying value of our investments by investment category and cash and cash equivalents, and the percentage of each to total invested assets.

	December 31, 2008	
	Carrying Value	Percent of Total
	(In thousands)	
Fixed maturity securities:		
U.S. Government-sponsored corporations and U.S. Government agencies (1)	$ 295,481	46.6%
Mortgage-backed (2)	51,907	8.2
Corporate	75,375	11.8
Municipal bonds	58,105	9.2
Public utilities	4,153	0.7
Foreign governments	134	
Total fixed maturity securities	485,155	76.5
Cash and cash equivalents	63,792	10.1
Short-term investments	2,250	0.4
Other investments:		
Policy loans	28,955	4.6
Equity securities	43,000	6.8
Mortgage loans	339	0.1
Real estate and other long-term investments	9,553	1.5
Total cash, cash equivalents and investments	$ 633,044	100.0%

(1) Includes U.S. Treasury securities of $14,419,000 and U.S. Government-sponsored corporations of $281,062,000.

(2) Includes $46,371,000 of U.S. Government agencies and government-sponsored corporations.

The following table shows the distribution of the credit ratings of our portfolio of fixed maturity securities by carrying value as of December 31, 2008.

December 31, 2008	
Carrying Value	%
(In thousands)	

AAA and U.S. Government	$ 379,547	78.2%
AA	37,263	7.7
A	56,043	11.6
BBB	7,217	1.5
BB and other	5,085	1.0
Totals	$ 485,155	100.0%

Reinsurance

As is customary among insurance companies, our insurance company subsidiaries reinsure with other companies portions of the life insurance risks they underwrite. A primary purpose of reinsurance agreements is to enable an insurance company to reduce the amount of risk on any particular life and, by reinsuring the amount exceeding the maximum amount the insurance company is willing to retain, to insure individuals in amounts larger than it could without such agreements. Even though a portion of the risk may be reinsured, our insurance company subsidiaries remain liable to perform all the obligations imposed by the policies issued by them and could be liable if their reinsurers were unable to meet their obligations under the reinsurance agreements.

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We believe that we have established appropriate reinsurance coverage based upon our net retained insured liabilities compared to our surplus.

The effect of reinsurance on premiums is as follows:

	Years ended December 31,		
	2008	2007	2006
	(In thousands)		
Direct premiums	$ 151,077	146,409	135,311
Reinsurance assumed	1,459	1,462	1,126
Reinsurance ceded	(11,239)	(11,123)	(11,811)
Net premiums	$ 141,297	$ 136,748	$ 124,626

CICA monitors the solvency of its reinsurers in seeking to minimize the risk of loss in the event of default by a reinsurer. The primary reinsurers of CICA are large, well capitalized entities.

The effect of reinsurance on life insurance in force is as follows:

	Years ended December 31,		
	2008	2007	2006
	(In millions)		
Direct written life insurance inforce	$ 4,322	4,168	3,971
Reinsurance assumed	647	644	670
Reinsurance ceded	(302)	(274)	(259)
Net life insurance inforce	$ 4,667	$ 4,538	$ 4,382

Virtually all of the Company s non-credit accident and health insurance is reinsured with and administered by Texas International Life Insurance Company (TILIC), an unaffiliated party. The reinsurance recoverables under this agreement are collateralized by assets held in a trust for the benefit of the reinsured policies.

The Company monitors the credit ratings of our life and property reinsurers. The ratings by A.M. Best Company range from B+ (Good) to A+ (Superior).

For calendar year 2006, SPFIC elected to increase the amount of first and second event catastrophe reinsurance to $10.0 million per event from $7.1 million and raise the retention level to $500,000 per event from $250,000, after the negative effects from Hurricane Katrina in 2005. Thus, the first $500,000 of incurred claims and any claims in excess of $10.0 million were SPLIC s responsibility. The same reinsurance levels were in place for 2007 and 2008. The reinsurance premium for first event catastrophe reinsurance was $750,000 in 2008, $840,000 in 2007 and $799,000 in 2006. In 2008, SPFIC also paid reinsurance premiums in the amount of $478,000 for second and third event coverage due to Hurricanes Gustav and Ike.

