

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

**QUARTERLY REPORT**

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

**For the quarterly period ended June 30, 2008**

---

**0-1999**

(Commission file number)

**KENTUCKY INVESTORS, INC.**

(Exact Name of Registrant as Specified in its Charter)

**KENTUCKY**

(State or other jurisdiction of incorporation or organization)

**61-6030333**

(I.R.S. Employer Identification Number)

**200 Capital Avenue, P.O. Box 717  
Frankfort, Kentucky 40602**

(Address of principal executive offices)

**(502) 223-2361**

(Registrant's telephone number, including area code)

---

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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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 August 8, 2008 – 1,117,316.160

# CONTENTS

## PART I – FINANCIAL INFORMATION

	<u>Page</u>
<b>ITEM 1</b> Condensed Consolidated Financial Statements	3
<b>ITEM 2</b> Management’s Discussion and Analysis of Financial Condition and Results of Operations	15
<b>ITEM 4T</b> Controls and Procedures	21

## PART II – OTHER INFORMATION

<b>ITEM 1</b> Legal Proceedings	22
<b>ITEM 2</b> Unregistered Sales of Equity Securities and Use of Proceeds	22
<b>ITEM 3</b> Defaults Upon Senior Securities	22
<b>ITEM 4.</b> Submission of Matters to a Vote of Security Holders	22
<b>ITEM 5.</b> Other Information	23
<b>ITEM 6.</b> Exhibits	23
 <b>SIGNATURES</b>	 23
 <b>EXHIBIT 31.1</b>	 24
<b>EXHIBIT 31.2</b>	26
<b>EXHIBIT 32</b>	28

# PART I – FINANCIAL INFORMATION

## ITEM 1. Condensed Consolidated Financial Statements

### KENTUCKY INVESTORS, INC.

#### Condensed Consolidated Balance Sheets (Unaudited)

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Investments:		
Securities available-for-sale, at fair value:		
Fixed maturities (amortized cost: \$282,563,369 and \$283,670,281)	\$ 284,446,530	\$ 289,516,851
Equity securities (cost: \$4,862,236 and \$3,850,263)	4,852,550	4,335,063
Mortgage loans on real estate	23,787,449	24,812,445
Policy loans	7,021,412	6,968,157
Other long-term investments	1,046,396	878,036
Short-term investments	340,000	365,000
Total investments	\$ 321,494,337	\$ 326,875,552
Cash and cash equivalents	1,941,188	1,238,194
Accrued investment income	4,572,971	4,668,922
Due premiums	3,566,912	3,726,202
Deferred acquisition costs	20,390,967	20,379,631
Present value of future profits	70,593	116,385
Leased property under capital leases	333,399	372,928
Property and equipment	1,746,737	1,678,094
Collateral on securities loaned	10,917,528	2,186,372
Cash value of company-owned life insurance	6,976,963	6,845,039
Other assets	317,548	285,532
Amounts recoverable from reinsurers	50,535,615	51,375,027
	\$ 422,864,758	\$ 419,747,878
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Policy liabilities:		
Benefit reserves	\$ 340,830,115	\$ 341,268,264
Unearned premium reserves	12,511,996	12,990,293
Policy claims	1,470,478	1,476,669
Liability for deposit-type contracts	2,696,990	2,663,641
Reserves for dividends and endowments and other	584,704	547,262
Total policy liabilities	\$ 358,094,283	\$ 358,946,129
Deferred federal income tax liability	3,804,575	5,211,301
Obligations under capital leases	329,781	371,736
Notes payable	4,144,997	4,261,948
Obligations to return collateral under securities loan agreement	10,917,528	2,186,372
Accrued pension liability	1,896,092	2,159,914
Other liabilities	2,026,873	2,053,378
Total liabilities	\$ 381,214,129	\$ 375,190,778
<b>STOCKHOLDERS' EQUITY</b>		
Common stock (shares issued: 1,116,211 and 1,117,851)	\$ 1,116,211	\$ 1,117,851
Paid-in surplus	8,679,232	8,650,907
Accumulated other comprehensive income (loss)	(746,537)	1,902,238
Retained earnings	32,601,723	32,886,104
Total stockholders' equity	\$ 41,650,629	\$ 44,557,100
	\$ 422,864,758	\$ 419,747,878

See notes to consolidated financial statements.

