

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2005

Commission File: 0-1999

KENTUCKY INVESTORS, INC.

(Exact Name of registrant as specified in Charter)

KENTUCKY

(State of Other Jurisdiction of Incorporation or Organization)

61-6030333

(IRS Employer Identification Number)

200 Capital Avenue, P. O. Box 717

Frankfort, Kentucky 40602

(Address of Principal Executive Offices)

Registrant's Telephone Number - (502) 223-2361

Securities registered pursuant to Section 13(g) of the Act:

Common Capital Stock par value \$1.00 per share

(Title of Class)

Number of outstanding shares as of September 30, 2005 – 1,100,594.72

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

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PART I – FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements

KENTUCKY INVESTORS, INC.

Condensed Consolidated Balance Sheets

	(Unaudited) <u>September 30, 2005</u>	<u>December 31, 2004</u>
Assets		
Investments		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost 2005-\$275,195,893; 2004 - \$269,083,791)	\$285,465,965	\$285,713,240
Equity securities (cost: 2005 - \$2,809,200; 2004 - \$4,997,915)	3,462,979	6,294,261
Mortgage loans on real estate	23,432,752	24,339,656
Policy loans	7,306,842	7,423,238
Other long term investments	1,627,878	688,858
Short term investments	<u>635,002</u>	<u>638,003</u>
Total investments	321,931,418	325,097,256
Cash and cash equivalents	4,158,720	2,445,782
Accrued investment income	3,740,214	4,527,412
Due premiums	3,423,487	4,263,602
Deferred acquisition costs	22,400,046	22,632,088
Present value of future profits	322,449	391,137
Leased property under capital leases	480,240	206,082
Property and equipment	1,623,293	1,711,131
Collateral on securities loaned	13,636,668	-
Other assets	4,328,316	4,572,685
Amounts recoverable from reinsurers	<u>55,470,849</u>	<u>56,852,228</u>
Total assets	<u>\$431,515,700</u>	<u>\$422,699,403</u>

Liabilities and Stockholders' Equity

Liabilities

Policy liabilities:

Benefit reserves	\$335,203,077	\$332,244,617
Unearned premium reserves	14,551,384	15,210,315
Policy claims	1,617,622	1,612,474
Dividend and endowment accumulations	1,196,388	1,219,109
Reserves for dividends and endowments and other	<u>870,198</u>	<u>858,084</u>
Total policy liabilities	353,438,669	351,144,599
Federal income taxes	7,125,776	9,340,783
Obligations under capital leases	478,787	200,129
Notes payable	6,958,214	9,464,463
Payable under securities loan agreement	13,636,668	-
Other liabilities	<u>4,001,869</u>	<u>3,425,812</u>

Total liabilities	<u>\$385,639,983</u>	<u>\$373,575,786</u>
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Stockholders' Equity

Common stock (shares issued:

2005 – 1,100,595; 2004-
1,099,666)

Common stock (shares issued: 2005 – 1,100,595; 2004-1,099,666)	\$ 1,100,595	\$ 1,099,666
Paid-in surplus	8,563,149	8,560,130
Accumulated other comprehensive income	6,125,297	10,406,040
Retained earnings	<u>30,086,676</u>	<u>29,057,781</u>

Total stockholders' equity	<u>\$ 45,875,717</u>	<u>\$ 49,123,617</u>
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Total liabilities and stockholders' equity	<u>\$431,515,700</u>	<u>\$422,699,403</u>
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See accompanying notes.

KENTUCKY INVESTORS, INC.

Condensed Consolidated Income Statements (Unaudited)

	Three Months Ended September 30	
	<u>2005</u>	<u>2004</u>
Revenues		
Premiums and other considerations	\$13,286,050	\$12,485,824
Premiums ceded	<u>(4,177,935)</u>	<u>(3,360,581)</u>
Net premiums earned	9,108,115	9,125,243
Investment income, net of expenses	4,500,293	4,647,233
Realized gains (losses) on investments, net	(4,656)	2,050
Other income	<u>298,710</u>	<u>276,080</u>
Total revenues	<u>13,902,462</u>	<u>14,050,606</u>
Benefits and Expenses		
Death and other policyholder benefits	7,448,143	14,255,743
Guaranteed annual endowments	140,188	148,037
Dividends to policyholders	137,330	137,782
Increase (decrease) in benefit reserves and unearned premiums	1,908,069	(4,438,301)
Acquisition costs deferred	(1,313,997)	(1,104,439)
Amortization of deferred acquisition costs	1,599,453	1,383,159
Commissions	644,091	611,571
Other insurance expenses	<u>2,657,245</u>	<u>2,321,643</u>
Total benefits and expenses	<u>13,220,522</u>	<u>13,315,195</u>
Income from operations before federal income taxes	<u>681,940</u>	<u>735,411</u>
Provision (benefit) for federal income taxes:		
Current	194,272	15,418
Deferred	<u>(51,100)</u>	<u>38,000</u>
	<u>143,172</u>	<u>53,418</u>
Net income	<u>\$ 538,768</u>	<u>\$ 681,993</u>
Earnings per share, basic and diluted	<u>\$ 0.49</u>	<u>\$ 0.60</u>
Dividends per share	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes.

