

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC

FORM 10-Q

QUARTERLY REPORT
Under Section 13 or 15(d) of the Securities Exchange Act of 1934

FOR THREE AND SIX MONTHS ENDED

JUNE 30, 2004

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 June 30, 2004 - 1,129,924.72

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>June 30, 2004</u>	<u>December 31, 2003</u>
Assets		
Investments		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost 2004-\$266,860,753; 2003 - \$265,097,987)	\$278,417,539	\$284,531,244
Equity securities (cost: 2004 - \$4,997,915; 2003 - \$4,997,915)	5,925,300	5,872,424
Mortgage loans on real estate	24,542,435	25,749,708
Other long term investments	851,193	557,461
Short term investments	813,000	813,000
Policy loans	<u>7,696,608</u>	<u>7,918,258</u>
Total investments	318,246,075	325,442,095
Cash and cash equivalents	8,172,058	5,844,281
Due and deferred premiums	4,208,833	4,441,828
Deferred acquisition costs	23,559,622	23,298,369
Present value of future profits	436,929	482,721
Leased property under capital leases	183,419	227,822
Other assets	9,324,891	9,272,869
Amounts recoverable from reinsurers	<u>61,742,183</u>	<u>60,465,147</u>
Total assets	<u>\$425,874,010</u>	<u>\$429,475,132</u>
Liabilities and Stockholders' Equity		
Liabilities		
Policy liabilities		
Benefit reserves	\$339,254,850	\$335,604,439
Unearned premium reserves	16,150,870	17,014,697

Other policyholders' funds	<u>3,662,618</u>	<u>3,728,729</u>
Total policy liabilities	359,068,338	356,347,865
Federal income taxes	7,461,676	9,673,564
Obligations under capital leases	177,354	224,628
Notes payable	9,143,955	9,033,355
Other liabilities	<u>4,319,193</u>	<u>4,041,199</u>
Total liabilities	380,170,516	379,320,611
Stockholders' Equity		
Common Stock (shares issued: 2004 – 1,129,925, 2003 - 1,136,361)	1,129,925	1,136,361
Paid-in surplus	8,549,970	8,549,970
Accumulated other comprehensive income	7,563,580	12,139,714
Retained earnings	<u>28,460,019</u>	<u>28,328,476</u>
Total stockholders' equity	<u>\$ 45,703,494</u>	<u>\$ 50,154,521</u>
Total liabilities and stockholders' equity	<u>\$425,874,010</u>	<u>\$429,475,132</u>

See accompanying notes.

KENTUCKY INVESTORS, INC.

**Condensed Consolidated Income Statements
(Unaudited)**

	Three Months Ended June 30	
	<u>2004</u>	<u>2003</u>
REVENUES		
Premiums and other considerations	\$ 9,376,217	\$10,757,814
Investment income, net of expenses	4,618,866	4,590,787
Realized gain on investments, net	131,423	395,407
Other income	<u>572,911</u>	<u>326,727</u>
Total revenues	<u>14,699,417</u>	<u>16,070,735</u>

BENEFITS AND EXPENSES

Death and other policyholder benefits	7,812,940	7,684,498
Guaranteed annual endowments	191,752	196,070
Dividends to policyholders	192,233	195,979
Increase in benefit reserves and unearned premiums	2,010,325	3,685,571
Amortization of deferred acquisition costs, net	272,782	239,112
Commissions	636,129	875,513
Other insurance expenses	<u>2,454,564</u>	<u>3,005,669</u>
Total benefits and expenses	<u>\$13,570,725</u>	<u>\$15,882,412</u>
Income from operations before federal income tax	<u>\$ 1,128,692</u>	<u>\$ 188,323</u>
Provision (benefit) for income taxes:		
Current	\$ 18,351	\$ 145,009
Deferred	<u>212,000</u>	<u>(91,000)</u>
	<u>\$ 230,351</u>	<u>\$ 54,009</u>
Net income	<u>\$ 898,341</u>	<u>\$ 134,314</u>
Earnings per share, basic and diluted	<u>\$ 0.79</u>	<u>\$ 0.12</u>
Dividends per share	<u>\$ 0.38</u>	<u>\$ 0.38</u>

See accompanying notes.

KENTUCKY INVESTORS, INC.

