CITIZENS INC
Form 8-K/A
December 15, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 1, 2004

CITIZENS, INC.

(Exact name of registrant as specified in its charter)

COLORADO	**0-16509**	**84-0755371**
(State or other jurisdiction of incorporation	*(Commission File Number)*	*(IRS 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

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

__________Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

__________ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

__________ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

__________Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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The principal purpose of this Amendment No. 1 to this Form 8-K, (which was originally filed on October 6, 2004), is to provide the required financial statements and information pursuant to Item 9.01. This Amendment also includes in substantial part the description of the transactions and verbiage from the original filing. In all other respects, the verbiage, information and exhibits included in the original filing of this Form 8-K are hereby incorporated by reference.

Item 2.01: Completion of Acquisition or Disposition of Assets

On October 1, 2004, the Registrant, Citizens, Inc., through its primary insurance subsidiary, Citizens Insurance Company of America (CICA), completed the acquisition of Security Plan Life Insurance Company (Security), a Louisiana-domiciled stock life insurance company. Security was acquired from its owner, Mayflower National Life Insurance Company (Mayflower) pursuant to a Stock Purchase Agreement (the Purchase Agreement) entered into by Citizens and Mayflower on June 17, 2004, under which CICA purchased all of the outstanding common stock of Security. The Purchase Agreement was included as an exhibit to a Form 8-K of Citizens filed on June 21, 2004.

Under the Purchase Agreement, CICA paid $85 million in cash for Security. CICA paid the purchase price with internal funds and through a $30 million borrowing on Citizens line of credit.

Item 2.03: Creation of a Direct Financial Obligation

As part of the financing for the acquisition of Security as discussed in the above item, Citizens borrowed $30 million against its line of credit with Regions Bank and loaned the money to CICA. In connection therewith, Citizens entered into a Second Amendment to Loan Agreement dated October 1, 2004 with Regions Bank (the Amended Loan Agreement). Under the Amended Loan Agreement, Citizens converted into a term loan its $30 million advance against the line of credit. Under the term loan, Citizens is to repay the principal portion of the loan in ten semi-annual installments of $3,000,000 beginning on May 1, 2005, with the final installment of principal and any accrued and unpaid interest due on November 1, 2009. Interest on the unpaid principal balance of the loan is to be paid on the fifth day of each month following the end of each fiscal quarter of Citizens. The interest rate is equal to 30-day LIBOR (London InterBank Offered Rate) plus 1.80% per year.

Because the maximum borrowing authorization on Citizens line of credit is $30 million, the line has been drawn down to zero. Under the Amended Loan Agreement, upon any prepayment or repayment of the term loan described above, the line of credit is to be reinstated to an aggregate amount equal to the difference between (a) $30 million minus (b) the aggregate outstanding principal amount under the term loan.

CICA has issued to Citizens a Subordinated Debenture in the principal amount of $30 million plus interest equal to 30-day LIBOR (London InterBank Offered Rate) plus 1.80% per year. Because CICA is a insurance company formed under the laws of Colorado, under

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the subordinated debenture, any principal and accrued interest is not a legal liability of CICA until repayment of interest or principal has received the prior written approval of the Commissioner of Insurance for the State of Colorado. Under Colorado Insurance law, repayment under the subordinated debenture may only be made out of the surplus funds of CICA. The subordinated debenture is subordinate to policyholders and to claimant and beneficiary claims, as well as to all other classes of creditors senior to the subordinated debenture. In the event of a reorganization, dissolution or liquidation of CICA, Citizens (or successor stockholders of CICA) will be entitled to a preferential right in the remaining assets of CICA equal to the unpaid principal and accrued interest under the subordinated debenture.

In connection with the Amended Loan Agreement, CICA entered into a Security Agreement with Regions Bank dated October 1, 2004. Pursuant to the security agreement, CICA granted a security interest in all of the outstanding shares of common stock of Security purchased by CICA (the Collateral) by delivering to Regions Bank possession of the shares. In addition, CICA agreed that the Collateral will also extend to the following property that CICA becomes entitled to receive in connection with the Collateral: (a) any stock certificate representing a stock dividend or any certificate in connection with a recapitalization, merger, combination or similar transaction regarding Security; (b) any option warrant or subscription right with respect to the Collateral; (c) any dividends or distributions by Security; (d) any interest in principal payments; and (e) any conversion or redemption proceeds relating to the Collateral; provided, however, that unless there is an event of default on the term loan by Citizens, CICA shall be entitled to all cash dividends and all principal and interest paid on the Collateral. Although Regions Bank will hold the Collateral in its possession, CICA retains the voting rights incident to the Collateral as long as term loan is not in default.