**KENTUCKY INVESTORS, INC.**  
**Condensed Consolidated Income Statements (Unaudited)**

	<b>Three Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>REVENUE</b>		
Premiums and other considerations	\$ 11,701,374	\$ 11,694,675
Premiums ceded	(3,489,408)	(3,598,513)
Net premiums earned	<u>8,211,966</u>	<u>8,096,162</u>
Investment income, net of expenses	4,512,816	4,462,353
Realized gains on investments, net	1,089	1,142
Other income	279,143	351,585
Total revenue	<u>\$ 13,005,014</u>	<u>\$ 12,911,242</u>
<b>BENEFITS AND EXPENSES</b>		
Death and other benefits	\$ 7,864,875	\$ 7,873,173
Guaranteed annual endowments	155,650	163,694
Dividends to policyholders	172,291	150,409
Increase in benefit reserves and unearned premiums	1,450,082	1,065,432
Acquisition costs deferred	(1,206,231)	(1,213,162)
Amortization of deferred acquisition costs	1,380,036	1,421,547
Commissions	542,969	510,112
Other insurance expenses	2,394,856	2,552,175
Total benefits and expenses	<u>\$ 12,754,528</u>	<u>\$ 12,523,380</u>
<b>INCOME BEFORE FEDERAL INCOME TAXES</b>	<u>\$ 250,486</u>	<u>\$ 387,862</u>
<b>PROVISION (BENEFIT) FOR FEDERAL INCOME TAXES</b>		
Current	\$ 87,140	\$ 46,206
Deferred	(27,686)	22,492
	<u>\$ 59,454</u>	<u>\$ 68,698</u>
<b>NET INCOME</b>	<u>\$ 191,032</u>	<u>\$ 319,164</u>
<b>BASIC AND DILUTED NET EARNINGS PER SHARE</b>	<u>\$ 0.17</u>	<u>\$ 0.29</u>
<b>DIVIDENDS PER SHARE</b>	<u>\$ -</u>	<u>\$ -</u>

See notes to consolidated financial statements.

**KENTUCKY INVESTORS, INC.**  
**Condensed Consolidated Income Statements (Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>REVENUE</b>		
Premiums and other considerations	\$ 22,477,264	\$ 22,686,747
Premiums ceded	<u>(6,226,941)</u>	<u>(6,348,622)</u>
Net premiums earned	16,250,323	16,338,125
Investment income, net of expenses	8,953,255	8,989,752
Realized gains (losses) on investments, net	(382)	601
Other income	<u>551,921</u>	<u>639,662</u>
Total revenue	<u>\$ 25,755,117</u>	<u>\$ 25,968,140</u>
<b>BENEFITS AND EXPENSES</b>		
Death and other benefits	\$ 16,621,343	\$ 16,751,434
Guaranteed annual endowments	295,326	310,300
Dividends to policyholders	302,293	283,768
Increase in benefit reserves and unearned premiums	1,883,642	1,372,363
Acquisition costs deferred	(2,356,107)	(2,465,086)
Amortization of deferred acquisition costs	2,688,507	2,843,210
Commissions	1,068,551	1,035,900
Other insurance expenses	<u>4,974,598</u>	<u>5,030,470</u>
Total benefits and expenses	<u>\$ 25,478,153</u>	<u>\$ 25,162,359</u>
<b>INCOME BEFORE FEDERAL INCOME TAXES</b>	<u>\$ 276,964</u>	<u>\$ 805,781</u>
<b>PROVISION (BENEFIT) FOR FEDERAL INCOME TAXES</b>		
Current	\$ 133,975	\$ 53,112
Deferred	<u>(68,237)</u>	<u>89,607</u>
	<u>\$ 65,738</u>	<u>\$ 142,719</u>
<b>NET INCOME</b>	<u>\$ 211,226</u>	<u>\$ 663,062</u>
<b>BASIC AND DILUTED NET EARNINGS PER SHARE</b>	<u>\$ 0.19</u>	<u>\$ 0.60</u>
<b>DIVIDENDS PER SHARE</b>	<u>\$ 0.38</u>	<u>\$ 0.38</u>

See notes to consolidated financial statements.