Liquidity and Capital Resources

Liquidity refers to a company s ability to generate sufficient cash flows to meet the needs of its operations. Liquidity is managed on insurance operations to ensure stable and reliable sources of cash flows to meet obligations and is provided by a variety of sources.

The liquidity requirements of our Company are met primarily by funds provided from operations. Premium deposits and revenues, investment income and investment maturities are the primary sources of funds, while investment purchases, policy benefits, and operating expenses are the primary uses of funds. We historically have not had to liquidate investments to provide cash flow, but in 2008 SPFIC sold $237,000 of bonds because of liquidity needs as a result of Hurricanes Gustav and Ike. Also, during the first six months of 2006, SPFIC sold approximately $3.1 million of bonds in order to meet the cash outflow related to claims from Hurricanes Katrina and Rita. Our investments

consist primarily of marketable debt securities that could be readily converted to cash for liquidity needs. See Note 9 of the Notes to Consolidated Financial Statements for a table disclosing our contractual obligations.

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A primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. We include provisions within our insurance policies, such as surrender charges, that help limit and discourage early withdrawals. Since these contractual withdrawals, as well as the level of surrenders experienced, have been largely consistent with our assumptions in asset liability management, our associated cash outflows have, historically, not had an adverse impact on our overall liquidity. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and cash flow tests under various market interest rate scenarios are also performed annually to assist in evaluating liquidity needs and adequacy. We currently anticipate that available liquidity sources and future cash flows will be adequate to meet our needs for funds.

Cash flows from our insurance operations historically have been sufficient to meet current needs. Cash flows from operating activities were $46.4 million, $37.9 million and $39.1 million for the years ended December 31, 2008, 2007 and 2006, respectively. We have traditionally also had significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows, for the most part, are reinvested in fixed income securities. Net cash outflows from investment activity totaled $14.3 million, $58.8 million and $33.6 million for the years ended December 31, 2008, 2007 and 2006, respectively. The outflows from investing activities for the year ended December 31, 2008, primarily related to the investment of excess cash and cash equivalents generated from operations during 2008 plus the $8.2 million used to acquire ONLIC. The Company has had significant cash flows from financing activities in the last two years, $10.6 million in 2008 and $17.5 million in 2007. In 2008, the Company received $9.4 million from capital contributions relating to our Series A-1 preferred stock. In 2007, the Company sold approximately 2.7 million shares of Class A common stock in a registered direct public offering. The sale resulted in gross proceeds of $18.8 million and net proceeds of $17.1 million after broker commissions and offering related expenses.

Stockholders equity at December 31, 2008 was $171.5 million compared to $176.2 million at December 31, 2007. The 2008 decrease was largely due to the OTTI loss on mutual funds during the period, offset by capital contributions from the Company s preferred stock investors.

Investments decreased to $569.3 million at December 31, 2008 from $585.3 million at December 31, 2007. Invested assets decreased 2.7% during 2008, due to the decrease in values in the Company s portfolio resulting from the overall market conditions; however, cash increased by $42.7 million. Fixed maturities are categorized into fixed maturities available-for-sale, which are carried in our consolidated financial statements at fair value. Fixed maturities available-for-sale were 85.2% of investments at December 31, 2008.

Policy loans comprised 5.1% of invested assets at December 31, 2008 compared to 4.4% at December 31, 2007. These loans, which are secured by the underlying policy values, have yields ranging from 5% to 12% and maturities that are related to the maturity or termination of the applicable policies. Management believes we maintain adequate liquidity despite the uncertain maturities of these loans.

Our cash balances at our primary depositories were significantly in excess of Federal Deposit Insurance Corporation coverage at December 31, 2008 and December 31, 2007. Management monitors the solvency of all financial institutions in which we have funds to minimize the exposure for loss. Management does not believe we are at significant risk for such a loss. During 2008, we intend to continue to utilize short term agencies and U.S. Treasuries as a cash management tool to minimize excess cash balances.