Item 9.01: Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

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(c) Exhibits:

The following exhibit is included with this Current Report on Form 8-K:

Exhibit No.	Description
23.1	Consent of KPMG LLP

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SIGNATURE

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CITIZENS, INC

/s/ MARK A. OLIVER
Mark A. Oliver, President

Date: December 14, 2004

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(a) FINANCIAL STATEMENTS OF BUSINESS ACQUIRED

SECURITY PLAN LIFE INSURANCE COMPANY AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2003 and 2002

(With Independent Auditors Report Thereon)

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Independent Auditors Report

The Board of Directors
Security Plan Life Insurance Company:

We have audited the accompanying consolidated balance sheets of Security Plan Life Insurance Company and subsidiaries (the Company) as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholder s equity and comprehensive income, and cash flows for the three years ended December 31, 2003. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Security Plan Life Insurance Company and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the three years ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2(c) to the consolidated financial statements, effective December 31, 2001 the Company applied fresh start accounting as the Company s ultimate parent emerged from bankruptcy. As a result, the consolidated statements of operations and cash flows for the years ended December 31, 2003 and 2002 are presented on a different basis than that for periods before fresh start and, therefore, are not comparable.

/s/ KPMG LLP

New Orleans, Louisiana

September 21, 2004

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SECURITY PLAN LIFE INSURANCE COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2003 and 2002

	2003	2002
Assets		
Investments:		
Fixed maturities available-for-sale, at fair value (amortized cost: 2003 $217,287,136; 2002 $210,082,299)	$226,532,399	223,864,155
Policy loans	3,586,968	3,373,010
Affiliate mortgage loan on real estate	3,979,128	4,286,308
Unaffiliated mortgage loans on real estate, net	79,011	193,153
Total investments	234,177,506	231,716,626
Cash	12,718,315	17,896,353
Accrued investment income	2,681,802	2,610,258
Income tax receivable	1,518,987	1,106,861
Deferred income taxes, net	3,439,158	4,501,350
Deferred policy acquisition costs	6,281,084	3,557,425
Value of business acquired, net	13,723,256	15,580,583
Property and equipment, net of accumulated depreciation	723,151	920,185
Property and liability reinsurance receivable	50,184	735,262
Other assets	408,483	481,618
Total assets	$275,721,926	279,106,521
Liabilities and Shareholder s Equity		
Future policy benefit reserves for life and health policies	$198,615,087	196,422,822
Policy and contract claims life and health	3,419,722	3,968,090
Policy and contract claims property and casualty	425,697	744,150
Unearned and advance premiums	928,647	888,877
Other policyholder funds	376,499	589,721
Total policy liabilities	203,765,652	202,613,660
Due to affiliate	1,317,739	1,197,739
Accrued expenses and other liabilities	4,028,432	5,582,431
Total liabilities	209,111,823	209,393,830

Shareholder s equity:		
Common stock, $100 par value. Authorized 10,000 shares, issued and outstanding	1,000,000	1,000,000
Paid-in capital	59,000,000	59,000,000
Retained earnings	600,681	754,484
Accumulated other comprehensive income, net of taxes	6,009,422	8,958,207
Total shareholder s equity	66,610,103	69,712,691
Total liabilities and shareholder s equity	$275,721,926	279,106,521

See accompanying notes to consolidated financial statements.

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SECURITY PLAN LIFE INSURANCE COMPANY AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2003, 2002, and 2001

