INTEGRITY MUTUAL FUNDS INC
Form 10KSB
March 16, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

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

For the transition period from ________ to ________

Commission file number: 000-25958

INTEGRITY MUTUAL FUNDS, INC.
(Name of small business issuer in its charter)

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

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

| | |
|---|---|
| Issuer's telephone number: | (701) 852-5292 |
| Securities registered under Section 12(b) of the Exchange Act: | None |
| Securities registered under Section 12(g) of the Exchange Act: | Common Stock; $.0001 par value |

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 [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES [ ] NO [X]

The issuer's revenues for the year ended December 31, 2006, were $26,786,964.

Aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of February 28, 2007: $8,713,293.

On February 28, 2007, there were 13,717,146 shares of the issuer's common equity outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 23, 2007, are incorporated by reference in certain sections of Part III.

Transitional Small Business Disclosure Format: YES [ ] NO [X]

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PART I

Item 1. Description of Business

BUSINESS DEVELOPMENT

Integrity Mutual Funds, Inc. ("the Company"), is a holding company engaged, through various subsidiaries, in providing investment management, distribution, shareholder services, fund accounting, and other related administrative services to the open-end investment companies known as "Integrity Mutual Funds," "Integrity Managed Portfolios," and "The Integrity Funds," hereinafter collectively referred to as "the Funds." Integrity Mutual Funds currently consists of three open-end investment companies including ND Tax-Free Fund, Inc. ("ND Tax-Free Fund"), Montana Tax-Free Fund, Inc. ("Montana Tax-Free Fund"), and Integrity Fund of Funds, Inc. ("Integrity Fund of Funds"). Integrity Managed Portfolios consists of one open-end investment company containing six separate portfolios including the Kansas Municipal Fund, Kansas Insured Intermediate Fund, Nebraska Municipal Fund, Oklahoma Municipal Fund, Maine Municipal Fund, and New Hampshire Municipal Fund. The Integrity Funds currently consists of one open-end investment company containing seven separate portfolios including the Integrity Value Fund, Integrity Small Cap Growth Fund, Integrity Health Sciences Fund, Integrity Technology Fund, Integrity High Income Fund, Integrity Growth & Income Fund, and Integrity All Season Fund. The Company also sells mutual funds, insurance products, and various other securities through another wholly owned subsidiary, Capital Financial Services, Inc. ("CFS").

As of December 31, 2006, total assets under management in the Funds were $442,008,564, compared to $381,914,392 as of December 31, 2005 and $360,055,850 as of December 31, 2004.

The Company has been engaged in the financial services business since 1987. The Company was incorporated September 22, 1987, as a North Dakota corporation by Robert E. Walstad, founder and Chairman Emeritus of the Company. The Company's principal offices are located at 1 Main Street North, Minot, North Dakota 58703. The Company also has an office in Huntington, New York. As of December 31, 2006, the Company had 50 full-time employees and 2 part-time employees, consisting of officers, investment management, securities distribution, shareholder services, data processing, compliance, accounting, and clerical support staff.

On February 12, 2004, the Company entered into a joint venture agreement with SMH Capital Advisors, Inc. In accordance with the agreement, the Company set up a Fund as a new series under the Integrity Funds called the Integrity High Income Fund. The Company's wholly owned subsidiary, Integrity Money Management, Inc., serves as the Fund's investment advisor. SMH Capital Advisors, Inc., serves as the Fund's investment sub-advisor. The Company's wholly owned subsidiary, Integrity Funds Distributor, Inc., serves as distributor to the Fund, and the Company's wholly owned subsidiary, Integrity Fund Services, Inc., serves as administrator, transfer agent, and fund accountant to the Fund. The initial set-up of the Fund did not require a material cash outlay by the Company. The assets of the Integrity High Income Fund were approximately $143 million as of December 31, 2006.

On January 27, 2005, the Company entered into a joint venture agreement with All Season Financial Advisors, Inc. In accordance with the agreement, the Company set up a Fund as a new series under the Integrity Funds called the Integrity All Season Fund. The Company's wholly owned subsidiary, Integrity Money Management, Inc., serves as the Fund's investment advisor. All Season Financial Advisors, Inc., serves as the Fund's investment sub-advisor. The Company's wholly owned subsidiary, Integrity Funds Distributor, Inc., serves as distributor to the Fund, and the Company's wholly owned subsidiary, Integrity Fund Services, Inc., serves as administrator, transfer agent, and fund accountant to the Fund. The initial set-up of the Fund did not require a material cash outlay by the Company. The assets of the Integrity All Season Fund were approximately $17 million as of December 31, 2006.

On April 22, 2005, the Company acquired the management rights to the IPS Millennium Fund and the IPS New Frontier Fund from IPS Advisory, Inc. ("IPS Advisory"), and merged them into a new Integrity Fund called the Integrity Growth & Income Fund. The two funds had combined assets of approximately $57 million at the time of acquisition. The purchase agreement called for total consideration of approximately 656,000 common shares of the Company. The Company provided IPS Advisory with 250,000 common shares upon closing. The remaining consideration of approximately 406,000 common shares, which is subject to adjustment based on retention of assets in the fund, is to be issued as follows: 203,000 common shares at the one-year anniversary of the closing date, and 203,000 common shares at the two-year anniversary of the closing date. The shares are subject to a put option, which will allow the holders of the shares to put them back to the Company at a price equal to the market price of the Company's shares as of the closing date, which was $.36 per share. The put option is exercisable with respect to one-third of the shares per year starting on the third anniversary of the closing date. The Company will also provide IPS Advisory with a stock option incentive bonus based on growth in assets in the Fund based on the following schedule: 150,000 options on the Company's common shares when assets of the Fund reach $100 million and 150,000 options on the Company's common shares when the assets of the Fund reach $200 million. The options will have a strike price of $.65 per share and mature 10 years from the closing date. The securities issued in connection with this transaction will be issued on a private placement basis. In April of 2006, the one-year anniversary payment of approximately 158,603 common shares was made, which reflected the assets of the acquired funds at the one-year anniversary. In December of 2006, the liability relating to this acquisition was valued at approximately $199,000 to reflect the assets in the acquired funds as of December 31, 2006.

THE COMPANY'S SUBSIDIARIES

The Company derives most of its income from two lines of business. The first line of business provides investment management, distribution, shareholder services, fund accounting, and other related administrative services to the Funds. The other provides order processing, regulatory oversight, concession processing, and other related services to registered securities representatives transacting securities business for their clients. As a result, the Company is economically dependent on the Funds, the representatives, and others, for substantially all of its revenue and income. These businesses are conducted through the wholly owned subsidiary companies described below. Revenues generated by the subsidiaries' fund services are derived primarily from fees based on the level of assets under management. Revenues generated by the broker-dealer's support of securities sales are derived primarily through a sharing of sales concessions paid by the products being sold to clients.

Integrity Money Management, Inc.

Integrity Money Management, Inc. ("Integrity Money Management") is registered as an investment advisor with the Securities and Exchange Commission ("SEC") under the Investment Advisers Act of 1940 (the "Advisers Act"). Integrity Money Management provides investment advisory services under investment advisory agreements with the Funds. As of December 31, 2006, Integrity Money Management managed $442,008,564 of assets under management.

Integrity Funds Distributor, Inc.

Integrity Funds Distributor, Inc. ("Integrity Funds Distributor") is registered with the SEC as a broker-dealer and is also a member of the National Association of Securities Dealers, Inc. (the "NASD"). Integrity Funds Distributor serves as principal underwriter and distributor for the Funds. Integrity Funds Distributor earns the underwriter's portion of front-end sales loads ("FESLs") in connection with sales of shares of Funds subject to FESLs, Rule 12b-1 fees pursuant to Rule 12b-1 plans adopted by certain of the Funds, and contingent deferred sales charges ("CDSCs") in connection with redemptions of shares of Funds subject to CDSCs. Effective October 1, 2004, Integrity Funds Distributor acquired and assumed all of the assets, liabilities, and business of ND Capital, Inc., a wholly owned broker-dealer subsidiary of the Company. The reorganization was designed to increase operating efficiency and promote cost savings.

Integrity Fund Services, Inc.

Integrity Fund Services, Inc. ("Integrity Fund Services") is registered with the SEC as a transfer agent under the Securities Exchange Act of 1934 (the "Exchange Act"). Integrity Fund Services provides shareholder record-keeping services and acts as transfer agent and dividend-paying agent for the Funds. Integrity Fund Services also provides business management services, including fund accounting, compliance, and other related administrative activities for the Funds. Integrity Fund Services is compensated for providing these services under agreements with each Fund, and is reimbursed for certain out-of-pocket expenses.

Capital Financial Services, Inc.

Capital Financial Services, Inc. ("CFS") is a full-service brokerage firm. 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 over 300 investment representatives and investment advisors.

DESCRIPTION OF BUSINESS

Investment Advisory Services

Integrity Money Management acts as investment advisor to the Funds pursuant to investment advisory agreements with such Funds. Integrity Money Management supervises and implements the Funds' investment activities, including determining which securities to buy and sell, and which broker-dealers to effect Fund securities transactions through.

Generally, each Fund pays Integrity Money Management an investment advisory fee, payable monthly and based on the Funds' net assets. Investment advisory fees are generally either voluntarily or contractually waived or reduced, and the investment advisor may absorb other Fund expenses for a period of time to ensure that the Funds have competitive fee structures.

The investment advisory agreements pursuant to which Integrity Money Management provides investment advisory services continue in effect for successive annual periods as long as such continuance is approved annually by (a) either (i) the relevant Fund's Board of Directors or Trustees, or (ii) a vote of the holders of a majority of the relevant Fund's outstanding voting securities, and (b) a majority of the relevant Funds' directors or trustees who are not parties to the investment advisory agreement or interested persons of a party to such agreement within the meaning of the Investment Company Act of 1940.

Either party may terminate the investment advisory agreement without penalty after specified written notice. Each investment advisory agreement also automatically terminates in the event of its "assignment," as defined in the Investment Company Act of 1940. To date, no such investment advisory agreements have been terminated.

Transfer Agency, Fund Accounting, and Administrative Services

Transfer agency, fund accounting, and other shareholder administrative services are provided to the Funds by Integrity Fund Services. Integrity Fund Services receives fees from the Funds for providing such services pursuant to contracts with the Funds. The contracts generally provide for Integrity Fund Services to be paid its servicing fees based on the net assets of each Fund, subject to certain minimum fees per Fund. The Funds' board of directors or trustees approves the contracts between the Funds and Integrity Fund Services annually.

Distribution of Fund Shares

Pursuant to distribution agreements, Integrity Funds Distributor acts as the principal underwriter and distributor of shares of the Funds. The distribution agreements generally provide that Integrity Funds Distributor shall distribute Fund shares and pay the expenses thereof. Fund shares are sold primarily by broker-dealers with whom Integrity Funds Distributor has entered into dealer sales agreements.

Integrity Funds Distributor earns the underwriter's portion of FESLs received in connection with sales of Fund shares subject to FESLs effected by other broker-dealers, and also earns CDSCs in connection with redemptions of Fund shares subject to CDSCs.

Each of the Funds (other than Kansas Insured Intermediate Fund and Integrity Fund of Funds) has adopted a Rule 12b-1 plan pursuant to which Integrity Funds Distributor earns Rule 12b-1 fees in connection with its distribution of Fund shares. Integrity Funds Distributor pays other broker-dealers a portion of these fees and retains the balance.

The 12b-1 Plans are established for an initial term of one year. Thereafter, the Board of Directors or Trustees, including a majority of the disinterested directors or trustees of each Fund, must approve them annually. Each Plan is subject to termination at any time by a majority of the Funds' disinterested directors or trustees or by the Funds' shareholders.

Brokerage Commissions

CFS's primary source of revenue is commission revenue in connection with sales of shares of mutual funds, insurance products, and various other securities. CFS receives commission and Rule 12b-1 servicing revenue generated from the sale of investment products originated by its registered representatives. CFS also receives investment advisory revenue in connection with its registered investment advisor. CFS pays a portion of the revenue generated to its registered representatives and retains the balance.

REGULATION

Virtually all aspects of the Company's businesses are subject to various complex and extensive federal and state laws and regulations. Regulated areas include, but are not limited to, the effecting of securities transactions, the financial condition of the Company's subsidiaries, record-keeping and reporting procedures, relationships with clients, and experience and training requirements for certain employees. Certain of the Company's subsidiaries are registered with various federal and state government agencies, including the SEC, as well as the NASD, a self-regulatory industry organization, as described below.

Integrity Funds Distributor and CFS are registered broker-dealers, subject to extensive regulation and periodic examinations by the SEC, the NASD, and state agencies in those states in which Integrity Funds Distributor and CFS conduct business. As broker-dealers, Integrity Funds Distributor and CFS are subject to the Net Capital Rule promulgated by the SEC under the Exchange Act. This rule requires that a broker-dealer must maintain certain minimum net capital and that its aggregate indebtedness may not exceed specified limitations. Integrity Money Management is registered with the SEC as an investment advisor under the Advisers Act and is subject to regulation thereunder, and is also subject to regulation under certain state laws. The Funds are subject to extensive regulation under the Investment Company Act of 1940 (the "Investment Company Act") and, along with Integrity Money

Management, are subject to periodic examinations by the SEC.

Federal and state laws and regulations, and the rules of the NASD, grant broad powers to such regulatory agencies and organizations. These include the power to limit, restrict, or prevent the Company from carrying on its business if it fails to comply with such laws, regulations and rules. Other possible sanctions that may be imposed include the suspension of individual employees, restrictions on the Company expanding its business or paying cash dividends, the revocation of the investment advisor, broker dealer, or transfer agent registrations, expulsions, censures, and/or fines.

To the extent that existing or future regulations affecting the sale of Fund shares or their investment strategies cause or contribute to reduced sales of Fund shares, or impair the investment performance of the Funds, the Company's aggregate assets under management and its revenues might be adversely affected.

Since 1993, the NASD rules have limited the amount of aggregate sales charges which may be paid in connection with the purchase and holding of investment company shares sold through broker-dealers. Congress and the SEC presently are considering amendments to Rule 12b-1 and other statutory provisions and rules that regulate the distribution of mutual fund shares. The effect of the rule amendments and other legislative or regulatory actions might be to limit the amount of fees that could be paid pursuant to a fund's 12b-1 Plan in a situation where a fund has no, or limited, new sales for a prolonged period of time, as well as the imposition of other limits on the use of fund assets to pay for distribution.

The officers, directors, and employees of the Company may, from time to time, own securities that are also owned by one or more of the Funds. The Company's internal policies with respect to individual investments by employees, including officers and directors who are employed by the Company, require prior clearance and reporting of some transactions and restrict certain transactions so as to reduce the possibility of conflicts of interest.

