

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC

FORM 10-Q

QUARTERLY REPORT

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

FOR THREE MONTHS ENDED

MARCH 31, 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 March 31, 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

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PART I – FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements

KENTUCKY INVESTORS, INC.

Condensed Consolidated Balance Sheets

	(Unaudited) <u>March 31, 2005</u>	<u>December 31, 2004</u>
Assets		
Investments		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost 2005-\$273,375,400; 2004 - \$269,083,791)	\$284,246,190	\$285,713,240
Equity securities (cost: 2005 - \$4,809,203; 2004 - \$4,997,915)	5,482,159	6,294,261
Mortgage loans on real estate	23,677,670	24,339,656
Policy loans	7,310,534	7,423,238
Other long term investments	715,051	688,858
Short term investments	<u>625,001</u>	<u>638,003</u>
 Total investments	 322,056,605	 325,097,256
 Cash and cash equivalents	 1,671,688	 2,445,782
Accrued investment income	3,890,672	4,527,412
Due and deferred premiums	4,192,044	4,263,602
Deferred acquisition costs	22,917,958	22,632,088
Present value of future profits	368,241	391,137
Leased property under capital leases	422,188	206,082
Property and equipment	1,681,421	1,711,131
Other assets	15,815,049	4,572,685
Amounts recoverable from reinsurers	<u>55,863,839</u>	<u>56,852,228</u>
 Total assets	 <u>\$428,879,705</u>	 <u>\$422,699,403</u>

Liabilities and Stockholders' Equity

Liabilities

Policy liabilities

Benefit reserves	\$331,800,413	\$332,244,617
Unearned premium reserves	14,515,701	15,210,315
Policy claims	1,675,061	1,612,474
Dividend and endowment accumulations	1,207,746	1,219,109
Reserves for dividends and endowments and other	<u>903,163</u>	<u>858,084</u>
Total policy liabilities	350,102,084	351,144,599
Federal income taxes	7,322,701	9,340,783
Obligations under capital leases	413,031	200,129
Notes payable	10,396,959	9,464,463
Other liabilities	<u>15,586,960</u>	<u>3,425,812</u>

Total liabilities	<u>\$383,821,735</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	6,500,618	10,406,040
Retained earnings	<u>28,893,608</u>	<u>29,057,781</u>

Total stockholders' equity	<u>\$ 45,057,970</u>	<u>\$ 49,123,617</u>
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Total liabilities and stockholders' equity

	<u>\$428,879,705</u>	<u>\$422,699,403</u>
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See accompanying notes.

KENTUCKY INVESTORS, INC.

Condensed Consolidated Income Statements (Unaudited)

	Three Months Ended March 31	
	<u>2005</u>	<u>2004</u>
Revenues		
Premiums and other considerations	\$ 8,781,678	\$ 9,840,414
Investment income, net of expenses	4,448,395	4,424,003
Realized gain on investments, net	578,525	22,878
Other income	<u>221,348</u>	<u>193,323</u>
 Total revenues	 <u>14,029,946</u>	 <u>14,480,618</u>
Benefits and Expenses		
Death and other policyholder benefits	9,422,548	11,227,657
Guaranteed annual endowments	158,563	167,151
Dividends to policyholders	143,668	171,032
Increase (decrease) in benefit reserves and unearned premiums	572,423	(302,797)
Amortization of deferred acquisition costs, net	179,900	356,023
Commissions	616,797	682,372
Other insurance expenses	<u>2,563,492</u>	<u>2,345,662</u>
 Total benefits and expenses	 <u>13,657,391</u>	 <u>14,647,100</u>
 Income (loss) from operations before federal income tax	 <u>372,555</u>	 <u>(166,482)</u>
 Provision (benefit) for income taxes:		
Current	21,222	13,714
Deferred	<u>81,000</u>	<u>(43,000)</u>
	<u>102,222</u>	<u>(29,286)</u>
 Net income (loss)	 <u>\$ 270,333</u>	 <u>\$ (137,196)</u>
Earnings per share, basic	<u>\$ 0.25</u>	<u>\$ (0.12)</u>
Earnings per share, diluted	<u>\$ 0.24</u>	<u>\$ (0.12)</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)