	2003	2002	2001
Revenues:			
Life and health premium	$36,275,433	36,588,573	37,093,851
Property and casualty premium	4,274,033	4,008,129	4,137,572
Total earned premium	40,549,466	40,596,702	41,231,423
Net investment income	13,172,840	13,982,956	15,463,077
Net realized investment gains (losses)	863,431	2,253,671	(2,516,194)
Other	4,261	13,213	100,075
Total revenues	54,589,998	56,846,542	54,278,381
Benefits and expenses:			
Life and health policyholder benefits	17,419,910	17,541,225	17,238,464
Property and casualty insurance claims and benefits	1,881,098	2,259,226	1,940,671
Total policyholder benefits	19,301,008	19,800,451	19,179,135
Increase in future policy benefit reserves	2,192,265	2,607,078	4,033,035
Commissions	12,545,237	12,566,068	12,752,472
Capitalization of deferred policy acquisition costs	(4,034,617)	(4,211,905)	(5,617,536)
Amortization of deferred policy acquisition costs	1,310,958	654,480	4,173,371
Amortization of value of business acquired	1,407,327	1,650,959	930,395
Other operating expenses	9,894,546	10,328,067	11,266,922
Total benefits and expenses	42,616,724	43,395,198	46,717,794
Income before federal income tax expense	11,973,274	13,451,344	7,560,587
Federal income tax expense	4,127,077	4,696,860	5,781,645
Net income before extraordinary items	7,846,197	8,754,484	1,778,942
Fresh start valuation adjustments			30,749,865

Net income (loss)	$ 7,846,197	8,754,484	(28,970,923)

See accompanying notes to consolidated financial statements.

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SECURITY PLAN LIFE INSURANCE COMPANY AND SUBSIDIARIES

Consolidated Statements of Shareholder s Equity and Comprehensive Income

Years ended December 31, 2003, 2002, and 2001

	Common stock	Paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total shareholder s equity
Balance at December 31, 2000	$ 1,000,000	72,481,000	15,489,923	(2,244,086)	86,726,837
Net loss			(28,970,923)		(28,970,923)
Other comprehensive income				2,244,086	2,244,086
Total comprehensive income			(28,970,923)	2,244,086	(26,726,837)
Reclassification of retained deficit		(13,481,000)	13,481,000		
Balance at December 31, 2001	1,000,000	59,000,000			60,000,000
Net income			8,754,484		8,754,484
Other comprehensive income				8,958,207	8,958,207
Total comprehensive income			8,754,484	8,958,207	17,712,691
Cash dividends to shareholder			(8,000,000)		(8,000,000)
Balance, December 31, 2002	1,000,000	59,000,000	754,484	8,958,207	69,712,691
Net income			7,846,197		7,846,197
Other comprehensive loss				(2,948,785)	(2,948,785)
Total comprehensive (loss) income			7,846,197	(2,948,785)	4,897,412
Cash dividends to shareholder			(8,000,000)		(8,000,000)
Balance, December 31, 2003	$ 1,000,000	59,000,000	600,681	6,009,422	66,610,103

See accompanying notes to consolidated financial statements.

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SECURITY PLAN LIFE INSURANCE COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2003, 2002, and 2001

	2003	2002	2001
Operating activities:			
Net income (loss)	$ 7,846,197	8,754,484	(28,970,923)
Adjustments to reconcile net income (loss) to net cash provided by operations:			
Fresh start valuation adjustments			30,749,865
Increase in future policy benefit reserves	2,192,265	2,607,078	4,033,035
Deferral of policy acquisition costs	(4,034,617)	(4,211,905)	(5,617,536)
Amortization of policy acquisition costs and value of business acquired	2,718,285	2,305,439	5,103,766
Realized (gains) losses on sale of investments, net	(863,431)	(2,253,671)	2,516,194
Provision for deferred income taxes	3,100,000	3,025,000	2,900,000
Depreciation and amortization of premises and equipment	303,128	278,623	371,950
Accretion of fixed-maturity investments	(763,461)	(651,401)	(552,675)
(Increase) decrease in other assets	274,542	(788,531)	376,795
Increase (decrease) in accrued expenses and other liabilities	(2,474,272)	717,811	3,090,364
Net cash provided by operations	8,298,636	9,782,927	14,000,835
Investing activities:			
Proceeds from maturity of available-for-sale securities	26,500,141	12,006,526	6,968,818
Proceeds from sale of available-for-sale securities	55,186,519	146,809,301	103,985,157
Cost of securities available-for-sale acquired	(87,264,604)	(149,953,765)	(126,971,034)
Proceeds from mortgage loan repayments	421,322	1,291,995	1,420,252
Increase in policy loans, net	(213,958)	(149,866)	(164,372)
Cost of premises and equipment acquired	(106,094)	(84,409)	(205,916)
Other, net		(18,003)	(1,932)
Net cash (used in) provided by investments	(5,476,674)	9,901,779	(14,969,027)
Financing activities:			
Cash dividends paid	(8,000,000)	(8,000,000)	
Net cash used in financing activities	(8,000,000)	(8,000,000)	

Net (decrease) increase in cash	(5,178,038)	11,684,706	(968,192)
Cash, beginning of year	17,896,353	6,211,647	7,179,839
Cash, end of year	$ 12,718,315	17,896,353	6,211,647

See accompanying notes to consolidated financial statements.