Condensed Consolidated Income Statements (Unaudited)

	Six Months Ended June 30	
	<u>2004</u>	<u>2003</u>
REVENUES		
Premiums and other considerations	\$ 19,216,631	\$21,232,838

Investment income, net of expenses	9,042,869	9,231,047
Realized gain on investments, net	154,301	525,080
Other income	<u>766,234</u>	<u>558,721</u>
Total revenues	<u>29,180,035</u>	<u>31,547,686</u>
BENEFITS AND EXPENSES		
Death and other policyholder benefits	19,040,597	16,879,251
Guaranteed annual endowments	358,903	365,148
Dividends to policyholders	363,265	365,374
Increase in benefit reserves and unearned premiums	1,707,528	5,330,786
Amortization of deferred acquisition costs, net	628,805	397,591
Commissions	1,318,501	1,834,727
Other insurance expenses	<u>4,800,226</u>	<u>5,740,859</u>
Total benefits and expenses	<u>\$28,217,825</u>	<u>\$30,913,736</u>
Income from operations before federal income tax	<u>\$ 962,210</u>	<u>\$ 633,950</u>
Provision (benefit) for income taxes:		
Current	\$ 32,065	\$ 222,158
Deferred	<u>169,000</u>	<u>(61,000)</u>
	<u>\$ 201,065</u>	<u>\$ 161,158</u>
Net income	<u>\$ 761,145</u>	<u>\$ 472,792</u>
Earnings per share, basic and diluted	<u>\$ 0.67</u>	<u>\$ 0.41</u>
Dividends per share	<u>\$ 0.38</u>	<u>\$ 0.38</u>

See accompanying notes.

KENTUCKY INVESTORS, INC.

Condensed Consolidated Statements of Cash Flow (Unaudited)

Six Months Ended June 30
2004 2003

Net cash provided by operating activities	\$ 3,722,932	\$ 5,401,665
Investing activities		
Securities available-for-sale:		
Purchases	(18,320,253)	(39,060,842)
Sales and maturities	16,499,814	30,591,687
Other investments:		
Cost of acquisition	(1,238,789)	(2,175,453)
Sales and maturities	2,373,981	1,711,616
Other investing activities	<u>10,659</u>	<u>(28,981)</u>
Net cash used by investing activities	(674,588)	(8,961,973)
Financing activities		
Receipts from universal life policies credited to policyholder account balances	4,124,722	3,649,932
Return of policyholder account balances on universal life policies	(4,319,851)	(3,609,006)
Payments on notes payable	(208,400)	(424,183)
Proceeds from notes payable	319,000	150,000
Other financing activities	<u>(636,038)</u>	<u>(350,021)</u>
Net cash used by financing activities	<u>(720,567)</u>	<u>(583,278)</u>
Increase (decrease) in cash and cash equivalents	2,327,777	(4,143,586)
Cash and cash equivalents at beginning of period	<u>5,844,281</u>	<u>7,773,597</u>
Cash and cash equivalents at end of period	<u>\$ 8,172,058</u>	<u>\$ 3,630,011</u>

See accompanying notes.

KENTUCKY INVESTORS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004
(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 (formerly Family Assignment Services, 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 six months ended June 30, 2004, are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2003, 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.

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 June 30, 2004			
<i>Basic EPS</i>			

Net income	\$ 898,341	1,129,925	\$ 0.80
Dilutive effect of common equivalent shares of stock options	<u>-</u>	<u>5,941</u>	<u>-</u>

Diluted EPS

Net income	<u>\$ 898,341</u>	<u>1,135,866</u>	<u>\$ 0.79</u>
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Three months ended June 30, 2003

Basic EPS

Net income	\$ 134,314	1,146,985	\$ 0.12
Dilutive effect of common equivalent shares of stock options	<u>-</u>	<u>6,074</u>	<u>-</u>

Diluted EPS

Net income	<u>\$ 134,314</u>	<u>1,153,059</u>	<u>\$ 0.12</u>
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<u>Income</u>	<u>Shares</u>	<u>Per Share Amount</u>
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Six months ended June 30, 2004

Basic EPS

Net income	\$ 761,145	1,132,860	\$ 0.67
Dilutive effect of common equivalent shares of stock options	<u>-</u>	<u>3,012</u>	<u>-</u>

Diluted EPS

Net income	<u>\$ 761,145</u>	<u>1,135,872</u>	<u>\$ 0.67</u>
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Six months ended June 30, 2003

Basic EPS

Net income	\$ 472,792	1,146,985	\$ 0.41
Dilutive effect of common equivalent shares of stock options	<u>-</u>	<u>7,615</u>	<u>-</u>

Diluted EPS

Net income loss	<u>\$ 472,792</u>	<u>1,154,600</u>	<u>\$ 0.41</u>
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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 June 30, 2004. The Company's stock price decreased from \$26.55 per share at December 31, 2003 to \$26.45 at March 31, 2004 and \$24.10 at June 30, 2004. Accordingly, the Company recognized a decrease in stock compensation expense associated with such options of \$6,600 and \$161,700, respectively, for the three month and six month periods ended June 30, 2004.