**KENTUCKY INVESTORS, INC.**  
**Condensed Consolidated Statements of Stockholders' Equity (Unaudited)**

	<u>Common Stock</u>	<u>Paid-in Surplus</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
<b>BALANCE, JANUARY 1, 2007</b>	\$ 1,113,104	\$ 8,603,902	\$ (114,520)	\$ 31,567,907	\$ 41,170,393
<b>Comprehensive income:</b>					
Net income	-	-	-	663,062	663,062
Change in net unrealized appreciation on available-for-sale securities	-	-	(3,234,209)	-	(3,234,209)
Change in unrealized pension benefits	-	-	59,072	-	59,072
Change in fair value of hedging instrument	-	-	5,321	-	5,321
Total comprehensive loss					<u>(2,506,754)</u>
Cash dividends	-	-	-	(423,062)	(423,062)
Issuances of common stock, net	299	2,215	-	5,502	8,016
<b>BALANCE, JUNE 30, 2007</b>	<u>\$ 1,113,403</u>	<u>\$ 8,606,117</u>	<u>\$ (3,284,336)</u>	<u>\$ 31,813,409</u>	<u>\$ 38,248,593</u>
<b>BALANCE, JANUARY 1, 2008</b>	\$ 1,117,851	\$ 8,650,907	\$ 1,902,238	\$ 32,886,104	\$ 44,557,100
<b>Comprehensive income:</b>					
Net income	-	-	-	211,226	211,226
Change in net unrealized appreciation on available-for-sale securities	-	-	(2,733,715)	-	(2,733,715)
Change in unrealized pension benefits	-	-	81,445	-	81,445
Change in fair value of hedging instrument	-	-	3,495	-	3,495
Total comprehensive loss					<u>(2,437,549)</u>
Cash dividends	-	-	-	(422,959)	(422,959)
Repurchases of common stock, net	(1,640)	28,325	-	(72,648)	(45,963)
<b>BALANCE, JUNE 30, 2008</b>	<u>\$ 1,116,211</u>	<u>\$ 8,679,232</u>	<u>\$ (746,537)</u>	<u>\$ 32,601,723</u>	<u>\$ 41,650,629</u>

See notes to consolidated financial statements.

**KENTUCKY INVESTORS, INC.**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 1,688,801	\$ 1,896,361
<b>INVESTING ACTIVITIES</b>		
Securities available-for-sale:		
Purchases	\$ (11,207,911)	\$ (7,543,619)
Sales and maturities	11,107,683	7,806,852
Other investments:		
Cost of acquisitions	(976,672)	(2,964,057)
Sales and maturities	1,805,053	2,580,623
Net additions to property and equipment	(213,539)	(153,348)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	\$ 514,614	\$ (273,549)
<b>FINANCING ACTIVITIES</b>		
Receipts from universal life policies credited to policyholder account balances	\$ 3,705,763	\$ 4,912,364
Return of policyholder account balances on universal life policies	(4,620,311)	(5,738,066)
Payments on notes payable	(1,645,936)	(2,946,659)
Proceeds from notes payable	1,528,985	2,185,333
Dividends paid	(422,959)	(423,062)
Issuances (repurchases) of common stock	(45,963)	8,016
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	\$ (1,500,421)	\$ (2,002,074)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	\$ 702,994	\$ (379,262)
Cash and cash equivalents at beginning of period	1,238,194	1,776,491
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 1,941,188	\$ 1,397,229

See notes to consolidated financial statements.

# KENTUCKY INVESTORS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(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; 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; and is the sole member of Heritage Funding, LLC, a limited liability company that invests in various business ventures. These entities are collectively hereinafter referred to as the "Company". Approximately 99% of Kentucky Investors' consolidated revenue is generated by Investors Heritage Life.

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 life, 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, 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 six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2007, 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 June 30, 2008 and 2007 were 1,114,343 and 1,113,336, respectively. The weighted average number of shares outstanding for the six months ended June 30, 2008 and 2007 were 1,114,725 and 1,113,296, respectively.

The Company's only outstanding stock options and stock appreciation rights were issued in 1999. We account for our stock-based incentive program under Statement of Financial Accounting Standard ("SFAS") No. 123(R), "Share-Based Payment," which 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.