	Three Months Ended March 31	
	<u>2005</u>	<u>2004</u>
Net cash provided by operating activities	\$ 1,916,207	\$ 1,300,608
Investing activities		
Securities available-for-sale:		
Purchases	(15,200,261)	(10,196,653)
Sales and maturities	11,579,188	4,610,335
Other investments:		
Cost of acquisition	(23,722)	(214,246)
Sales and maturities	785,220	477,390
Other investing activities	<u>(285,834)</u>	<u>29,703</u>
Net cash used by investing activities	(3,145,409)	(5,293,471)
Financing activities		
Receipts from universal life policies credited to policyholder account balances	1,880,196	2,208,388
Return of policyholder account balances on universal life policies	(2,381,041)	(2,194,833)
Payments on notes payable	(3,209,504)	(138,517)
Proceeds from notes payable	4,142,000	204,000
Other financing activities	<u>23,457</u>	<u>(170,877)</u>
Net cash provided (used) by financing activities	<u>455,108</u>	<u>(91,839)</u>
Decrease in cash and cash equivalents	(774,094)	(4,084,702)
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>\$ 1,671,688</u>	<u>\$ 1,759,579</u>

See accompanying notes.

KENTUCKY INVESTORS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 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 2% of the Company's total operations.

The Company's 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 Company's products 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 of the Company 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 three months ended March 31, 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 the Company's 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 March 31, 2005			
<i>Basic EPS</i>			
Net income	\$ 270,333	1,099,769	\$ 0.25
Dilutive effect of common equivalent shares of stock options	_____ -	_____ 4,167	_____ -
<i>Diluted EPS</i>			
Net income	<u>\$ 270,333</u>	<u>1,103,936</u>	<u>\$ 0.24</u>
Three months ended March 31, 2004			
<i>Basic EPS</i>			
Net loss	\$ (137,196)	1,135,795	\$ (0.12)
Dilutive effect of common equivalent shares of stock options	_____ -	_____ -	_____ -
<i>Diluted EPS</i>			
Net loss	<u>\$ (137,196)</u>	<u>1,135,795</u>	<u>\$ (0.12)</u>

Pursuant to the Company's stock option and stock appreciation rights plan, there were 66,000 outstanding options, having an exercise price of \$23.00 per share as of March 31, 2005. The Company's stock price increased from \$23.25 per share at December 31, 2004 to \$24.55 at March 31, 2005. Accordingly, the Company recognized an increase in stock compensation expense associated with such options of \$85,800 for the three month period ended March 31, 2005.

NOTE D - Segment Data: The Company operates 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>March 31, 2005</u>	<u>March 31, 2004</u>
Revenues:		
Preneed & Burial Products	\$10,434,930	\$10,979,640
Traditional & Universal Life Products	2,981,567	2,881,443
Credit Insurance Products & Administrative Services	31,297	36,038
Corporate & Other	<u>582,152</u>	<u>583,497</u>
	<u>\$14,029,946</u>	<u>\$14,480,618</u>

Income (loss) from operations before federal income tax:		
Preneed & Burial Products	\$ (335,288)	\$ (461,557)
Traditional & Universal Life Products	152,943	195,621
Credit Insurance Products & Administrative Services	5,409	6,442
Corporate & Other	<u>549,491</u>	<u>93,012</u>
	<u>\$ 372,555</u>	<u>\$ (166,482)</u>

NOTE E – Federal Income Taxes: Current 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 and dividends-received tax deduction. An additional factor affecting this difference during the period was the increase in stock compensation expense associated with the Company’s stock option plan relative to an increase in the value of Company stock options.

NOTE F – Comprehensive Income: The components of comprehensive income, net of related tax, are as follows:

	Three Months Ended	
	<u>March 31, 2005</u>	<u>March 31, 2004</u>
Net income (loss)	\$ 270,333	\$ (137,196)
Net unrealized gains (losses) on available-for-sale securities, net of tax	<u>(3,905,422)</u>	<u>3,756,057</u>
Comprehensive income (loss)	<u>\$ (3,635,089)</u>	<u>\$ 3,618,861</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, with no significant surplus impact. Additionally, Kentucky Investors used such proceeds to repay the \$3,000,000 note to 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 Bank 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.