In the wake of bankruptcy filings by large corporations several years ago, concern was raised regarding the use of certain off-balance sheet special purpose entities such as partnerships to hedge or conceal losses related to investment activity. We do not utilize special purpose entities as investment vehicles, nor are there any such entities in which we have an investment that engage in speculative activities of any nature, and we do not use such investments to hedge our investment positions. The Company has no subprime or collateralized debt obligations.

The NAIC has established minimum capital requirements in the form of Risk-Based Capital (RBC). Risk-based capital factors the type of business written by an insurance company, the quality of its assets, and various other aspects of an insurance company s business to develop a minimum level of capital called Authorized Control Level Risk-based Capital and compares this level to an adjusted statutory capital that includes capital and surplus as reported under

statutory accounting principles, plus certain investment reserves. Should the ratio of adjusted statutory capital to control level risk-based capital fall below 200%, a series of actions by the affected company would begin. At December 31, 2008 and 2007, all of our insurance subsidiaries except ONLIC and SPFIC were above required minimum levels. The Company plans to contribute $1.0 million to both ONLIC and SPFIC to eliminate the RBC level of action. This plan is pending insurance department approval.

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Parent Company Liquidity and Capital Resources

We are a holding company and have had minimal operations of our own. Our assets primarily consist of the capital stock of our subsidiaries. Accordingly, our cash flows depend upon the availability of statutorily permissible payments, primarily payments under management agreements from our two primary life insurance subsidiaries, CICA and SPLIC. The ability to make payments is limited by applicable laws and regulations of Colorado, CICA s state of domicile, and Louisiana, Security Plan s state of domicile, which subject insurance operations to significant regulatory restrictions. These laws and regulations require, among other things, that these insurance subsidiaries maintain minimum solvency requirements and limit the amount of dividends these subsidiaries can pay to the holding company. We historically have not relied upon dividends from subsidiaries for our cash flow needs and we do not intend to do so in the future.

Critical Accounting Estimates

Our critical accounting policies are as follows:

Policy Liabilities

Future policy benefit reserves have been computed by the net level premium method with assumptions as to investment yields, dividends on participating business, mortality and withdrawals based upon our experience. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of policy liabilities and the increase in future policy benefit reserves. Management s judgments and estimates for future policy benefit reserves provide for possible unfavorable deviation.

We continue to use the original assumptions (including a provision for the risk of adverse deviation) in subsequent periods to determine the changes in the liability for future policy benefits (the lock-in concept) unless a premium deficiency exists. Management monitors these assumptions and has determined a premium deficiency does not exist at December 31, 2008. Management believes our policy liabilities and increase in future policy benefit reserves as of and for the years ended December 31, 2008 and 2007 are based upon assumptions, including a provision for the risk of adverse deviation, that do not warrant revision for policies issued in 2008 or 2007. The relative stability of these assumptions and management s analysis is discussed below.

Deferred Policy Acquisition Costs

Acquisition costs, consisting of commissions and policy issuance, underwriting and agency expenses, that relate to and vary with the production of new business are deferred. These deferred policy acquisition costs are amortized primarily over the estimated premium paying period of the related policies in proportion to the ratio of the annual premium recognized to the total premium revenue anticipated, using the same assumptions as were used in computing liabilities for future policy benefits.

We utilize the factor method to determine the amount of costs to be capitalized and the ending asset balance. The factor method is based on the ratio of premium revenue recognized for the policies in force at the end of each reporting period compared to the premium revenue recognized for policies in force at the beginning of the reporting period. The factor method ensures that policies that lapsed or surrendered during the reporting period are no longer included in the deferred policy acquisition costs calculation. The factor method limits the amount of deferred costs to its estimated realizable value, provided actual experience is comparable to that contemplated in the factors.

Inherent in the capitalization and amortization of deferred policy acquisition costs are certain management judgments about what acquisition costs are deferred, the ending asset balance and the annual amortization. Approximately 80% of our capitalized deferred acquisition costs are attributed to first year excess commissions. The remaining 20% are attributed to costs that vary with and are directly related to the acquisition of new and renewal insurance business. Those costs generally include costs related to the production, underwriting and issuance of new business.

