

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2006

Commission File Number: 0-1999

KENTUCKY INVESTORS, INC.

(Exact Name of Registrant as Specified in Charter)

KENTUCKY

(State or Other Jurisdiction of Incorporation or Organization)

61-6030333

(IRS Employer Identification No.)

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, 2006 – 1,109,721.720

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer

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, 2006</u>	<u>December 31, 2005</u>
Assets		
Investments		
Securities available for sale, at fair value:		
Fixed maturities (amortized cost: \$279,643,502 and \$275,752,746)	\$283,171,240	\$283,342,803
Equity securities (cost: \$2,897,164 and \$2,872,367)	3,678,173	3,392,822
Mortgage loans on real estate	22,348,776	22,893,966
Policy loans	7,360,210	7,438,128
Other long term investments	1,682,414	2,268,714
Short term investments	414,999	575,001
Total investments	<u>318,655,812</u>	<u>319,911,434</u>
Cash and cash equivalents	5,213,263	1,994,032
Accrued investment income	3,646,731	4,654,762
Due premiums	3,802,393	4,089,627
Deferred acquisition costs	21,813,179	22,356,641
Present value of future profits	230,865	299,553
Leased property under capital leases	397,470	427,914
Property and equipment	1,628,411	1,567,392
Collateral on securities loaned	19,030,887	16,773,190
Cash value of company life insurance	6,067,026	6,178,136
Other assets	313,975	299,328
Amounts recoverable from reinsurers	54,824,802	54,899,396
Total assets	<u>\$435,624,814</u>	<u>\$433,451,405</u>

Liabilities and stockholders' equity

Liabilities

Policy liabilities

Benefit reserves	\$341,088,086	\$336,428,173
Unearned premium reserves	13,379,441	14,381,589
Policy claims	1,739,905	1,696,430
Liability for deposit-type contracts	2,832,999	2,613,504
Reserves for dividends and endowments and other	<u>599,452</u>	<u>629,869</u>
Total policy liabilities	359,639,883	355,749,565
Federal income taxes	4,621,028	5,994,221
Obligations under capital leases	408,325	429,532
Notes payable	6,058,747	7,215,410
Obligations to return collateral under securities loan agreement	19,030,887	16,773,190
Accrued pension expense	1,185,162	1,303,941
Other liabilities	<u>2,187,900</u>	<u>1,722,842</u>
Total liabilities	<u>\$393,131,932</u>	<u>\$389,188,701</u>

Stockholders' equity

Common stock (shares issued: 1,109,722 and 1,104,773)	\$ 1,109,722	\$ 1,104,773
Paid-in surplus	8,597,305	8,578,978
Accumulated other comprehensive income	1,623,768	3,954,841
Retained earnings	<u>31,162,087</u>	<u>30,624,112</u>
Total stockholders' equity	<u>\$ 42,492,882</u>	<u>\$ 44,262,704</u>

Total liabilities and stockholders'
equity

	<u>\$435,624,814</u>	<u>\$433,451,405</u>
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See accompanying notes.

KENTUCKY INVESTORS, INC.

Condensed Consolidated Income Statements (Unaudited)