KENTUCKY INVESTORS, INC.

Condensed Consolidated Income Statements (Unaudited)

	Nine Months Ended September 30	
	<u>2005</u>	<u>2004</u>
Revenues		
Premiums and other considerations	\$37,353,850	\$38,711,740
Premiums ceded	<u>(10,380,845)</u>	<u>(10,369,866)</u>
Net premiums earned	26,973,005	28,341,874
Investment income, net of expenses	13,559,933	13,690,102
Realized gains on investments, net	681,122	156,351
Other income	<u>765,641</u>	<u>1,042,314</u>
Total revenues	<u>41,979,701</u>	<u>43,230,641</u>
Benefits and Expenses		
Death and other policyholder benefits	24,869,217	33,296,340
Guaranteed annual endowments	477,997	506,940
Dividends to policyholders	440,823	501,047
Increase (decrease) in benefit reserves and unearned premiums	4,226,875	(2,730,773)
Acquisition costs deferred	(3,778,549)	(3,547,050)
Amortization of deferred acquisition costs	4,529,346	4,454,575
Commissions	1,860,720	1,930,072
Other insurance expenses	<u>7,500,834</u>	<u>7,121,869</u>
Total benefits and expenses	<u>40,127,263</u>	<u>41,533,020</u>
Income from operations before federal income taxes	<u>1,852,438</u>	<u>1,697,621</u>
Provision for federal income taxes:		
Current	377,134	47,483
Deferred	<u>11,900</u>	<u>207,000</u>
	<u>389,034</u>	<u>254,483</u>
Net income	<u>\$ 1,463,404</u>	<u>\$ 1,443,138</u>
Earnings per share, basic and diluted	<u>\$ 1.33</u>	<u>\$ 1.27</u>
Dividends per share	<u>\$ 0.38</u>	<u>\$ 0.38</u>

See accompanying notes.

KENTUCKY INVESTORS, INC.

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30	
	<u>2005</u>	<u>2004</u>
Net cash provided by operating activities	\$ 8,865,417	\$ 1,402,647
Investing activities		
Securities available-for-sale:		
Purchases	(32,543,755)	(26,421,743)
Sales and maturities	25,003,490	21,799,264
Other investments:		
Cost of acquisition	(3,566,489)	(1,932,481)
Sales and maturities	3,653,770	3,334,707
Other investing activities	<u>(501,501)</u>	<u>35,712</u>
Net cash used by investing activities	(7,954,485)	(3,184,541)
Financing activities		
Receipts from universal life policies credited to policyholder account balances	5,897,628	6,008,518
Return of policyholder account balances on universal life policies	(6,158,814)	(6,232,310)
Payments on notes payable	(5,065,249)	(561,911)
Proceeds from notes payable	6,559,000	444,000
Other financing activities	<u>(430,559)</u>	<u>(636,039)</u>
Net cash provided (used) by financing activities	<u>802,006</u>	<u>(977,742)</u>
Increase (decrease) in cash and cash equivalents	1,712,938	(2,759,636)
Cash and cash equivalents at beginning of period	<u>2,445,782</u>	<u>5,844,281</u>
Cash and cash equivalents at end of period	<u>\$ 4,158,720</u>	<u>\$ 3,084,645</u>

See accompanying notes.

KENTUCKY INVESTORS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

(Unaudited)

NOTE A - Nature of Operations: Kentucky Investors, Inc. is the holding company of Investors Heritage Life Insurance Company, Investors Heritage Printing, Inc., a printing company, Investors Heritage Financial Services Group, Inc., an insurance marketing company, and is the sole member of At Need Funding, LLC, a limited liability company that provides advance funding of funerals in exchange for the irrevocable assignment of life insurance policies from other nonaffiliated companies. These entities are collectively hereinafter referred to as the "Company". The operations of Kentucky Investors are principally that of its life insurance company, Investors Heritage Life. The operations of the non-insurance subsidiaries of Kentucky Investors account for less than 4% of our consolidated revenue.

Our operations involve the sale and administration of various insurance and annuity products, including, but not limited to, participating, non-participating, whole life, limited pay, universal life, annuity contracts, credit life, credit accident and health and group insurance policies. The principal markets for the products sold by Investors Heritage Life are in the commonwealths of Kentucky and Virginia, and the states of North Carolina, South Carolina, Ohio, Indiana, Florida, Tennessee, Illinois, Georgia, West Virginia, Michigan, Mississippi, Alabama and Maryland.

NOTE B - Basis of Presentation: The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2004, as included in our Annual Report on Form 10-K.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Certain reclassifications have been made to the prior period financial statements shown herein to conform to the current period presentation.

NOTE C - Earnings per Share: Earnings per share of common stock were computed based on the weighted average number of common shares outstanding during each period.