Under 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 June 30, 2008 and 2007. We recognized a decrease in compensation expense relative to the outstanding options of \$253,669 for the three month period ended June 30, 2008 compared to an increase in compensation expense of \$9,169 associated with such options for the three month period ended June 30, 2007. We recognized a decrease in compensation expense relative to the outstanding options of \$207,825 for the six month period ended June 30, 2008 compared to an increase in compensation expense of \$97,800 associated with such options for the six month period ended June 30, 2007. These changes in compensation expense were based on changes in the market value of the Company's stock compared to the exercise price of the options as of those dates.

#### **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. Results for the parent company, Investors Heritage Printing, At Need Funding, Heritage Funding, and a portion of Investors Heritage Financial, after elimination of intercompany amounts, are allocated to the Corporate and Other segment.

During the third quarter 2007, we determined that certain service fee income of Investors Heritage Financial that is derived from external parties relative to credit administrative services being provided should be included within the Credit Insurance Products and Administrative Services segment. Historically, all Investors Heritage Financial revenue and income had been included in the Corporate and Other segment. Accordingly, the prior period segment data has been reclassified for comparative purposes with the current period segment presentation.

	<b>Three Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenue:</b>		
Preneed and burial products	\$ 9,775,797	\$ 9,148,158
Traditional and universal life products	2,848,834	3,316,503
Credit insurance products and administrative services	110,332	169,226
Corporate and other	270,051	277,355
	<u>\$ 13,005,014</u>	<u>\$ 12,911,242</u>
<b>Pre-tax income (loss) from operations:</b>		
Preneed and burial products	\$ (211,397)	\$ 117,279
Traditional and universal life products	96,966	46,500
Credit insurance products and administrative services	73,795	113,177
Corporate and other	291,122	110,906
	<u>\$ 250,486</u>	<u>\$ 387,862</u>

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenue:</b>		
Preneed and burial products	\$ 19,350,256	\$ 18,910,219
Traditional and universal life products	5,593,257	6,173,916
Credit insurance products and administrative services	203,140	294,663
Corporate and other	608,464	589,342
	<u>\$ 25,755,117</u>	<u>\$ 25,968,140</u>
<b>Pre-tax income (loss) from operations:</b>		
Preneed and burial products	\$ (538,679)	\$ (23,398)
Traditional and universal life products	160,050	287,551
Credit insurance products and administrative services	144,470	211,859
Corporate and other	511,123	329,769
	<u>\$ 276,964</u>	<u>\$ 805,781</u>

### **NOTE E – Federal Income Taxes**

The provision (benefit) for federal income taxes is based on the estimated 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 dividends-received deduction, the 404(k) dividend deduction and the small life insurance company tax deduction.

We file U.S. federal income tax returns and income tax returns in various state jurisdictions. Our 2004 through 2007 U.S. federal tax years remain subject to income tax examination by tax authorities. We have no known uncertain tax benefits within our provision for income taxes. In addition, we do not believe the Company will be subject to any penalties or interest relative to any open tax years and, therefore, have not accrued any such amounts. However, should such a circumstance arise, it is our policy to classify any interest and penalties (if applicable) as income tax expense in the financial statements.

## **NOTE F – Comprehensive Loss**

The components of comprehensive loss, net of related federal income taxes, are as follows:

	<b>Three Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Net income	\$ 191,032	\$ 319,164
Change in net unrealized appreciation on available-for-sale securities	(4,835,584)	(3,669,718)
Change in unrealized pension benefits	61,218	29,536
Change in fair value of hedging instrument	3,078	7,308
Total comprehensive loss	<u>\$ (4,580,256)</u>	<u>\$ (3,313,710)</u>

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Net income	\$ 211,226	\$ 663,062
Change in net unrealized appreciation on available-for-sale securities	(2,733,715)	(3,234,209)
Change in unrealized pension benefits	81,445	59,072
Change in fair value of hedging instrument	3,495	5,321
Total comprehensive loss	<u>\$ (2,437,549)</u>	<u>\$ (2,506,754)</u>

## **NOTE G – Employee Benefit Plans**

We sponsor a noncontributory pension 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 our net periodic benefit cost:

	<b>Three Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Service cost	\$ 96,426	\$ 86,075
Interest cost	235,277	183,238
Expected return on plan assets	(227,682)	(212,874)
Recognized net loss	92,753	44,752
Net periodic benefit cost	<u>\$ 196,774</u>	<u>\$ 101,191</u>

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Service cost	\$ 185,456	\$ 172,150
Interest cost	436,108	366,476
Expected return on plan assets	(458,936)	(425,748)
Recognized net loss	123,402	89,504
Net periodic benefit cost	<u>\$ 286,030</u>	<u>\$ 202,382</u>

We previously disclosed in our financial statements for the year ended December 31, 2007 that we expected to contribute \$852,900 to our pension plan in 2008. As of June 30, 2008, \$426,450 had been contributed. We presently anticipate contributing an additional \$426,450 to fund our pension plan in 2008.

