INTEGRITY MUTUAL FUNDS INC
Form 10QSB
November 13, 2002

FORM 10-QSB

Securities and Exchange Commission
Washington, D.C. 20549

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE U.S. SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission file number 0-25958

INTEGRITY MUTUAL FUNDS, INC.
(Exact name of small business issuer as specified in its charter)

North Dakota	45-0404061
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1 North Main, Minot, North Dakota, 58703
(Address of principal executive offices)

(701) 852-5292
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 X No

As of October 25, 2002, there were 12,970,480 shares of common stock of the registrant outstanding.

Transitional Small Business Disclosure Format (check one):

Yes No X

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FORM 10-QSB

INTEGRITY MUTUAL FUNDS, INC.

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Part I. FINANCIAL INFORMATION

Item 1. INTEGRITY MUTUAL FUNDS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2002	December 2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 817,761	$ 1,834,6
Cash segregated for the exclusive benefit of customers	277,685	298,5
Securities available-for-sale	105,150	128,5
Accounts receivable	920,432	509,4
Prepaids	63,915	111,6
Total current assets	$ 2,184,943	$ 2,882,9
PROPERTY AND EQUIPMENT	$ 2,119,367	$ 2,049,2

Less accumulated depreciation	(700,767)	(607,5
Net property and equipment	$ 1,418,600	$ 1,441,6
OTHER ASSETS		
Deferred sales commissions	$ 1,272,823	$ 1,459,5
Covenant not to compete (net of accumulated amortization of $163,499 for 2002 and $122,624 for 2001)	54,501	95,3
Goodwill	7,234,317	5,177,0
Other assets (net of accumulated amortization of $82,891 for 2002 and $64,382 for 2001)	198,195	158,2
Total other assets	$ 8,759,836	$ 6,890,2
TOTAL ASSETS	$ 12,363,379	$ 11,214,7
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Service fees payable	$ 81,694	$ 89,5
Accounts payable	28,997	65,8
Other current liabilities	755,270	464,7
Short-term borrowings	650,040	
Deferred tax liability	226,650	273,4
Current portion of long-term debt	13,438	952,7
Total current liabilities	$ 1,756,089	$ 1,846,3
LONG-TERM LIABILITIES		
Notes payable	$ 714,769	$ 474,3
Subordinate debentures	595,000	645,0
Debentures	-	940,0
Corporate notes	962,000	962,0
Subordinated commercial notes	511,000	
Less current portion	(13,438)	(952,7
Total long-term liabilities	$ 2,769,331	$ 2,068,6
TOTAL LIABILITIES	$ 4,525,420	$ 3,914,9
MINORITY INTEREST IN SUBSIDIARY	$ 388,673	$ 411,0
TEMPORARY CAPITAL - 1,500,000 shares of common stock, $.0001 par value; 500,000 shares issued and outstanding; put option price of $.50 per share; see Note 4	$ 750,000	$
STOCKHOLDERS' EQUITY		
Common stock - 1,000,000,000 shares authorized, $.0001 par value; 12,470,480 and 12,924,480 shares issued and outstanding, respectively, after the 2:1 forward split effective July 1, 2002	$ 8,325,178	$ 8,550,1
Receivable - unearned ESOP shares	(90,518)	(97,0
Gain on allocation of ESOP shares	36,975	38,6
Accumulated deficit	(1,542,148)	(1,596,8
Accumulated other comprehensive loss	(30,201)	(6,0
Total stockholders' equity	$ 6,699,286	$ 6,888,8
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 12,363,379	$ 11,214,7

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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INTEGRITY MUTUAL FUNDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited) Three Months Ended September 30,	
	2002	2001
OPERATING REVENUES		
Fee income	$ 741,660	$ 734,679
Commissions	3,003,093	1,079,831
Internet revenues	135,047	157,457
Total revenue	$ 3,879,800	$ 1,971,967
OPERATING EXPENSES		
Compensation and benefits	$ 475,596	$ 457,820
Commission expense	2,647,404	851,983
General and administrative expenses	530,671	400,418
Sales commissions amortized	117,804	154,245
Depreciation and amortization	51,753	143,580
Total operating expenses	$ 3,823,228	$ 2,008,046
OPERATING INCOME (LOSS)	$ 56,572	$ (36,079)
OTHER INCOME (EXPENSES)		
Investment and other income	$ 20,273	$ 32,051
Interest expense	(75,945)	(76,567)
Net other income (expense)	$ (55,672)	$ (44,516)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	$ 900	$ (80,595)
DEFERRED INCOME TAX BENEFIT (EXPENSE)	$ 14,627	3,713
NET INCOME (LOSS) BEFORE MINORTIY INTEREST	$ 15,527	$ (76,882)
MINORITY INTEREST IN SUBSIDIARY	$ 14,796	8,996
NET INCOME (LOSS) AFTER MINORITY INTEREST	$ 30,323	$ (67,886)
NET INCOME (LOSS) PER SHARE	$ .00	$ (.01)
AVERAGE COMMON SHARES OUTSTANDING, AFTER 2:1 FORWARD STOCK SPLIT EFFECTIVE JULY 1, 2002	13,781,072	13,032,480