	<u>Income</u>	<u>Shares</u>	<u>Per Share Amount</u>
Three months ended September 30, 2005			
<i>Basic EPS</i>			
Net income	\$ 538,768	1,100,595	\$ 0.49
Dilutive effect of common equivalent shares of stock options	<u>-</u>	<u>1,805</u>	<u>-</u>
<i>Diluted EPS</i>			
Net income	<u>\$ 538,768</u>	<u>1,102,400</u>	<u>\$ 0.49</u>
Three months ended September 30, 2004			
<i>Basic EPS</i>			
Net income	\$ 681,993	1,129,925	\$ 0.60
Dilutive effect of common equivalent shares of stock options	<u>-</u>	<u>3,012</u>	<u>-</u>
<i>Diluted EPS</i>			
Net income	<u>\$ 681,993</u>	<u>1,132,937</u>	<u>\$ 0.60</u>
	<u>Income</u>	<u>Shares</u>	<u>Per Share Amount</u>
Nine months ended September 30, 2005			
<i>Basic EPS</i>			
Net income	\$1,463,404	1,100,323	\$ 1.33
Dilutive effect of common equivalent shares of stock options	<u>-</u>	<u>2,547</u>	<u>-</u>
<i>Diluted EPS</i>			
Net income	<u>\$1,463,404</u>	<u>1,102,870</u>	<u>\$ 1.33</u>
Nine months ended September 30, 2004			
<i>Basic EPS</i>			
Net income	\$1,443,138	1,131,874	\$ 1.27
Dilutive effect of common equivalent shares of stock options	<u>-</u>	<u>3,012</u>	<u>-</u>
<i>Diluted EPS</i>			
Net income	<u>\$1,443,138</u>	<u>1,134,886</u>	<u>\$ 1.27</u>

Pursuant to our stock option and stock appreciation rights plan, there were 61,125 outstanding options, having an exercise price of \$23.00 per share as of September 30, 2005. Our stock price changed from \$23.25 per share at December 31, 2004 to \$23.40 at June 30, 2005 and \$24.00 at September 30, 2005. Accordingly, we recognized an increase of \$36,675 and an increase of \$44,625, respectively, in stock compensation expense associated with such options for the three month and nine month periods ended September 30, 2005.

NOTE D - Segment Data: We operate in four segments as shown in the following table. All segments include both individual and group insurance. Identifiable revenues and expenses are assigned directly to the applicable segment. Net investment income is generally allocated to the insurance and the corporate segments in proportion to policy liabilities and stockholders' equity, respectively. Corporate segment results for the parent company, Investors Heritage Printing, Inc., Investors Heritage Financial Services Group, Inc. and At Need Funding LLC, after elimination of intercompany amounts, are presented.

	Three Months Ended	
	<u>September 30, 2005</u>	<u>September 30, 2004</u>
Revenues:		
Preneed & Burial Products	\$10,703,625	\$10,620,866
Traditional & Universal Life Products	2,690,234	2,859,449
Credit Insurance Products & Administrative Services	64,276	45,086
Corporate & Other	<u>444,327</u>	<u>525,205</u>
	<u>\$13,902,462</u>	<u>\$14,050,606</u>

Income (loss) from operations before federal income taxes:		
Preneed & Burial Products	\$ 394,559	\$ 602,617
Traditional & Universal Life Products	194,706	190,577
Credit Insurance Products & Administrative Services	42,165	40,410
Corporate & Other	<u>50,510</u>	<u>(98,193)</u>
	<u>\$ 681,940</u>	<u>\$ 735,411</u>

	Nine Months Ended	
	<u>September 30, 2005</u>	<u>September 30, 2004</u>
Revenues:		
Preneed & Burial Products	\$ 31,759,226	\$ 32,086,609
Traditional & Universal Life Products	8,587,696	8,771,036
Credit Insurance Products & Administrative Services	141,940	133,211
Corporate & Other	<u>1,490,839</u>	<u>2,239,785</u>
	<u>\$ 41,979,701</u>	<u>\$ 43,230,641</u>

Income from operations before federal income taxes:		
Preneed & Burial Products	\$ 149,704	\$ 331,158
Traditional & Universal Life Products	680,419	648,593
Credit Insurance Products & Administrative Services	101,730	116,771
Corporate & Other	<u>920,585</u>	<u>601,099</u>
	<u>\$ 1,852,438</u>	<u>\$ 1,697,621</u>

NOTE E – Federal Income Taxes: Federal income taxes are provided based on estimates of the projected effective annual tax rate. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Income before federal income taxes differs from taxable income principally due to the small life insurance company tax deduction, dividends received deduction and nondeductible expense associated with company-owned life insurance.