COMPETITION

The financial services industry is highly competitive. Industry sources indicate that there are approximately 8,000 open-end investment companies of varying sizes, investment objectives and policies, which offer their shares to the investing public in the United States. Since its inception, the Company has competed with numerous larger, more established mutual fund management organizations. The Company is also in competition with the financial services and investment alternatives offered by stock brokerage firms, insurance companies, banks, savings and loans associations, and other financial institutions, as well as investment advisory firms. 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 that 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 materially adverse effect on the Company's earnings.

The Company also participates in two other highly competitive related sectors of the financial services industry; retail brokerage and investment advisory services. The Company competes directly with full-service stock brokerage firms, registered investment advisors, banks, regional broker-dealers, and other independent broker-dealers. Each of these competitors offers to the public many of the same investment products and services offered by the Company. Further, other broker-dealers providing the same services heavily recruit the representatives and advisors transacting business through the Company. This competition forces the Company to maintain high levels of support services and commission payouts for these representatives and advisors. These high levels of services and payouts could have a materially adverse effect on the Company's earnings.

RECENT DEVELOPMENTS

On January 24, 2007, Integrity Mutual Funds, Inc., announced that Robert E. Walstad, founder, Chief Executive Officer and Chairman of its Board of Directors is retiring from his positions with the Company, effective February 1, 2007. Concurrent with the retirement, the Company announced that Mark R. Anderson, President and Chief Operating Officer of the Company, would succeed Mr. Walstad as Director and Chief Executive Officer of the Company.

In connection with Mr. Walstad's retirement, the Company has entered into a Separation Agreement with Mr. Walstad, dated January 24, 2007 (the "Separation Agreement"). Under the terms of the Separation Agreement, subject to Mr. Walstad meeting his obligations thereunder in all material respects, Mr. Walstad is entitled to receive a cash payment in the amount of $274,500, options to purchase 60,000 common shares, and certain commission payments. These payments are more fully described in Exhibit 10.8f to this report.

On February 16, 2007, Integrity Mutual Funds, Inc. announced that it had signed an agreement to acquire certain assets of United Heritage Financial Services (UHFS). UHFS currently has 120 independent registered representatives and is a wholly owned subsidiary of United Heritage Financial Group, Inc., of Meridian, Idaho. UHFS's registered representatives will become part of Capital Financial Services, Inc. (CFS), the retail brokerage division of Integrity.

Pursuant to the agreement, in exchange for receipt of the assets of UHFS set forth above, Integrity Mutual Funds, Inc. agrees to pay to UHFS 500,000 restricted IMFD shares and a deferred earn out cash payment totaling a maximum of $900,000 to be paid in 21 quarterly installments.

AVAILABILITY OF SEC REPORTS

All SEC reports are made available on the Company's website at http://corp.integrityfunds.com. These reports, including annual reports on Form 10-KSB, quarterly reports of Form 10-QSB, and current reports on Form 8-K, are available on the same day they are filed with the SEC.

Item 2. Description of Property

The Company operates the majority of its business out of its location at 1 Main Street North, Minot, North Dakota. The Company owns the building and currently occupies approximately 15,000 square feet of office space in the 28,000 square foot building. As of December 31, 2006, the building has a $380,651 mortgage. The Company also currently leases approximately 800 square feet of office space in Huntington, New York for part of its investment advisory services.

Item 3. Legal Proceedings

The Company has no pending legal proceedings that are material to the financial affairs of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter ended December 31, 2006.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Information about the Company's Common Stock

The Company's Common Stock is traded on the OTC Bulletin Board under the symbol IMFD. The Company's stock began trading on the OTC Bulletin Board on November 7, 1997. On May 31, 2002, the shareholders of the Company approved a two for one (2:1) stock split of the issued and outstanding common stock of the Company, which took effect on July 1, 2002. On December 29, 2006, the closing price of the Company's Common Stock on the OTC Bulletin Board was $.60 per share. At February 28, 2007, there were approximately 771 shareholders of record.

The following table sets forth the high and low closing prices for the Company's common stock. The quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not represent actual transactions.

| | 2006 Fiscal Year | | 2005 Fiscal Year | |
|---|---|---|---|---|
| Quarter | High | Low | High | Low |
| First Quarter | .400 | .310 | .460 | .360 |
| Second Quarter | .470 | .350 | .420 | .300 |
| Third Quarter | .490 | .410 | .390 | .300 |
| Fourth Quarter | .600 | .460 | .390 | .300 |

The Company has not paid a dividend with respect to its common stock, nor does the Company anticipate paying dividends in the foreseeable future.

The Company has issued the following securities in the past quarter without registering the securities under the Securities Act:

On October 11, 2006, the Company issued a $950,000 convertible promissory note to PawnMart, Inc., in a private placement. The unsecured note carries an interest rate of 6.5% per annum, payable semi-annually, and matures on October 15, 2016. The holder of the note has the right, at any time after October 15, 2009, to convert the note in whole or in part, into $0.0001 par value common shares of the Company. The conversion price shall be equal to $0.50 per share. The entire principal amount of this note shall be automatically converted into common shares at the conversion price on October 15, 2016. Approximately $845,000 of the $950,000 in convertible promissory note proceeds was used to pay off an existing loan with First Western Bank.

Small Business Issuer Repurchases of Equity Securities:

| Period | Total Number of Shares Purchased | Average Price Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 2006 | - | - | - | $597,754 |
| November 2006 | - | - | - | $597,754 |
| December 2006 | - | - | - | $597,754 |
| Total | - | - | - | $597,754 |

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information is provided in connection with, and should be read in conjunction with, the consolidated financial statements and notes appearing elsewhere in this Form 10-KSB.

GENERAL

Integrity Mutual Funds, Inc., is a holding company which operates its current business units in two reportable segments, 1) as an investment advisor, distributor, and provider of administrative services to sponsored mutual funds, and 2) as a broker-dealer.

Integrity Mutual Funds, Inc., derives a portion of its revenues and net income from providing investment management, distribution, shareholder services, fund accounting, and related services to the Funds. CFS provides another substantial portion of revenue through sales of mutual funds, insurance products, and various other securities. The majority of the Company's assets under management consist of single-state municipal bond funds for the states of North Dakota, Montana, Kansas, Nebraska, Oklahoma, Maine, and New Hampshire.

ASSETS UNDER MANAGEMENT

By Investment Objective

| As of December 31, | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| FIXED-INCOME | | | | | | |
| Tax-Free Funds | $ | 207,235,701 | $ | 213,405,941 | $ | 267,867,980 |
| Taxable Funds (Corporate/Government) | | 143,385,144 | | 62,121,269 | | 20,983,945 |
| TOTAL FIXED-INCOME FUNDS | $ | 350,620,845 | $ | 275,527,210 | $ | 288,851,925 |
| | | | | | | |
| EQUITY | | | | | | |
| Fund of Funds | $ | 9,889,657 | $ | 6,029,000 | $ | 6,517,292 |
| Equity Funds | | 81,498,062 | | 100,358,182 | | 64,686,633 |
| TOTAL EQUITY FUNDS | $ | 91,387,719 | $ | 106,387,182 | $ | 71,203,925 |
| | | | | | | |
| TOTAL ASSETS UNDER MANAGEMENT | $ | 442,008,564 | $ | 381,914,392 | $ | 360,055,850 |

A substantial portion of the Company's revenues depends upon the amount of assets under its management. Assets under management 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. Assets under the Company's management increased by $60,094,172 (15.7%) in 2006 compared to 2005 and increased by $21,858,542 (6.1%) in 2005 compared to 2004. Fixed income assets increased by 27.3% in 2006 compared to 2005, and decreased by 4.6% in 2005 compared to 2004. Fixed income assets accounted for 79.3% of the total assets under management in 2006 and 72.1% in 2005. Equity assets decreased by 14.1% in 2006 compared to 2005, and increased 49.4% in 2005 compared to 2004. Equity assets accounted for 20.7% of total assets under management in 2006 and 27.9% in 2005.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, amounts included in the Company's Consolidated Statements of Operations and the percentage change in those amounts from period to period.

| | | 2006 | | 2005 | | 2004 | Variance 2006 to 2005 | Variance 2005 to 2004 |
|---|---|---|---|---|---|---|---|---|
| OPERATING REVENUES | | | | | | | | |
| Fee income | $ | 6,732,222 | $ | 4,788,853 | $ | 4,382,788 | 40.6% | 9.3% |
| Commission income | | 20,054,742 | | 14,651,903 | | 12,607,783 | 36.9% | 16.2% |
| Total revenue | $ | 26,786,964 | $ | 19,440,756 | $ | 16,990,571 | 37.8% | 14.4% |
| OPERATING EXPENSES | | | | | | | | |
| Compensation and benefits | $ | 3,729,425 | $ | 3,330,165 | $ | 3,120,309 | 12.0% | 6.7% |
| Commission expense | | 19,370,607 | | 13,283,057 | | 11,405,775 | 45.8% | 16.5% |
| General and administrative expenses | | 2,242,721 | | 2,139,042 | | 2,166,954 | 4.8% | (1.3)% |
| Sub-advisory expenses | | 887,896 | | 432,534 | | 41,084 | 105.3% | 952.8% |
| Sales commissions amortized | | 334,254 | | 316,928 | | 321,942 | 5.5% | (1.6)% |
| Depreciation and amortization | | 157,361 | | 143,155 | | 99,525 | 9.9% | 43.8% |
| Total operating expenses | $ | 26,722,264 | $ | 19,644,881 | $ | 17,155,589 | 36.0% | 14.5% |
| OPERATING INCOME (LOSS) | $ | 64,700 | $ | (204,125) | $ | (165,018) | 131.7% | (23.7)% |
| OTHER INCOME (EXPENSES) | | | | | | | | |
| Interest and other income | $ | 233,610 | $ | 54,896 | $ | 66,155 | 325.6% | (17.0)% |
| Interest expense | | (346,606) | | (301,934) | | (275,247) | 14.8% | 9.7% |
| Net other expenses | $ | (112,996) | $ | (247,038) | $ | (209,092) | (54.3)% | 18.1% |
| LOSS BEFORE INCOME TAX BENEFIT (EXPENSE) | $ | (48,296) | $ | (451,163) | $ | (374,110) | (89.3)% | 20.6% |
| INCOME TAX BENEFIT (EXPENSE) | | (11,091) | | 118,750 | | 124,110 | 109.3% | 4.3% |
| NET LOSS | $ | (59,387) | $ | (332,413) | $ | (250,000) | (82.1)% | 33.0% |
| LOSS PER COMMON SHARE: | | (.01) | | (.03) | | (.03) | | |

Year Ended December 31, 2006, compared with Year Ended December 31, 2005:

**Operating Revenues** - Total operating revenues for 2006 were $26,786,964, an increase of 37.8% from $19,440,756 in 2005. The increase results from increased fee income received from the Funds, as well as increased commission and fee income relating to CFS.

***Fee Income -*** Fee income for 2006 was $6,732,222, a 40.6% increase from $4,788,853 in 2005. The increase was due to fees received in connection with new Funds that were acquired and/or opened during 2005, and fees derived from asset growth resulting from new sales in certain of the Funds. The increase was also due to fees derived from additional assets under management in CFS' registered investment advisor, resulting from recruiting efforts during 2005 and 2006.

The Company receives fees for providing investment advisory services to the Funds. In some cases, all or a portion of the investment advisory fees received by the Company are paid to outside investment advisors for advisory services provided to the Funds. These fees constituted 7% of the Company's consolidated revenues in 2006.

The Company also earns investment advisory fees in connection with CFS' registered investment advisor. The Company pays the registered representatives a portion of this fee income as commission expense and retains the balance. These fees constituted 5% of the Company's consolidated revenues in 2006.

The Company receives fees from the Funds for providing transfer agency, fund accounting, and other administrative services. These fees constituted 8% of the Company's consolidated revenues in 2006.

The Company earns Rule 12b-1 fees in connection with the distribution of Fund shares. A portion of these fees are paid out to other broker-dealers, with the remaining amount retained by the Company to pay for expenses related to the distribution of the Funds. These fees constituted 5% of the Company's consolidated revenues in 2006.

***Commission Income -*** Commission income includes CFS commissions and 12b-1 fees associated with the sale of mutual funds, insurance products, and various other securities. The Company pays the registered representatives a percentage of this income as commission expense and retains the balance. Commission income also includes underwriting fees associated with sales of Fund shares subject to front-end sales loads ("FESLs"), and the dealer commission associated with sales of Fund shares subject to FESLs, which is paid out to other broker-dealers as commission expense. Commission income for 2006 was $20,054,742, a 36.9% increase over $14,651,903 in 2005. The increase was due primarily to recruiting efforts for new registered representatives in CFS during 2005 and 2006. Commission revenues constituted 75% of the Company's consolidated revenues in 2006.

**Operating Expenses** - Total operating expenses for 2006 were $26,722,264, a 36.0% increase from $19,644,881 in 2005. The increase resulted primarily from increased commission expense, which corresponds to increases in fee and commission income.

***Compensation and Benefits -*** Compensation and benefits expense for 2006 was $3,729,425, a 12.0% increase from $3,330,165 in 2005. The increase results primarily from increased incentive overrides paid to certain employees for the recruitment of new registered representatives in the Company's broker-dealer segment, and a separation agreement entered into by the Company with a former employee.

On July 13, 2006, Integrity Mutual Funds, Inc., entered into an agreement with Jerry J. Szilagyi, Senior Vice President of Business Development, the terms of which provide for the termination of Mr. Szilagyi's employment agreement and his separation from the Company, effective as of July 16, 2006. Pursuant to the terms of the Agreement, the Company agreed to pay Mr. Szilagyi $210,000 over a ten month period and certain additional compensation, including amounts with respect to assets under management in certain of the Company's mutual funds. The $210,000 separation payment was expensed in July of 2006.

The Company compensates a team of employee-status individuals to wholesale the Funds to non-affiliated registered representatives and financial advisors. Employee-status individuals are paid a base salary, plus an incentive override on sales. The incentive overrides paid to the wholesalers are calculated on gross sales for each individual. These expenses can be expected to increase in proportion to an increase in gross sales. Currently, the wholesaling team consists of fifteen wholesalers, eleven of which are employee-status. Management expects to continue to maintain and support the wholesaling team at or near current levels in 2007.

***Commission Expense -*** Commission expense for 2006 was $19,370,607, a 45.8% increase from $13,283,057 in 2005. The increase corresponds with the increases in fee and commission income.

***General and Administrative Expenses -*** Total general and administrative expenses for 2006 were $2,242,721, an increase of 4.8% from $2,139,042 in 2005. The increase was due primarily to increased incentive overrides paid to the Company's contracted wholesalers resulting from increased sales in the Funds, as well as increased recruiting costs in the Company's broker-dealer segment.