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTEGRITY MUTUAL FUNDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited) Nine Months Ended September 30, 2002	2001
OPERATING REVENUES		
Fee income	$ 2,323,538	$ 2,219,300
Commissions	8,652,208	3,449,606
Internet revenues	415,771	495,708
Total revenue	$11,391,517	$ 6,164,614
OPERATING EXPENSES		
Compensation and benefits	$ 1,446,878	$ 1,403,422
Commission expense	7,630,246	2,711,369
General and administrative expenses	1,610,055	1,239,995
Sales commissions amortized	348,311	457,961
Depreciation and amortization	152,774	432,432
Total operating expenses	$11,188,264	$ 6,245,179
OPERATING INCOME (LOSS)	$ 203,253	$ (80,565)
OTHER INCOME (EXPENSES)		
Investment and other income	$ 72,603	$ 140,349
Interest expense	(227,480)	(241,923)
Net other income (expense)	$ (154,877)	$ (101,574)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	$ 48,376	$ (182,139)
DEFERRED INCOME TAX BENEFIT (EXPENSE)	$ 1,131	(15,440)
NET INCOME (LOSS) BEFORE MINORTIY INTEREST	$ 49,507	$ (197,579)
MINORITY INTEREST IN SUBSIDIARY	$ 22,355	17,024
NET INCOME (LOSS) AFTER MINORITY INTEREST	$ 71,862	$ (180,555)
NET INCOME (LOSS) PER SHARE	$ .01	$ (.01)
AVERAGE COMMON SHARES OUTSTANDING, AFTER 2:1 FORWARD STOCK SPLIT EFFECTIVE JULY 1, 2002	13,964,808	13,115,480

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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INTEGRITY MUTUAL FUNDS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited) Nine Months Ended September 30, 2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 71,862	$ (180,555)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	152,653	432,432
Sales commissions amortized/charged off	348,311	457,961
Loss on sale of assets	-	(28)
Minority interest	(22,355)	(17,024)
(Increase) decrease in:		
Cash segregated for customers	20,851	57,118
Accounts receivable	(410,942)	53,895
Prepaids	47,763	16,704
Deferred sales commissions capitalized, net of CDSC collected	(161,599)	(134,686)
Other assets	(58,479)	(12,033)
Increase (decrease) in:		
Service fees payable	(7,831)	2,739
Accounts payable	(36,839)	(13,799)
Deferred tax	(46,784)	(9,560)
Other liabilities	290,514	(113,668)
Net cash provided by operating activities	$ 187,125	$ 539,496
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	$ (73,018)	$ (88,433)
Purchase of available-for-sale securities	(794)	21,028
Purchase of goodwill	(1,117,711)	(4,705)
Net cash used by investing activities	$ (1,191,523)	$ (72,110)
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of common stock	(161,744)	(125,860)
Purchase of treasury stock	-	(1,030,526)
Subordinated debenture issue	-	120,000
Subordinated commercial note issue	511,000	-
Reduction of notes payable	(9,607)	(78,084)
Short-term borrowing	650,040	-
ESOP loan	-	(100,000)
Repayments from ESOP	6,575	1,921
Gain on allocation of ESOP shares	(1,638)	38,561
Redemption of subordinated debentures	(50,000)	-
Redemption of debentures	(940,000)	-
Dividends paid	(17,150)	-

Net cash used by financing activities	$ (12,524)	$(1,173,988)
NET DECREASE IN CASH AND CASH EQUIVALENTS	$(1,016,922)	$ (706,602)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,834,683	2,600,157
CASH AND CASH EQUIVALENTS AT END OF QUARTER	$ 817,761	$ 1,893,555
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in unrealized gain (loss) on securities available-for-sale	(24,200)	(11,952)
Gain on allocation of ESOP shares	(1,638)	38,561
Reduction of notes payable	-	4,988
Purchase of goodwill with common stock	-	58,061
Purchase of goodwill with temporary capital	750,000	-
Purchase of goodwill with long-term liability	250,000	-
Reduction in other assets	(63,254)	-
Reduction in common stock	(63,254)	-

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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INTEGRITY MUTUAL FUNDS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2002 AND 2001

NOTE 1 - BASIS OF PRESENTATION

On May 31, 2002, the shareholders of the Company approved a change in the Company name from ND Holdings, Inc. to Integrity Mutual Funds, Inc.

On May 31, 2002, the shareholders of the Company approved a 2 for 1 (2:1) forward stock split of the Company's common shares, effective July 1, 2002. The 2 for 1 (2:1) forward stock split is reflected in the condensed consolidated financial statements presented. Per share amounts have been adjusted as a result of the stock split.

The shareholders of the Company also approved on May 31, 2002, to change the capitalization of the Company by increasing the number of authorized common shares from the currently authorized 20,000,000 shares of no par value to 1,000,000,000 common shares of $.0001 par value, and to change the capitalization of the Company by authorizing 100,000,000 preferred shares of $.0001 par value, of which the Board of Directors may establish a class or series, setting forth the designation of the class or series, and fixing the relative rights and preferences of the class or series of the preferred shares.

The accompanying condensed consolidated financial statements of Integrity Mutual Funds, Inc., a North Dakota corporation, and its subsidiaries (collectively, the "Company"), included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the

Securities and Exchange Commission ("SEC"). These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the footnotes thereto contained in the Annual Report on Form 10-KSB for the year ended December 31, 2001 of Integrity Mutual Funds, Inc., as filed with the SEC. The condensed consolidated balance sheet at December 31, 2001, contained herein, was derived from audited financial statements, but does not include all disclosures included in the Form 10-KSB and applicable under accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in interim financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted.

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the financial statements. The results of operations for the nine months ended September 30, 2002 are not necessarily indicative of operating results for the entire year.

NOTE 2 - INCOME TAXES

Effective for 2001, the Company is amortizing deferred sales commissions over 5 years for income tax purposes. Previously, the Company was expensing deferred sales commissions as incurred. The Company will continue to capitalize and amortize the commissions for financial reporting purposes over 8 years (exception Integrity Fund of Funds, which are expensed). The effects of the change will create timing differences between when the commissions are deducted for income tax purposes and expensed as amortization for financial reporting purposes. Deferred tax assets or deferred tax liabilities may result from these timing differences.