NOTE F – Comprehensive Income (Loss): The components of comprehensive income (loss), net of related federal income taxes, are as follows:

	Three Months Ended	
	<u>September 30, 2005</u>	<u>September 30, 2004</u>
Net income	\$ 538,768	\$ 681,993
Net unrealized gains (losses) on available-for-sale securities, net of taxes	<u>(3,952,857)</u>	<u>3,942,959</u>
Comprehensive income (loss)	<u>\$ (3,414,089)</u>	<u>\$ 4,624,952</u>

	Nine Months Ended	
	<u>September 30, 2005</u>	<u>September 30, 2004</u>
Net income	\$ 1,463,404	\$ 1,443,138
Net unrealized losses on available-for-sale securities, net of taxes	<u>(4,280,743)</u>	<u>(633,175)</u>
Comprehensive income (loss)	<u>\$ (2,817,339)</u>	<u>\$ 809,963</u>

NOTE G – Notes Payable: In February 2005, Kentucky Investors borrowed \$3,650,000 from Sun Life Assurance Company of Canada to finance the purchase of certain home office property previously owned by Investors Heritage Life at a purchase price of \$3,650,000. The note is an amortizing loan with a fixed interest rate of 5.05% and with a maturity date of March 1, 2015. The proceeds received by Investors Heritage Life were used to repay their surplus notes to Kentucky Investors. Additionally, Kentucky Investors used such proceeds to repay the \$3,000,000 note to Fifth Third Bank, Lexington, Kentucky (“Fifth Third”) outstanding at December 31, 2004. This transaction was approved by the Kentucky Office of Insurance.

In February 2005, Kentucky Investors borrowed \$300,000 from Fifth Third to provide additional working capital. The note has an interest rate equal to 1.0% less than the prime rate established by Fifth Third and a maturity date of March 1, 2008.

Effective July 14, 2005, we terminated the At Need Funding line of credit and the Kentucky Investors line of credit previously held with Farmers Bank and Capital Trust Co. Both lines of credit were replaced with similar lines of credit with Republic Bank and Trust Company, Louisville, Kentucky (“Republic Bank”). The At Need Funding line of credit with Republic Bank is in the amount of \$2,000,000 with interest to be paid monthly at a rate of 0.5% under the prime rate. The Kentucky Investors line of credit with Republic Bank is in the amount of \$150,000 with interest to be paid monthly at a rate of 1.2% under the prime rate.

On September 30, 2005, Kentucky Investors and Cherokee National Life Insurance Company (“Cherokee National”) agreed to cancel our outstanding promissory note in the amount of

\$4,000,000 in exchange for our ownership of 400,000 shares of series A preferred stock of Cherokee National. This transaction reduced our investment in equity securities as well as our notes payable by \$4,000,000.

Information relative to our notes payable at September 30, 2005 and for the nine months then ended is as follows:

<u>Description</u>	<u>Outstanding Principal</u>	<u>Current Interest Rate</u>	<u>Interest Expense</u>	<u>Interest Paid</u>
Sun Life Mortgage Loan	\$3,507,855	5.05%	\$ 116,701	\$ 101,939
Fifth Third Bank Note At Need Funding	1,456,757	5.75	54,532	53,054
Line of Credit	1,305,000	6.25	13,877	10,049
Promissory Note	580,278	4.00	20,975	12,078
Fifth Third Bank Note	89,623	5.75	5,901	5,505
Daimler Chrysler Auto Financing	18,701	-	-	-
Kentucky Investors Line of Credit	-	5.55	-	-

NOTE H – Employee Benefit Plan: We participate in a noncontributory retirement plan which covers substantially all employees. Benefits are based on years of service and the highest consecutive 60 months average earnings within the last 120 months of credited service. Benefits are funded based on actuarially-determined amounts.

The following table provides the components of the net periodic benefit cost:

	Three Months Ended	
	<u>September 30, 2005</u>	<u>September 30, 2004</u>
Service cost	\$ 79,129	\$ 80,391
Interest cost	162,305	160,876
Expected return on plan assets	(163,909)	(153,075)
Amortization of prior service cost	-	(5,265)
Amortization of net actuarial loss	<u>30,852</u>	<u>41,129</u>
Net periodic benefit cost	<u>\$ 108,377</u>	<u>\$ 124,056</u>
	Nine Months Ended	
	<u>September 30, 2005</u>	<u>September 30, 2004</u>
Service cost	\$ 237,388	\$ 241,174
Interest cost	486,916	482,630
Expected return on plan assets	(491,729)	(459,225)
Amortization of prior service cost	-	(15,794)
Amortization of net actuarial loss	<u>92,558</u>	<u>123,389</u>
Net periodic benefit cost	<u>\$ 325,133</u>	<u>\$ 372,174</u>

We previously disclosed in our financial statements for the year ended December 31, 2004, that we expected to contribute \$652,920 to our pension plan in 2005. As of September 30, 2005, \$489,690 had been contributed. We presently anticipate contributing an additional \$163,230 to fund our pension plan in 2005.

NOTE I – Investments: During the third quarter of 2004, we began participating in a securities lending program, primarily for investment yield enhancement purposes, with third parties, mostly large brokerage firms. Securities loaned are treated as financing arrangements and the unrestricted collateral received is recorded as an asset, with an offsetting liability recorded to account for our obligation to return the collateral. We obtain collateral in an amount equal to 102% of the fair value of domestic securities loaned, monitor the market value of securities loaned on a daily basis and obtain additional collateral as necessary. At September 30, 2005, fixed income securities with a carrying value of \$13,369,282 were on loan under this agreement. Income earned relative to this program was \$14,302 and \$33,481, respectively, for the three month and nine month periods ended September 30, 2005.