	Three Months Ended September 30	
	<u>2006</u>	<u>2005</u>
Revenue		
Premiums and other considerations	\$12,396,658	\$13,286,050
Premiums ceded	<u>(3,928,452)</u>	<u>(4,177,935)</u>
Net premiums earned	8,468,206	9,108,115
Investment income, net of expenses	4,475,159	4,500,293
Realized gains (losses) on investments, net	80,004	(4,656)
Other income	<u>319,618</u>	<u>298,710</u>
Total revenue	<u>13,342,987</u>	<u>13,902,462</u>
Benefits and expenses		
Death and other benefits	7,041,049	7,448,143
Guaranteed annual endowments	133,953	140,188
Dividends to policyholders	134,192	137,330
Increase in benefit reserves and unearned premiums	2,103,977	1,908,069
Acquisition costs deferred	(1,238,268)	(1,313,997)
Amortization of deferred acquisition costs	1,603,515	1,599,453
Commissions	514,581	644,091
Other insurance expenses	<u>2,333,233</u>	<u>2,657,245</u>
Total benefits and expenses	<u>12,626,232</u>	<u>13,220,522</u>
Income from operations before provision for federal income taxes	<u>716,755</u>	<u>681,940</u>
Provision (benefit) for federal income taxes:		
Current	80,877	194,272
Deferred	<u>48,712</u>	<u>(51,100)</u>
Total provision for federal income taxes	<u>129,589</u>	<u>143,172</u>
Net income	<u>\$ 587,166</u>	<u>\$ 538,768</u>
Earnings per share	<u>\$ 0.53</u>	<u>\$ 0.49</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>2006</u>	<u>2005</u>
Revenue		
Premiums and other considerations	\$36,412,055	\$37,353,850
Premiums ceded	<u>(10,513,135)</u>	<u>(10,380,845)</u>
Net premiums earned	25,898,920	26,973,005
Investment income, net of expenses	13,502,933	13,559,933
Realized gains on investments, net	21,360	681,122
Other income	<u>836,322</u>	<u>765,641</u>
Total revenue	<u>40,259,535</u>	<u>41,979,701</u>
Benefits and expenses		
Death and other benefits	23,826,202	24,869,217
Guaranteed annual endowments	459,363	477,997
Dividends to policyholders	427,446	440,823
Increase in benefit reserves and unearned premiums	4,785,815	4,226,875
Acquisition costs deferred	(3,759,754)	(3,778,549)
Amortization of deferred acquisition costs	4,584,609	4,529,346
Commissions	1,642,226	1,860,720
Other insurance expenses	<u>7,199,202</u>	<u>7,500,834</u>
Total benefits and expenses	<u>39,165,109</u>	<u>40,127,263</u>
Income from operations before provision for federal income taxes	<u>1,094,426</u>	<u>1,852,438</u>
Provision (benefit) for federal income taxes:		
Current	228,943	377,134
Deferred	<u>(31,071)</u>	<u>11,900</u>
Total provision for federal income taxes	<u>197,872</u>	<u>389,034</u>
Net income	<u>\$ 896,554</u>	<u>\$ 1,463,404</u>
Earnings per share	<u>\$ 0.81</u>	<u>\$ 1.33</u>
Dividends per share	<u>\$ 0.38</u>	<u>\$ 0.38</u>

See accompanying notes.

KENTUCKY INVESTORS, INC.

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

	Common Stock	Paid-in Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
BALANCE, JANUARY 1, 2005	\$ 1,099,666	\$ 8,560,130	\$ 10,406,040	\$ 28,749,601	\$ 48,815,437
Comprehensive income (loss):					
Net income	-	-	-	1,463,404	1,463,404
Change in net unrealized appreciation on available-for-sale securities	-	-	(4,280,743)	-	(4,280,743)
Total comprehensive loss					(2,817,339)
Cash dividends paid (\$0.38 per share)	-	-	-	(454,016)	(454,016)
Issuances of common stock, net	929	3,019	-	19,509	23,457
BALANCE, SEPTEMBER 30, 2005	<u>\$ 1,100,595</u>	<u>\$ 8,563,149</u>	<u>\$ 6,125,297</u>	<u>\$ 29,778,498</u>	<u>\$ 45,567,539</u>
BALANCE, JANUARY 1, 2006	\$ 1,104,773	\$ 8,578,978	\$ 3,954,841	\$ 30,624,112	\$ 44,262,704
Comprehensive income (loss):					
Net income	-	-	-	896,554	896,554
Change in net unrealized appreciation on available-for-sale securities	-	-	(2,334,313)	-	(2,334,313)
Change in fair value of hedging instrument	-	-	3,240	-	3,240
Total comprehensive loss					(1,434,519)
Cash dividends paid (\$0.38 per share)	-	-	-	(455,604)	(455,604)
Issuances of common stock, net	4,949	18,327	-	97,025	120,301
BALANCE, SEPTEMBER 30, 2006	<u>\$ 1,109,722</u>	<u>\$ 8,597,305</u>	<u>\$ 1,623,768</u>	<u>\$ 31,162,087</u>	<u>\$ 42,492,882</u>

See accompanying notes.

KENTUCKY INVESTORS, INC.