NOTE 3 - RECLASSIFICATION

Certain amounts in the 2001 condensed consolidated financial statements have been reclassified to conform with the 2002 presentation. The assets that were previously classified as "Investment Adviser's Agreements" have been reclassified to "Goodwill." These assets represent the "cost of a purchased subsidiary (The Ranson Company and its wholly-owned subsidiary, Ranson Capital Corporation) in excess of the amounts assigned to assets and liabilities." The purchase of The Ranson Company and its wholly-owned subsidiary represents a purchase of the entire company and its operations, equipment, distribution network, management operations and rights related to the Ranson Managed Portfolios. Therefore, these assets are goodwill and are accounted for as such. These reclassifications, in the amount of $4,350,657, had no effect on the Company's net income.

NOTE 4 - BUSINESS ACQUISITIONS

On January 15, 2002, the Company acquired 100% of the equity stock of Capital Financial Services, Inc. ("CFS"), a full-service brokerage firm based in Madison, Wisconsin. CFS is registered with the SEC as an investment advisor and broker-dealer and also with the NASD as a broker-dealer. CFS specializes in providing investment products and services to independent investment representatives, financial planners, and investment advisors and currently supports approximately 90 investment representatives and investment advisors.

The purchase consideration, taking into effect the 2 for 1 (2:1) forward stock split effective July 1, 2002, was composed of $1,140,000 in cash, 1,500,000 shares of the Company common stock to be issued in three (3) annual installments beginning at the date of purchase, a $250,000 convertible debenture to be issued one year from the purchase date, as well as 500,000 options to purchase common stock of the Company at an option strike price of $0.50 per share. Because there is no market for the Company's options and the strike price is above the market price, the options have been determined to have negligible value.

Pursuant to the terms of the purchase agreement whereby CFS was acquired, 1,500,000 shares of $.0001 par value common stock of the Company will be issued in three (3) annual installments beginning at the date of purchase. The shares will have a put right, whereby the installment shares may be put back to the Company at the rate of up to 500,000 shares per year for three (3) consecutive years at a price of $0.50 per share. The put right may be exercised at any time within the ninety (90) day period following the first, second, and third anniversaries of the purchase. The put rights are non-accumulative and each installment will expire if not exercised during the scheduled redemption period.

Also pursuant to the terms of the purchase agreement whereby CFS was acquired, on January 15, 2003, the Company will issue convertible debentures divided among the prior shareholders of CFS in the total amount of $250,000, subject to certain provisions of the Stock Purchase Agreement dated January 15, 2002, which may increase or decrease the amount of the debenture to reflect undisclosed or unknown liabilities of CFS, loss of producing broker revenue base, recovery from third parties, and the costs of such recovery. The debenture principal will be payable January 15, 2006 and will pay interest on the principal sum from January 15, 2003 at the rate of four percent (4%) per annum on a semi-annual basis beginning on July 15, 2003 and thereafter on January 15th and July 15th of each year until the principal balance is paid. All payments will be applied first to interest and any remainder to reduction of principal. The debenture will be convertible as follows: beginning on the date of issuance and until the principal is paid in accordance with the terms of this agreement, the holder of this convertible debenture shall have the option to convert all or any portion of this convertible debenture to no par value common stock of the Company at the rate of two shares for each one dollar of convertible debenture (2 shares per $1.00 converted) issued by the debenture holder.

The primary reasons for the acquisition were to acquire a full-service retail brokerage distribution system as well as to acquire the investment advisory service operations of CFS. The primary factors contributing to the purchase price were the presence of an established group of approximately 90 investment representatives and investment advisors, the existing relationship with a reputable clearing firm, the fact that approximately 95% of the business of CFS is processed as packaged products, i.e. mutual funds and insurance products, and to capture the revenue stream of approximately $6.4 million. The estimated fair value of the equity of CFS was recorded at $78,392. The excess purchase price over the estimated fair value of the equity of CFS was $2,117,711, which has been recorded as goodwill.

The operations and financial position of CFS were accounted for in the condensed consolidated financial statements of the Company beginning January 1, 2002.

INTEGRITY MUTUAL FUNDS, INC. AND SUBSIDIARIES AND CAPITAL FINANCIAL SERVICES, INC. CONSOLIDATED PRO-FORMA FINANCIAL INFORMATION (UNAUDITED)

The following unaudited proforma summary presents the consolidation results of operations of the Company as if the business combination had occurred on January 1, 2001.

For the three months ended September 30, 2001

(In Thousands)

	Integrity Mutual Funds, Inc. and Subsidiaries	Capital Financial Services, Inc.	Pro-Forma Adjustments	Pro-Forma Consolidated
Revenues	$ 1,972	$ 1,552	-	$ 3,524
Expenses	$ 2,008	$ 1,553	-	$ 3,561
Net	$ (36)	$ (1)	-	$ (37)

For the nine months ended September 30, 2001

(In Thousands)

	Integrity Mutual Funds, Inc. and Subsidiaries	Capital Financial Services, Inc.	Pro-Forma Adjustments	Pro-Forma Consolidated
Revenues	$ 6,165	$ 4,715	-	$ 10,880
Expenses	$ 6,245	$ 4,724	-	$ 10,969
Net	$ (80)	$ (9)	-	$ (89)

NOTE 5 - ACQUIRED INTANGIBLE ASSETS

Acquired intangible assets consisted of the following as of:

	September 30, 2002	December 31, 2001
Amortized Intangible Assets		
Carrying amount		
Covenant not to compete	$ 218,000	$ 218,000
Accumulated amortization	163,499	122,624

Aggregate Amortization Expense

For the nine month period ended September 30, 2002	$	40,875
For the year ended December 31, 2001	$	54,500