The Company compensates a team of independent contractors to wholesale the Funds to non-affiliated registered representatives and financial advisors. Contracted individuals are paid on a straight commission basis. The incentive overrides paid to the wholesalers are calculated on gross sales for each individual. Employee status and contracted wholesalers are allowed a monthly expense account to cover costs required to support their sales effort. These expenses can be expected to increase in proportion to an increase in gross sales. Currently, the wholesaling team consists of fifteen wholesalers, four of which are independent contractors. Management expects to continue to maintain and support the wholesaling team at or near current levels in 2007.

***Sub-advisory Expenses -*** Sub-advisory expenses for 2006 were $887,896, a 105.3% increase from $432,534 in 2005. The increase was due to sub-advisory fees paid in connection with new Funds that were acquired and/or opened during 2005, and higher levels of fees paid due to asset growth resulting from new sales in certain of the Funds. Sub-advisory fees are paid to outside investment advisors for advisory services provided to some of the Funds. The amount of sub-advisory fees paid out will continue to increase as the net asset levels in certain of the Funds continue to increase.

***Sales Commissions Amortized -*** Sales commissions paid to broker-dealers in connection with the sale of shares of the sponsored mutual funds sold without a front-end sales charge (B and C shares), are capitalized and amortized on a straight-line basis over a period not exceeding eight years, which approximates the period of time during which deferred sales commissions are expected to be recovered from distribution plan payments received from various sponsored mutual funds and potential contingent deferred sales charges received from shareholders of the various sponsored mutual funds. Contingent deferred sales charges received by the Company are recorded as a reduction of unamortized deferred sales commissions. In accordance with Statement of Position 98-5, the commissions paid for the sale of Integrity Fund of Funds, Inc.'s shares have been expensed as incurred. The contingent deferred sales charges received from early redemptions from Integrity Fund of Funds, Inc. have been recorded as revenue. Amortization of deferred sales commissions for 2006 was $334,254, a 5.5% increase from $316,928 in 2005. These expenses can be expected to increase if sales of shares of Funds sold without a FESL increase.

***Depreciation and Amortization -*** Depreciation and amortization for 2006 was $157,361, a 9.9% increase from $143,155 in 2005. The primary reason for the change was an increase in amortization of computer software costs.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142 - Goodwill and Other Intangible Assets. Under SFAS No. 142, the Company no longer amortizes its goodwill and certain other intangibles over their estimated useful lives. Rather, goodwill 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 2006.

***Interest and Other Income -*** Interest and other income for 2006 was $233,610, a 325.6% increase from $54,896 in 2005. Other income is comprised, in part, from income derived from mark-ups on services billed back to registered representatives.

***Interest Expense*** - Interest expense was $346,606 for 2006, a 14.8% increase from $301,934 in 2005. The increase was primarily the result of the issuance of $2 million of 9¼% subordinated corporate notes during 2005, which was used, in part, to retire $595,000 of 12% subordinated debentures that matured in June of 2005.

Year Ended December 31, 2005, compared with Year Ended December 31, 2004:

**Operating Revenues** - Total operating revenues for 2005 were $19,440,756, an increase of 14.4% from $16,990,571 in 2004. The increase results from increased fee income received from the funds, as well as an increase in commission revenues relating to the broker-dealer services segment.

***Fee Income -*** Fee income for 2005 was $4,788,853, a 9.3% increase from $4,382,788 in 2004. The increase was due primarily to fees received in connection with new funds that were acquired and/or opened during 2004 and 2005.

The Company receives fees for providing investment advisory services to the Funds. In some cases, all or a portion of the investment advisory fees received by the Company are paid to outside investment advisors for advisory services provided to the Funds. Investment advisory fees constituted 8% of the Company's consolidated revenues in 2005.

The Company receives fees from the Funds for providing transfer agency, fund accounting, and other administrative services. These fees constituted 10% of the Company's consolidated revenues in 2005.

The Company earns Rule 12b-1 fees in connection with the distribution of Fund shares. A portion of these fees are paid out to other broker-dealers, with the remaining amount retained by the Company to pay for expenses related to the distribution of the Funds. These fees constituted 7% of the Company's consolidated revenues in 2005.

***Commission Income -*** Commission income includes CFS commissions and 12b-1 fees associated with the sale of mutual funds, insurance products, and various other securities. The Company pays the registered representatives a percentage of this income as commission expense and retains the balance. Commission income also includes underwriting fees associated with sales of Fund shares subject to front-end sales loads ("FESLs"), and the dealer commission associated with sales of Fund shares subject to FESLs, which is paid out to other broker-dealers as commission expense. Commission income for 2005 was $14,651,903, a 16.2% increase over $12,607,783 in 2004. The increase was due primarily to recruiting efforts for new registered representatives in CFS during 2005. Commission revenues constituted 75% of the Company's consolidated revenues in 2005.

**Operating Expenses** - Total operating expenses for 2005 were $19,644,881, a 14.5% increase from $17,155,589 in 2004. The increase resulted primarily from increased commission expense, which corresponds to the increase in commission income.

***Compensation and Benefits -*** Compensation and benefits expenses for 2005 were $3,330,165, a 6.7% increase from $3,120,309 in 2004. The increase results primarily from the addition of several new employees to the Company over the past twelve months, increased incentive overrides paid to certain employees for sales, the recruitment of new registered representatives and new business acquisitions, and a 401(k) match of up to 4% of employee deferrals that was implemented effective January 1, 2005.

***Commission Expense -*** Commission expense for 2005 was $13,283,057, a 16.5% increase from $11,405,775 in 2004. The increase corresponds to the increase in commission income.

***General and Administrative Expenses -*** Total general and administrative expense for 2005 were $2,139,042, a decrease of 1.3% from $2,166,954 in 2004.

***Sub-advisory Expenses -*** Sub-advisory expenses for 2005 were $432,534, a 952.8% increase from $41,084 in 2004. The increase was due to sub-advisory fees paid in connection with new Funds that were acquired and/or opened during 2004 and 2005. Sub-advisory fees are paid to outside investment advisors for advisory services provided to some of the Funds. The amount of sub-advisory fees paid out will continue to increase as the net asset levels in certain of the Funds continue to increase.

***Depreciation and Amortization -*** Depreciation and amortization for 2005 was $143,155, a 43.8% increase from $99,525 in 2004. The primary reason for the change was an increase in amortization of computer software costs.

***Interest and Other Income -*** Interest and other income for 2005 was $54,896, a 17.0% decrease from $66,155 in 2004. The decrease was primarily the result of decreased dividend income earned on money market accounts.

***Interest Expense*** - Interest expense was $301,934 for 2005, a 9.7% increase from $275,247 in 2004. The increase was primarily the result of the issuance of $2 million of 9¼% subordinated corporate notes during the year, which was used, in part, to retire $595,000 of 12% subordinated debentures that matured in June of 2005.

FINANCIAL CONDITION

On December 31, 2006, the Company's assets aggregated $15,466,130, an increase of 1.8% from $15,192,914 in 2005, due to increases in cash and cash equivalents, securities available-for-sale, and accounts receivable, offset by decreases in income taxes receivable, deferred tax assets, prepaids, net property and equipment, deferred sales commissions, goodwill, and other assets. Stockholders equity was $9,398,208 on December 31, 2006, compared to $9,403,721 on December 31, 2005.

On December 31, 2005, the Company's assets aggregated $15,192,914, an increase of 9.2% from $13,907,987 in 2004, due to increases in cash and cash equivalents, accounts receivable, income taxes receivable, deferred tax assets, prepaids, and goodwill, offset by decreases in securities available-for-sale, net property and equipment, deferred sales commissions, and other assets. Stockholders equity was $9,403,721 on December 31, 2005, a decrease of 1.1% from $9,505,829 on December 31, 2004, primarily the result of the net loss of $332,413 and preferred dividends of $91,500, offset by increased additional paid-in capital related to option compensation recorded in connection with the adoption of SFAS No. 123R.

Cash provided by operating activities was $547,699 in 2006, a 125.3% increase from $243,075 in 2005. During the year ended December 31, 2006, the Company used net cash of $47,990 for investing activities. The primary use of cash for investing activities in 2006 was the purchase of property and equipment. Net cash used by financing activities during the year was $185,850, primarily the net effect of $301,866 in short-term bank borrowings and the issuance of a $950,000 convertible promissory note, offset by $250,000 paid to redeem convertible debentures that matured in January of 2006, $1,124,866 paid to repay bank debt, and $68,625 of preferred dividends paid.

Cash provided by operating activities was $243,075 in 2005, a 47.0% decrease from $458,825 in 2004. During the year ended December 31, 2005, the Company used net cash of $308,119 for investing activities. Cash provided from investing activities during the year included $5,281 in proceeds received from the sale of available-for-sale securities held by the Company and $500 in proceeds received from the sale of property and equipment. Cash used for investing activities during 2005 included $232,407 related to the acquisitions of several new mutual funds, and $81,493, which was used primarily to purchase computer equipment and remodel workspace. Net cash provided by financing activities during the year was $734,907, primarily the net effect of $2,000,000 in proceeds received from the issuance of subordinated corporate notes and $650,025 in proceeds received from short-term bank borrowings, offset by $595,000 paid to redeem subordinated debentures that matured in June of 2005, $116,440 in final payments relating to the acquisitions of several new mutual funds in 2003, $890,023 of debt repayment, $68,625 of preferred dividends paid, and $250,000 to purchase the Company's common stock pursuant to a put option in the purchase agreement by which CFS was acquired.

LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2006, the Company held $1,851,249 in cash and cash equivalents, as compared to $1,537,391 on December 31, 2005, and $867,528 on December 31, 2004. Liquid assets, which consist of cash and cash equivalents and securities available-for-sale, totaled $1,851,462 at December 31, 2006, as compared to $1,537,599 on December

31, 2005, and $873,017 on December 31, 2004. The Company is required to maintain certain levels of cash and liquid securities in its broker-dealer subsidiaries to meet regulatory net capital requirements.

In January of 2005, the Company repurchased 500,000 common shares for $250,000 pursuant to a put option related to its acquisition of CFS, which was paid by utilizing a short-term bank loan. The six-month bank loan carried an interest rate of 2.00% over the prime rate and was repaid in July of 2005. The Company received an additional $300,025 in short-term bank debt in February of 2005 to be used primarily for working capital. This debt carried an interest rate of 6.75% and was also repaid in July of 2005. In June of 2005, the Company borrowed $100,000 on its revolving bank line of credit and made a final payment of approximately $26,000 relating to its acquisition of the management rights to the Canandaigua Funds. The Company had $595,000 of subordinated debentures that matured on June 30, 2005. These subordinated debentures were repaid by utilizing a portion of the proceeds received from the issuance of the Company's new 9¼% subordinated corporate notes, which mature on January 1, 2011. As of December 31, 2005, the Company has $2 million of subordinated corporate notes outstanding. In September of 2005, the Company made a final payment of approximately $90,000 relating to its acquisition of the management rights to the Willamette Funds.

In January of 2006, the Company repaid $250,000 in convertible debentures that matured pursuant to its acquisition of CFS, which was paid by using available cash. In May of 2006, an existing loan with First Western Bank was modified. The modification called for a $301,866 cash injection to the outstanding balance of the loan. After the modification, the loan carried an interest rate of 8.25%, and based on the monthly payments of $23,200, would be paid in full on May 10, 2010. In June of 2006, the Company paid off its $100,000 revolving bank line of credit, which was paid by utilizing a portion of the proceeds received from the $301,866 cash injection. In October of 2006, the Company issued a $950,000 convertible promissory note to PawnMart, Inc., in a private placement. The unsecured note carries an interest rate of 6.5% per annum, payable semi-annually, and matures on October 15, 2016. The holder of the note has the right, at any time after October 15, 2009, to convert the note in whole or in part, into $0.0001 par value common shares of the Company. The conversion price is equal to $0.50 per share. The entire principal amount of the note will automatically convert into common shares at the conversion price on October 15, 2016. Approximately $845,000 of the $950,000 in convertible promissory note proceeds was used to pay off the existing loan with First Western Bank mentioned above.

The Company has historically relied upon sales of its equity securities and debt instruments, as well as bank loans, for liquidity and growth. Management believes that the Company's existing liquid assets, along with cash flow from operations, will provide the Company with sufficient resources to meet its ordinary operating expenses during the next twelve months. Significant, unforeseen or extraordinary expenses may require the Company to seek alternative financing sources, including common or preferred share issuance or additional debt financing.

In addition to the liabilities coming due in the next twelve months, management expects that the principal needs for cash may be to advance sales commissions on Funds subject to CDSCs, acquire additional investment management or financial services firms, acquire the management rights to additional outside mutual funds, repurchase shares of the Company's common stock, and service debt. Management also expects to realize increases in expenses associated with regulatory compliance with Section 404 of the Sarbanes-Oxley Act of 2002, including increased legal, audit, staff, and consultant expenses.

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 subject to CDSCs provide distribution revenue, over time, in the form of 12b-1 fees and, if shares are redeemed within five years, CDSCs. However, the Company pays commissions on sales of Fund shares subject to CDSCs, reflects such commissions as deferred sales commissions 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 subject to CDSCs increases over time relative to sales of shares subject to FESLs, current distribution expenses may increase relative to current distribution revenues in certain periods, which would negatively impact the Company's cash flow 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 shares subject to CDSCs if sales of Fund shares subject to CDSCs increase significantly.

FORWARD-LOOKING STATEMENTS

When used herein, in future filings by the Company with the SEC, 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," "estimates," 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, which 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.

The Company derives substantially all of its revenues from two sources; commission revenue earned in connection with sales of shares of mutual funds, insurance products, and various other securities, and 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.

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 that offer shares to the investing public in the United States. 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 that 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 fund 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 materially adverse effect on the Company's earnings.

The fact that the investments of some Funds are geographically concentrated within a single state makes the market value of such investments particularly vulnerable to economic conditions within that state. In addition, the states in which the investments of such 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.

The following factors, among others, could cause actual results to differ materially from forward-looking statements, and future results could differ materially from historical performance:

- General political and economic conditions which may be less favorable than expected;
- The effect of changes in interest rates, inflation rates, the stock markets, or other financial markets;
- Unfavorable legislative, regulatory, or judicial developments;
- Incidence and severity of catastrophes, both natural and man-made;
- Changes in accounting rules, policies, practices, and procedures which may adversely affect the business;
- Terrorist activities or other hostilities which may adversely affect the general economy

Item 7. Financial Statements

The financial statements required by this item, the accompanying notes thereto, and the reports of independent registered public accounting firm are included as part of this Form 10-KSB immediately following the signatures page, beginning on page F-1.

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 8A. Controls and Procedures

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) and Rule 15c-14(c) under the Exchange Act as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of December 31, 2006, and that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed and summarized, and reported within the time periods specified by the SEC's rules and forms.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies or material weaknesses.

Item 8B. Other Information

None.