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30	
	<u>2006</u>	<u>2005</u>
Net cash provided by operating activities	\$ 7,547,236	\$ 8,865,417
Investing activities		
Securities available-for-sale:		
Purchases	(40,996,594)	(32,543,755)
Sales and maturities	36,836,444	25,003,490
Other investments:		
Cost of acquisition	(1,723,886)	(3,566,489)
Sales and maturities	3,093,296	3,653,770
Net additions to property and equipment	<u>(309,054)</u>	<u>(501,501)</u>
Net cash used in investing activities	(3,099,794)	(7,954,485)
Financing activities		
Receipts from universal life policies credited to policyholder account balances	8,026,266	5,897,628
Return of policyholder account balances on universal life policies	(7,762,511)	(6,158,814)
Payments on notes payable	(5,985,765)	(5,065,249)
Proceeds from notes payable	4,829,102	6,559,000
Issuances of common stock	120,301	23,457
Dividends paid	<u>(455,604)</u>	<u>(454,016)</u>
Net cash provided by (used in) financing activities	<u>(1,228,211)</u>	<u>802,006</u>
Increase in cash and cash equivalents	3,219,231	1,712,938
Cash and cash equivalents at beginning of period	<u>1,994,032</u>	<u>2,445,782</u>
Cash and cash equivalents at end of period	<u>\$ 5,213,263</u>	<u>\$ 4,158,720</u>

See accompanying notes.

KENTUCKY INVESTORS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

(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 our consolidated revenue.

Our operations involve the sale and administration of various insurance and annuity products, including, but not limited to, participating and 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, Georgia, and Michigan.

NOTE B - Basis of Presentation: The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles 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, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2005, as included in our Annual Report on Form 10-K.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 amounts previously reported for the prior periods shown herein to conform to the current period presentation.

NOTE C - Earnings per Share and Stock-Based Compensation: Earnings per share of common stock were computed based on the weighted average number of common shares outstanding during each period. The weighted average number of shares outstanding for the three months ended September 30, 2006 and 2005 were 1,108,458 and 1,100,595, respectively. The weighted average number of shares outstanding for the nine months ended September 30, 2006 and 2005 were 1,106,808 and 1,100,323, respectively.

Effective January 1, 2006, we began accounting for stock-based incentive programs under Statement of Financial Accounting Standard (“SFAS”) No. 123(R), “*Share-Based Payment.*” SFAS No. 123(R) superseded Accounting Principles Board Opinion No. 25, “*Accounting for Stock Issued to Employees,*” and requires all share-based payments to employees to be recognized as compensation expense in the consolidated income statement. We adopted the provisions of SFAS No. 123(R) using the modified prospective method in which compensation expense is recognized based on the requirements of SFAS No. 123, “*Accounting for Stock-Based Compensation,*” for all awards granted to employees prior to January 1, 2006. Under this method, our stock-based compensation is reported in the balance sheets as a liability based on the intrinsic value of the compensation, and compensation expense is measured as the change in intrinsic value. Prior to the adoption of SFAS No. 123(R) on January 1, 2006, we also accounted for stock-based compensation in accordance with SFAS No. 123, under which we recognized compensation expense based on the intrinsic value of stock-based compensation. Implementation of this new standard did not have a material impact on our financial condition or our operations based on our current use of the liability method.

The Company’s only outstanding stock options and stock appreciation rights were issued in 1999. 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, 2006. Our stock price changed from \$23.50 per share at December 31, 2005 to \$24.20 at June 30, 2006 and \$25.05 at September 30, 2006. Accordingly, we recognized an increase of \$51,956 and \$94,744, respectively, in stock compensation expense associated with such options for the three month and nine month periods ended September 30, 2006. We recognized an increase of \$36,675 and \$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 and Other segment results include 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.

	Three Months Ended	
	<u>September 30, 2006</u>	<u>September 30, 2005</u>
Revenue:		
Preneed and Burial Products	\$9,553,288	\$10,703,625
Traditional and Universal Life Products	3,202,347	2,690,234
Credit Insurance Products and Administrative Services	50,520	64,276
Corporate and Other	<u>536,832</u>	<u>444,327</u>
	<u>\$13,342,987</u>	<u>\$13,902,462</u>

Income from operations before provision for federal income taxes:		
Preneed and Burial Products	\$ 213,280	\$ 394,559
Traditional and Universal Life Products	150,184	194,706
Credit Insurance Products and Administrative Services	16,321	42,165
Corporate and Other	<u>336,970</u>	<u>50,510</u>
	<u>\$ 716,755</u>	<u>\$ 681,940</u>