Estimated Amortization Expense

For the years ended		
December 31, 2002	$	54,500
December 31, 2003	$	40,876
December 31, 2004	$	0
December 31, 2005	$	0
December 31, 2006	$	0

NOTE 6 - GOODWILL

The changes in the carrying amount of goodwill for the nine month period ended September 30, 2002 are as follows:

	Mutual Fund Services	Internet Services	Broker-Dealer Services	Total
Balance as of January 1, 2002	$ 4,411,123	$ 427,034	$ 338,916	$ 5,177,073
Goodwill acquired during the period	-	-	2,117,711	2,117,711
Impairment losses	-	-	-	-
Removal of goodwill based on cancellation of prior purchase	(60,467)	-	-	(60,467)
Balance as of September 30, 2002	$ 4,350,656	$ 427,034	$ 2,456,627	$ 7,234,317

The above segments are tested for impairment on an annual basis in the second quarter and any impairment adjustments are reflected at that time. The initial application of SFAS No. 142 and the transitional impairment test was completed in the second quarter of 2002 and resulted in no impairment adjustment for all segments.

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS - ADOPTION OF STATEMENT 142

As of January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142 - Goodwill and Other Intangible Assets. In the following tables, net income, basic earnings per share, and diluted earnings per share are shown as if SFAS No. 142 had been applied to those periods.

NET INCOME:

	For the three months ended Sept. 30, 2002	For the three months ended Sept. 30, 2001
Reported net income (loss)	$ 30,323	$ (67,886)
Add back: goodwill amortization	-	89,669
Adjusted net income (loss)	$ 30,323	$ 21,783

	For the nine months	For the nine months

	ended Sept. 30, 2002	ended Sept. 30, 2001
Reported net income (loss)	$ 71,862	$ (180,555)
Add back: goodwill amortization	-	268,025
Adjusted net income (loss)	$ 71,862	$ 87,470

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BASIC EARNINGS PER SHARE:

	For the three months ended Sept. 30, 2002	For the three months ended Sept. 30, 2001
Reported net income (loss)	$ .00	$ (.01)
Add back: goodwill amortization	-	.01
Adjusted net income (loss)	$ .00	$ .00

	For the nine months ended Sept. 30, 2002	For the nine months ended Sept. 30, 2001
Reported net income (loss)	$ .01	$ (.01)
Add back: goodwill amortization	-	.02
Adjusted net income (loss)	$ .01	$ .01

DILUTED EARNINGS PER SHARE:

	For the three months ended Sept. 30, 2002	For the three months ended Sept. 30, 2001
Reported net income (loss)	$ .00	$ (.01)
Add back: goodwill amortization	-	.01
Adjusted net income (loss)	$ .00	$ .00

	For the nine months ended Sept. 30, 2002	For the nine months ended Sept. 30, 2001
Reported net income (loss)	$ .01	$ (.01)
Add back: goodwill amortization	-	.02
Adjusted net income (loss)	$ .01	$ .01

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

GENERAL

Integrity Mutual Funds, Inc. derives a substantial portion of its revenues and net income from providing investment management, distribution, shareholder services, accounting and related services to the Funds and others from its subsidiaries. ARM Securities Corporation (ARM Securities), acquired effective May 1, 2000, and Capital Financial Services, Inc. (CFS), acquired effective January 1, 2002, provide another substantial portion of revenues through sales of mutual funds and variable and fixed insurance products.

The Company organizes its business units into three reportable segments: mutual fund services, internet services, and broker-dealer services. The mutual fund services segment acts as investment adviser, distributor and provider of administrative services to sponsored and nonproprietary mutual funds. The internet services segment provides internet service for Minot and the surrounding area. The broker-dealer segment distributes shares of nonproprietary mutual funds and insurance products.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired as a unit and the management at the time of the acquisitions were retained.

SEGMENT INFORMATION

AS OF, THIRD QUARTER ENDED	Mutual Fund Services	Internet Services	Broker-Dealer Services	Total
SEPTEMBER 30, 2002				
Revenues from external customers	$ 936,093	$ 135,047	$ 2,808,660	$ 3,879,800
Intersegment Revenues	71,269	514	-	71,783
Interest expense	75,945	-	-	75,945
Depreciation and Amortization	24,868	25,744	1,141	51,753
Segment profit (loss)	42,363	(30,197) *	3,361	30,323

* Before minority interest adjustment of $14,796

SEPTEMBER 30, 2001				
Revenues from external customers	$ 873,225	$ 157,458	$ 941,284	$ 1,971,967
Intersegment Revenues	-	455	-	455
Interest expense	76,567	-	-	76,567
Depreciation and Amortization	105,442	38,138	-	143,580
Segment profit (loss)	(59,125)	(18,361)*	604	(67,886)

* Before minority interest adjustment of $8,996

AS OF NINE MONTHS ENDED
SEPTEMBER 30, 2002
Revenues from

external customers	$ 2,966,498	$ 415,771	$ 8,009,248	$11,391,517
Intersegment Revenues	186,942	1,551	-	188,493
Interest expense	227,480	-	-	227,480
Depreciation and Amortization	72,371	77,035	3,368	152,774
Segment profit (loss)	98,294	(45,622) *	(3,165)	71,862
Segment assets	11,615,524	708,417	1,179,933	13,503,874
Expenditures for segment assets	65,274	5,821	1,923	73,018

* Before minority interest adjustment of $22,355

SEPTEMBER 30, 2001				
Revenues from external customers	$ 2,652,896	$ 495,709	$ 3,016,009	$ 6,164,614
Intersegment Revenues	1,800	1,356	-	3,156
Interest expense	241,856	67	-	241,923
Depreciation and Amortization	318,930	113,502	-	432,432
Segment profit (loss)	(205,901)	(34,744) *	43,066	(180,555)
Segment assets	10,319,547	878,951	1,185,706	12,384,204
Expenditures for segment assets	40,631	29,986	17,816	88,433