Information relative to the Company's material notes payable at March 31, 2005 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	\$3,650,000	5.05%	\$ 26,625	\$ 11,264
Fifth Third Bank Note	271,891	4.75%	1,646	875
Cherokee National Note	4,000,000	5.75%	52,611	52,500
At Need Funding Line of Credit	350,000	5.75%	3,994	3,916
Fifth Third Bank Note	1,459,757	4.75%	16,230	15,801
Farmers Bank Line of Credit	1	4.75%	-	-
Promissory Note	643,200	4.00%	9,076	-

NOTE H – Employee Benefit Plans: The Company participates 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>March 31, 2005</u>	<u>March 31, 2004</u>
Service cost	\$ 79,129	\$ 80,391
Interest cost	162,305	160,877
Expected return on plan assets	(163,910)	(153,075)
Amortization of prior service cost	-	(5,265)
Amortization of net actuarial loss	30,853	41,130
Net periodic benefit cost	<u>\$ 108,377</u>	<u>\$ 124,058</u>

The Company previously disclosed in its financial statements for the year ended December 31, 2004, that it expected to contribute \$652,920 to its pension plan in 2005. As of March 31, 2005, \$163,230 had been contributed. The Company presently anticipates contributing an additional \$489,690 to fund its pension plan in 2005.

NOTE I – Investments: During the third quarter of 2004, the Company 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 in other assets, with an offsetting liability recorded in other liabilities to account for the Company's obligation to return the collateral. The Company obtains collateral in an amount equal to 102% of the fair value of domestic securities loaned, monitors the market value of securities loaned on a daily basis and obtains additional collateral as necessary. At March 31, 2005, fixed income securities with a carrying value of \$11,183,132 were on loan under this agreement. Income earned relative to this program was \$9,762 for the period ended March 31, 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, the Company 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 new products have contributed to improved product profitability.

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.

The Company's revenues are derived primarily from the sale of insurance products by Investors Heritage Life, plus the Company's investment results, including realized gains (losses), less interest credited to policyholders, benefits to policyholders and expenses.

While the Company continues to expand the operations of Investors Heritage Financial, Investors Heritage Printing and At Need Funding, less than 2% of the Company's total operations were generated by those subsidiaries. As expected, more than 10% of Investors Heritage Financial's revenues during the first quarter of 2005 were derived from the sale of Investors Heritage Life's

credit insurance products. During the first quarter of 2005, the Company received dividends from Investors Heritage Financial in the amount of \$31,000. The Company anticipates further dividend payments from Investors Heritage Financial during the remainder of 2005.

The Company's primary uses of cash are operating expenses, debt service and dividend payments, and the Company's principal sources of cash are the dividends paid to it 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 with the financial condition and results of operations of Investors Heritage Life.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based on its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On a continuing basis, the Company evaluates its estimates, including those related to investments, deferred acquisition costs, present value of future profits, policy liabilities, income taxes, regulatory requirements, contingencies and litigation. The Company bases 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. The Company believes the following accounting policies, judgments and estimates are the most critical to the preparation of its consolidated financial statements.

Investments in Fixed Maturities, Equity Securities and Mortgage Loans

The Company holds fixed maturities and equity interests in a variety of issuers. Additionally, the Company originates, underwrites and manages mortgage loans. The Company continuously evaluates all of its investments based on current economic conditions, credit loss experience and other developments. The Company evaluates the difference between the cost/amortized cost and estimated fair value of its 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 shareholders' 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 statements of income.

The assessment of whether a decline in fair value is considered temporary or other-than-temporary includes management's 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 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 March 31, 2005, the balance of our deferred acquisition costs was \$22,918,000 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 the Company's long-duration insurance contracts requires various assumptions, including policyholder persistency, mortality rates, investment yields, discretionary benefit increases, new business pricing, and operating expense levels. The Company evaluates 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.

Management is 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, with no significant surplus impact. Additionally, Kentucky Investors used such proceeds to repay the \$3,000,000 note to 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 Bank 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.

The Company and Investors Heritage Life will continue to explore various opportunities including corporate reorganizations, 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 March 31, 2005, 88.2% of invested assets consisted of fixed income public bonds compared to 88.3% at December 31, 2004. Fixed income assets are managed by Conning Asset Management Company, an independent portfolio manager.

During the third quarter of 2004, the Company 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 in other assets, with an offsetting liability recorded in other liabilities to account for the Company's obligation to return the collateral.

Additionally, Investors Heritage Life also engages in commercial and residential mortgage lending with approximately 97.8% 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 March 31, 2005, 7.4% of invested assets consisted of mortgage loans compared to 7.5% at December 31, 2004. Management anticipates 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 March 31, 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 March 31, 2005 and December 31, 2004, Investors Heritage Life's fixed income investments were 100% investment grade 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. Management believes these assumptions will produce revenues sufficient to meet its future contractual benefit obligations and operating expenses, and provide an adequate profit margin.

The Company continuously evaluates all of its investments based on current economic conditions, credit loss experience and other developments. The Company evaluates the difference between the cost/amortized cost and estimated fair value of its 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 shareholders' 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 statements of income.