	Nine Months Ended	
	<u>September 30, 2006</u>	<u>September 30, 2005</u>
Revenue:		
Preneed and Burial Products	\$ 29,967,966	\$ 31,759,226
Traditional and Universal Life Products	8,961,768	8,587,696
Credit Insurance Products and Administrative Services	141,904	141,940
Corporate and Other	<u>1,187,897</u>	<u>1,490,839</u>
	<u>\$ 40,259,535</u>	<u>\$ 41,979,701</u>

Income from operations before provision for federal income taxes:		
Preneed and Burial Products	\$ 138,626	\$ 149,704
Traditional and Universal Life Products	363,942	680,419
Credit Insurance Products and Administrative Services	54,677	101,730
Corporate and Other	<u>537,181</u>	<u>920,585</u>
	<u>\$ 1,094,426</u>	<u>\$ 1,852,438</u>

NOTE E – Federal Income Taxes: Federal income taxes are provided based on estimates of the projected effective annual tax rate. The annual effective tax rate is affected throughout the year by the dividends-received deduction and the 404(k) dividend deduction that are typically incurred early in the year. 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 dividends-received deduction, the 404(k) plan dividend deduction and the small life insurance company tax deduction. At September 30, 2006 and December 31, 2005, the Company's deferred tax liability as recorded on the balance sheet was \$4,644,712 and \$5,861,848, respectively.

At December 31, 2005, \$689,535 of the retained earnings of the Company represented earnings prior to 1984 which accumulated in an account known as policyholders' surplus, which was not subject to income taxation. The American Jobs Creation Act of 2004 eliminated the tax associated with distributions from this policyholders' surplus account made during specified tax years. Under the American Jobs Creation Act of 2004, any distributions to shareholders made during the 2005 and 2006 tax years are treated as being made first out of policyholders' surplus. Accordingly, Investors Heritage Life paid a dividend in the amount of \$728,768 to Kentucky Investors on April 6, 2006. As a result of this dividend, the balance of this policyholders' surplus account has been eliminated.

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, 2006</u>	<u>September 30, 2005</u>
Net income	\$ 587,166	\$ 538,768
Change in fair value of hedging instrument	(14,996)	-
Net unrealized gains (losses) on available-for-sale securities, net of federal income taxes	<u>4,247,040</u>	<u>(3,952,857)</u>
Comprehensive income (loss)	<u>\$ 4,819,210</u>	<u>\$ (3,414,089)</u>

	Nine Months Ended	
	<u>September 30, 2006</u>	<u>September 30, 2005</u>
Net income	\$ 896,554	\$ 1,463,404
Change in fair value of hedging instrument	3,240	-
Net unrealized losses on available-for-sale securities, net of federal income taxes	<u>(2,334,313)</u>	<u>(4,280,743)</u>
Comprehensive loss	<u>\$ (1,434,519)</u>	<u>\$ (2,817,339)</u>

NOTE G – Employee Benefit Plan: We participate in a noncontributory defined benefit 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, 2006</u>	<u>September 30, 2005</u>
Service cost	\$ 77,688	\$ 79,129
Interest cost	173,947	162,305
Expected return on plan assets	(182,198)	(163,909)
Amortization of net actuarial loss	<u>54,200</u>	<u>30,852</u>
Net periodic benefit cost	<u>\$ 123,637</u>	<u>\$ 108,377</u>

	Nine Months Ended	
	<u>September 30, 2006</u>	<u>September 30, 2005</u>
Service cost	\$ 233,064	\$ 237,388
Interest cost	521,841	486,916
Expected return on plan assets	(546,594)	(491,729)
Amortization of net actuarial loss	<u>162,600</u>	<u>92,558</u>
Net periodic benefit cost	<u>\$ 370,911</u>	<u>\$ 325,133</u>

We previously disclosed in our financial statements for the year ended December 31, 2005, that we expected to contribute \$652,920 to our pension plan in 2006. As of September 30, 2006, \$489,690 had been contributed. We presently anticipate contributing an additional \$163,230 to fund our pension plan in 2006.