* Before minority interest adjustment of $17,024

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RECONCILIATION OF SEGMENT INFORMATION

	As of Three Months Ended September 30, 2002	September 30, 2001
Revenues		
Total revenues for reportable segments	$ 3,951,583	$ 1,972,422
Elimination of intersegment revenues	(71,783)	(455)
Consolidated total revenue	$ 3,879,800	$ 1,971,967
Profit		
Total reportable segment profit	$ 30,323	$ (67,886)

	As of Nine Months Ended September 30, 2002	September 30, 2001
Revenues		
Total revenues for reportable segments	$ 11,580,010	$ 6,167,770
Elimination of intersegment revenues	(188,493)	(3,156)
Consolidated total revenue	$ 11,391,517	$ 6,164,614

Profit		
Total reportable segment profit	$ 71,862	$ (180,555)
Assets		
Total assets for reportable segments	$ 13,503,874	$ 12,384,204
Elimination of intercompany receivables	(1,140,495)	(1,095,579)
Consolidated assets	$ 12,363,379	$ 11,288,625

A substantial portion of the Company's revenues depend upon the amount of assets under its management/service. Assets under management/service can be affected by the addition of new funds to the group, the acquisition of another investment management company, purchases and redemptions of mutual fund shares and investment performance, which may depend on general market conditions. The Company provides investment management, distribution, shareholder services, fund accounting and other related administrative services to the open-end investment companies known as "Integrity Mutual Funds" and "Ranson Managed Portfolios," hereinafter collectively referred to as "the Funds." Integrity Mutual Funds currently consists of five (5) open-end investment companies including ND Tax-Free Fund, Inc., Montana Tax-Free Fund, Inc., South Dakota Tax-Free Fund, Inc., Integrity Fund of Funds, Inc. and Integrity Small-Cap Fund of Funds, Inc. Ranson Managed Portfolios consists of one open-end investment company containing four (4) separate portfolios including The Kansas Municipal Fund, The Kansas Insured Intermediate Fund, The Nebraska Municipal Fund, and The Oklahoma Municipal Fund. Sales of Fund shares are marketed principally in Montana, Kansas, Oklahoma, North Dakota, Nebraska and South Dakota.

ASSETS UNDER MANAGEMENT/SERVICE

By Investment Objective
In Millions

As of September 30,	2002	2001	% Change
FIXED INCOME Tax-Free Funds	$ 292.8	$ 299.4	(2.2)%
EQUITY Fund of Funds	$ 10.8	$ 13.7	(21.2)%
TOTAL SPONSORED MUTUAL FUNDS - end of period	$ 303.6	$ 313.1	(3.0)%
TOTAL ASSETS UNDER MANAGEMENT/SERVICE	$ 303.6	$ 313.1	(3.0)%
Average for the nine-month period	$ 313.6	$ 316.5	(0.9)%

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Assets under the Company's management/service were $303.6 million at September 30, 2002, a decrease of $14.7 million (-4.6%) from December 31, 2001 and a decrease of $9.5 million (-3.0%) from September 30, 2001.

RESULTS OF OPERATIONS

	Three months ended September 30, 2002	Three months ended September 30, 2001	Nine months ended September 30, 2002	Nine months ended September 30, 2001
Net income (loss) after minority interest	$ 30,323	$ (67,886)	$ 71,862	$ (180,555)
Earnings per share				
Primary	$ 0.00	$ (0.01)	$ 0.01	(0.01)
Fully-diluted	$ 0.00	$ (0.01)	0.01	(0.01)

Net income (loss) after minority interest for the third quarter ended September 30, 2002 was net income of $30,323 compared to a $67,886 net loss for the same quarter in the previous fiscal year.

Net income (loss) after minority interest for the nine months ended September 30, 2002 was net income of $71,862 compared to a $180,555 net loss for the same quarter in the previous fiscal year.

OPERATING REVENUES

Total operating revenues for the third quarter ended September 30, 2002 were $3,879,800, an increase of 96.7% from September 30, 2001. The increase is primarily attributable to revenues of $1,988,424 relating to CFS, acquired effective January 1, 2002.

Total operating revenues for the nine months ended September 30, 2002 were $11,391,517, an increase of 84.8% from September 30, 2001. The increase is the net result of revenues of $5,392,913 relating to CFS, acquired effective January 1, 2002, and increased revenues from Mutual Fund Services of 11.8% or $313,603 offset by decreased revenues from Internet Services of 16.1% or $79,937.

Fee income for the third quarter ended September 30, 2002 was an increase of 1.0% compared to September 30, 2001. The increase is the net result of fee revenue of $32,640 relating to CFS, acquired effective January 1, 2002, offset by a decrease in mutual fund fee revenue due to a decrease in assets under management/service and a reduction in fees charged to Class A shares converted from Class B shares. Beginning January 2000, ND Tax-Free Fund, Inc., Montana Tax-Free Fund, Inc., and South Dakota Tax-Free Fund, Inc. issued an additional class of shares, Class A shares subject to Front End Sales Loads (FESLs). These shares are subject to a maximum front-end sales load of 4.25% scaled down to .75% minimum as the investment amount increases. Shares subject to the CDSC (Class B shares) would automatically convert to Class A shares (and would no longer be subject to the higher Rule 12b-1 fees) approximately 8 years after the date on which such Class B shares were purchased. The conversion would be made based on the relative net asset values of Class A and Class B shares, without imposing any load, fee or other charge.

Fee income for the nine months ended September 30, 2002 was an increase of 4.7% compared to September 30, 2001. The increase is the net result of fee revenue relating to CFS, acquired effective January 1, 2002, offset by a decrease in mutual fund fee revenue due to a decrease in assets under management/service and a reduction in fees charged to Class A shares converted from Class B shares.