PART III

Item 9. Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act

Incorporated herein by reference is the information appearing under the headings "Election of Directors," "Executive Officers," and "Committees of the Board of Directors and Meeting Attendance," in the Registrant's Proxy Statement, which the Registrant anticipates filing on or about April 13, 2007.

Item 10. Executive Compensation

Incorporated herein by reference is the information appearing under the heading "Executive Compensation", in the Registrant's Proxy Statement, which the Registrant anticipates filing on or about April 13, 2007.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated herein by reference is the information appearing under the heading "Security Ownership of Beneficial Owners and Management", in the Registrant's Proxy Statement, which the Registrant anticipates filing on or about April 13, 2007.

Item 12. Certain Relationships and Related Transactions, and Director Independence

Incorporated herein by reference is the information appearing under the heading "Certain Relationships and Related Transactions", in the Registrant's Proxy Statement, which the Registrant anticipates filing on or about April 13, 2007.

Item 13. Exhibits

The following exhibits are filed herewith or incorporated herein by reference as set forth below:

3.1 Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 contained in the Company's Quarterly Report on Form 10-QSB, (File No. 0-25958), filed with the Commission on November 10, 2004).

3.2 Amended Bylaws of the Company (incorporated by reference to Exhibit 3.2 contained in the Company's Quarterly Report on Form 10-QSB, as amended (File No. 0-25958), filed with the Commission on August 11, 2006).

4.1 Specimen form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 contained in the Company's Registration Statement on Form S-1, as amended (File No.33-96824), filed with the Commission on September 12, 1995).

4.2 Certificate of designation of Series A Convertible Preferred Shares (incorporated by reference to Exhibit 4.1 contained in the Company's Quarterly Report on Form 10-QSB, (File No. 0-25958), filed with the Commission on November 10, 2004).

4.3 Instruments defining rights of holders of securities: (See Exhibit 3.1 & 3.2)

4.4 Subordinated Corporate Note Subscription Agreement (incorporated by reference to Exhibit 4.4 contained in the Company's Quarterly Report on Form 10-QSB, (File No. 0-25958), filed with the Commission on August 12, 2005).

4.5 Form of Subordinated Corporate Note (incorporated by reference to Exhibit 4.5 contained in the Company's Quarterly Report on Form 10-QSB, (File No. 0-25958), filed with the Commission on August 12, 2005).

4.6 Form of Convertible Promissory Note (incorporated by reference to Exhibit 4.1 contained in the Company's Current Report on Form 8-K, (File No. 0-25958), filed with the Commission on October 13, 2006.)

10.1a Investment Advisory Contract - ND Tax-Free Fund, Inc. (incorporated by reference to Exhibit 99.d contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 21 (File No. 33-25138), filed with the Commission on April 27, 2004).

10.1b Investment Advisory Contract - Montana Tax-Free Fund, Inc. (incorporated by reference to Exhibit 99.d contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 16 (File No. 33-63306), filed with the Commission on April 27, 2004).

10.1c Investment Advisory Contract - Integrity Fund of Funds, Inc. (incorporated by reference to Exhibit 99.d contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 13 (File No. 33-85332), filed with the Commission on April 27, 2004).

10.1d Management and Investment Advisory Contract - Integrity Managed Portfolios on behalf of the Kansas Municipal Fund (incorporated by reference to Exhibit 99.d1a contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 51 (File No. 33-36324), filed with the Commission on November 30, 2004).

10.1e Management and Investment Advisory Contract - Integrity Managed Portfolios on behalf of the Kansas Insured Intermediate Fund (incorporated by reference to Exhibit 99.d1b contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 51 (File No. 33-36324), filed with the Commission on November 30, 2004).

10.1f Management and Investment Advisory Contract - Integrity Managed Portfolios on behalf of the Maine Municipal Fund (incorporated by reference to Exhibit 99.d1e contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 49 (File No. 33-36324), filed with the Commission on September 29, 2003).

10.1g Management and Investment Advisory Contract - Integrity Managed Portfolios on behalf of the Nebraska Municipal Fund (incorporated by reference to Exhibit 99.d1c contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 51 (File No. 33-36324), filed with the Commission November 30, 2004).

10.1h Management and Investment Advisory Contract - Integrity Managed Portfolios on behalf of the New Hampshire Municipal Fund (incorporated by reference to Exhibit 99.d1f contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 49 (File No. 33-36324), filed with the Commission on September 29, 2003).

10.1i Management and Investment Advisory Contract - Integrity Managed Portfolios on behalf of the Oklahoma Municipal Fund (incorporated by reference to Exhibit 99.d1d contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 51 (File No. 33-36324), filed with the Commission November 30, 2004).

10.1j Investment Advisory Contract - The Integrity Funds on behalf of the Integrity Value Fund (incorporated by reference to Exhibit 99.d1c contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 21 (File No. 33-53698), filed with the Commission on September 5, 2003).

10.1k Investment Advisory Contract - The Integrity Funds on behalf of the Integrity Small Cap Growth Fund (incorporated by reference to Exhibit 99.d1d contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 21 (File No. 33-53698), filed with the Commission on September 5, 2003).

10.1l Investment Advisory Contract - The Integrity Funds on behalf of the Integrity Health Sciences Fund (incorporated by reference to Exhibit 99.d1e contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 21 (File No. 33-53698), filed with the Commission on September 5, 2003).

10.1m Investment Advisory Contract - The Integrity Funds on behalf of the Integrity Technology Fund (incorporated by reference to Exhibit 99.d1f contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 21 (File No. 33-53698), filed with the Commission on September 5, 2003).

10.1n Investment Advisory Contract - The Integrity Funds on behalf of the Integrity High Income Fund (incorporated by reference to Exhibit 99.d1g contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 23 (File No. 33-53698), filed with the Commission on April 27, 2004).

10.1o Investment Advisory Contract - The Integrity Funds on behalf of the Integrity Growth & Income Fund (incorporated by reference to Exhibit 99.d1i contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 26 (File No. 33-53698), filed with the Commission on April 25, 2005).

10.1p Investment Advisory Contract - The Integrity Funds on behalf of the Integrity All Season Fund (incorporated by reference to Exhibit 99.d1j contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 28 (File No. 33-53698), filed with the Commission on July 29, 2005).

10.2a Sub-Investment Advisory Contract - The Integrity Funds on behalf of the Integrity High Income Fund (incorporated by reference to Exhibit 99.d2b contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 23 (File No. 33-53698), filed with the Commission on April 27, 2004).

10.2b Sub-Investment Advisory Contract - The Integrity Funds on behalf of the Integrity High Income Fund (incorporated by reference to Exhibit 99.d2e contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 28 (File No. 33-53698), filed with the Commission on July 29, 2005).

10.2c Sub-Investment Advisory Contract - The Integrity Funds on behalf of the Integrity Growth & Income Fund (incorporated by reference to Exhibit 99.d2c contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 28 (File No. 33-53698), filed with the Commission on July 29, 2005).

10.2d Sub-Investment Advisory Contract - The Integrity Funds on behalf of the Integrity All Season Fund (incorporated by reference to Exhibit 99.d2d contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 28 (File No. 33-53698), filed with the Commission on July 29, 2005).

10.3a Distribution Contract - ND Tax-Free Fund, Inc. (incorporated by reference to Exhibit 99.e1 contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 21 (File No. 33-25138), filed with the Commission on April 27, 2004).

10.3b Distribution Contract - Montana Tax-Free Fund, Inc. (incorporated by reference to Exhibit 99.e1 contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 16 (File No. 33-63306), filed with the Commission on April 27, 2004).

10.3c Distribution Contract - Integrity Fund of Funds, Inc. (incorporated by reference to Exhibit 99.e1 contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 13 (File No. 33-85332), filed with the Commission on April 27, 2004).

10.3d Distribution and Service Contract - Integrity Managed Portfolios on behalf of the Kansas Municipal Fund (incorporated by reference to Exhibit 99.e1a contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 50 (File No. 33-36324), filed with the Commission on December 22, 2003).

10.3e Distribution and Service Contract - Integrity Managed Portfolios on behalf of the Kansas Insured Intermediate Fund (incorporated by reference to Exhibit 99.e1b contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 50 (File No. 33-36324), filed with the Commission on December 22, 2003).

10.3f Distribution and Service Contract - Integrity Managed Portfolios on behalf of the Maine Municipal Fund (incorporated by reference to Exhibit 99.e1e contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 49 (File No. 33-36324), filed with the Commission on September 29, 2003).

10.3g Distribution and Service Contract - Integrity Managed Portfolios on behalf of the Nebraska Municipal Fund (incorporated by reference to Exhibit 99.e1c contained in the Registration Statement on Form N-1A, as amended on

Post-Effective Amendment 50 (File No. 33-36324), filed with the Commission on December 22, 2003).

10.3h Distribution and Service Contract - Integrity Managed Portfolios on behalf of the New Hampshire Municipal Fund (incorporated by reference to Exhibit 99.e1f contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 49 (File No. 33-36324), filed with the Commission on September 29, 2003).

10.3i Distribution and Service Contract - Integrity Managed Portfolios on behalf of the Oklahoma Municipal Fund (incorporated by reference to Exhibit 99.e1d contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 50 (File No. 33-36324), filed with the Commission on December 22, 2003).

10.3j Distribution and Service Contract - The Integrity Funds on behalf of the Integrity Value Fund (incorporated by reference to Exhibit 99.e1c contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 21 (File No. 33-53698), filed with the Commission on September 5, 2003).

10.3k Distribution and Service Contract - The Integrity Funds on behalf of the Integrity Small Cap Growth Fund (incorporated by reference to Exhibit 99.e1d contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 21 (File No. 33-53698), filed with the Commission on September 5, 2003).

10.3l Distribution and Service Contract - The Integrity Funds on behalf of the Integrity Health Sciences Fund (incorporated by reference to Exhibit 99.e1e contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 21 (File No. 33-53698), filed with the Commission on September 5, 2003).

10.3m Distribution and Service Contract - The Integrity Funds on behalf of the Integrity Technology Fund (incorporated by reference to Exhibit 99.e1f contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 21 (File No. 33-53698), filed with the Commission on September 5, 2003).

10.3n Distribution and Service Contract - The Integrity Funds on behalf of the Integrity High Income Fund (incorporated by reference to Exhibit 99.e1g contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 23 (File No. 33-53698), filed with the Commission on April 27, 2004).

10.3o Distribution and Service Contract - The Integrity Funds on behalf of the Integrity Growth & Income Fund (incorporated by reference to Exhibit 99.e1i contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 26 (File No. 33-53698), filed with the Commission on April 25, 2005).

10.3p Distribution and Service Contract - The Integrity Funds on behalf of the Integrity All Season Fund (incorporated by reference to Exhibit 99.e1j contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 28 (File No. 33-53698), filed with the Commission on July 29, 2005).

10.4a Transfer Agency Contract - ND Tax-Free Fund, Inc. (incorporated by reference to Exhibit 99.h1 contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 21 (File No. 33-25138), filed with the Commission on April 27, 2004).

10.4b Transfer Agency Contract - Montana Tax-Free Fund, Inc. (incorporated by reference to Exhibit 99.h1 contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 16 (File No. 33-63306), filed with the Commission on April 27, 2004).

10.4c Transfer Agency Contract - Integrity Fund of Funds, Inc. (incorporated by reference to Exhibit 99.h1 contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 13 (File No. 33-85332), filed with the Commission on April 27, 2004).

10.4d Transfer Agency Contract - Integrity Managed Portfolios (incorporated by reference to Exhibit 99.h1 contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 49 (File No. 33-36324), filed with the Commission on November 30, 2006).

10.4e Transfer Agency Contract - The Integrity Funds (incorporated by reference to Exhibit 99.h1 contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 21 (File No. 33-53698), filed with the Commission on September 5, 2003).

10.5a Accounting Service Contract - ND Tax-Free Fund, Inc. (incorporated by reference to Exhibit 99.h2 contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 21 (File No. 33-25138), filed with the Commission on April 27, 2004).

10.5b Accounting Service Contract - Montana Tax-Free Fund, Inc. (incorporated by reference to Exhibit 99.h2 contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 16 (File No. 33-63306), filed with the Commission on April 27, 2004).

10.5c Accounting Service Contract - Integrity Fund of Funds, Inc. (incorporated by reference to Exhibit 99.h2 contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 13 (File No. 33-85332), filed with the Commission on April 27, 2004).

10.5d Accounting Service Contract - Integrity Managed Portfolios (incorporated by reference to Exhibit 99.h2 contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 49 (File No. 33-36324), filed with the Commission on September 29, 2003).

10.6a Administration and Accounting Service Contract - The Integrity Funds (incorporated by reference to Exhibit 99.h2 contained in the Registration Statement on Form N-1A, as amended on Post- Effective Amendment 21 (File No. 33-53698), filed with the Commission on September 5, 2003).

10.6b Administration Service Contract - Integrity Managed Portfolios (incorporated by reference to Exhibit 99.h3 contained in the Registration Statement on Form N-1A, as amended on Post-Effective Amendment 49 (File No. 33-36324), filed with the Commission on November 30, 2006).

10.7a Stock Purchase Agreement - ND Holdings, Inc. and Shareholders of Ranson Company, Inc. (incorporated by reference to Exhibit 10.13 contained in the Company's Registration Statement on Form S-1, as amended (File No. 33-96824), filed with the Commission on September 12, 1995).

10.7b Stock Purchase Agreement - CFS Stock Purchase Agreement (incorporated by reference to Exhibit 10.53 contained in the Company's Quarterly Report on Form 10-QSB, (File No. 0-25958), filed with the Commission November 10, 2004).

10.8a Employment Agreement - Robert E. Walstad (incorporated by reference to Exhibit 10.48 contained in the Company's Quarterly Report on Form 10-QSB, (File No. 0-25958), filed with the Commission May 13, 2004).*

10.8b Employment Agreement - Bradley Wells (incorporated by reference to Exhibit 10.49 contained in the Company's Quarterly Report on Form 10-QSB, (File No. 0-25958), filed with the Commission May 13, 2004).*

10.8c Employment Agreement - Jerry J. Szilagyi (incorporated by reference to Exhibit 10.51 contained in the Company's Quarterly Report on Form 10-QSB, (File No. 0-25958), filed with the Commission May 13, 2004).*

10.8d Amendment to Employment Agreement - Bradley Wells (incorporated by reference to Exhibit 10.54 contained in the Company's Current Report on Form 8-K, (File No. 0-25958), filed with the Commission December

20, 2004).*

10.8e Separation Agreement - Jerry J. Szilagyi (incorporated by reference to Exhibit 10.1 contained in the Company's Quarterly Report on Form 10-QSB, (File No. 0-25958), filed with the Commission August 11, 2006).*

10.8f Separation Agreement - Robert E. Walstad.*

14.1 Code of Ethics (incorporated by reference to Exhibit 14.1 contained in the Company's Annual Report on Form 10-KSB, filed with the Commission on March 28, 2006).