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

General

Kentucky Investors is incorporated under the laws of the Commonwealth of Kentucky and wholly owns Investors Heritage Life Insurance Company, a life insurance company also incorporated under the laws of the Commonwealth of Kentucky. Kentucky Investors also wholly owns Investors Heritage Financial Services Group, Inc., a Kentucky insurance marketing company, Investors Heritage Printing, Inc., a Kentucky printing company that provides printing to Investors Heritage Life and other unaffiliated parties, and is the sole member of At Need Funding, LLC, a Kentucky limited liability company that provides advance funding of funerals in exchange for the irrevocable assignment of life insurance policies from other nonaffiliated companies.

Investors Heritage Life offers a full line of life insurance products including, but not limited to, whole life, term life, single premium life, multi-pay life and annuities. Investors Heritage Life’s primary lines of business are insurance policies and annuities utilized to fund preneed funeral contracts, credit life and credit disability insurance, and term life and reducing term life sold through financial institutions.

In response to market conditions, including competitive pricing and the low interest rate environment, we introduced the Legacy Protector and Legacy Preferred product series during 2003. This product series replaced the Legacy 2000 product series. These new plans were designed to help control investment income pressures and increased mortality anti-selection that hampered the Legacy 2000 product series. In general, commissions are slightly lower, guaranteed benefits have been moved further from issue, reserves have been adjusted to better reflect experience, and an underwritten plan has been added. These products have contributed to improved product profitability within our preneed and burial products segment.

Investors Heritage Life sells its Heritage Final Expense product in final expense markets. Introduced in 2002, this product is reinsured on an 80% quota share basis exclusively with Munich American Reassurance Company. This reinsurance arrangement has helped to reduce first year surplus strain associated with new sales, as well as provide a stable profit stream for the future.

Investors Heritage Life also provides term insurance products, both on a decreasing and a level basis. The Term to 95 product provides level coverage. We will continue to provide our decreasing term policy that is primarily sold through financial institutions.

Our income is derived primarily from the sale of insurance products by Investors Heritage Life, plus investment results, including realized gains (losses), less interest credited to policyholders, benefits to policyholders and expenses.

While we continue to expand the operations of Investors Heritage Financial, Investors Heritage Printing and At Need Funding, less than 4% of our consolidated revenues were generated by those subsidiaries. As anticipated, approximately 27% of Investors Heritage Financial's revenues for the nine month period ended September 30, 2005 were derived from the sale of Investors Heritage Life's credit insurance products. During the first nine months of 2005, Kentucky Investors received dividends from Investors Heritage Financial in the amount of \$242,000. We anticipate further dividend payments from Investors Heritage Financial during the remainder of 2005.

Our primary uses of cash are operating expenses, debt service and dividend payments, and our principal sources of cash are the dividends paid to us by Investors Heritage Life, Investors Heritage Financial and Investors Heritage Printing. Investors Heritage Life's principal sources of cash are from the sale of life insurance policies and investment income, including realized gains (losses), less benefits to policyholders and expenses. Therefore, the remainder of the discussion will deal primarily with the financial condition and results of operations of Investors Heritage Life.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On a continuing basis, we evaluate our estimates, including those related to investments, deferred acquisition costs, present value of future profits, policy liabilities, income taxes, regulatory requirements, contingencies and litigation. We base such estimates on historical experience and other assumptions believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following accounting policies, judgments and estimates are the most critical to the preparation of our consolidated financial statements.

Investments in Fixed Maturities, Equity Securities and Mortgage Loans

We hold fixed maturities and equity interests in a variety of issuers. Additionally, we originate, underwrite and manage mortgage loans. We continuously evaluate all of our investments based on current economic conditions, credit loss experience and other developments. We evaluate the difference between the cost/amortized cost and estimated fair value of our investments to determine whether any decline in value is temporary or other-than-temporary in nature. This determination involves a degree of uncertainty. If a decline in the fair value of a security is determined to be temporary, the decline is recorded as an unrealized loss in stockholders' equity. If a decline in a security's fair value is considered to be other-than-temporary, the security is written down to the estimated fair value with a corresponding realized loss recognized in the consolidated income statements.

The assessment of whether a decline in fair value is considered temporary or other-than-temporary includes our judgment as to the financial position and future prospects of the entity issuing the security. It is not possible to accurately predict if and when it may be determined that a specific security will become impaired. Future adverse changes in market conditions, poor operating results of underlying investments and defaults on mortgage loan payments could result in losses or an inability to recover the current carrying value of the investments, thereby possibly requiring an impairment charge in the future.

Deferred Acquisition Costs

At September 30, 2005, the balance of our deferred acquisition costs was \$22,400,000 compared to \$22,632,000 at December 31, 2004. The recovery of these costs is dependent on the future profitability of the related business. Periodically, we evaluate the recoverability of the unamortized balance of the deferred acquisition costs. We consider estimated future gross profits or future premiums, expected mortality or morbidity, interest earned and credited rates, persistency and expenses in determining whether the balance is recoverable. If we determine a portion of the unamortized balance is not recoverable, it is immediately charged to amortization expense. The assumptions we use to amortize and evaluate the recoverability of the deferred acquisition costs involve significant judgment. A revision to these assumptions may impact future financial results.