NOTE H – Investments: We participate 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 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, 2006, fixed income securities with a carrying value of \$18,439,556 were on loan under this agreement, with associated collateral held of \$19,030,887. At December 31, 2005, fixed income securities with a carrying value of \$16,444,304 were on loan under this agreement, with associated collateral held of \$16,773,190. Income earned relative to this program was \$5,519 and \$18,618, respectively, for the three month and nine month periods ended September 30, 2006. 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.

NOTE I – Notes Payable: Effective May 30, 2006, the Company renewed the Kentucky Investors Line of Credit and the At Need Funding Line of Credit with Republic Bank and Trust Company, Louisville, Kentucky. The terms of the lines of credit remain the same as the terms previously in place with the exception that the At Need Funding Line of Credit has been increased from \$2,000,000 to \$4,000,000. The Kentucky Investors Line of Credit matures May 30, 2007 and the At Need Funding Line of Credit matures June 30, 2007.

NOTE J – New Financial Accounting Standards: On September 29, 2006, the Financial Accounting Standards Board issued SFAS No. 158, “*Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans,*” which amends SFAS No. 87, “*Employers’ Accounting for Pensions,*” SFAS No. 88, “*Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,*” SFAS No. 106, “*Employers’ Accounting for Postretirement Benefits Other Than Pensions,*” and SFAS No. 132 (revised 2003), “*Employers’ Disclosures about Pensions and Other Postretirement Benefits,*” and applies to all plan sponsors who offer defined benefit postretirement benefit plans. SFAS No. 158 requires an entity to recognize an asset for a defined benefit postretirement plan’s overfunded status or a liability for a plan’s underfunded status measured as of the end of the entity’s fiscal year effective for fiscal years ending after December 15, 2006. The entity will recognize changes in the funded status in comprehensive income in the year in which the changes occur. Although the financial impact of the adoption of this new standard cannot yet be determined, we do expect the result to be a material adverse impact to stockholders’ equity at December 31, 2006.

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.

The Legacy Protector and Legacy Preferred life insurance and annuity products were introduced in 2003 and are marketed exclusively in conjunction with pre-arranged funerals. These products allow for competitive commissions and death benefit growth to provide adequate proceeds to cover funeral expenses while allowing individuals to purchase affordable benefits that meet their personal needs. Underwritten and guaranteed issue options are available.

The Heritage Final Expense product is sold in the final expense markets. Introduced in 2002, it is reinsured on an 80% quota share basis. This reinsurance arrangement has helped to reduce first year statutory 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, administrative service fees, and 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 2% of our consolidated revenues were generated by those subsidiaries. As anticipated, approximately 14% of Investors Heritage Financial's revenues for the nine month period ended September 30, 2006 were derived from the sale of Investors Heritage Life's credit insurance products. During the first nine months of 2006, Kentucky Investors received dividends from Investors Heritage Financial totaling \$232,000 and received distributions from At Need Funding of \$72,000. We anticipate further dividend payments from Investors Heritage Financial and distributions from At Need Funding during the remainder of 2006.

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 and Investors Heritage Financial. Investors Heritage Life's principal sources of cash are from the sale of life insurance policies and investment income, including sales and maturities of investments, 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 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 U.S. generally accepted accounting principles. 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, pension

plan liabilities, 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 statement.

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 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, 2006, the balance of our deferred acquisition costs was approximately \$21,813,000 compared to \$22,357,000 at December 31, 2005. The recovery of these costs is dependent on the future profitability of the related business. Each reporting period, 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 judgments are required. Actual experience may emerge differently from that assumed. Any such difference would be recognized in the current period's consolidated income statement.

Income Taxes

We evaluate our deferred income tax assets, which partially offset our deferred tax liabilities, for any necessary valuation allowances. In doing so, we consider our ability and potential for recovering income taxes associated with such assets, which involve significant judgment. Revisions to our assumptions associated with any necessary valuation allowances would be recognized in the financial statements in the period in which such revisions are made.

Accrued Pension Expense

We maintain a defined benefit retirement plan on behalf of our employees. Measurement of the future benefit obligations associated with this plan involve significant judgment, particularly with regard to the expected long-term rate of return on plan assets, rate of compensation increases and the current discount rate used to calculate the present value of our future obligations. Changes in these assumptions can significantly impact the accrued pension expense and additional minimum pension liability required to be recorded in the financial statements.