#### **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, both reported at fair value. 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 June 30, 2008, there were securities on loan under this agreement with a market value of \$10,525,315, with associated collateral held of \$10,917,528. At December 31, 2007, there were securities on loan under this agreement with a market value of \$2,124,160, with associated collateral held of \$2,186,372. Income earned relative to this program was \$4,252 and \$12,668, respectively, for the three and six month periods ended June 30, 2008. Income earned relative to this program was \$6,812 and \$9,317, respectively, for the three and six month periods ended June 30, 2007.

#### **NOTE I – Fair Values of Financial Instruments**

Effective January 1, 2008, the Company adopted SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company experienced no material financial impact as a result of the adoption of SFAS No. 157.

The Company holds fixed maturities and equity securities that are measured and reported at fair market value on the balance sheet. The Company determines the fair market values of its financial instruments based on the fair value hierarchy established in SFAS No. 157 that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments or assets and liabilities whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities and corporate debt securities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments and asset-backed

securities where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

In accordance with SFAS No. 157, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into the three-level fair value hierarchy. If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the valuation inputs, or their ability to be observed, may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the quarter in which the reclassifications occur.

The following table presents the Company's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of June 30, 2008.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Fixed maturities	\$ -	\$ 276,784,266	\$ 7,662,264	\$ 284,446,530
Equity securities	4,532,550	-	320,000	4,852,550

Level 3 financial instruments consist of six corporate asset-backed securities as well as one preferred stock and one common stock, where trading has been limited. The fair values for these securities were primarily determined through the use of non-binding broker quotes and internal models using unobservable assumptions about market participants. The following table provides a summary of changes in fair value of our Level 3 financial instruments for the three and six month periods ended June 30, 2008.

<b>Three Months Ended June 30, 2008</b>						
	<u>April 1, 2008</u>	<u>Realized</u>	<u>Unrealized</u>	<u>Purchases</u>	<u>Transfers</u>	<u>Ending</u>
	<u>Balance</u>	<u>Gains</u>	<u>Gains</u>	<u>(Sales)</u>	<u>In (Out)</u>	<u>Balance</u>
		<u>(Losses)</u>	<u>(Losses)</u>			
Assets:						
Fixed maturities	\$ 6,822,872	\$ -	\$ (155,779)	\$ -	\$ 995,171	\$ 7,662,264
Equity securities	320,000	-	-	-	-	320,000

<b>Six Months Ended June 30, 2008</b>						
	<u>January 1, 2008</u>	<u>Realized</u>	<u>Unrealized</u>	<u>Purchases</u>	<u>Transfers</u>	<u>Ending</u>
	<u>Balance</u>	<u>Gains</u>	<u>Gains</u>	<u>(Sales)</u>	<u>In (Out)</u>	<u>Balance</u>
		<u>(Losses)</u>	<u>(Losses)</u>			
Assets:						
Fixed maturities	\$ 6,940,640	\$ -	\$ (273,547)	\$ -	\$ 995,171	\$ 7,662,264
Equity securities	320,000	-	-	-	-	320,000

The unrealized losses on level 3 investments are recorded as a component of accumulated other comprehensive income, net of tax, in accordance with required accounting for our available-for-sale portfolio.

**NOTE J – Notes Payable**

During the second quarter of 2008, the Company repaid the remaining principal balance on its outstanding promissory note and Chrysler auto loan. Additionally, the Company renewed the Kentucky Investors Line of Credit and the At Need Funding Line of Credit. The Kentucky Investors Line of Credit remains for \$150,000, with interest paid at the prime rate. The At Need Funding Line of Credit is now for \$2,000,000, with interest paid at the prime rate. The Kentucky Investors Line of Credit and At Need Funding Line of Credit both mature June 30, 2009.