Policy Liabilities

Establishing liabilities for our long-duration insurance contracts requires various assumptions, including policyholder persistency, mortality rates, investment yields, discretionary benefit increases, new business pricing, and operating expense levels. We evaluate historical experience for these factors when assessing the need for changing current assumptions. However, since many of these factors are interdependent and subject to short-term volatility during the long-duration contract period, substantial estimates and judgment are required. Actual experience may emerge differently from that assumed. Any such difference would be recognized in the current period's consolidated statement of income.

Investments, Liquidity and Capital Resources

Premiums, which include mortality and expense charges, and investment income are Investors Heritage Life's primary sources of cash flow used to meet short-term and long-term cash requirements.

Investors Heritage Life's short-term obligations consist primarily of policyholder benefits and operating expenses. Investors Heritage Life has historically been able to meet these obligations out of operating cash, premiums and investment income.

We are not aware of any commitments or unusual events that could materially affect capital resources.

In February 2005, Kentucky Investors borrowed \$3,650,000 from Sun Life Assurance Company of Canada to finance the purchase of certain home office property previously owned by Investors Heritage Life at a purchase price of \$3,650,000. The note is an amortizing loan with a fixed interest rate of 5.05% and with a maturity date of March 1, 2015. The proceeds received by

Investors Heritage Life were used to repay their surplus notes to Kentucky Investors. Additionally, Kentucky Investors used such proceeds to repay the \$3,000,000 note to Fifth Third Bank, Lexington, Kentucky (“Fifth Third”) outstanding at December 31, 2004. This transaction was approved by the Kentucky Office of Insurance.

In February 2005, Kentucky Investors borrowed \$300,000 from Fifth Third to provide additional working capital. The note has an interest rate equal to 1.0% less than the prime rate established by Fifth Third and a maturity date of March 1, 2008. However, we expect to repay this note by December 31, 2005.

Effective July 14, 2005, we terminated the At Need Funding line of credit and the Kentucky Investors line of credit previously held with Farmers Bank and Capital Trust Co. Both lines of credit were replaced with similar lines of credit with Republic Bank and Trust Company, Louisville, Kentucky (“Republic Bank”). The At Need Funding line of credit with Republic Bank is in the amount of \$2,000,000 with interest to be paid monthly at a rate of 0.5% under the prime rate. The Kentucky Investors line of credit with Republic Bank is in the amount of \$150,000 with interest to be paid monthly at a rate of 1.2% under the prime rate.

On September 30, 2005, Kentucky Investors and Cherokee National Life Insurance Company (“Cherokee National”) agreed to cancel our outstanding promissory note in the amount of \$4,000,000 in exchange for our ownership of 400,000 shares of series A preferred stock of Cherokee National. This transaction reduced our investment in equity securities as well as our notes payable by \$4,000,000.

We will continue to explore various opportunities including acquisitions and purchasing blocks of business from other companies, which may dictate an additional need for either long-term or short-term debt.

Investors Heritage Life has maintained a sound, conservative investment strategy. At September 30, 2005, 88.7% of invested assets consisted of fixed income publicly-traded bonds compared to 87.9% at December 31, 2004. Fixed income assets are managed by Conning Asset Management Company, an independent portfolio manager.

During the third quarter of 2004, we began participating in a securities lending program, primarily for investment yield enhancement purposes, with third parties, mostly large brokerage firms. Securities loaned are treated as financing arrangements and the unrestricted collateral received is recorded as an asset, with an offsetting liability recorded to account for our obligation to return the collateral.

Additionally, Investors Heritage Life also engages in commercial and residential mortgage lending with approximately 93.9% of these investments being in commercial properties. All mortgage loans are originated in-house and all loans are secured by first mortgages on the real estate. At September 30, 2005, 7.3% of invested assets consisted of mortgage loans compared to 7.5% at December 31, 2004. We anticipate funding several new mortgage loan investments during the remainder of 2005 to maintain a similar to slightly higher percentage of mortgage loans to total invested assets. As of September 30, 2005, Investors Heritage Life had no non-performing mortgage loans, which would include loans past due 90 days or more, loans in process of foreclosure, restructured loans and real estate acquired through foreclosure.

Investors Heritage Life's conservative approach in the product development area and the strength and stability of its fixed income and mortgage loan portfolios provide adequate liquidity both in the short-term and the long-term. At September 30, 2005, Investors Heritage Life's fixed income investments were 99.6% investment grade as compared to 100% investment grade at December 31, 2004, as rated by Standard & Poor's. None of Investors Heritage Life's fixed income assets are in default and there has been no material change in the distribution of its fixed income portfolio.

Investors Heritage Life's principal long-term obligations are fixed contractual obligations incurred in the sale of its life insurance products. The premiums charged for these products are based on conservative and actuarially sound assumptions as to mortality, persistency and interest. We believe these assumptions will produce revenues sufficient to meet our future contractual benefit obligations and operating expenses, and provide an adequate profit margin.