The Pension Protection Act of 2006 was passed by legislators and signed by the President on August 17, 2006 to address the funding mechanisms of pension plans. Additionally, on September 29, 2006, the Financial Accounting Standards Board issued SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*" which amends SFAS No. 87, "*Employers' Accounting for Pensions*," SFAS No. 88, "*Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*," SFAS No. 106, "*Employers' Accounting for Postretirement Benefits Other Than Pensions*," and SFAS No. 132 (revised 2003), "*Employers' Disclosures about Pensions and Other Postretirement Benefits*," and applies to all plan sponsors who offer defined benefit postretirement benefit plans. SFAS No. 158 requires an entity to recognize the plan's overfunded or underfunded status measured as of the end of the entity's fiscal year effective for fiscal years ending after December 15, 2006. The entity will recognize changes in the funded status in comprehensive income in the year in which the changes occur. Although the financial impact of the adoption of these new legislative and account changes cannot yet be determined, we do expect them to have a material adverse impact on our financial statements, once effective.

Investments, Liquidity and Capital Resources

Investments

Investors Heritage Life has maintained a sound, conservative investment strategy. At September 30, 2006, 88.8% of invested assets consisted of fixed income public bonds compared to 88.5% at December 31, 2005. Fixed income assets are managed by Conning Asset Management Company, an independent portfolio manager.

We recognized no other-than-temporary impairment losses during the nine months ended September 30, 2006 or the corresponding period in 2005. 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.

We participate 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 for our obligation to return the collateral.

Additionally, Investors Heritage Life engages in commercial and residential mortgage lending with approximately 93.8% 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 September 30, 2006, 7.0% of invested assets consisted of mortgage loans compared to 7.2% at December 31, 2005. We anticipate funding several new mortgage loan investments during the remainder of 2006 to maintain a similar to slightly higher percentage of mortgage loans to total invested assets. As of September 30, 2006, 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.

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.

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 its future contractual benefit obligations and operating expenses, and provide an adequate profit margin.

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, 2006, Investors Heritage Life's fixed income investments were 100% investment grade as compared to 99.6% investment grade at December 31, 2005, 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.

Kentucky Investors principal sources of cash flow are rental income and dividends from its subsidiaries. Kentucky Investors principal long-term obligations are payments on long-term debt.

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

We 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.

Results of Operations

Overview

Premiums earned (net of reinsurance) were \$8,468,206 for the third quarter of 2006 (a decrease of 7.0% compared to the third quarter of 2005) and \$25,898,920 for the first nine months of 2006 (a decrease of 4.0% compared to the same period in 2005). The decrease was primarily due to lower sales in the pre-need and burial segment during the second and third quarters of 2006. Net investment income was \$4,475,159 for the third quarter of 2006 (a decrease of 0.6% compared to the third quarter of 2005) and \$13,502,933 for the first nine months of 2006 (a decrease of 0.4% compared to the same period in 2005). The decrease for the third quarter is primarily due to lower yield rates on newer investments impacting the rate of return on our investment portfolio. Total revenue was \$13,342,987 for the third quarter of 2006 (a decrease of 4.0% compared to the third quarter of 2005) and \$40,259,535 for the first nine months of 2006 (a decrease of 4.1% compared to the same period in 2005). This decrease is primarily due to the previously described lower sales in the pre-need and burial segment during the second and third quarters of 2006 coupled with realized gains recognized during the first quarter of 2005 on the sales of significantly appreciated common stocks.

Total benefits and expenses were \$12,626,232 in the third quarter of 2006 (a decrease of 4.5% compared to the third quarter of 2005) and \$39,165,109 for the first nine months of 2006 (a decrease of 2.4% compared to the same period in 2005). The decrease in benefits and expenses is primarily due to lower pre-need production. After providing for federal income taxes, our net income was \$587,166 with earnings per share of \$0.53 for the third quarter of 2006 as compared to \$538,768 and earnings per share of \$0.49 for the third quarter of 2005. Our net income was \$896,554 with earnings per share of \$0.81 for the first nine months of 2006 as compared to \$1,463,404 and earnings per share of \$1.33 for the same period in 2005. The decrease in net income for the first nine months of 2006 is due primarily to the previously mentioned realized gains recognized during the first quarter of 2005 on the sales of significantly appreciated common stocks.