## **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; 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; and is the sole member of Heritage Funding, LLC, a limited liability company that invests in various business ventures.

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

In late 2007, we introduced the Legacy Gold product series, a new generation of life insurance and annuity products marketed in conjunction with prearranged funerals. As a part of the process, we performed detailed analysis of the preneed market and of the characteristics of our particular block of business. We believe that the result of these efforts is a very marketable product that balances profitability with competitive commissions and death benefit growth to provide adequate proceeds to cover funeral expenses and personal needs. Underwritten and guaranteed issue options are available. This product series will fully replace the previous Legacy Protector and Legacy Preferred life insurance and annuity products during 2008.

The Heritage Final Expense product is sold in the final expense markets. 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 and should 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. Our decreasing term policy is primarily sold through financial institutions.

Investors Heritage Life continues to market its third-party administrative ("TPA") services as an additional revenue source. We currently have four TPA clients for which we provide tailored services to meet each client's individual business needs. We have been able to perform services for these clients using our existing in-house resources.

Our primary uses of cash are ongoing operating expenses, debt service and dividend payments. 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 proceeds received from the sale of life insurance policies, administrative service fees and investment income, including realized gains (losses), less interest credited and benefits to policyholders and expenses.

## ***CRITICAL ACCOUNTING POLICIES AND ESTIMATES***

The discussion and analysis of our financial condition and results of operations are 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. We evaluate our estimates continually, including those related to investments, deferred acquisition costs, present value of future profits, policy liabilities, income taxes, accrued pension expense, 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 companies. 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 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 statement 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. Likewise, a change in our ability or intent to hold temporarily impaired securities until maturity or recovery in value could result in a future impairment charge.

### ***Deferred Acquisition Costs***

The recovery of deferred acquisition costs is dependent on the future profitability of the underlying business for which acquisition costs were incurred. Each reporting period, we evaluate the recoverability of the unamortized balance of 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***

Estimating liabilities for our long-duration insurance contracts requires management to make 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 judgment is required. Actual experience may emerge differently from that originally

estimated. Any such difference would be recognized in the current year's consolidated statement of income.

#### 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 the 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 involves significant judgment, particularly in 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 future obligations. Changes in these assumptions can significantly impact the accrued pension liability and net periodic benefit expense 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. The Act alters the traditional formula under which plan liabilities must be funded, and it may result in significantly increased future funding costs depending on investment returns. Although increased contributions are not yet required under the funding formula, we have voluntarily increased the projected contribution to our pension plan for 2008 by approximately \$200,000 above our prior year contribution.

#### New Accounting Pronouncements

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company experienced no material financial impact as a result of the adoption of SFAS No. 157.

The Company holds fixed maturities and equity securities that are measured and reported at fair market value on the balance sheet. The Company determines the fair values of its financial instruments based on the fair value hierarchy established in SFAS No. 157 which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value based on the nature of the information used to obtain the fair value. SFAS No. 157 requires certain disclosures about the level used to measure assets and liabilities reported at fair value as well as disclosures regarding changes in the values of those items reported using level 3 inputs, which involve a great deal of estimation and judgment by management.

Refer to Note I of the condensed consolidated financial statements for more explanation of SFAS No. 157 as well as for the required disclosures.

## ***INVESTMENTS, LIQUIDITY AND CAPITAL RESOURCES***

#### Investments

Investors Heritage Life maintains a sound, conservative investment strategy. At June 30, 2008, 88.5% of invested assets consisted of fixed income securities compared to 88.6% at December 31, 2007. At June 30, 2008 and December 31, 2007, 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.

We recognized no other-than-temporary impairment losses during the three and six month periods ended June 30, 2008 or the corresponding periods in 2007. 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 continuously monitor the investment risk within our portfolio, including the risk associated with subprime lending with our CMO investments. As of June 30, 2008, we have only one CMO, with a fair value of approximately \$62,000, which has any level of direct subprime exposure. Based on our analysis, we believe this investment is of high quality and expect no losses as a result of the current subprime concerns.