The assessment of whether a decline in fair value is considered temporary or other than temporary includes management's 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 operations of the Company. The Company recognized no other-than-temporary impairment losses in the first quarter of 2005 or the corresponding period in 2004.

Management believes that it will recover the cost basis in the securities held with unrealized losses as it has both the intent and ability to hold the securities until they mature or recover in value. Securities are sold to achieve management's 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

Total premium income (net of reinsurance) for the first quarter of 2005 decreased 10.8% when compared to the first quarter of 2004. The decrease was primarily due to lower sales in the pre-need segment. Net investment income increased 0.6% for the first quarter of 2005 compared to the first quarter of 2004. The increase is primarily due to a larger asset base, however low yield rates on new investments continue to impact the rate of return on our investment portfolio. Overall revenue for the first quarter of 2005 decreased 3.1% when compared to the first quarter of 2004.

Total benefits and expenses were 6.8% lower in the first quarter of 2005 when compared to the same quarter of 2004, primarily due to lower premium production in pre-need sales. After providing for federal income taxes, the Company's net income (loss) was \$270,333 with earnings per share of \$0.25 for the first quarter of 2005 as compared to \$(137,196) and earnings per share of \$(0.12) for the same period in 2004. The increase in net income is due primarily to realized gains on the sales of common stocks during the first quarter of 2005.

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

Business Segments

Management internally evaluates 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 or affiliated agents to fund prearranged funerals. Revenues for this segment were 5.0% lower for the first quarter of 2005 when compared to the same period of 2004. The decrease is due primarily to increased competition in the marketplace and an uncertain economic environment. Pre-tax income (loss) from operations for the first quarter of 2005 was \$(335,288) compared to \$(461,557) for the same period for 2004. The Company's focus on cost containment measures has continued to control general expense increases. Also, the Company's Legacy Preferred product series continues to improve product profitability and has helped to offset the losses resulting on our previously sold preneed products.

Traditional & Universal Life Products include traditional life and group life insurance products, annuities (primarily qualified) and universal life products. Revenues for this segment were 3.5% higher for the first quarter of 2005 when compared to the first quarter of 2004. Revenues on this

segment are primarily derived from the sales of term insurance products through banks, which have experienced slightly higher demand during 2005. Pre-tax income from operations for the first quarter of 2005 was \$152,943 compared to \$195,621 for the same period for 2004 primarily because of increased universal life claims coupled with slightly increased general insurance expenses.

Credit Insurance Products and Administrative Services include the marketing and administration of credit life and credit accident & health insurance products. Revenues were \$31,297 for the first quarter of 2005 compared to \$36,038 for the same period for 2004. Pre-tax income from operations was \$5,409 for the first quarter of 2005 compared to \$6,442 for the first quarter of 2004. The revenues and income on the credit insurance line have been affected by the same factors that affect the Traditional & Universal Life products discussed above including consumer loan demand, new federal banking guidelines enacted or being considered by states, and expense savings within the Company. 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 capital, contributed surplus, earned surplus, property and equipment, and other minor business lines which include group annuities and group and individual accident and health products. Revenues were 0.2% lower for the first quarter of 2005 as compared to the same period in 2004. Pre-tax income from operations was \$549,491 for the first quarter of 2005 when compared to \$93,012 for the first quarter of 2004. The increase in pre-tax income for the first quarter in 2005 is primarily due to realized gains from the sales 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 27.4% for the three months ended March 31, 2005 compared to 17.6% for the three months ended March 31, 2004. The increase in the effective tax rate is due primarily to the tax associated with realized gains on the sales of common stock during the quarter.

Forward Looking Information

The Company cautions readers regarding certain forward-looking statements contained in this report and in any other statements made by, or on behalf of, the Company, 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 the Company's beliefs concerning future levels of sales and redemptions of Investors Heritage Life's products, investment spreads and yields, or the earnings and profitability of the Company's or Investors Heritage Life's activities.

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 the Company's 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, or on behalf of, the Company. 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 the Company's market area and elsewhere. Others may relate to the Company specifically, such as credit, volatility and other risks associated with the Company's investment portfolio. The Company cautions that such factors are not exclusive. The Company disclaims 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 the Company's 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, the Company performs 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 the Company's 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 the Company is 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, the Company manages its 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, management believes that the Company's 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, the Company performed an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's 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 the Company's 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 the Company's 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 the Company carried out its 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 May 12, 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 the Company's 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 the Company's 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.

DATE: May 12, 2005

BY: /s/
Harry Lee Waterfield II
President

DATE: May 12, 2005

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