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(1) Nature of Operations

Security Plan Life Insurance Company (the Company, Security or Security Plan) is a Louisiana domiciled life and health insurance company, with licenses to operate in Louisiana and Mississippi. The Company (formerly Security Industrial Insurance Company) principally writes individual life insurance products through its home service marketing distribution system. The Company sells its products almost exclusively in Louisiana through a field force of approximately 350 captive agents and 85 managers. Security s life insurance products provide a means for policyholders to pay for final expenses, primarily consisting of funeral and cemetery costs. Less than two percent of the Company s total earned premium represents small coverage cancer, hospitalization, or accident health policies.

The Company owns 100% of the common stock of Security Plan Fire Insurance Company (the Fire Company), a Louisiana domiciled property and casualty insurance company licensed to operate in Louisiana. The Fire Company writes low value dwelling (fire) and contents coverages on residences that may not qualify for the minimum coverages required under homeowner policies. The Fire Company writes no commercial lines, workers compensation, liability, multiple peril, or automobile coverages.

Additionally, the Company owns 100% of the common stock of Security Plan Agency, Inc. (Security Agency). Security Agency was established for the purpose of selling certain insurance products of an unaffiliated company; however, the entity has had no activity since its formation in 2002.

Security Plan Life Insurance Company and Security Plan Fire Insurance Company were formed by The Loewen Group Inc. in 1995 for the purpose of acquiring the assets and insurance businesses of Security Industrial Insurance Company and Security Industrial Fire Insurance Company. The acquisition was completed in 1996. Security is a wholly-owned subsidiary of Mayflower National Life Insurance Company (Mayflower), which is, in turn, a subsidiary of Alderwoods Group, Inc. Alderwoods Group, Inc. succeeded to substantially all of the assets and operations of The Loewen Group Inc. (Loewen Group or Predecessor) on January 2, 2002, when it emerged from reorganization.

(2) Basis of Presentation and Significant Estimates

(a) Basis of Presentation and Significant Estimates

The Consolidated Financial Statements included herein have been prepared on the basis of accounting principles generally accepted in the United States of America (GAAP) and include the accounts of Security Plan Life Insurance Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ significantly from those estimates. Although some variability is inherent in these estimates, the recorded amounts reflect management s best estimates based on facts and circumstances as of the balance sheet date. Management believes the recorded amounts are appropriate.

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Due to the length of life insurance contracts and the risks involved, the process of estimating future benefits under life insurance contracts is inherently uncertain. Reserves for future benefits under life insurance contracts are estimated using a variety of factors including, but not limited to, expected mortality, interest and withdrawal rates. Actual mortality, interest and withdrawal rates are likely to differ from expected rates. Accordingly, the timing and amount of actual cash flows for any given period may differ materially from the timing and amount of expected cash flows.

The process of estimating and establishing reserves for losses and loss adjustment expenses for property and casualty insurance is inherently uncertain and the actual ultimate net cost of a claim may vary materially from the estimated amount reserved. Management considers a variety of factors, including, but not limited to, past claims experience, current claim trends and relevant legal, economic and social conditions, in estimating reserves. A change in any one or more factors is likely to result in the ultimate net claims cost to differ from the estimated reserve. Such changes in estimates may be material.

The process of determining whether or not an asset is impaired or recoverable relies on projections of future cash flows, operating results, and market conditions. Projections are inherently uncertain and, accordingly, actual future cash flows may differ materially from projected cash flows. As a result, the Company s assessment of the impairment of long-lived assets or the recoverability of assets such as deferred policy acquisition costs and value of business acquired is susceptible to the risk inherent in making such projections.

(b) Predecessor s Emergence from Reorganization Proceedings

On June 1, 1999, the Predecessor filed a petition for creditor protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. Concurrent with the Chapter 11 filing, the Predecessor voluntarily filed an application for creditor protection under the Companies Creditors Arrangement Act with the Ontario Superior Court of Justice, Toronto, Ontario, Canada.