21.1 Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 contained in the Company's Annual Report on Form 10-KSB, filed with the Commission on March 28, 2005).

31.1 CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act and Rules 13a-14(a) and 15d-14(a) of the Exchange Act.

31.2 CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act and Rules 13a-14(a) and 15d-14(a) of the Exchange Act.

32.1 CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act and 18 U.S.C. Section 1350.

32.2 CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act and 18 U.S.C. Section 1350.

* Indicates Management Contract or Compensatory Plan.

Item 14. Principal Accountant Fees and Services

Incorporated herein by reference is the information appearing under the heading "Fees Billed for Services Rendered by Independent Accountant" in the Registrant's Proxy Statement, which the Registrant anticipates filing on or about April 13, 2007.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTEGRITY MUTUAL FUNDS, INC.

| | |
|---|---|
| Date: March 16, 2007 | By /s/ Mark R. Anderson<br>Mark R. Anderson<br>Chief Executive Officer,<br>President, and Director<br>(Principal Executive Officer) |

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | |
|---|---|
| Date: March 16, 2007 | By /s/ Mark R. Anderson<br>Mark R. Anderson<br>Chief Executive Officer, |

| | |
|---|---|
| | President, and Director<br>(Principal Executive Officer) |
| Date: March 16, 2007 | By /s/ Heather Ackerman<br>Heather Ackerman<br>Chief Financial Officer<br>and Controller<br>(Principal Financial Officer) |
| Date: March 16, 2007 | By /s/ Peter A. Quist<br>Peter A. Quist<br>Vice President and Director |
| Date: March 16, 2007 | By /s/ Vance A. Castleman<br>Vance A. Castleman<br>Director |
| Date: March 16, 2007 | By /s/ Myron D. Thompson<br>Myron D. Thompson<br>Director |
| Date: March 16, 2007 | By /s/ Richard H. Walstad<br>Richard H. Walstad<br>Director |
| Date: March 16, 2007 | By /s/ Steven D. Lysne<br>Steven D. Lysne<br>Director |
| Date: March 16, 2007 | By /s/ Vaune M. Cripe<br>Vaune M. Cripe<br>Director |
| Date: March 16, 2007 | By /s/ Jeffrey A. Cummer<br>Jeffrey A. Cummer<br>Director |

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES

MINOT, NORTH DAKOTA

CONSOLIDATED FINANCIAL STATEMENTS
AS OF
DECEMBER 31, 2006, 2005 AND 2004
AND
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES

TABLE OF CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Directors of
Integrity Mutual Funds, Inc. and Subsidiaries
Minot, North Dakota

We have audited the accompanying consolidated balance sheets of Integrity Mutual Funds, Inc. and Subsidiaries as of December 31, 2006 and 2005 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2006, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Integrity Mutual Funds, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years ended December 31, 2006, 2005 and 2004 in conformity with accounting principles generally accepted in the United States of America.

BRADY, MARTZ & ASSOCIATES, P.C.
Minot, North Dakota USA

March 6, 2007

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

ASSETS

| | | 2006 | | 2005 |
|---|---|---|---|---|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | $ | 1,851,249 | $ | 1,537,391 |
| Securities available-for-sale | | 213 | | 208 |
| Accounts receivable | | 1,793,645 | | 1,460,400 |
| Income taxes receivable | | 780 | | 154,966 |
| Deferred tax asset | | 5,833 | | 52,609 |
| Prepaids | | 88,894 | | 95,116 |
| Total current assets | $ | 3,740,614 | $ | 3,300,690 |
| PROPERTY AND EQUIPMENT | $ | 1,989,312 | $ | 1,941,613 |
| Less accumulated depreciation | | (811,854) | | (731,016) |
| Net property and equipment | $ | 1,177,458 | $ | 1,210,597 |
| OTHER ASSETS | | | | |
| Deferred sales commissions | $ | 168,686 | $ | 186,010 |
| Goodwill | | 9,792,801 | | 9,830,389 |
| Deferred tax asset | | 335,995 | | 326,873 |
| Other assets (net of accumulated amortization of $253,961 for 2006 and $177,720 for 2005) | | 250,576 | | 338,355 |
| Total other assets | $ | 10,548,058 | $ | 10,681,627 |
| TOTAL ASSETS | $ | 15,466,130 | $ | 15,192,914 |

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (CONTINUED)
LIABILITIES AND STOCKHOLDERS' EQUITY

| | | 2006 | | 2005 |
|---|---|---|---|---|
| CURRENT LIABILITIES | | | | |
| Service fees payable | $ | 115,225 | $ | 73,416 |
| Accounts payable | | 261,767 | | 265,165 |

| | | | |
|---|---|---|---|
| | Other current liabilities | 1,600,772 | 1,311,867 |
| | Current portion of long-term debt | 22,344 | 514,085 |
| | Total current liabilities | $ 2,000,108 | $ 2,164,533 |
| LONG-TERM LIABILITIES | | | |
| | Note payable | $ 380,651 | $ 1,103,651 |
| | Subordinate commercial notes | 561,000 | 561,000 |
| | Subordinate corporate notes | 2,000,000 | 2,000,000 |
| | Convertible promissory note | 950,000 | - |
| | Convertible debentures | - | 250,000 |
| | Other long-term liabilities | 198,507 | 224,094 |
| | Less current portion of long-term debt | (22,344) | (514,085) |
| | Total long-term liabilities | $ 4,067,814 | $ 3,624,660 |
| TOTAL LIABILITIES | | $ 6,067,922 | $ 5,789,193 |
| STOCKHOLDERS' EQUITY | | | |
| | Series A Preferred stock - 5,000,000 shares authorized, $.0001 par value; 3,050,000 and 3,050,000 shares issued and outstanding, respectively | $ 305 | $ 305 |
| | Additional paid in capital - series A preferred stock | 1,524,695 | 1,524,695 |
| | Common stock - 1,000,000,000 shares authorized, $.0001 par value; 13,717,146 and 13,518,543 shares issued and outstanding, respectively | 1,372 | 1,352 |
| | Additional paid in capital - common stock | 9,967,973 | 9,829,311 |
| | Receivable - unearned ESOP shares | (62,072) | (68,765) |
| | Accumulated deficit | (2,034,055) | (1,883,168) |
| | Accumulated other comprehensive income (loss) | (10) | (9) |
| TOTAL STOCKHOLDERS' EQUITY | | $ 9,398,208 | $ 9,403,721 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | | $ 15,466,130 | $ 15,192,914 |

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

| | | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| OPERATING REVENUES | | | | |
| | Fee income | $ 6,732,222 | $ 4,788,853 | $ 4,382,788 |
| | Commission income | 20,054,742 | 14,651,903 | 12,607,783 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total revenue | $ | 26,786,964 | $ | 19,440,756 | $ | 16,990,571 |
| OPERATING EXPENSES | | | | | | | |
| | Compensation and benefits | $ | 3,729,425 | $ | 3,330,165 | $ | 3,120,309 |
| | Commission expense | | 19,370,607 | | 13,283,057 | | 11,405,775 |
| | General and administrative expenses | | 2,242,721 | | 2,139,042 | | 2,166,954 |
| | Sub-advisory expenses | | 887,896 | | 432,534 | | 41,084 |
| | Sales commissions amortized | | 334,254 | | 316,928 | | 321,942 |
| | Depreciation and amortization | | 157,361 | | 143,155 | | 99,525 |
| | Total operating expenses | $ | 26,722,264 | $ | 19,644,881 | $ | 17,155,589 |
| OPERATING INCOME (LOSS) | | $ | 64,700 | $ | (204,125) | $ | (165,018) |
| OTHER INCOME (EXPENSES) | | | | | | | |
| | Interest and other income | $ | 233,610 | $ | 54,896 | $ | 66,155 |
| | Interest expense | | (346,606) | | (301,934) | | (275,247) |
| | Net other expenses | $ | (112,996) | $ | (247,038) | $ | (209,092) |
| LOSS BEFORE INCOME TAX BENEFIT (EXPENSE) | | $ | (48,296) | $ | (451,163) | $ | (374,110) |
| INCOME TAX BENEFIT (EXPENSE) | | | (11,091) | | 118,750 | | 124,110 |
| NET LOSS | | $ | (59,387) | $ | (332,413) | $ | (250,000) |
| LOSS PER COMMON SHARE: | | | | | | | |
| | Basic | $ | (.01) | $ | (.03) | $ | (.03) |
| | Diluted | $ | (.01) | $ | (.03) | $ | (.03) |
| SHARES USED IN COMPUTING LOSS PER COMMON SHARE: | | | | | | | |
| | Basic | | 13,696,486 | | 13,430,040 | | 13,064,779 |
| | Diluted | | 13,696,486 | | 13,430,040 | | 13,064,779 |

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

| | Amounts | | | | | | Shares | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2006 | | 2005 | | 2004 | 2006 | 2005 | 2004 |
| Preferred stock and additional paid-in capital | | | | | | | | | |
| Balance, beginning of year | $ | 1,525,000 | $ | 1,525,000 | $ | 1,525,000 | 3,050,000 | 3,050,000 | 3,050,000 |
| Preferred stock issued | - | | - | | - | | - | - | - |
| Balance, end of year | $ | 1,525,000 | $ | 1,525,000 | $ | 1,525,000 | 3,050,000 | 3,050,000 | 3,050,000 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Common stock and additional paid-in capital | | | | | | | | | |
| Balance, beginning of year | $ | 9,830,663 | $ | 9,515,283 | $ | 8,873,732 | 13,518,543 | 13,228,543 | 12,995,812 |
| Common stock issued | | 7,000 | | 6,600 | | 38,000 | 198,603 | 290,000 | 300,000 |
| Stock option valuation | | 132,600 | | 310,500 | | 634,000 | - | - | - |
| Warrants issued | | - | | - | | 3,000 | - | - | - |
| Purchase of common stock | | (918) | | (1,720) | | (33,449) | - | - | (67,269) |
| Balance, end of year | $ | 9,969,345 | $ | 9,830,663 | $ | 9,515,283 | 13,717,146 | 13,518,543 | 13,228,543 |
| | | | | | | | | | |
| Accumulated deficit | | | | | | | | | |
| Balance, beginning of year | $ | (1,883,168) | $ | (1,459,255) | $ | (1,114,705) | | | |
| Net income (loss) | | (59,387) | | (332,413) | | (250,000) | | | |
| Preferred dividends | | (91,500) | | (91,500) | | (94,550) | | | |
| Disposal of business segment | | - | | - | | - | | | |
| Balance, end of year | $ | (2,034,055) | $ | (1,883,168) | $ | (1,459,255) | | | |
| | | | | | | | | | |
| ESOP activity | | | | | | | | | |
| Balance, beginning of year | $ | (68,765) | $ | (75,455) | $ | (82,148) | | | |
| Repayments from ESOP | | 6,693 | | 6,690 | | 6,693 | | | |
| Balance, end of year | $ | (62,072) | $ | (68,765) | $ | (75,455) | | | |
| | | | | | | | | | |
| Accumulated other comprehensive income | | | | | | | | | |
| Balance, beginning of year | $ | (9) | $ | 256 | $ | (773) | | | |
| Change in unrealized gain (loss) on available-for-sale securities | | (1) | | (265) | | 1,029 | | | |
| Balance, end of year | $ | (10) | $ | (9) | $ | 256 | | | |
| | | | | | | | | | |
| Total stockholders' equity | $ | 9,398,208 | $ | 9,403,721 | $ | 9,505,829 | | | |

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

| | | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | |
| | Net loss | $ | (59,387) | $ | (332,413) | $ | (250,000) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | |
| Depreciation and amortization | | 157,361 | | 136,910 | | 98,754 |
| Sales commissions amortized | | 334,254 | | 316,928 | | 282,948 |
| Compensation expense - stock | | - | | - | | 38,000 |
| Compensation expense - options | | 132,600 | | 310,500 | | 634,000 |
| Recruiting expense - stock | | 7,000 | | 6,600 | | - |
| Loss on disposal of assets | | - | | 3,007 | | - |
| Gain (loss) on sale of available-for-sale securities | | - | | (270) | | 937 |
| Effects on operating cash flows due to changes in: | | | | | | |
| Accounts receivable | | (333,245) | | (275,116) | | (137,793) |
| Income taxes receivable | | 154,186 | | (154,966) | | - |
| Prepaids | | 6,222 | | (1,606) | | (17,037) |
| Deferred sales commissions capitalized, net of CDSC collected | | (316,930) | | (86,030) | | 28,030 |
| Deferred tax asset | | 37,654 | | (28,646) | | (319,180) |
| Other assets | | 11,540 | | (48,926) | | 38,537 |
| Service fees payable | | 41,809 | | (24,609) | | (5,473) |
| Accounts payable | | (14,270) | | 204,942 | | (69,600) |
| Other liabilities | | 388,905 | | 216,770 | | 136,702 |
| | | | | | | |
| Net cash provided by operating activities | $ | 547,699 | $ | 243,075 | $ | 458,825 |
| | | | | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Purchase of property and equipment | $ | (47,990) | $ | (81,493) | | (41,709) |
| Proceeds from sale of property and equipment | | - | | 500 | | - |
| Purchase of available-for-sale securities | | - | | - | $ | (5,030) |
| Proceeds from sale of available-for-sale securities | | - | | 5,281 | | 24,019 |
| Purchase of goodwill | | - | | (232,407) | | (48,652) |
| | | | | | | |
| Net cash used by investing activities | $ | (47,990) | $ | (308,119) | $ | (71,372) |
| | | | | | | |

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

| | | 2006 | | 2005 | | 2004 |
|---|---|---|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | |
| Issuance of subordinated corporate notes | $ | - | $ | 2,000,000 | $ | - |
| Issuance of convertible promissory note | | 950,000 | | - | | - |
| Addition to notes payable | | 301,866 | | - | | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Short-term borrowing | | - | | 650,025 | | 300,000 |
| Sale of common stock warrants | | - | | - | | 3,000 |
| Repayments from ESOP | | 6,693 | | 6,690 | | 6,693 |
| Redemption of common stock | | (918) | | (1,720) | | (33,449) |
| Reduction of short-term borrowing | | (100,000) | | (650,025) | | (200,000) |
| Reduction of other debt obligations | | - | | (366,440) | | (903,068) |
| Dividends paid | | (68,625) | | (68,625) | | (71,675) |
| Reduction of notes payable | | (1,024,866) | | (239,998) | | (240,786) |
| Redemption of subordinate debentures | | - | | (595,000) | | - |
| Redemption of convertible debentures | | (250,000) | | - | | - |
| Redemption of corporate notes | | - | | - | | (962,000) |
| Net cash provided (used) by financing activities | $ | (185,850) | $ | 734,907 | $ | (2,101,285) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | $ | 313,859 | $ | 669,863 | $ | (1,713,832) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 1,537,391 | | 867,528 | | 2,581,360 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ | 1,851,249 | $ | 1,537,391 | $ | 867,528 |
| SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION | | | | | | |
| Cash paid during the year for: | | | | | | |
| Interest | $ | 260,844 | $ | 244,919 | $ | 323,347 |
| Income taxes | $ | 1,739 | $ | 100,177 | $ | 386,970 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | | | | | |
| Change in unrealized gain (loss) on available-for-sale securities | $ | (1) | $ | (265) | $ | 1,029 |
| Increase (decrease) in goodwill | $ | (25,587) | $ | 168,497 | $ | (150,601) |
| Increase (decrease) in other current liabilities | $ | - | $ | (55,597) | $ | 69,392 |
| Increase (decrease) in other long-term liabilities | $ | (25,587) | $ | 224,094 | $ | (219,993) |
| Recruiting expense - stock | $ | 7,000 | $ | 6,600 | $ | - |
| Compensation expense - stock | $ | - | $ | - | $ | 38,000 |
| Compensation expense - options | $ | 132,600 | $ | 310,500 | $ | 634,000 |
| Preferred stock dividends declared | $ | 22,875 | $ | 22,875 | $ | 22,875 |

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005 AND 2004

NOTE 1 - **NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

The nature of operations and significant accounting policies of Integrity Mutual Funds, Inc., and Subsidiaries are presented to assist in understanding the Company's consolidated financial statements.