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>June 30, 2004</u>	<u>June 30, 2003</u>
Revenues:		
Preneed & Burial Products	\$ 10,486,103	\$11,801,259
Traditional & Universal Life Products	3,030,144	3,135,752
Credit Insurance Products & Administrative Services	52,087	82,606
Corporate & Other	<u>1,131,083</u>	<u>1,051,118</u>
	<u><u>\$ 14,699,417</u></u>	<u><u>\$16,070,735</u></u>

Pre-Tax Income (Loss) from Operations:		
Preneed & Burial Products	\$ 190,362	\$ (184,518)
Traditional & Universal Life Products	233,825	9,962
Credit Insurance Products & Administrative Services	18,797	1,499
Corporate & Other	<u>685,708</u>	<u>361,380</u>
	<u><u>\$ 1,128,692</u></u>	<u><u>\$ 188,323</u></u>

	Six Months Ended	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Revenues:		
Preneed & Burial Products	\$ 21,465,743	\$23,408,043
Traditional & Universal Life Products	5,911,587	6,241,955
Credit Insurance Products & Administrative Services	88,125	156,869
Corporate & Other	<u>1,714,580</u>	<u>1,740,819</u>
	<u><u>\$ 29,180,035</u></u>	<u><u>\$31,547,686</u></u>

Pre-Tax Income (Loss) from Operations:		
Preneed & Burial Products	\$ (271,459)	\$ (315,858)
Traditional & Universal Life Products	429,446	383,827
Credit Insurance Products &		

Administrative Services	25,248	16,324
Corporate & Other	<u>778,975</u>	<u>549,657</u>
	<u>\$ 962,210</u>	<u>\$ 633,950</u>

NOTE E - 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. Income before federal income taxes differs from taxable income principally due to the small life insurance company tax deduction and dividends-received tax deduction.

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

	Three Months Ended	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Net income	\$ 898,341	\$ 134,314
Net unrealized gains (losses) on available-for-sale securities, net of tax	<u>(820,077)</u>	<u>3,281,827</u>
Comprehensive income	<u>\$ 78,264</u>	<u>\$ 3,416,141</u>

	Six Months Ended	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Net income	\$ 761,145	\$ 472,792
Net unrealized gains (losses) on available-for-sale securities, net of tax	<u>(4,576,134)</u>	<u>2,906,379</u>
Comprehensive income (loss)	<u>\$(3,814,989)</u>	<u>\$ 3,379,171</u>

NOTE G - Notes Payable: Information relative to the Company's material notes payable at June 30, 2004 is as follows:

Description	Outstanding Principal	Current Interest Rate	Interest Expense	Interest Paid
Fifth Third Bank Note	\$3,000,000	3.5%	\$53,375	\$49,292
Cherokee National Note	4,000,000	4.0%	80,000	80,000
At Need Funding Line of Credit	450,000	4.0%	6,337	6,508
Fifth Third Bank Note	1,621,730	3.0%	25,515	26,009
Farmers Bank Line of Credit	45,001	3.0%	670	670
Chrysler Financial	27,224	0.0%	0	0

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:

	<u>Three Months Ended</u>	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Service cost	\$ 80,392	\$ 92,176
Interest cost	160,877	164,623
Expected return on plan assets	(153,075)	(163,955)
Amortization of prior service cost	(5,264)	(8,776)
Amortization of net loss	<u>41,130</u>	<u>35,260</u>
Net periodic benefit cost	<u>\$ 124,060</u>	<u>\$ 119,328</u>

	<u>Six Months Ended</u>	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Service cost	\$ 160,783	\$ 184,352
Interest cost	321,754	329,247
Expected return on plan assets	(306,150)	(327,910)
Amortization of prior service cost	(10,529)	(17,552)
Amortization of net loss	<u>82,260</u>	<u>70,521</u>
Net periodic benefit cost	<u>\$ 248,118</u>	<u>\$ 238,658</u>

The Company previously disclosed in its financial statements for the year ended December 31, 2003, that it expected to contribute \$540,000 to its pension plan in 2004. As of June 30, 2004, \$270,000 had been contributed. The Company presently anticipates contributing an additional \$270,000 to fund its pension plan in 2004.

NOTE I – Unusual or Infrequent Events: The Company recognized approximately \$226,000 in miscellaneous income arising from the death proceeds payable to the Company as owner and beneficiary of a life insurance policy carried on a previous member of management.