We continuously evaluate all of our investments based on current economic conditions, credit loss experience and other developments. We evaluate the difference between the cost/amortized cost and estimated fair value of our investments to determine whether a decline in value is temporary or other-than-temporary in nature. This determination involves a degree of uncertainty. If a decline in the fair value of a security is determined to be temporary, the decline is recorded as an unrealized loss in stockholders' equity. If a decline in a security's fair value is considered to be other-than-temporary, the security is written down to the estimated fair value with a corresponding realized loss recognized in the consolidated income statements.

The assessment of whether a decline in fair value is considered temporary or other than temporary includes our judgment as to the financial position and future prospects of the entity issuing the security. It is not possible to accurately predict when it may be determined that a specific security will become impaired. Future impairment charges could be material to the results of our operations. We recognized no other-than-temporary impairment losses during the nine month periods ended September 30, 2005 and 2004.

We believe that we will recover the cost basis in the securities held with unrealized losses as we have both the intent and ability to hold the securities until they mature or recover in value. Securities are sold to achieve our investment goals, which include the diversification of credit risk, the maintenance of adequate portfolio liquidity and the management of interest rate risk. In order to achieve these goals, sales of investments are based upon current market conditions, liquidity needs and estimates of the future market value of the individual securities.

Results of Operations

Overview

Premiums earned (net of reinsurance) were \$9,108,115 for the third quarter of 2005 (a decrease of 0.2% compared to the third quarter of 2004) and \$26,973,005 for the first nine months of 2005 (a decrease of 4.8% compared to the same period in 2004). The decrease was primarily due to lower sales in the pre-need and burial segment during the first nine months of 2005. Net investment income was \$4,500,293 for the third quarter of 2005 (a decrease of 3.2% compared to the third quarter of 2004) and \$13,559,933 for the first nine months of 2005 (a decrease of 1.0% compared to the same period in 2004). The decrease was primarily due to lower yield rates on new asset purchases which have impacted the rate of return on our investment portfolio. Overall revenue was \$13,902,462 for the third quarter of 2005 (a decrease of 1.1% compared to the third quarter of

2004) and \$41,979,701 for the first nine months of 2005 (a decrease of 2.9% compared to the same period in 2004).

Total benefits and expenses were \$13,220,522 in the third quarter of 2005 (a decrease of 0.7% compared to the third quarter of 2004) and \$40,127,263 for the first nine months of 2005 (a decrease of 3.4% compared to the same period in 2004). The decrease in benefits and expenses was primarily due to lower reserve increases and benefit payments correlating with the decrease in preneed production. After providing for federal income taxes, our net income was \$538,768 with earnings per share of \$0.49 for the third quarter of 2005 as compared to \$681,993 and earnings per share of \$0.60 for the third quarter of 2004. Our net income was \$1,463,404 with earnings per share of \$1.33 for the first nine months of 2005 as compared to \$1,443,138 and earnings per share of \$1.27 for the same period in 2004. The increase in net income for the first nine months of 2005 was due primarily to realized gains on the sale of common stocks.

A dividend of \$0.38 per share was paid April 8, 2005, to shareholders of record on March 24, 2005.

Business Segments

We internally evaluate the performance of Investors Heritage Life operations by the following business segments:

Preneed & Burial Products include both life and annuity products sold by funeral directors and affiliated agents to fund prearranged funerals. Revenues for this segment were \$10,703,625 for the third quarter of 2005 (an increase of 0.8% compared to the third quarter of 2004) and \$31,759,226 for the first nine months of 2005 (a decrease of 1.0% compared to the same period of 2004). The decrease for the first nine months of 2005 was due primarily to increased competition in the marketplace and an uncertain economic environment. Pre-tax income from operations was \$394,559 for the third quarter of 2005 compared to \$602,617 for the same period for 2004 and \$149,704 for the first nine months of 2005 compared to \$331,158 for the same period for 2004. The decrease in pre-tax income was primarily attributable to an increase in general expenses coupled with lower investment income compared to the same period for 2004.

Traditional & Universal Life Products include traditional life and group life insurance products, annuities (primarily qualified) and universal life products. Revenues for this segment were \$2,690,234 for the third quarter of 2005 (a decrease of 5.9% compared to the third quarter of 2004) and \$8,587,696 for the first nine months of 2005 (a decrease of 2.1% compared to the same period of 2004). Revenues on this segment were primarily derived from the sale of term insurance products through banks, which have experienced lower demand during 2005 compared to the prior year. Pre-tax income from operations was \$194,706 for the third quarter of 2005 compared to \$190,577 for the same period for 2004 and \$680,419 for the first nine months of 2005 compared to \$648,593 for the same period for 2004.