A recoverability test that considers, among other things, actual experience and projected future experience is performed at least annually. The annual recoverability test is based upon SFAS 60, paragraph 35. We estimate the discounted value of the cash flows using our liability assumptions. We then compare that to the policy liabilities and the deferred policy acquisition costs. Based upon the analysis performed to capitalize expenses that vary with and are directly related to the acquisition of new and renewal insurance business, utilization of the factor method and annual recoverability testing, management believes that our deferred policy acquisition costs and related amortization as of

and for the years ended December 31, 2008, 2007 and 2006 limits the amount of deferred costs to its estimated realizable value.

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The American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* (SOP 05-1), which defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. Under SOP 05-1, modifications that result in a substantially unchanged contract will be accounted for as a continuation of the replaced contract. A replacement contract that is substantially changed will be accounted for as an extinguishment of the replaced contract resulting in a release of unamortized deferred acquisition costs and unearned inducements associated with the replaced contract. Also under SOP 05-1, the unamortized deferred acquisition cost is written off when a policy is reinstated that had previously lapsed. We implemented SOP 05-1 in the first quarter of 2007, and as a result, the Company wrote off $917,000 of DAC on reinstated policies during the year ended December 31, 2007.

Goodwill

SFAS No. 142, *Goodwill and Other Intangible Assets,* (SFAS 142) requires that goodwill balances be reviewed for impairment at least annually or more frequently if events occur or circumstances change that would indicate that a triggering event, as defined in SFAS 142, has occurred. A reporting unit is defined as an operating segment or one level below an operating segment. Most of the Company s reporting units, for which goodwill has been allocated, are equivalent to the Company s operating segments as there is no discrete financial information available for the separate components of the segment or all of the components of the segment have similar economic characteristics. As of December 31, 2008, the Company had goodwill allocated to the both the Life Insurance segment as well as the Home Service segment.

The goodwill impairment test follows a two step process as defined in SFAS 142. In the first step, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. If the carrying amount of the reporting unit goodwill exceeds the implied goodwill value, an impairment loss is recognized in an amount equal to that excess.

Management s determination of the fair value of each reporting unit incorporates multiple inputs including discounted cash flow calculations, peer company price to earnings multiples, the level of the Company s Class A common stock price and assumptions that market participants would make in valuing the reporting unit. Other assumptions can include levels of economic capital, future business growth, and earnings projections.

The Company completed its annual goodwill assessment for the individual reporting units within the Life Insurance segment and Home Service segment as of December 31, 2008 and December 31, 2007 and no impairment of goodwill was identified.

Evaluation of Other-Than-Temporary Impairments on Available-for-Sale Securities

One of the significant estimates related to available-for-sale securities is the evaluation of investments for other-than-temporary impairments. If a decline in the fair value of an available-for-sale security is judged to be other-than-temporary, a charge is recorded in net realized capital losses equal to the difference between the fair value and cost or amortized cost basis of the security. In addition, for securities expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover to cost or amortized cost prior to the expected date of sale. The fair value of the other-than-temporarily impaired investment becomes its new cost basis. For fixed maturities, the Company accretes the new cost basis to par or to the estimated future cash flows over the expected remaining life of the security by adjusting the security s yield.

The evaluation of securities for impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer s financial condition or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period.

Each quarter, during the Company s analysis, the Company asserts its intent and ability to retain until recovery those securities judged to be temporarily impaired. Once identified, these securities are restricted from trading unless a valid reason exists. The Company will only authorize the sale of these securities based on predefined criteria that relate to events that could not have been reasonably foreseen. Examples of the criteria include, but are not limited to, the deterioration in an issuer s creditworthiness, a change in regulatory requirements or a major business combination or major disposition.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

General

The nature of our business exposes us to investment market risk. Market risk is the risk of loss that may occur when changes in interest rates and public equity prices adversely affect the value of our invested assets. Interest rate risk is our primary market risk exposure. Substantial and sustained increases and decreases in market interest rates can affect the fair value of our investments. The fair value of our fixed maturity portfolio generally increases when interest rates decrease and decreases when interest rates increase.