**Nature of operations** - Integrity Mutual Funds, Inc., and Subsidiaries (the "Company") was established in September 1987 as a North Dakota corporation. The Company derives its revenue primarily from providing investment management, distribution, shareholder services, fund accounting, and related services to sponsored mutual funds, as well as commissions earned from sales of mutual funds, insurance products, and various other securities. Headquartered in Minot, North Dakota, the Company is marketing its services throughout the United States.

**Principles of consolidation** - The consolidated financial statements include the accounts of Integrity Mutual Funds, Inc., and it's wholly owned subsidiaries, Integrity Money Management, Inc., Integrity Fund Services, Inc., Integrity Funds Distributor, Inc., and Capital Financial Services, Inc. All significant inter-company transactions and balances have been eliminated in the accompanying consolidated financial statements.

**Concentrations** - The Company derives its revenue primarily from investment advisory and administrative services provided to its sponsored mutual funds, as well as revenues derived from retail brokerage activities. Company revenues are largely dependent on the total value and composition of assets under management, as well as the sales activity of registered representatives operating as independent contractors. Accordingly, fluctuations in financial markets and the composition of assets under management impact revenues and results of operations.

**Use of estimates** - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue recognition** - Investment advisory fees, transfer agent fees, accounting service fees, and administrative service fees are recorded as revenues as the related services are provided by the Company to sponsored mutual funds. Commission income and the related clearing expenses are recorded on a trade-date basis as securities transactions occur.

**Stock-based compensation -** In December of 2005, the Company adopted FASB Statement No. 123R, "Share-Based Payment," ("SFAS 123R") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options, based on estimated fair values. SFAS 123R supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25").

The Company adopted SFAS 123R using the modified retroactive restatement method, which requires the restatement of all periods presented to reflect stock-based employee compensation cost under the fair value-based accounting method for all employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994.

**Cash and cash equivalents** - The Company's policy is to record all liquid investments with original maturities of three months or less as cash equivalents. Liquid investments with maturities greater than three months are recorded as investments.

**Accounts receivable -** The Company's receivables consist primarily of fees charged to the affiliated funds for services rendered and concessions related to registered representative activity. Management evaluates the need for an allowance for doubtful accounts by identifying troubled accounts and using historical experience. Based on this analysis, management feels that substantially all accounts are collectible and an allowance for doubtful accounts is not considered necessary. Accounts receivable are written off when management deems them uncollectible. Recoveries of accounts receivable previously written off are recorded when received. The Company does not charge interest on its receivables.

**Investments** - Investments in equity securities that have readily determinable fair values are classified and accounted for as available-for-sale. Available-for-sale securities consist of investments in the Company's sponsored mutual funds and are recorded at fair value, with the change in fair value recorded as a component of other comprehensive income in the equity section of the balance sheet. Cost of securities sold is recognized using the specific identification method.

**Goodwill -** In January 2002, the Company adopted FASB Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"), which required that goodwill, including goodwill included in the carrying value of investments accounted for using the equity method of accounting and indefinite-lived other intangible assets deemed to have an indefinite useful life, cease amortizing. The rules also required that goodwill of consolidated businesses and certain intangible assets be assessed for impairment using fair value measurement techniques. As a result, a substantial portion of the Company's goodwill and intangible assets ceased amortizing.

**Property and equipment** - Property and equipment is stated at cost less accumulated depreciation computed on straight-line and accelerated methods over estimated useful lives as follows:

| | |
|---|---|
| Equipment | 5-7 years |
| Building | 40 years |

**Deferred sales commissions** - Sales commissions paid to broker-dealers in connection with the sale of shares of the sponsored mutual funds sold without a front-end sales charge (B and C shares), are capitalized and amortized on a straight-line basis over a period not exceeding eight years, which approximates the period of time during which deferred sales commissions are expected to be recovered from distribution plan payments received from various sponsored mutual funds and potential contingent deferred sales charges received from shareholders of the various sponsored mutual funds. Contingent deferred sales charges received by the Company are recorded as a reduction of unamortized deferred sales commissions. In accordance with Statement of Position 98-5, the commissions paid for the sale of Integrity Fund of Funds, Inc.'s shares have been expensed as incurred. The contingent deferred sales charges received from early redemptions from Integrity Fund of Funds, Inc. have been recorded as revenue. Effective January 1, 2001, the Company is amortizing most of its sales commissions over 5 years for tax purposes.

**Other assets** - Other assets include debt issue costs, computer software costs, and other miscellaneous assets. Debt issue costs are amortized over the life of the corresponding debt and computer software costs are amortized over an estimated useful life.

**Advertising** - Costs of advertising and promotion are expensed as incurred. Advertising and promotion costs aggregated $46,232 in 2006, $66,409 in 2005 and $55,436 in 2004.

**Earnings per common share** - Basic earnings per common share was computed using the weighted average number of shares outstanding of 13,696,486 in 2006, 13,430,040 in 2005 and 13,064,779 in 2004. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for share equivalents arising from unexercised stock warrants, stock options, and written put options. The weighted average shares outstanding used in computing diluted earnings per common share were 13,696,486 in 2006, 13,430,040 in 2005 and 13,064,779 in 2004.

**Income taxes** - The Company files a consolidated income tax return with its wholly owned subsidiaries. The amount of deferred tax benefit or expense is recognized as of the date of the consolidated financial statements, utilizing currently enacted tax laws and rates. Deferred tax benefits are recognized in the financial statements for the changes in deferred tax assets between years.

**Reclassification** - Certain amounts from 2004 and 2005 have been reclassified to conform to the 2006 presentation. These reclassifications had no effect on the Company's net income.

**Impact of Newly Issued and Proposed Accounting Standards -** The Financial Accounting Standards Board ("FASB") has issued Interpretation No. 48 ("FIN48"), "Accounting for Uncertainty in Income Taxes." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, Accounting for Contingencies.

The provisions of FIN 48 will be effective for the Company on January 1, 2007. Earlier application by the Company is not permitted because the Company previously issued interim financial statements during 2006. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption.

The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity) for the fiscal year of adoption. The Company does not believe the adoption of FIN 48 will have a significant effect on the Company's consolidated financial statements.

In February of 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 155, "Accounting for Certain Hybrid Financial Instruments," an amendment to FASB Statements No. 133 and 140. SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to resolve issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS No. 155 also amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company has not issued nor does it currently hold any financial instruments that would be affected by SFAS No. 155 and does not anticipate that SFAS No. 155 will have any impact on its consolidated financial statements on the date the statement becomes effective.

In March of 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140." SFAS No. 156 amends FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," with respect to the accounting for separately recognized servicing assets and servicing liabilities.

SFAS No. 156:

(a) Requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations.

(b) Requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable.

(c) Permits an entity to choose either the amortization method or the fair value measurement method for each class of separately recognized servicing assets and servicing liabilities.

(d) At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value.

(e) Requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities.

Adoption of SFAS No. 156 is required as of the beginning of the first fiscal year that begins September 15, 2006. The Company does not anticipate that the adoption of SFAS No. 156 will have a significant effect on the Company's consolidated financial statements.

In September of 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements where fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. The Company cannot predict what, if any, impact SFAS No. 157 will have on its consolidated financial statements when it becomes effective in 2008.

NOTE 2 - **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at December 31, 2006 and 2005 consist of the following:

| | Current Maturity | Current Interest Rate | Amount 2006 | 2005 |
|---|---|---|---|---|
| Cash in checking | Demand | - | $ 1,850,563 | $ 1,236,631 |
| Cash in savings | Demand | 0.19% | 686 | 300,760 |
| | | | $ 1,851,249 | $ 1,537,391 |

NOTE 3 - **INVESTMENTS IN AND TRANSACTIONS WITH SPONSORED MUTUAL FUNDS**

The Company's investments in sponsored mutual funds held as available-for-sale at December 31, 2006 and 2005:

| | Aggregate Cost | Gross Unrealized Holding Gains (Losses) | Aggregate Fair Value |
|---|---|---|---|
| 2006 - Mutual Funds | $ 223 | $ (10) | $ 213 |
| 2005 - Mutual Funds | $ 217 | $ (9) | $ 208 |

Dividends earned on the Company's investments in sponsored mutual funds aggregated $7 in 2006, $13 in 2005 and $326 in 2004.

The Company provides services to the Funds, which had aggregate net assets under management at December 31, 2006 of $442,008,564. All services rendered by the Company are provided under contracts that definitively set forth the services to be provided and the fees to be charged. The majority of these contracts are subject to periodic review and approval by each of the Fund's Board of Directors, Trustees and Shareholders. Revenues derived from services rendered to the sponsored mutual funds were $5,461,110 in 2006, $4,657,953 in 2005 and $4,273,276 in 2004.

Accounts receivable from the sponsored mutual funds aggregated $475,000 and $409,000 at December 31, 2006 and 2005, respectively.

NOTE 4 - **PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2006 and 2005, consists of the following:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| Office furniture and equipment | $ | 709,208 | $ | 662,701 |
| Building and land | | 1,280,104 | | 1,278,912 |
| | $ | 1,989,312 | $ | 1,941,613 |
| Accumulated depreciation and amortization | | (811,854) | | (731,016) |
| | $ | 1,177,458 | $ | 1,210,597 |

Depreciation expense totaled $81,120, $87,665and $85,964 in 2006, 2005 and 2004, respectively.

NOTE 5 - **BUSINESS ACQUISITIONS**

**Purchase Combinations** -

On April 22, 2005, the Company acquired the management rights to the IPS Millennium Fund and the IPS New Frontier Fund from IPS Advisory, Inc. ("IPS Advisory"), and merged them into a new Integrity Fund called the Integrity Growth & Income Fund. The two funds had combined assets of approximately $57 million at the time of acquisition. The purchase agreement called for total consideration of approximately 656,000 common shares of the Company. The Company provided IPS Advisory with 250,000 common shares upon closing. The remaining consideration of approximately 406,000 common shares, which is subject to adjustment based on retention of assets in the fund, is to be issued as follows: 203,000 common shares at the one-year anniversary of the closing date, and 203,000 common shares at the two-year anniversary of the closing date. The shares will be subject to a put option, which will allow the holders of the shares to put them back to the Company at a price equal to the market price of the Company's shares as of the closing date, which was $.36 per share. The put option will be exercisable with respect to one-third of the shares per year starting on the third anniversary of the closing date. The Company will also provide IPS Advisory with a stock option incentive bonus based on growth in assets in the Fund based on the following schedule: 150,000 options on the Company's common shares when assets of the Fund reach $100 million and 150,000 options on the Company's common shares when the assets of the Fund reach $200 million. The options will have a strike price of $.65 per share and mature 10 years from the closing date. The securities issued in connection with this transaction will be issued on a private placement basis. . In April of 2006, the one-year anniversary payment of approximately 158,603 common shares was made, which reflected the assets of the acquired funds at the one-year anniversary. In December of 2006, the liability relating to this acquisition was valued at approximately $199,000 to reflect the assets in the acquired funds as of December 31, 2006.

On September 19, 2003, the Company acquired the management rights to the four stock funds in the Willamette Family of Funds. The four funds had combined assets of approximately $63 million at the time of acquisition. The purchase agreement called for total consideration of approximately $1,400,000. The majority of the purchase price, or approximately $900,000, was paid upon closing. The remaining consideration of approximately $500,000, which was subject to adjustment based on retention of assets in the funds, was to be paid as follows: $350,000 within five business days of the one-year anniversary of the closing date, and $150,000 within five business days of the two-year anniversary of the closing date. The total purchase price was paid by utilizing a commercial bank loan and lines of credit, as well as available cash on hand. In September of 2004, the one-year anniversary payment of approximately $323,000 was made, which reflected the assets of the acquired funds at the one-year anniversary. In September of 2005, the final payment of approximately $90,000 was made, which reflected the assets in the acquired funds at the two-year anniversary.

On May 23, 2003, the Company acquired the management rights to the CNB Funds, which included the $13 million Canandaigua Equity Fund, a large-cap growth fund, and the $1 million Canandaigua Bond Fund. The purchase agreement called for total consideration of approximately $285,000. The majority of the purchase price, or approximately $160,000, was paid upon closing. The remaining consideration of approximately $125,000, which was subject to adjustment based on retention of assets in the funds, was to be paid as follows: $62,500 at the one-year anniversary of the closing date, and $62,500 at the two-year anniversary of the closing date. The total purchase price was paid by using available cash on hand. In June of 2004, the one-year anniversary payment of approximately $44,000 was paid, which reflected the assets in the acquired funds at the one-year anniversary. In June of 2005, the final payment of approximately $26,000 was made, which reflected the assets in the acquired funds at the two-year anniversary.

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 over 300 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, and 500,000 options to purchase common stock of the Company at an option strike price of $0.50 per share.

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 were issued in three (3) annual installments beginning at the date of purchase. The shares have a put right, whereby the installment shares may be put back to the Company at the rate of $0.50 per share. The put right may be exercised at any time within the ninety-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. In January of 2003, 2004, and 2005, the put options on the three installments of shares were exercised. As a result, the Company paid $250,000 to repurchase 500,000 shares in each of the years 2003, 2004, and 2005.