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 which was formed in 1994, 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, (formerly Family Assignment Services, 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.

Investors Heritage Life introduced a new product series during the first quarter of 2003, the Legacy Protector and Legacy Preferred pre-need product series, which replaced the Legacy 2000 series. These new plans were designed to help combat a challenging economic environment and increased mortality anti-selection. 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.

Investors Heritage Life's final expense product is the Heritage Final Expense, which was introduced during 2002 and replaced the Legacy 2000 Final Expense series. This product is being marketed through funeral homes and independent agencies. It is reinsured on an 80% quota share basis with Munich American Reassurance Company to help reduce first year surplus strain associated with new sales and minimize fluctuations in future profits.

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 operating earnings are derived primarily from revenues generated 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 second quarter 2004 were derived from the sale of Investors Heritage Life's credit insurance products. During the second quarter of 2004, the Company received dividends from Investors Heritage Financial and Investors Heritage Printing in the amount of \$119,500 and \$-0-, respectively. The Company anticipates dividend payments from Investors Heritage Financial and Investors Heritage Printing during the third quarter in 2004.

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.

Investment in Fixed Maturities, Equity Securities and Mortgage Loans

The Company holds fixed maturities and equity interests in a variety of companies. 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 June 30, 2004, the balance of our deferred acquisition costs was \$23,560,000 compared to \$23,298,000 at December 31, 2003. 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 significant revision to these assumptions will 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. Accordingly, if actual experience emerges differently from that assumed, material financial statement adjustments could be required.

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.

The Company has not had any material changes in its debt agreements since December 31, 2003. 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 June

30, 2004, 87.5% of invested assets consisted of fixed income public bonds compared to 87.4% at December 31, 2003. Fixed income assets are managed by Conning Asset Management Company, an independent portfolio manager.

Additionally, Investors Heritage Life also engages in commercial and residential mortgage lending with approximately 96.1% 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 June 30, 2004, 7.7% of invested assets consisted of mortgage loans compared to 7.9% at December 31, 2003. Management anticipates funding several new mortgage loan investments during the remainder of 2004 to maintain a similar to slightly higher percentage of mortgage loans to total invested assets.

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 June 30, 2004 and December 31, 2003, 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 amount of impairment charge before tax was \$-0- in the second quarter of 2004, compared to \$300,000 in the second quarter of 2003, and \$-0- and \$300,000 for the first six months of 2004 and 2003, respectively.

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

Total premium income (net of reinsurance) for the second quarter 2004 decreased 12.8% when compared to the second quarter of 2003 and decreased 9.5% for the first six months of 2004 when compared to the same period in 2003. The decrease was primarily due to lower sales in the pre-need segment. Net investment income for the second quarter 2004 compared to the second quarter of 2003 increased 0.6% and decreased 2.0% for the first six months of 2004 when compared to the same period in 2003. The overall change is primarily due to lower yield rates on new asset purchases which have impacted the rate of return on our investment portfolio. Overall revenue for the second quarter 2004 decreased 8.5% when compared to the second quarter of 2003 and decreased 7.5% for the first six months of 2004 when compared to the same period in 2003.

Total Benefits and Expenses were 14.6% lower in the second quarter of 2004 when compared to the same quarter of 2003 and 8.7% lower for the first six months of 2004 when compared to the same period of 2003, primarily due to lower premium production in pre-need sales and the implementation of several cost containment measures. After providing for federal income taxes, the Company's Net Income was \$761,145 with Earnings per share of \$0.67 for the first six months of 2004 as compared to Net Income of \$472,792 and Earnings per share of \$0.41 for the same period in 2003.

A dividend of \$0.38 per share was paid April 14, 2004, to shareholders of record on March 26, 2004.

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 11.1% lower for the second quarter of 2004 when compared to the same period of 2003 and 8.3% lower in the first six months of 2004 when compared to the same period of 2003. The decrease is due primarily to increased competition in the marketplace and an uncertain economic environment. Pre-Tax Income (Loss) from Operations for the second quarter 2004 was \$190,362 compared to \$(184,518) for the same period for 2003 and

\$(271,459) for the first six months of 2004 compared to \$(315,858) for the same period for 2003. The Company's new product series introduced in 2003 is showing signs of improving product profitability and offsetting the losses resulting on our previously sold preneed products. Investors Heritage Life plans to continue its expansion of territory and recruitment of agents in the Preneed and Burial insurance market.