On December 5, 2001 and December 7, 2001, the U.S. Bankruptcy Court and the Canadian Bankruptcy Court, respectively, confirmed the Fourth Amended and Restated Joint Plan of Reorganization, as modified (the Plan), of the Predecessor and its subsidiaries under creditor protection. The Plan became effective on January 2, 2002 (the Effective Date), clearing the way for the Predecessor to emerge as Alderwoods Group, Inc. (Alderwoods). For accounting and reporting purposes, the Effective Date was reflected as of December 31, 2001, because accounting principles generally accepted in the United States require that the financial statements reflect fresh start reporting as of the confirmation date or as of a later date, that is not subsequent to the Effective Date, when all material conditions precedent to the Plan becoming binding are resolved.

Due to the application of pushdown accounting and fresh start reporting at December 31, 2001, resulting from confirmation and implementation of the Plan, the consolidated financial statements of Security Plan issued subsequent to the Plan implementation are not comparable with the consolidated financial statements issued by Security Plan prior to the application of pushdown accounting.

(c) Fresh Start Reporting and Application of Pushdown Accounting

At December 31, 2001, Alderwoods adopted fresh start reporting in accordance with AICPA Statement of Position 90-7, *Financial Reporting by Entities in Reorganization under the*

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Bankruptcy Code (SOP 90-7), which in turn required the application at the date of Plan implementation of purchase accounting principles, as prescribed by Statement of Financial Accounting Standards No. 141, *Business Combinations* (FAS No. 141), which superceded Accounting Principles Board Opinion (APB) No. 16, Business Combinations.

Management has concluded that it is appropriate to apply the pushdown basis of accounting in the separate consolidated financial statements of Security Plan. In applying pushdown accounting, that portion of the Alderwoods reorganization value attributable to Security Plan was allocated to its assets and liabilities based on their fair values, creating a new basis of accounting.

In accordance with the principles of purchase accounting, as prescribed by FAS No. 141 and Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (FAS No. 142). FAS No. 142, the reorganization value attributable to Security Plan was allocated to the Company s indentifiable tangible and intangible assets and liabilities based on their fair values, with any residual recorded as goodwill. As a result of pushing down the application of fresh start reporting, significant adjustments were made to the Company s historical assets and liabilities, as the fair values varied significantly from recorded amounts of Security Plan immediately prior to the date of Plan adoption at December 31, 2001.

The following methods and assumptions were used to estimate the fair value of significant assets and liabilities at December 31, 2001:

Investments in fixed maturities Investments in fixed maturities were stated at fair value based on quoted market prices as of December 31, 2001.

Policy loans, mortgage loans, cash, accrued investment income, receivables, other assets, contract claims payable, unearned advance premiums, other policy liabilities, accrued expenses and accounts payable and other liabilities The carrying amounts, which reflected provisions for uncollectible amounts of $200,000, approximated fair value because of the short term to maturity of these current assets and liabilities.

Value of business acquired intangible The value of business acquired intangible asset was actuarially determined based on the present value of estimated net cash flows considered appropriate at December 31, 2001. Such amount was reduced by negative goodwill generated from the reduction in the valuation allowance on the deferred tax assets.

Future policy benefit reserves Insurance policy liabilities were computed using the net level premium method based on the estimated investment yield of the re-based portfolio of fixed-maturity investments as of the fresh start reporting date, along with assumptions for withdrawals, mortality and other assumptions that were appropriate as of December 31, 2001.

Subsequent to December 31, 2001, the Company s financial statements have been prepared as if it is a new reporting entity. A black line has been placed to separate post-reorganization operating results from pre-reorganization operating results since they are not compared on a comparable basis.

The following schedule illustrates the application or push-down accounting and fresh start reporting at December 31, 2001. The schedule details the carrying value of Security Plan s accounts just prior to the application of push-down accounting, as well as the effects of fresh start reporting adjustments as of December 31, 2001.

	Pre-emergencies	Fresh start	New basis

	carrying value	reporting adjustments	fresh start balances
Assets:			
Investments:			
Fixed maturities available-for-sale	$ 216,021,286	$	$216,021,286
Policy loans	3,223,144		3,223,144
Affiliate mortgage loan on real estate	5,250,606		5,250,606
Unaffiliated mortgage loans on real estate	520,850		520,850