Commission income increased 178.1%, to $3,003,093 for the third quarter ended September 30, 2002 from $1,079,831 for the same period in 2001. The increase is the result of an increase in commission revenues from Broker-Dealer Services of $1,834,736 (CFS acquired effective January 1, 2002) and from Mutual Fund Services of $88,526.

Commission income increased 150.8%, to $8,652,208 for the nine months ended September 30, 2002 from $3,449,606 for the same period in 2001. The increase is a result of increased commission revenues from Broker-Dealer Services of $4,847,761 (CFS acquired effective January 1, 2002) and from Mutual Fund Services of $354,841.

Internet revenues were $135,047 for the third quarter ended September 30, 2002, a 14.2% decrease from September 30, 2001. Internet Revenues were $415,771 for the nine months ended September 30, 2002, a 16.1% decrease from the nine months ended September 30, 2001. Magic Internet Services, Inc. was added to the consolidated group October 1, 1999. The Company owns a 51% interest in the corporation.

OPERATING EXPENSES

Total operating expenses for the third quarter and nine months ended September 30, 2002 were $3,823,228 and $11,188,264 respectively, an increase of 90.4% and 79.2% from the same periods ended September 30, 2001. The increases are a result of the net activity in the major expense categories as described in the paragraphs that follow.

COMPENSATION AND BENEFITS

Total compensation and benefits for the third quarter ended September 30, 2002 were $475,596, an increase of 3.9% from September 30, 2001. The increase is primarily the net effect of an increase in Mutual Fund Services employee compensation and benefits of $74,116 offset by a decrease in Broker-Dealer Services employee compensation and benefits of $60,035.

Total compensation and benefits for the nine months ended September 30, 2002 were $1,446,878, an increase of 3.1% from September 30, 2001. The increase is primarily the net effect of an increase in Mutual Fund Services employee compensation and benefits of $128,862 offset by a decrease in Broker-Dealer Services employee compensation and benefits of $95,850.

COMMISSION EXPENSE

Total commission expense for the third quarter ended September 30, 2002 was $2,647,404, an increase of 210.7% from September 30, 2001. The increase primarily attributable to commission expense of $1,809,466 related to CFS, acquired effective January 1, 2002.

Total commission expense for the nine months ended September 30, 2002 was $7,630,246,an increase of 181.4% from September 30, 2001. The increase is primarily attributable to commission expense of $4,907,551 related to CFS, acquired effective January 1, 2002.

GENERAL AND ADMINISTRATIVE EXPENSES

Total general and administrative expenses for the third quarter ended September 30, 2002 were $530,671, an increase of 32.5% from September 30, 2001. The increase is primarily attributable to general and administrative expenses of $107,689 relating to CFS, acquired effective January 1, 2002, and an increase for Mutual Fund Services of $23,709.

Total general and administrative expenses for the nine months ended September

30, 2002 were $1,610,055, an increase of 29.8% from September 30, 2001. The increase is the net effect of general and administrative expenses of $298,420 relating to CFS, acquired effective January 1, 2002 and increased Mutual Funds services general and administrative expenses of $78,868 offset by a decrease in Internet Services general and administrative expenses of $41,055.

SALES COMMISSIONS AMORTIZED

Amortization of deferred sales commissions for the third quarter ended September 30, 2002 decreased 23.6% from September 30, 2001. Amortization of deferred sales commission for the nine months ended September 30, 2002 decreased 23.9% from September 30, 2001. Sales commissions paid to brokers and dealers in connection with the sale of shares of the Funds sold without a FESL are capitalized and amortized on a straight line basis. Effective January 1, 2001, the Company accelerated the amortization life to eight years from nine years which best approximates management's estimate of the average life of investor's accounts in the Integrity Mutual Funds and Ranson Managed Portfolios and coincides with conversion of Class B shares to Class A shares as previously stated.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased 64.0% for the third quarter ended September 30, 2002 and 64.7% for the nine months ended September 30, 2002 compared to the same periods in 2001. The primary reason for the decrease was that effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142 - Goodwill and Other Intangible Assets. Under SFAS 142, the Company no longer amortizes its goodwill and certain other intangibles over their estimated useful life. Rather, they will be subject to at least an annual assessment for impairment by applying a fair value based test. There were no impairment adjustments made during the quarter ended and nine months ended September 30, 2002.

OTHER INCOME (EXPENSES)

Interest and other income was 36.7% and 48.3% lower for the third quarter ended and nine months ended September 30, 2002 compared to the same period in 2001 due to reduced interest income earned on cash invested. Interest Expense was 0.8% and 6.0% lower for the third quarter ended and nine months ended September 30, 2002 compared to the same period in 2001.

LIQUIDITY AND CAPITAL RESOURCES

Net cash from operating activities was $187,125 during the nine month period September 30, 2002, a decrease of 65.3% from $539,496 during the nine month period ended September 30, 2001. A significant factor contributing to this variance is the ongoing commission accruals as a result of the CFS acquisition, effective January 1, 2002. The increase in receivables at September 30, 2002 in relation to the balance at December 31, 2001 negatively impacts cash flows from operations. Depreciation and amortization decreased 64.7% for the nine months ended September 30, 2002 from the same period in 2001.

Net cash used by investing activities for the nine months ended September 30, 2002 increased to $1,191,523 from $72,110 for the nine months ended September 30, 2001. The 2002 activity included remodeling of the second floor of the company's office building, investment in disaster recovery and other computer systems, and goodwill related to the acquisition of CFS.