Traditional & Universal Life Products include traditional life and group life insurance products, annuities (primarily qualified) and universal life products. Revenues for this segment were 3.4% lower for the second quarter of 2004 when compared to the second quarter of 2003 and 5.3% lower for the first six months of 2004 when compared to the same period in 2003. Revenues on this segment are primarily derived from the sales of term insurance products through banks, which has been lower due to less loan demand. Sales have also slowed recently due to new federal banking guidelines regarding predatory lending and the sale of credit insurance in conjunction with a real estate mortgage. In addition, several states, including Kentucky, have enacted or are considering predatory lending laws that prohibit the financing of single premium credit insurance as part of a real estate mortgage transaction. Pre-Tax Income from Operations for the first six months of 2004 was 11.9% higher than for the first six months of 2003 primarily because of general insurance expense savings and better than anticipated mortality. Effective January 1, 2004, the Company lowered its maximum retention level from \$100,000 to \$25,000 per life. It is anticipated that this new retention level will stabilize earnings fluctuations in this segment.

Credit Insurance Products and Administrative Services include the marketing and administration of credit life and credit accident & health insurance products. Revenues for 2004 were \$52,087 for the second quarter compared to \$82,606 for the same period for 2003 and \$88,125 for the first six months of 2004 compared to \$156,869 for the same period in 2003. Pre-Tax Income from Operations was \$18,797 for the second quarter of 2004 compared to \$1,499 for the second quarter of 2003 and \$25,248 for the first six months of 2004 compared to \$16,324 for the same period in 2003. The revenues and income on the credit insurance line are directly affected by consumer loan demand. While the potential always exists for a slowdown in credit insurance sales due to decreased loan demand, sales have slowed recently due to new federal banking guidelines regarding predatory lending and the sale of credit insurance in conjunction with a real estate mortgage. In addition, several states, including Kentucky, have enacted or are considering predatory lending laws that prohibit the financing of single premium credit insurance as part of a real estate mortgage transaction. Overall income is higher for the six month period because of the increased service fees generated on earned premiums. 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 7.6% higher and Pre-Tax Income from Operations was

89.7% higher for the second quarter of 2004 when compared to the second quarter 2003. Revenues were 1.5% lower for the first six months of 2004 compared to the same period in 2003 and Pre-Tax Income from Operations was 41.7% higher for the first six months of 2004 when compared to the same period in 2003. The increases in pre-tax income for the second quarter in 2004 are primarily due to income of \$226,000 recognized arising from a death benefit received by the Company on a company owned life policy covering a former member of management as well as a reduction in stock compensation cost for a decline in the value of Company stock options.

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 20.9% at June 30, 2004 compared to 25.4% for June 30, 2003. The decrease in the effective tax rate is due primarily to the differences between book and tax reserve bases arising from our section 807(f) tax election. In addition, there were permanent differences in the current tax resulting from the death benefit received by the Company on a company owned life policy as well as a reduction in stock compensation cost for a decline in the value of Company stock options.

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, 2003. 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, 2003 is a net loss of less than \$500,000. This analysis is not performed on a quarterly basis.

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.

In addition to these dynamic modeling techniques, the Company closely monitors its own business segments with respect to product performance and agent behavior. To that end, during 2002 we implemented a new system to assist in monitoring these areas. This new tool allows management to quickly isolate areas of strength and weakness and to take appropriate and timely action to exploit the strengths and improve the weaknesses.

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

The Company 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 August 11, 2004, 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 Investors Heritage Life's or the Company's financial condition or results of operations.

ITEM 2. Changes in Securities and Use of Proceeds and Issuer Purchases

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

(a) The annual meeting of the stockholders was held May 13, 2004 at 11:00 a.m. The purpose of the meeting was to elect directors.

(b) Three (3) directors were elected to hold office for a term of three (3) years or until their successors are duly elected and qualified.

The following individuals were elected for a term of three (3) years and the number of votes cast were as follows

Gordon C. Duke - Number of Votes Cast FOR - 906,930.73; WITHHELD - 1,240.32

Harry Lee Waterfield II - Number of Votes Cast FOR - 904,305.77; WITHHELD - 3,865.28

Michael F. Dudgeon, Jr. - Number of Votes Cast FOR - 904,045.45; WITHHELD - 4,125.60

The other directors whose terms will continue after the meeting are:

Helen S. Wagner
David W. Reed
Harold G. Doran
Howard L. Graham
Robert M. Hardy, Jr.
Dr. Jerry F. Howell, Jr.

ITEM 5. Other Information

None

ITEM 6. Exhibits and Reports on Form 8-K

a) Exhibits

No exhibits were filed for the quarter ended June 30, 2004.

b) Reports on form 8-K

None

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: August 11, 2004

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

DATE: August 11, 2004