Also pursuant to the terms of the purchase agreement whereby CFS was acquired, on January 15, 2003, the Company issued convertible debentures divided among the prior shareholders of CFS in the total amount of $250,000, subject to certain provisions of the Stock Purchase Agreement dated January 15, 2002, which may increase or decrease the amount of the debenture to reflect undisclosed or unknown liabilities of CFS, loss of producing broker revenue base, recovery from third parties, and the costs of such recovery. The debenture principal will be payable January 15, 2006 and will pay interest on the principal sum from January 15, 2003 at the rate of four percent (4%) per annum on a semi-annual basis beginning on July 15, 2003 and thereafter on January 15$^{th}$ and July 15$^{th}$ 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 $.0001 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. In January of 2006, the Company paid $250,000 to retire the convertible debentures.

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 of purchase price over the estimated fair value of the equity of CFS was $2,117,711, which was recorded as goodwill.

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

NOTE 6 - **LONG-TERM DEBT**

Long-term debt at December 31, 2006 and 2005 was as follows:

| | Rate | Current Portion | 2006 | 2005 |
|---|---|---|---|---|
| Long-term debt: | | | | |
| First Western Bank | 7.25% | 22,344 | 380,651 | 401,483 |
| First Western Bank | 8.25% | - | - | 702,168 |
| Subordinate commercial notes | 9.00% | - | 561,000 | 561,000 |
| Subordinate corporate notes | 9.25% | - | 2,000,000 | 2,000,000 |
| Convertible promissory note | 6.50% | - | 950,000 | - |
| Convertible debenture | 4.00% | - | - | 250,000 |
| Future payments on acquisitions | | - | 198,507 | 224,094 |
| Totals | | $ 22,344 | $ 4,090,158 | $ 4,138,745 |

Summaries of the terms of the current long-term debt agreements follow:

**First Western Bank** - In June of 1999, the Company converted its outstanding balance of $500,000 borrowed on its bank line-of-credit to long-term debt. The debt was refinanced in October of 2005 and currently carries an interest rate of 7.25%, with monthly payments of $4,105. On October 1, 2010, the remaining balance will be due in full.

In June of 2003, the Company borrowed $900,000 on a $1,200,000 line of credit. The debt carried an interest rate of 1.25% above the prime rate, with monthly payments of $23,200. In December of 2003, the Company borrowed the remaining $300,000 on the line of credit. The loan was modified in May of 2006, at which time an additional $301,866 was injected to the outstanding balance of the loan. After the modification, the loan carried an interest rate of 8.25%, and based on the monthly payments, would have been paid in full in May of 2010. In October of 2006, the loan was paid in full.

**Subordinate Commercial Notes** - The Company approved a $1 million intra-state subordinate commercial note offering limiting the sale in North Dakota, to North Dakota residents only. The subordinate commercial notes do not represent ownership in the Company. As of December 31, 2006, $561,000 in subordinate commercial notes was outstanding. The subordinate commercial notes carry an interest rate of 9% per annum, payable semi-annually, and mature June 30, 2008. The Company can call the subordinate commercial notes at par anytime after July 1, 2003.

**Subordinate Corporate Notes** - The Company approved a $2 million intra-state subordinate corporate note offering limiting the sale in North Dakota, to North Dakota residents only. The subordinate corporate notes do not represent ownership in the Company. As of December 31, 2006, $2,000,000 in subordinate corporate notes was outstanding. The subordinate corporate notes carry an interest rate of 9.25% per annum, payable annually, and mature January 1, 2011. The Company can call the subordinate corporate notes at par anytime after December 1, 2007.

**Convertible Promissory Note -** In October of 2006, the Company issued a $950,000 convertible promissory note to PawnMart, Inc., in a private placement. The unsecured note carries an interest rate of 6.5% per annum, payable semi-annually, and matures on October 15, 2016. The holder of the note has the right, at any time after October 15, 2009, to convert the note in whole or in part, into $0.0001 par value common shares of the Company. The conversion price shall be equal to $0.50 per share. The entire principal amount of this note shall be automatically converted into common shares at the conversion price on October 15, 2016.

**Convertible Debentures** - see Note 5 - Business Acquisitions

**Future Payments on Acquisitions** - see Note 5 - Business Acquisitions

The aggregate amount of required future payments on the above long-term debt at December 31, 2006, is as follows:

| Year ending December 31, | | |
|---|---|---|
| 2007 | $ | 22,344 |
| 2008 | | 675,085 |
| 2009 | | 82,987 |
| 2010 | | 359,742 |
| 2011 | | 2,000,000 |
| Thereafter | | 950,000 |
| Total due | $ | 4,090,158 |

NOTE 7 - **INCOME TAXES**

The provision for income taxes is based on earnings before income taxes reported for financial statement purposes and consisted of the following:

| | | 2006 | | 2005 | | 2004 |
|---|---|---|---|---|---|---|
| Current income taxes: | | | | | | |
| Federal | $ | - | $ | - | $ | 158,000 |
| State | | - | | - | | 24,000 |
| Total current payable | $ | - | $ | - | $ | 182,000 |
| Deferred tax benefit (expense): | | | | | | |
| Federal | $ | (9,700) | $ | 104,000 | $ | 268,000 |
| State | | (1,391) | | 14,750 | | 38,110 |
| Total deferred tax benefit (expense) | $ | (11,091) | $ | 118,750 | $ | 306,110 |
| Total provision for income tax benefit (expense) | $ | (11,091) | $ | 118,750 | $ | 124,110 |

Deferred taxes arise because of different tax treatment between financial statement accounting and tax accounting, known as "temporary differences." The Company records the tax effect of these temporary differences as "deferred tax assets" (generally items that can be used as a tax deduction or credit in future periods) and "deferred tax liabilities" (generally items for which the Company has received a tax deduction and has not yet been recorded in the consolidated statement of operations).

Deferred tax assets (liabilities) were comprised of the following:

| | | 2006 | | 2005 | | 2004 |
|---|---|---|---|---|---|---|
| Deferred tax assets: | | | | | | |
| Net operating and capital loss carry forwards | $ | 105,628 | $ | 133,648 | $ | 71,224 |
| Stock option compensation | | 552,916 | | 500,935 | | 375,135 |
| Other | | - | | - | | - |
| Total deferred tax assets | $ | 658,544 | $ | 634,583 | $ | 446,359 |
| Deferred tax liabilities: | | | | | | |
| Accumulated depreciation | $ | 38,896 | $ | 51,406 | $ | 45,044 |
| Accumulated amortization | | 277,820 | | 203,695 | | 50,479 |
| Total deferred tax liabilities | $ | 316,716 | $ | 255,101 | $ | 95,523 |
| Net deferred tax asset | $ | 341,828 | $ | 379,482 | $ | 350,836 |
| Net deferred tax asset - current | $ | 5,833 | $ | 52,609 | $ | - |
| Net deferred tax asset - non-current | $ | 335,995 | $ | 326,873 | $ | 350,836 |
| Net deferred tax asset | $ | 341,828 | $ | 379,482 | $ | 350,836 |

As of December 31, 2006, the Company had federal and state net operating loss carry forwards of approximately $17,000 and $655,000, respectively, which will expire over the next six to twenty years if unused.

As of December 31, 2006, the Company also has a capital loss carry forward of approximately $88,000 that will expire in 2008 if unused.

A reconciliation of the difference between the expected income tax expense (benefit) computed at the U.S. statutory income tax rate of 35% and the Company's income tax expense is shown in the following table:

| | | 2006 | | | 2005 | | | 2004 | |
|---|---|---|---|---|---|---|---|---|---|
| Federal benefit (taxes) at statutory rates | $ | 17,000 | 35% | $ | 158,000 | 35% | $ | 131,000 | 35% |
| State benefit (taxes), net of federal tax effect | | 2,000 | 5% | | 23,000 | 5% | | 19,000 | 5% |
| Other | | (30,091) | (63%) | | (62,250) | (14%) | | (25,890) | (7%) |
| Actual tax benefit (expense) | $ | (11,091) | (23%) | $ | 118,750 | 26% | $ | 124,110 | 33% |

Included in "other" are amounts separately allocated to stockholders' equity to recognize the related tax effect of the change in net unrealized gain or loss on securities available for sale, ESOP plan activity, and effects of stock-based employee compensation for the years ended December 31, 2006, 2005 and 2004.

NOTE 8 - **STOCK WARRANTS, STOCK SPLITS, AND STOCK OPTIONS**

The Company has authorized 2,100,000 perpetual warrants to certain organizers, directors, officers, employees and shareholders of the Company. All of these warrants were issued between 1987 and 1990 and were accounted for in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. No compensation expense was recorded for these warrants as the exercise price exceeded the market price of the stock at the date of issue. The Company plans to continue to apply APB Opinion No. 25 in accounting for these warrants. These warrants, at the date of issue, allowed for the purchase of shares of stock at $2.00 per share. The exercise prices of these warrants were adjusted to reflect stock splits of 2 for 1 in 2002, and 11 for 10 in 1990 and 1989. 2,000 warrants (adjusted for the 2 for 1 stock split in 2002) were exercised in 1997, leaving an outstanding balance of 2,098,000 warrants as of December 31, 2006.

In addition to the warrants discussed above, the Company has also issued warrants to purchase 600,000 common shares in March of 2004 at an exercise price of $.60 per share. These options are considered to be fully vested and have a contractual expiration date of September 1, 2010.

The Company has entered into employment agreements with two key employees of the Company. Upon execution of these employment agreements, a one-time granting of stock options took effect. These options are fully vested and have a perpetual life. Each employment contract stated the strike price for which options were granted. In addition, the contracts will grant options should the employee reach specified performance goals. The number of shares authorized for granting of options under these employment agreements is limited only by continued employment and the ability to reach these performance goals. The employment contracts contain severance packages, buyout clauses, or other forms of commitments. None of these commitments require payment of more than one year's salary.

The Company has also issued options to directors as well as various other employees. The options granted to employees were granted in connection with reaching certain performance goals. These options are considered to be fully vested and have a contractual life of ten years.

As part of the acquisition of Capital Financial Services, Inc. (see Note 5 - Business Acquisitions), 500,000 options were granted in January of 2002 at a strike price of $.50. These options are fully vested and expire ten years from the acquisition date.

The Company plans to issue additional common shares if any of its outstanding options are exercised. There have been no options exercised to date.

In December of 2005, the Company adopted the fair value recognition provisions of SFAS No. 123R for stock-based employee compensation, using the modified retroactive restatement method. In connection with the use of the modified retroactive restatement method, financial statement information was restated for all periods presented. Total compensation costs and deferred tax benefits recognized for stock-based compensation awards were as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Compensation costs | $ 132,600 | $ 310,500 | $ 634,000 |
| Less: deferred tax benefit | 51,979 | 125,801 | 248,881 |
| Compensation costs, net of taxes | $ 80,621 | $ 184,699 | $ 385,119 |

The fair value of each option was estimated on the date of the grant using the Black-Scholes option-pricing model. The expected life of options granted range from 5 years to 10 years. The following are the weighted average assumptions for each year:

| | 2006 | 2005 | 2004 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Risk-free interest rate | 4.85% | 4.08% | 3.78% |
| Expected dividend yield | 0% | 0% | 0% |
| Expected stock price volatility | 82% | 83% | 79% |
| Expected life of options | 5 years | 5 years | 7 years |

Option activity for the last three years was as follows:

| | Number of Options | Weighted Average Exercise Price per Share | Weighted Average Grant Date Fair Value | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding on January 1, 2004 | 1,640,000 | $ .45 | $ .30 | |
| Granted | 2,195,613 | .63 | .29 | |
| Exercised | - | - | - | |
| Canceled | - | - | - | |
| Outstanding on December 31, 2004 | 3,835,613 | $ .55 | $ .29 | $ 0 |
| Granted | 1,412,500 | .49 | .22 | |
| Exercised | - | - | - | |
| Canceled | - | - | - | |
| Outstanding on December 31, 2005 | 5,248,113 | $ .53 | $ .27 | $ 0 |
| Granted | 510,000 | .49 | .26 | |
| Exercised | - | - | - | |
| Canceled | - | - | - | |
| Outstanding on December 31, 2006 | 5,758,113 | $ .53 | $ .27 | $ 608,000 |

Exercisable options at the end of 2006, 2005, and 2004 were 5,758,113, 5,248,113, and 3,835,613, respectively. The following table summarizes information concerning options outstanding and exercisable as of December 31, 2006:

| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $ .00 to $ .49 | 1,380,000 | Perpetual | $ .42 | 1,380,000 | $ .42 |
| $ .50 to $ .99 | 3,865,000 | 8* | $ .52 | 3,865,000 | $ .52 |
| $1.00 to $1.50 | 513,113 | 8* | $ 1.01 | 513,113 | $ 1.01 |
| $ .00 to $ 1.50 | 5,758,113 | 8* | $ .53 | 5,758,113 | $ .53 |

* Excludes options with a perpetual life

NOTE 9 - **EMPLOYEE BENEFIT PLANS**

The Company sponsors a 401(K) plan for all its employees. Effective January 1, 2005, the Company implemented a match of up to 4% of employee deferrals. Plan expenses paid for by the Company were $7,796, $4,790, and $4,004 for the years ended December 31, 2006, 2005, and 2004, respectively. The matching contributions paid by the Company were $92,825 and $91,991 for the years ended December 31, 2006 and 2005, respectively.

The Company established an employee stock ownership plan ("ESOP") effective January 1, 1999. Pursuant to the ESOP, each year the Company will determine the amount to contribute to the plan. Contributions are made at the discretion of the Board of Directors. To be eligible to participate in the plan, an employee must have completed one year of service and have attained age 21.

During 2001, the ESOP purchased 208,000 shares of the Company's common stock, at a weighted average price of $.48 per share. The purchase was funded with a loan of $100,000 from the Company, which is collateralized by the unallocated Company shares owned by the ESOP. The loan will be repaid primarily from Company contributions. The outstanding principal balance of the loan as of December 31, 2006, was $62,000 and the interest rate is 7% over a 15-year life. All previous loans to the ESOP have been paid in full and shares purchased by those loans have been allocated to employees.

The shares owned by the ESOP are held by a third party trustee and released for allocation to participants as repayments of the loan are made. The number of shares released for allocation in any year is based upon the ratio of current year principal and interest payments to the total current year and projected future year's principal and interest payments. Shares of common stock are allocated to each employee based on the relationship of their total compensation to the total compensation of all participants.

At December 31, 2006 and 2005, cumulative allocated shares remaining in the trust were 581,072 and 567,128 respectively, and unallocated shares were 142,928 and 156,872 respectively, of which 13,944 and 13,944 respectively, were committed-to-be allocated. Total ESOP contribution expense recognized was $10,131, $9,062 and $579 for the years ended December 31, 2006, 2005, and 2004, respectively. The fair value of unallocated shares was $85,757 at December 31, 2006.