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 99.9% of these investments being in commercial properties. All mortgage loans are originated in-house and all loans are secured by first mortgages on the real estate. Loan to value ratios of 80% or less and debt service coverage from existing cash flows of 115% or higher are generally required. We minimize credit risk in our mortgage loan portfolio through various methods, including stringently underwriting the loan request, maintaining small average loan balances, reviewing larger mortgage loans on an annual basis and diversifying the portfolio by property type. At June 30, 2008, 7.4% of invested assets consisted of mortgage loans compared to 7.6% at December 31, 2007. We anticipate funding several new mortgage loan investments during the remainder of 2008 to maintain a similar to slightly higher percentage of mortgage loans to total invested assets. As of June 30, 2008, 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, investment income and administrative service fees 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 our 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.

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 assess our compliance with prescribed debt covenant requirements as outlined in the terms of each debt agreement at least annually, if not otherwise required in the debt agreement. Management has assessed our position and as of June 30, 2008, we are in compliance with all debt covenant requirements.

We are not aware of any commitments or unusual events that could materially affect capital resources. We have the option to prepay certain notes payable at our discretion prior to their maturity dates.

We will continue to explore various opportunities including mergers and acquisitions and purchasing blocks of business from other companies, which may dictate a need for either long-term or short-term debt. There are no restrictions as to use of funds except the restriction on Investors Heritage Life as to the payment of cash dividends to Kentucky Investors.

## ***RESULTS OF OPERATIONS***

### ***Overview***

Premiums earned (net of reinsurance) were \$8,211,966 for the second quarter of 2008 (an increase of 1.4% compared to the second quarter of 2007) and \$16,250,323 for the six months ended June 30, 2008 (a decrease of 0.5% compared to the corresponding period in 2007). The year-to-date decrease was primarily due to lower sales in the traditional and universal life segment. However, sales in the preneed and burial segment increased in the second quarter due to the favorable market reception of our new Legacy Gold preneed series. Net investment income was \$4,512,816 for the second quarter of 2008 (an increase of 1.1% compared to the second quarter of 2007) and \$8,953,255 for the six months ended June 30, 2008 (a decrease of 0.4% compared to the corresponding period in 2007). The year-to-date decrease resulted from the current depressed interest rate environment, which affects new investments in bonds as well as interest earned on loans from At-Need Funding. Additionally, mortgage loans with higher yielding interest rates have paid down, which has further lowered investment income. This impact was mitigated in the second quarter as rates stabilized. Total revenue was \$13,005,014 for the second quarter of 2008 (an increase of 0.7% compared to the first quarter of 2007) and \$25,755,117 for the six months ended June 30, 2008 (a decrease of 0.8% compared to the corresponding period in 2007).

Total benefits and expenses were \$12,754,528 in the second quarter of 2008 (an increase of 1.8% compared to the second quarter of 2007) and \$25,478,153 for the six months ended June 30, 2008 (an increase of 1.3% compared to the corresponding period in 2007). The increase in benefits and expenses is primarily due to increased reserves relative to new business. After providing for federal income taxes, our net income was \$191,032 with earnings per share of \$0.17 for the second quarter of 2008 as compared to \$319,164 and earnings per share of \$0.29 for the second quarter of 2007. Our net income for the six months ended June 30, 2008 was \$211,226 with earnings per share of \$0.19 compared to net income of \$663,062 and earnings per share of \$0.60 for the six months ended June 30, 2007.

A dividend of \$0.38 per share was paid on April 7, 2008, to shareholders of record as of March 21, 2008.

### ***Business Segments***

We internally evaluate the performance of our operations by the following four 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 \$9,775,797 for the second quarter of 2008 (an increase of 6.9% compared to the second quarter of 2007) and \$19,350,256 for the six months ended June 30, 2008 (an increase of 2.3% compared to the corresponding period in 2007). This increase is due primarily to increased preneed sales from the Legacy Gold preneed product series. Pre-tax loss from operations was (\$211,397) and (\$538,679) for the three and six month periods ended June 30, 2008, compared to pre-tax income (loss) of \$117,279 and (\$23,398) for the three and six month periods ended

June 30, 2007. The increase in the pre-tax loss in the current periods is due to continued spread compression and expense pressure in the current economic environment.