Credit Insurance Products & Administrative Services include the marketing and administration of credit life and credit accident & health insurance products. Revenues for this segment were \$64,276 for the third quarter of 2005 (an increase of 42.6% compared to the third quarter of 2004) and \$141,940 for the first nine months of 2005 (an increase of 6.6% compared to the same period of 2004). Pre-tax income from operations was \$42,165 for the third quarter of 2005 compared to \$40,410 for the same period for 2004 and \$101,730 for the first nine months of 2005 compared to

\$116,771 for the same period for 2004. The revenues and income on the credit insurance line have increased primarily due to an expanding market base as a result of our affiliation with the Kentucky Bankers Association. All of the related underwriting risk currently produced is being reinsured 100% with highly-rated life companies.

Corporate & Other consists of corporate accounts measured primarily by stockholders' paid-in surplus, earned surplus, property and equipment, and other minor business lines which include group annuities and group and individual accident and health products. Revenues for this segment were \$444,327 for the third quarter of 2005 (a decrease of 15.4% compared to the third quarter of 2004) and \$1,490,839 for the first nine months of 2005 (a decrease of 33.4% compared to the same period of 2004). This decrease in revenues was attributable to the significant reduction of the group annuity line of business in 2005 and by \$226,000 in miscellaneous income in the prior year relative to the death benefit received on a company-owned life insurance policy. Pre-tax income (loss) from operations was \$50,510 for the third quarter of 2005 compared to (\$98,193) for the same period of 2004 and \$920,585 for the first nine months of 2005 compared to \$601,099 for the same period for 2004. The increase in pre-tax income for the first nine months of 2005 was due to a considerable decrease in claims associated with the reduction of the group annuity line of business coupled with realized gains from the sale of significantly appreciated common stock investments in 2005.

Federal Income Taxes

Current taxes are provided based on estimates of the projected effective annual tax rate. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The effective tax rate was 21.0% for the nine months ended September 30, 2005 compared to 15.0% for the nine months ended September 30, 2004. The increase in the effective tax rate was primarily attributable to certain non-taxable income items in 2004, principally the release of self insurance reserves and proceeds received from a company-owned life insurance policy.

Forward Looking Information

We caution readers regarding certain forward-looking statements contained in this report and in any other statements made by us or on our behalf, whether or not in future filings with the Securities and Exchange Commission. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results, or other developments. Statements using verbs such as "expect", "anticipate", "believe" or words of similar import generally involve forward-looking statements. Without limiting the foregoing, forward-looking statements include statements which represent our beliefs concerning future levels of sales and redemptions of Investors Heritage Life's products, investment spreads and yields, or our earnings and profitability.

Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which are subject to change. These uncertainties and contingencies could cause actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable factors and developments. Some of these may be national in scope, such as general economic conditions,

changes in tax law and changes in interest rates. Some may be related to the insurance industry generally, such as pricing competition, regulatory developments, industry consolidation and the effects of competition in the insurance business from other insurance companies and other financial institutions operating in our market area and elsewhere. Others may relate to us specifically, such as credit, volatility and other risks associated with our investment portfolio. We caution that such factors are not exclusive. We disclaim any obligation to update forward-looking information.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no significant or material changes in our market risks since December 31, 2004. Measuring market risk is a key function of our asset/liability management process. To test financial risk and investment strategy, we perform an asset adequacy analysis each year. Dynamic models of both assets and liabilities are created to project financial results under several shifts in the current interest rate environment. Results show that our exposure to a relative 10% increase or decrease in the interest rates prevalent at December 31, 2004 is a net loss of less than \$500,000. This analysis is performed annually.

Items taken into account on the asset side include prepayment and liquidity risks, asset diversification and quality considerations. On the liability side, interest crediting strategies and policyholder and agent behavior (lapses, loans, withdrawals and premium flow) are dynamically modeled in relationship to the particular interest rate environment tested. Although we are careful to ensure that these assumptions are consistent with the best available data, interest-sensitive cash flows cannot be forecast with certainty and can deviate significantly from the assumptions made.

Because asset and liability durations are continually changing as new policyholder contracts are issued and as new investments are added to the portfolio, we manage our balance sheet on an ongoing basis and its net exposure to changes in interest rates may vary over time. Although the asset adequacy analysis is not performed on a quarterly basis, we believe that our asset base is sufficient to cover the minimal increases or decreases that would be expected to occur during any particular year.

ITEM 4. Controls and Procedures

As of the end of the period covered by this Form 10-Q, we performed an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in this Quarterly Report on Form 10-Q. There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls over financial reporting during this most recent quarter or subsequent to the date we carried out our evaluation.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

Kentucky Investors is not involved in any legal proceedings. From time to time Investors Heritage Life is involved in litigation relating to claims arising out of its operations in the normal course of business. As of November 10, 2005, Investors Heritage Life is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our financial condition or results of operations.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

No share repurchases were made pursuant to a publicly announced plan or program. All share repurchases were shares tendered by employees as part of our 401(k) plan.

ITEM 3. Defaults Upon Senior Securities

None

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

None

ITEM 5. Other Information

None

ITEM 6. Exhibits

- | | |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1 &
31.2 | Certifications pursuant to Securities and Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KENTUCKY INVESTORS, INC.

BY: /s/
Harry Lee Waterfield II
President

DATE: November 10, 2005

BY: /s/
Raymond L. Carr
Vice President - Chief Financial Officer

DATE: November 10, 2005