Net cash used by financing activities during the nine months ended September 30, 2002 was $12,524. The major financing activities for the period were the purchase of 365,000 shares from the Company shareholders for $161,744, pursuant to a repurchase program approved by its Board of Directors, the maturity of $940,000 of debentures, the issuance o $511,000 of subordinated commercial notes, and a $650,040 short-term bank borrowing.

At September 30, 2002, the Company held $817,761 in cash and cash equivalents, as compared to $1,834,683 at December 31, 2001. Liquid assets, which consist of cash and cash equivalents, securities available-for-sale and current receivables decreased to $1,843,343 at September 30, 2002 from $2,472,729 at December 31, 2001, primarily the result of the acquisition of CFS, effective January 1, 2002.

Although the Company has historically relied upon sales of its common stock and debt instruments for liquidity and growth, management believes that the Company's existing liquid assets, together with the expected continuing cash flow from operations and the issuance of long-term subordinated commercial notes, will provide the Company with sufficient resources to meet its cash requirements during the next twelve months. Management expects that the principal needs for cash may be to advance sales commissions on Funds subject to contingent deferred sales charges, acquire additional investment management or financial services firms, repurchase shares of the Company's common stock, and service debt.

The principal need for cash during the current period was the maturity of $940,000 of debentures on September 1, 2002. This need was met by securing an interim bank loan agreement. This bank loan is being supplanted by the issuance of new long-term commercial notes. As of October 25, 2002, the Company had issued $511,000 in subordinated commercial notes.

FORWARD-LOOKING STATEMENTS

When used in this Form 10-QSB, in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases and in other Company-authorized written or oral statements, the words and phrases "can be", "expects," "anticipates," "may affect," "may depend," "believes," "estimate" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Such statements are subject to certain risks and uncertainties, including those set forth in this "Forward-Looking Statements" section, that could cause actual results for future periods to differ materially from those presently anticipated or projected. The Company does not undertake and specifically disclaims any obligation to update any forward-looking statement to reflect events or circumstances after the date of such statements.

Prior to the acquisition of ARM and CFS, the Company derived substantially all of its revenues from fees relating to the management of, and provision of services to, the Funds. The fees earned by the Company are generally calculated as a percentage of assets under management/service. If the Company's assets under management/service decline, or do not grow in accordance with the Company's plans, fee revenues and earnings would be materially adversely affected. Assets under management/service may decline because redemptions of fund shares exceed sales of fund shares, or because of a decline in the market value of securities held by the Funds, or a combination of both.

ARM and CFS revenues are generated from commissions (FESLs) and regular service fees received from various mutual fund and insurance companies. If sales of mutual funds or annuities decline, commission revenues and earnings would be adversely affected. If ARM or CFS's assets under service decline, service fee revenues and earnings would be adversely affected. Lower securities market levels may reduce sales of mutual funds or annuities, and assets under service may contract thus reducing service fee revenues and earnings.

In seeking to sell fund shares, and market its other services, the Company operates in the highly competitive financial services industry. The Company competes with approximately 8,000 open-end investment companies which offer their shares to the investing public in the United States. In addition, the Company also competes with the financial services and other investment alternatives offered by stock brokerage and investment banking firms, insurance companies, banks, savings and loan associations and other financial institutions, as well as investment advisory firms. Most of these competitors have substantially greater resources than the Company. The Company sells fund shares principally through third party broker-dealers. The Company competes for the services of such third party broker-dealers with other sponsors of mutual funds who generally have substantially greater resources than the Company.

Banks in particular have increased, and continue to increase, their sponsorship of proprietary mutual funds distributed through third party distributors. Many broker-dealer firms also sponsor their own proprietary mutual funds which may limit the Company's ability to secure the distribution services of such broker-dealer firms. In seeking to sell fund shares, the Company also competes with increasing numbers of mutual funds which sell their shares without the imposition of sales loads. No-load mutual funds are attractive to investors because they do not have to pay sales charges on the purchase or redemption of such mutual funds' shares. This competition may place pressure on the Company to reduce the FESLs and CDSCs charged upon the sale or redemption of fund shares. However, reduced sales loads would make the sale of fund shares less attractive to the broker-dealers upon whom the Company depends for the distribution of fund shares. In the alternative, the Company might itself be required to pay additional fees, expenses, commissions or charges in connection with the distribution of fund shares which could have a material adverse effect on the Company's earnings. The ability of the Company to sell fund shares may also be affected by general economic conditions including, amongst other factors, changes in interest rates and the inflation rate. Interest and inflation rate changes may particularly impact the flow of money into mutual funds which invest in fixed-income securities. Each of the Funds except Integrity Fund of Funds, Inc. and Integrity Small-Cap Fund of Funds, Inc. invests substantially all of its assets in fixed-income securities.

General economic conditions, including interest and inflation rate changes, may also adversely affect the market value of the securities held by the Funds, thus negatively impacting the value of assets under management, and hence the fees earned by the Company. The fact that the investments of each Fund (except Integrity Fund of Funds, Inc. and Integrity Small-Cap Fund of Funds, Inc.) are geographically concentrated within a single state makes the market value of such investments particularly vulnerable to economic conditions within such state. In addition, the states in which the investments of the

Funds as a group are concentrated are themselves concentrated in certain regions of the United States. The Company's fee revenues may therefore be adversely affected by economic conditions within such regions.

Sales of fund shares with FESLs provide current distribution revenue to the Company in the form of the Company's share of the FESLs and distribution revenue over time in the form of 12b-1 payments. Sales of fund shares with CDSCs provide distribution revenue over time in the form of 12b-1 payments and, if shares are redeemed within 5 years, CDSCs. However, the Company pays commissions on sales of fund shares with CDSCs, reflects such commissions as a deferred expense on its balance sheet and amortizes such commissions over a period of up to eight years, thereby recognizing distribution expenses.