A dividend of \$0.38 per share was paid April 7, 2006, to shareholders of record on March 24, 2006.

Business Segments

We internally evaluate the performance of our operations by the following business segments:

Preneed and Burial Products include both life and annuity products sold by funeral directors or affiliated agents to fund prearranged funerals. Revenues for this segment were \$9,553,288 for the third quarter of 2006 (a decrease of 10.7% compared to the third quarter of 2005) and \$29,967,966 for the first nine months of 2006 (a decrease of 5.6% compared to the same period of 2005). The decrease for the third quarter of 2006 is due primarily to decreased premium production from lower sales of the preneed and burial products. Pre-tax income (loss) from operations was \$213,280 for the third quarter of 2006 compared to \$394,559 for the same period for 2005 and

\$138,626 for the first nine months of 2006 compared to \$149,704 for the same period for 2005. Sales of our Legacy Preferred product series continue to improve product profitability.

Traditional and Universal Life Products include traditional life and group life insurance products, annuities (primarily qualified) and universal life products. Revenues for this segment were \$3,202,347 for the third quarter of 2006 (an increase of 19.0% compared to the third quarter of 2005) and \$8,961,768 for the first nine months of 2006 (an increase of 4.4% compared to the same period of 2005). Revenues on this segment are primarily derived from the sale of term insurance products through banks, which have experienced slightly increased demand during the third quarter of 2006 compared to the prior year. The remaining increase in revenue during the third quarter of 2006 is due to the consideration received on the assumption of a small block of traditional business. This assumption has little effect on the pre-tax income in this segment due to the increase in reserves associated with the assumed business. Pre-tax income from operations was \$150,184 for the third quarter of 2006 compared to \$194,706 for the same period for 2005 and \$363,942 for the first nine months of 2006 compared to \$680,419 for the same period for 2005, primarily because of an increase in claims activity.

Credit Insurance Products and Administrative Services include the marketing and administration of credit life and credit accident and health insurance products. Revenues for this segment were \$50,520 for the third quarter of 2006 (a decrease of 21.4% compared to the third quarter of 2005) and \$141,904 for the first nine months of 2006 (a decrease of less than 0.1% compared to the same period of 2005). Pre-tax income from operations was \$16,321 for the third quarter of 2006 compared to \$42,165 for the same period for 2005 and \$54,677 for the first nine months of 2006 compared to \$101,730 for the same period for 2005. All of the related underwriting risk currently produced is being reinsured 100% with highly-rated life companies.

Corporate and 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 for this segment were \$536,832 for the third quarter of 2006 (an increase of 20.8% compared to the third quarter of 2005) and \$1,187,897 for the first nine months of 2006 (a decrease of 20.3% compared to the same period of 2005). Pre-tax income from operations was \$336,970 for the third quarter of 2006 compared to \$50,510 for the same period of 2005 and \$537,181 for the first nine months of 2006 compared to \$920,585 for the same period for 2005. The increase in revenues for the third quarter of 2006 primarily relates to third party administrative contracts not in existence during the third quarter of the prior year coupled with an increase in fees during 2006 in the existing third party administrative contracts. The increase in pre-tax income for the third quarter of 2006 primarily relates to the increased service fee income, the timing of certain realized gains and the adjustment to the actuarially determined net periodic pension cost. The decrease in revenues and pre-tax income for the first nine months of 2006 is primarily due to realized gains from the sales of significantly appreciated common stock investments during the first quarter of 2005.

Federal Income Taxes

Federal income taxes are provided based on estimates of the projected annual effective tax rate. The annual effective tax rate is affected throughout the year by the dividends-received deduction and the 404(k) dividend deduction that are typically incurred early in the year. 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 18.1% for the nine months ended September 30, 2006 compared to 21.0% for the nine months ended September 30, 2005. The decrease in the effective tax rate is primarily due to taxes incurred during the first three months of 2005 associated with realized gains on sales of significantly appreciated common stocks.

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, 2005. 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, 2005 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 Company's 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, 2006, 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 1A. Risk Factors

There have been no material changes from risk factors as previously disclosed in our Annual Report on Form 10-K.

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
Harry Lee Waterfield II
President

DATE: November 10, 2006

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

DATE: November 10, 2006