Traditional and Universal Life Products include traditional life and group life insurance products, certain annuities and universal life products. Revenues for this segment were \$2,848,834 for the second quarter of 2008 (a decrease of 14.1% compared to the second quarter of 2007) and \$5,593,257 for the six months ended June 30, 2008 (a decrease of 9.4% compared to the corresponding period in 2007). Revenues on this segment are primarily derived from the sale of term insurance products through banks, for which demand fluctuates along with economic conditions. New sales have suffered due to the tightening of consumer credit markets. Pre-tax income from operations was \$96,966 and \$160,050 for the three and six month periods ended June 30, 2008, compared to pre-tax income of \$46,500 and \$287,551 for the three and six month periods ended June 30, 2007. The increase in current quarter pre-tax income is due to favorable mortality experience as compared to the first quarter of 2008, but lower sales have resulted in the year-to-date decrease in pre-tax income.

Credit Insurance Products and Administrative Services include the marketing and administration of credit life and credit accident and health insurance products. We reinsure 100% of the related underwriting risk currently produced within this segment. Accordingly, revenue is generated primarily from servicing and administering the credit business for our reinsurers. Because the revenue is fee-based, segment performance is in direct relation to new premium production coupled with fees generated as premiums are earned. Premium production within this segment is also significantly affected by economic conditions within our credit markets, particularly Kentucky. Revenues for this segment were \$110,332 for the second quarter of 2008 (a decrease of 34.8% compared to the second quarter of 2007) and \$203,140 for the six months ended June 30, 2008 (a decrease of 31.1% compared to the corresponding period in 2007). Pre-tax income from operations was \$73,795 and \$144,470 for the three and six month periods ended June 30, 2008, compared to \$113,177 and \$211,859 for the three and six month periods ended June 30, 2007. These decreases in revenue and pre-tax income are directly related to lower premium production within this segment of the business due to current economic and lending conditions.

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. This segment also includes fees generated from our TPA arrangements. Revenues for this segment were \$270,051 for the second quarter of 2008 (a decrease of 2.6% compared to the second quarter of 2007) and \$608,464 for the six months ended June 30, 2008 (an increase of 3.2% compared to the corresponding period in 2007). Pre-tax income from operations was \$291,122 and \$511,123 for the three and six month periods ended June 30, 2008, compared to \$110,906 and \$329,769 for the three and six month periods ended June 30, 2007. Revenues fluctuate slightly due to the timing of third-party administration work as well as non-life insurance revenue production. The significant increase in pre-tax income, however, is primarily due to reduced compensation expense associated with our stock option plan.

While we continue to expand the operations of Investors Heritage Financial, Investors Heritage Printing, At Need Funding and Heritage Funding, less than 1% of our consolidated revenues were generated by those subsidiaries. Approximately 16% of Investors Heritage Financial's revenue for the six month period ended June 30, 2008 was derived from the sale of Investors Heritage Life's credit insurance products. During the first six months of 2008, Kentucky Investors received dividends from Investors Heritage Financial totaling \$135,000 and received distributions from At Need Funding of \$42,500. We anticipate further dividend payments from Investors Heritage Financial and distributions from At Need Funding during the remainder of 2008.

### Federal Income Taxes

The provision (benefit) for federal income taxes is based on the estimated 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 dividends-received deduction, the 404(k) dividend deduction and the small life insurance company tax deduction. The effective tax rate was 23.7% for the three and six month periods ended June 30, 2008 compared to 17.7% for the three and six month periods ended June 30, 2007.

### **OFF-BALANCE SHEET ARRANGEMENTS**

We have no off-balance sheet arrangements as of June 30, 2008.

### **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 4T. 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 August 8, 2008, Investors Heritage Life is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our financial condition or results of operations.

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

No share repurchases were made pursuant to a publicly announced plan or program. All share repurchases were shares tendered by original stockholders under our right of first refusal or 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**

- (a) The annual meeting of the stockholders was held May 8, 2008 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:

Harold G. Doran, Jr. – Number of Votes Cast FOR – 952,899.278; WITHHELD – 624.380; ABSTAIN – 5,118

Helen S. Wagner – Number of Votes Cast FOR – 952,628.958; WITHHELD – 894.700; ABSTAIN – 5,118

David W. Reed – Number of Votes Cast FOR – 952,626.478; WITHHELD – 897.180; ABSTAIN – 5,118

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

Howard L. Graham, Jr.  
Robert M. Hardy, Jr.  
Jerry F. Howell, Jr.

Gordon C. Duke  
Harry Lee Waterfield II  
Michael F. Dudgeon, Jr.

## **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: August 8, 2008

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

DATE: August 8, 2008