Market Risk Related to Interest Rates

Our exposure to interest rate changes results from our significant holdings of fixed maturity investments, policy loans and mortgage loans on real estate, all of which comprised over 90.4% of our cash and investment portfolio as of December 31, 2008. These investments are mainly exposed to changes in U.S. Treasury rates. Our fixed maturities investments include U.S. Government-sponsored corporations, U.S. Government bonds, securities issued by government agencies, and corporate bonds. Approximately 70.5% of the fixed maturities we owned at December 31, 2008 are instruments of U.S. Government-sponsored enterprises, or are backed by U.S. Government agencies.

To manage interest rate risk, we perform periodic projections of asset and liability cash flows to evaluate the potential sensitivity of our investments and liabilities. We assess interest rate sensitivity with respect to our available-for-sale fixed maturities investments using hypothetical test scenarios that assume either upward or downward 100 basis point shifts in the prevailing interest rates.

The following tables set forth the potential amount of unrealized gains (losses) that could be caused by 100 basis point upward and downward shifts on our available-for-sale fixed maturities investments as of the dates indicated.

Decreases in Interest Rates
(In thousands)

December 31,	100 Basis Points	200 Basis Points	300 Basis Points
2008	Interest rates cannot decrease by these levels		
2007	$ 18,594	29,582	42,812

Increases in Interest Rates
(In thousands)

December 31,	100 Basis Points	200 Basis Points	300 Basis Points
2008	$ (55,265)	(85,159)	(113,469)
2007	$ (22,821)	(51,006)	(79,768)

While the test scenario is for illustrative purposes only and does not reflect our expectations regarding future interest rates or the performance of fixed-income markets, it is a near-term change that illustrates the potential impact of such events. Due to the composition of our book of insurance business, we believe it is unlikely we would encounter large surrender activity due an interest rate increase that would force us to dispose of our fixed maturities at a loss.

There are no fixed maturities or other investments that we classify as trading instruments. At December 31, 2008 and 2007, we had no investments in derivative instruments, nor does the Company have any subprime or CDO (collateralized debt obligation) risk.

Market Risk Related to Equity Prices

Changes in the level or volatility of equity prices affect the value of equity securities we hold as investments. However, our equity investments portfolio was less than 8% of our total investments at December 31, 2008. Thus, we believe significant decreases in the equity markets would have an immaterial impact on our total investment portfolio. (See also Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.)

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Item 8. Financial Statements and Supplementary Data

Reference is made to the financial statements, the notes thereto, and the report of our independent registered public accounting firm, as listed on the table of contents.

All other schedules have been omitted as the required information is inapplicable or the information required is presented in the financial statements or the notes thereto filed elsewhere herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

During the 36 months preceding the date of the audited financial statements included herein, we have not reported on Form 8-K any disagreements between our independent registered accounting firms and us. On March 23, 2006, we reported the termination of KPMG LLP as our principal independent registered public accounting firm and the engagement of Ernst & Young LLP as our successor independent registered public accounting firm.

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure, among other things, material information relating to our Company, including its consolidated subsidiaries, is made known to our officers who certify our financial reports and to the other members of our senior management and the Board of Directors.

Our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO) are responsible for establishing and maintaining our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based upon an evaluation at the end of the period, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

(b) Management Report on Internal Control over Financial Reporting

Management of our Company is responsible for establishing and maintaining adequate internal control over financial reporting. Management assessed our internal control over financial reporting based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2008.

Our independent registered public accounting firm, Ernst & Young LLP has issued an attestation report on our internal control over financial reporting. The report is included in item 9A(d) of this annual report.

(c) Change in Internal Control over Financial Reporting

During 2008, there have been no changes in the Company s internal controls over financial reporting that materially affect or are reasonably likely to affect the Company s internal controls over financial reporting. The Company implemented an internal audit function during 2008. This function provided an additional layer of review and oversight procedures. The Company s Director of Internal Audit has significant experience in the life insurance industry, as well as external audit experience, including design and implementation of internal control processes.

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(d) Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Shareholders of Citizens, Inc.:

We have audited Citizens, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Citizens, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting under Item 9A of the Index. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Citizens, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008 of Citizens, Inc. and subsidiaries and our report dated March 13, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Austin, Texas

March 13, 2009

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Item 9B. Other Information

None.