Therefore, to the extent that sales of fund shares with CDSCs increases over time relative to sales of shares with FESLs, current distribution expenses may increase relative to current distribution revenues in certain periods, which would negatively impact the Company's earnings in such periods. In addition, the Company may need to find additional sources of funding if existing cash flow and debt facilities are insufficient to fund commissions payable to selling broker-dealers on CDSC shares.

PART II. OTHER INFORMATION

ITEM 2: MATERIAL CHANGES IN INSTRUMENTS DEFINING THE RIGHTS OF SHAREHOLDERS

On May 31, 2002, the shareholders of the Company approved an amendment of the Company's Articles of Incorporation which increased the authorized common shares of the Company from 20,000,000 shares of no par common stock to 1,000,000,000 shares of $.0001 par value common stock. On May 31, 2002, the shareholders also approved an amendment of the Company's Articles of Incorporation which authorized 100,000,000 shares of $.0001 par value preferred stock. Preferred shares have a preference over the common shares with respect to future dividends, voting rights, and liquidation in the event of dissolution. The Board of Directors may establish a class or series, setting forth the designation of the class or series and fixing the relative rights and preferences of the class or series of the preferred shares. The increase in the authorized shares of common stock and the authorization for preferred stock will not have any immediate effect on the rights of existing shareholders, however, the Board of Directors will have the authority to issue authorized shares of common stock and create classes of preferred stock within the authorized limits of preferred stock without requiring future shareholder approval of such issuances, except as may be required by applicable law or regulations, the Company's governing documents or the rules of any stock exchange, Nasdaq or any automated inter-dealer quotation system on which the Company's common stock may then be traded. The Company's shareholders can, therefore, experience a reduction in their ownership interest in the Company with respect to earnings per share (if any), voting, liquidation value, and book and market value if the additional authorized shares are issued. The holders of the Company's common stock have no preemptive rights, which means that current shareholders do not have a prior right to purchase any new issue of common stock in order to maintain their proportionate ownership in the Company.

On May 31, 2002, the shareholders of the Company approved a two for one (2:1) forward stock split of the issued and outstanding common stock of the Company which took effect on July 1, 2002. The forward stock split increased the number of issued and outstanding shares of common stock of the Company as of July 1, 2002 from approximately 6,700,000 to approximately 13,400,000. Except for changes in the number of shares of stock issued and outstanding, the rights and privileges of holders of shares of common stock remain the same, both before and after the forward stock split. Commencing on July 1, 2002, each currently outstanding common stock certificate was deemed for all corporate purposes to evidence ownership of the increased number of shares resulting from the forward stock split. New stock certificates reflecting the number of shares resulting from the stock split will be issued only as currently outstanding certificates are transferred or upon request of individual shareholders.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5: OTHER INFORMATION

On September 17, 2002, Richard Olson, President, Chief Operating Officer, and Director of the Company, died in an automobile accident. Robert Walstad, CEO, Chairman of the Board, and former President, has assumed Mr. Olson's duties on an interim basis. No additional director has been appointed to replace Mr. Olson as a Director of the Company. There was, at the time of Mr. Olson's death, a Keyman insurance policy in effect to the benefit of the Company. The Company expects to receive $250,000 in insurance proceeds during the fourth quarter of 2002, however, this amount has not been included as a receivable as of September 30, 2002.

On September 14, 2001, the Company acquired all the equity shares of North Dakota Investment Advisors, Inc. in exchange for 67,000 of the Company's common shares. As a result of failure of certain conditions of the purchase agreement, on June 24, 2002, the Company rescinded the purchase dated September 14, 2001, and obtained return and cancellation of 67,000 of the Company's common shares.

On April 12, 2002, an Offer of Settlement previously submitted by ND Money Management, Inc. and Ranson Capital Corporation, wholly owned investment advisor subsidiaries of the Company, together with Robert Walstad and Monte Avery (the "Respondents") with respect to pending SEC issues arising from a routine 1997 SEC books and records audit, was accepted by the SEC. Pursuant to the terms of the order issued by the SEC in accordance with the settlement, without admitting or denying liability, the Respondents agreed to pay civil money penalties totaling $40,000, to accept censure, to cease and desist from any current or future violations of certain provisions of the Advisors Act and the Investment Company Act and undertake remedial practices, including the retaining of an independent consultant to provide a review and recommendations regarding the Respondent's regulatory compliance procedures.

On July 11, 2002, the Company introduced an offering of subordinated commercial notes, strictly limited to bona fide North Dakota residents, with a maximum of $1,000,000. As of October 25, 2002, the Company had issued $511,000 in subordinated commercial notes.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

See Index to Exhibits on page 22 for a descriptive response to this item.

(b) Reports on Form 8-K

None

INTEGRITY MUTUAL FUNDS, INC. AND SUBSIDIARIES

SIGNATURES

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

/s/ Robert E. Walstad	November 13, 2002
Robert E. Walstad CEO and Chairman of the Board (CFO and CAO)	Date

INTEGRITY MUTUAL FUNDS, INC. AND SUBSIDIARIES

INDEX TO EXHIBITS

The following documents are filed as part of this Report:

Exhibit	
99.1	CEO/CFO Certification of Periodic Financial Reports

INTEGRITY MUTUAL FUNDS, INC. AND SUBSIDIARIES

CEO/CFO CERTIFICATION OF PERIODIC FINANCIAL REPORTS

The undersigned hereby certifies that this Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002 fully complies with the requirements of

Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this report fairly presents, in all material respects, the financial conditions and results of operations of Integrity Mutual Funds, Inc.

Date: November 13, 2002

/s/ Robert E. Walstad

Robert E. Walstad
CEO and Chairman of the Board
(Acting Chief Financial Officer)

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