PART III

Items **10, 11, 12, 13** and **14** of this Report incorporate by reference the information in our definitive proxy material under the headings Election of Directors, Executive Officers, Executive Officer and Director Compensation, Sto and Principal Stockholders, Control of the Company, and Principal Accounting Fees and Services, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2008.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) **(1) and (2) Filings as Part of this Report**

The financial statements and schedules listed on the following index to financial statements and financial statement schedules are filed under Item 8 as part of this Form 10-K.

(b) **(3) Exhibits See the Exhibit Index**

Index to Consolidated Financial Statements and Financial Statement Schedules

	Page Reference
Report of independent registered public accounting firm	38
Consolidated statements of financial position at December 31, 2008 and 2007	39
Consolidated statements of operations - years ended December 31, 2008, 2007 and 2006	41
Consolidated statements of stockholders equity and comprehensive income years ended December 31, 2008, 2007 and 2006	42
Consolidated statements of cash flows - years ended December 31, 2008, 2007 and 2006	44
Notes to consolidated financial statements Schedules at December 31, 2008 and 2007:	46
Schedule II Condensed Financial Information of Registrant	78
Schedules for each of the years in the three-year period ended December 31, 2008:	
Schedule III Supplementary Insurance Information	81
Schedule IV Reinsurance	82

All other schedules have been omitted because the required information is inapplicable or the information required is presented in the financial statements or the notes thereto filed elsewhere herein.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Citizens, Inc.:

We have audited the accompanying consolidated statements of financial position of Citizens, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008. Our audit also included the financial statement schedules II, III, and IV under Item 15 of the Index. These financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Citizens, Inc. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As described in Note 1 to the consolidated financial statements, in 2007 the Company adopted American Institute of Certified Public Accountants Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modification or Exchanges of Insurance Contracts*. Also, as described in Note 1 to the consolidated financial statements, during the fourth quarter of 2006, the Company adopted Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements* (SAB No. 108). In accordance with the transition provisions of SAB No. 108, the Company recorded an adjustment to retained deficit effective January 1, 2006 for the correction of prior period misstatements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Citizens, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Austin, Texas
March 13, 2009

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Financial Position
December 31
(In thousands)

	2008	2007
Assets		
Investments:		
Fixed maturities available-for-sale, at fair value (cost: $494,034 and $502,635 in 2008 and 2007, respectively)	$ 485,155	500,426
Equity securities available-for-sale, at fair value (cost: $42,908 and $36,696 in 2008 and 2007, respectively)	43,000	35,669
Mortgage loans on real estate	339	291
Policy loans	28,955	25,490
Real estate held for sale	4,156	671
Real estate held for investment (less $283 and $223 accumulated depreciation in 2008 and 2007, respectively)	4,717	4,481
Other long-term investments	680	618
Short-term investments	2,250	17,650
Total investments	569,252	585,296
Cash and cash equivalents	63,792	21,123
Accrued investment income	7,423	7,115
Reinsurance recoverable	13,241	13,492
Deferred policy acquisition costs	109,114	100,655
Cost of customer relationships acquired	33,805	31,636
Goodwill	15,687	11,386
Other intangible assets	1,073	1,066
Federal income tax receivable	2,090	715
Property and equipment, net	6,466	6,795
Due premiums, net (less $2,217 and $1,780 allowance for doubtful accounts in 2008 and 2007, respectively)	8,958	7,656
Other assets	1,375	974
Total assets	$ 832,276	787,909

(Continued)

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Financial Position, Continued
December 31
(In thousands, except share amounts)

	2008	2007
Liabilities and Stockholders Equity		
Liabilities:		
Future policy benefit reserves:		
Life insurance	$ 547,621	505,517
Annuities	34,025	22,792
Accident and health	7,442	8,293
Dividend accumulations	4,795	4,825
Premiums paid in advance	18,566	16,140
Policy claims payable	9,318	6,908
Other policyholders funds	7,929	7,049
Total policy liabilities	629,696	571,524
Commissions payable	2,350	2,385
Deferred federal and state income taxes	3,951	4,810
Payable for securities in process of settlement		7,000
Warrants outstanding	4,973	1,003
Other liabilities	12,052	10,810
Total liabilities	653,022	597,532
Commitments and contingencies (Notes 6 and 9)		
Cumulative convertible preferred stock Series A (Series A-1 - $1,000 stated value per share, 6,250 shares issued, authorized and outstanding in 2008, and $500 stated value per share, 25,000 shares issued, authorized and outstanding in 2007; Series A-2 $935 stated value per share, 5,000 shares authorized, 4,014 shares issued and outstanding in 2008 and 2007)	7,713	14,220
Stockholders equity:		
Common stock:		
Class A, no par value, 100,000,000 shares authorized, 48,781,753 shares issued in 2008 and 46,205,830 shares issued in 2007, including shares in treasury of 3,135,738 in 2008 and 2007	240,511	225,812
Class B, no par value, 2,000,000 shares authorized, 1,001,714 shares issued and outstanding in 2008 and 2007	3,184	3,184
Retained deficit	(55,432)	(39,725)
Accumulated other comprehensive loss:		
Unrealized losses on securities, net of tax	(5,711)	(2,103)
	182,552	187,168
Treasury stock, at cost	(11,011)	(11,011)
Total stockholders equity	171,541	176,157

Total liabilities and stockholders equity	$	832,276	787,909

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Operations
Years ended December 31
(In thousands, except per share amounts)

	2008	2007	2006
Revenues:			
Premiums:			
Life insurance	$ 134,953	130,265	119,388
Accident and health insurance	1,580	1,558	1,461
Property insurance	4,764	4,925	3,777
Net investment income	30,478	30,743	26,975
Realized gains (losses), net	(23,812)	(94)	1,286
Decrease (increase) in fair value of warrants	(2,662)	828	(244)
Other income	1,372	1,412	1,546
Total revenues	146,673	169,637	154,189
Benefits and expenses:			
Insurance benefits paid or provided:			
Claims and surrenders	56,253	50,571	52,391
Increase in future policy benefit reserves	37,117	36,420	30,719
Policyholders dividends	6,865	6,401	5,384
Total insurance benefits paid or provided	100,235	93,392	88,494
Commissions	35,984	35,641	35,691
Other underwriting, acquisition and insurance expenses	28,611	27,583	27,607
Capitalization of deferred policy acquisition costs	(24,109)	(26,210)	(26,986)
Amortization of deferred policy acquisition costs	15,650	12,530	11,391
Amortization of cost of customer relationships acquired and other intangibles	2,897	3,203	4,650
Total benefits and expenses	159,268	146,139	140,847
Income (loss) before income tax expense	(12,595)	23,498	13,342
Income tax expense	3,112	6,941	4,665
Net income (loss)	(15,707)	16,557	8,677
Net income (loss) applicable to common stockholders	$ (18,263)	14,555	6,654
Per Share Amounts			
Basic and diluted earnings (loss) per share of Class A common stock	$ (0.42)	0.35	0.16

Basic and diluted earnings (loss) per share of Class B common stock	$	(0.21)	0.18	0.08

See accompanying notes to consolidated financial statements.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Stockholders Equity and Comprehensive Income
Years ended December 31, 2008, 2007 and 2006
(In thousands)

	Common Stock		Retained	Accumulated other comprehensive	Treasury	Total Stockholders
	Class A	Class B	deficit	loss	stock	equity
Balance at December 31, 2005	$ 211,403	3,184	(61,812)	(4,801)	(11,011)	136,963
Cummulative effect of adopting SEC Staff Accounting Bulletin No. 108			(3,147)			(3,147)
Comprehensive income:						
Net income			8,677			8,677
Unrealized investment losses, net				(1,545)		(1,545)
Total comprehensive income			8,677	(1,545)		7,132
Accretion of deferred issuance costs and discounts on preferred stock	(1,337)					(1,337)
Balance at December 31, 2006	210,066	3,184	(56,282)	(6,346)	(11,011)	139,611
Comprehensive income:						
Net income			16,557			16,557
Unrealized investment gains, net				4,243		4,243
Total comprehensive income			16,557	4,243		20,800
Accretion of deferred issuance costs and discounts on preferred stock	(1,337)					(1,337)
Sale of Class A common stock	17,083					17,083