NOTE 10 - **NET CAPITAL REQUIREMENTS**

The Company's broker-dealer subsidiaries (Integrity Funds Distributor, Inc. and Capital Financial Services, Inc.) are member firms of the National Association of Securities Dealers, Inc. and are registered with the Securities and Exchange Commission (SEC) as broker-dealers. Under the Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934), the subsidiaries are required to maintain a minimum net capital and a ratio of aggregate indebtedness to net capital, as defined, of not more than 15 to 1. At December 31, 2006, these subsidiaries had net capital of $200,486 and $1,094,112; minimum net capital requirements of $25,000 and $95,956; excess net capital of $175,486 and $998,156 and ratios of aggregate indebtedness to net capital of .75 to 1, and 1.32 to 1, respectively. The subsidiaries are exempt from the reserve requirements of Rule 15c3-3.

NOTE 11 - **OPERATING SEGMENTS**

Integrity Mutual Funds, Inc., derives a portion of its revenues and net income from providing investment advisory, distribution, transfer agency, fund accounting, and other administrative services to the Funds. Capital Financial Services, Inc. ("CFS") provides another substantial portion of revenues through sales of mutual funds, insurance products, and various other securities. CFS also earns investment advisory fees in connection with its registered investment advisor.

The Company organizes its current business units into two reportable segments: mutual fund services and broker-dealer services. The mutual fund services segment provides investment advisory, distribution, transfer agency, fund accounting, and other administrative services to the Funds. The broker-dealer segment distributes securities and insurance products to retail investors through a network of registered representatives.

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 acquisition was retained. The accounting policies are the same as those described in the summary of significant accounting policies.

As of, and for the year ended, December 31, 2006:

| | Mutual Fund Services | Broker-Dealer Services | Total |
|---|---|---|---|
| Revenue from external customers | $ 6,526,128 | $ 20,260,836 | $ 26,786,964 |
| Inter-segment revenues | - | 98,895 | 98,895 |
| Interest expense | 346,606 | - | 346,606 |
| Stock-based employee compensation | 132,600 | - | 132,600 |
| Sales commissions amortized | 334,254 | - | 334,254 |
| Depreciation and amortization | 153,858 | 3,503 | 157,361 |
| Income (loss) from continued operations before income tax benefit (expense) | (1,034,533) | 986,237 | (48,296) |
| Income tax benefit (expense) | 375,509 | (396,600) | (11,091) |
| Income (loss) from continued operations | (659,024) | 599,637 | (59,387) |
| Segment assets | 12,724,714 | 2,819,808 | 15,544,522 |
| Expenditure for segment assets | 33,791 | 14,199 | 47,990 |

As of, and for the year ended, December 31, 2005:

| | Mutual Fund Services | Broker-Dealer Services | Total |
|---|---|---|---|
| Revenue from external customers | $ 5,319,221 | $ 14,121,535 | $ 19,440,756 |
| Inter-segment revenues | - | 24,523 | 24,523 |
| Interest expense | 301,934 | - | 301,934 |
| Stock-based employee compensation | 310,500 | - | 310,500 |
| Sales commissions amortized | 316,928 | - | 316,928 |
| Depreciation and amortization | 141,713 | 1,442 | 143,155 |
| Income (loss) from continued operations before income tax benefit (expense) | (1,113,101) | 661,938 | (451,163) |
| Income tax benefit (expense) | 382,150 | (263,400) | 118,750 |
| Income (loss) from continued operations | (730,951) | 398,538 | (332,413) |
| Segment assets | 13,298,738 | 1,972,568 | 15,271,306 |
| Expenditure for segment assets | 71,683 | 9,810 | 81,493 |

As of, and for the year ended, December 31, 2004:

| | Mutual Fund Services | Broker-Dealer Services | Total |
|---|---|---|---|
| Revenue from external customers | $ 4,942,676 | $ 12,047,895 | $ 16,990,571 |
| Interest expense | 275,247 | - | 275,247 |
| Stock-based employee compensation | 634,000 | - | 634,000 |
| Sales commissions amortized | 321,942 | - | 321,942 |
| Depreciation and amortization | 98,799 | 726 | 99,525 |
| Income (loss) from continued operations before income tax expense | (967,427) | 593,317 | (374,110) |
| Income tax expense | 356,690 | (232,580) | 124,110 |
| Income (loss) from continued operations | (610,737) | 360,737 | (250,000) |
| Segment assets | 12,527,689 | 1,458,690 | 13,986,379 |
| Expenditure for segment assets | 39,944 | 1,765 | 41,709 |

Reconciliation of Segment Information

| | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| Total revenues for reportable segments | | 26,885,859 | | 19,465,279 | | 16,990,571 |
| Elimination of inter-company revenues | | (98,895) | | (24,523) | | - |
| Consolidated total revenue | $ | 26,786,964 | $ | 19,440,756 | $ | 16,990,571 |
| Profit | | | | | | |
| Total reportable segment profit (loss) | $ | (59,387) | $ | (332,413) | $ | (250,000) |
| Assets | | | | | | |
| Total assets for reportable segments | $ | 15,544,522 | $ | 15,271,306 | $ | 13,986,379 |
| Elimination of inter-company receivables | | (78,392) | | (78,392) | | (78,392) |
| Consolidated assets | $ | 15,466,130 | $ | 15,192,914 | $ | 13,907,987 |

NOTE 12 - **COMMITMENTS AND CONTINGENCIES**

The Company entered into a lease for office space located in Huntington, New York. The monthly lease payments were $918. The 6-month lease, with the option to renew, expired on February 17, 2004. The lease was renewed for an additional 6-month period ending August 31, 2004. The Company entered into a three-year lease for new office space in Huntington, New York on June 1, 2004. The monthly lease payments are $1,500 for the first two years, and $1,545 for the third year. Total rent expense was $18,315, $18,000, and $18,090 for the years ended December 31, 2006, 2005, and 2004, respectively.

The Company has various leases for office equipment that expire over the next several years through 2008. The total rent expense for these leases was $33,000, $30,000, and $27,000 for December 31, 2006, 2005 and 2004 respectively.

The following is a schedule by years of future minimum rental payments on operating leases as of December 31, 2006.

| | | |
|---|---|---|
| Years ending December 31, | | |
| 2007 | $ | 39,421 |
| 2008 | | 11,174 |
| 2009 | | - |
| Total minimum future rental payments | $ | 50,595 |

NOTE 13 - **GOODWILL**

The changes in the carrying amount of goodwill for the years ended December 31, 2006, 2005, and 2004, are as follows:

| | Mutual Fund Services | | Broker-Dealer Services | | Total | |
|---|---|---|---|---|---|---|
| Balance as of January 1, 2004 | $ | 7,071,584 | $ | 2,459,850 | $ | 9,531,434 |
| Goodwill acquired during the period | | - | | 18,902 | | 18,902 |
| Goodwill disposed of during the period | | (120,851) | | - | | (120,851) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Impairment losses | | - | | - | | - |
| Balance as of December 31, 2004 | $ | 6,950,733 | $ | 2,478,752 | $ | 9,429,485 |
| Goodwill acquired during the period | | 468,656 | | - | | 468,656 |
| Goodwill acquisition price adjustment during the period (see Note 5) | | (67,752) | | - | | (67,752) |
| Impairment losses | | - | | - | | - |
| Balance as of December 31, 2005 | $ | 7,351,637 | $ | 2,478,752 | $ | 9,830,389 |
| Goodwill acquired during the period | | - | | - | | - |
| Goodwill acquisition price adjustment during the period (see Note 5) | | (37,588) | | - | | (37,588) |
| Impairment losses | | - | | - | | - |
| Balance as of December 31, 2006 | $ | 7,314,049 | $ | 2,478,752 | $ | 9,792,801 |

Goodwill impairment is determined using a multi-step process. The first step of the goodwill impairment test is to determine the fair value of a reporting unit, including goodwill. The estimates of fair value of a reporting unit, generally the Company's business segments, are determined using various valuation techniques. The two main techniques include the use of industry valuation benchmarks for comparable publicly traded companies and acquisition transaction multiples of comparable companies. For each method, valuation benchmarks are collected from third party sources such as independent investment banks or reporting services. Various industry average valuation multiples are calculated. Examples include value to revenue, value to assets under management and value to operating income. The average industry valuation multiples are then applied to the Company's operating characteristics to determine an estimate of the Company's business segment fair value. For example, the industry average multiple of value to assets under management is applied to the Company's assets under management. The business segments fair value is then calculated as a weighted average of the different industry valuation multiples.

The next step is to calculate the implied fair value of goodwill by determining the fair value of equity for each business segment and substituting it for the book value of equity on the balance sheet. The implied fair value of goodwill is then calculated.

The final step is to compare the implied fair value of goodwill as calculated to the book value of goodwill for each business segment. If the implied fair value of goodwill is equal to or greater than the book value of goodwill, there is no impairment. If the implied fair value of goodwill is less than the book value of goodwill, there is impairment and the goodwill is written down to the fair value number.

The Company tests goodwill for impairment annually during the second quarter of each fiscal year. Testing is done at the reporting unit level using a fair value approach, in accordance with the provisions of SFAS 142. The annual testing resulted in no impairment charges to goodwill in 2004, 2005, or 2006. If an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, goodwill will be evaluated for impairment between annual tests.

NOTE 14 - **EARNINGS PER SHARE**

Basic earnings per share are computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect per share amounts that would have resulted if dilutive potential common stock had been converted to common stock. The following reconciles amounts reported in the financial statements:

| For the Year Ended December 31, 2006 | | |
|---|---|---|
| Income (Numerator) | Shares (Denominator) | Per-share Amount |

| | | | | | |
|---|---|---|---|---|---|
| Loss from continuing operations | $ | (59,387) | | | |
| Less: preferred stock dividends | | (91,500) | | | |
| Loss available to common stockholders - | | | | | |
| Basic earnings per share | | (150,887) | 13,696,486 | $ | (.01) |
| Effect of dilutive securities: | | | | | |
| Put options | | - | | | |
| Income available to common stockholders - | | | | | |
| Diluted earnings per share | $ | (150,887) | 13,696,486 | $ | (.01) |

| | For the Year Ended December 31, 2005 | | | | |
|---|---|---|---|---|---|
| | | Income (Numerator) | Shares (Denominator) | | Per-share Amount |
| Loss from continuing operations | $ | (332,413) | | | |
| Less: preferred stock dividends | | (91,500) | | | |
| Loss available to common stockholders - | | | | | |
| Basic earnings per share | | (423,913) | 13,430,040 | $ | (.03) |
| Effect of dilutive securities: | | | | | |
| Put options | | - | | | |
| Income available to common stockholders - | | | | | |
| Diluted earnings per share | $ | (423,913) | 13,430,040 | $ | (.03) |

| | For the Year Ended December 31, 2004 | | | | |
|---|---|---|---|---|---|
| | | Income (Numerator) | Shares (Denominator) | | Per-share Amount |
| Loss from continuing operations | $ | (250,000) | | | |
| Less: preferred stock dividends | | (94,550) | | | |
| Loss available to common stockholders - | | | | | |
| Basic earnings per share | | (344,550) | 13,064,779 | $ | (.03) |
| Effect of dilutive securities: | | | | | |
| Put options | | - | - | | |
| Income available to common stockholders - | | | | | |
| Diluted earnings per share | $ | (344,550) | 13,064,779 | $ | (.03) |

In December of 2003, the Company issued 3,050,000 Series A preferred shares for total proceeds of $1,525,000. The holders of the Series A preferred shares are entitled to receive cumulative dividends at a rate of 6% per year, payable quarterly. These dividends are in preference and priority to any payment of any dividend on the Company's common shares. The holders of the Series A preferred shares are also entitled to a liquidation preference of $.50 per share. The Series A preferred shares are convertible to the Company's common shares at the rate of one share of common shares for one share of Series A preferred shares at any time after issuance. At any time after five years from issuance, the Company has the right to redeem any or all of the Series A preferred shares after a sixty day notice upon payment of the liquidation preference of $.50 per share to the holders, for a total of $1,525,000.

Additionally, the Company had outstanding warrants and options exercisable for a total of 8,456,113 common shares as of December 31, 2006, as presented in Note 8 - Stock Warrants, Stock Splits, and Stock Options, all of which were antidilutive.

NOTE 15 - **COMPREHENSIVE INCOME (LOSS)**

Comprehensive income (loss) is reported on the accompanying consolidated statement of shareholders' equity as a component of retained earnings (accumulated deficit) and consists of net income (loss) and other gains and losses affecting shareholders' equity that, under accounting principles generally accepted in the United States of America, are excluded from net income (loss). For the Company, such items consist primarily of unrealized gains and losses on available-for-sale equity investments.

The following summary sets forth the components of other comprehensive income (loss), net of tax, accumulated in shareholders' equity:

| | For the Year Ended December 31, 2006 | |
|---|---|---|
| Net Loss | $ | (59,387) |
| Other Comprehensive Income, net of tax: | | |
| Unrealized loss on securities | | (1) |
| Total Comprehensive Loss | $ | (59,388) |

| | For the Year Ended December 31, 2005 | |
|---|---|---|
| Net Loss | $ | (332,413) |
| Other Comprehensive Income, net of tax: | | |
| Unrealized loss on securities | | (265) |
| Total Comprehensive Loss | $ | (332,678) |

| | For the Year Ended December 31, 2004 | |
|---|---|---|
| Net Loss | $ | (250,000) |
| Other Comprehensive Income, net of tax: | | |
| Unrealized gains on securities | | 1,029 |
| Total Comprehensive Loss | $ | (248,971) |

NOTE 16 - **RISKS AND UNCERTAINTIES**

The Company has a concentration of credit risk for cash deposits at various financial institutions. These deposits may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The maximum loss that could have resulted from the risk totaled approximately $1,598,114 as of December 31, 2006.

NOTE 17 **- RELATED PARTY TRANSACTIONS**

Mr. Jeffrey A. Cummer was elected a director of Integrity Mutual Funds, Inc. on June 1, 2006. Mr. Cummer is president and senior portfolio manager of SMH Capital Advisors, Inc. Integrity Mutual Funds, Inc. pays monthly sub-advisory fees to SMH Capital Advisors, Inc. for advisory services provided to the Integrity High Income Fund and Integrity All Season Fund. Sub-advisory payments made to SMH Capital Advisors, Inc. totaled $386,826 in 2006 and $144,636 in 2005.

In May of 2006, Xponential, Inc. issued a tender offer to purchase up to 3,000,000 shares of Integrity Mutual Funds, Inc. common shares at a purchase price of $0.40 per share. At the close of the tender offer, Xponential, Inc. had obtained 1,323,642 shares, representing approximately 9.76% of the outstanding Integrity Mutual Funds, Inc. common shares. Mr. Cummer is Chairman of the Board and an executive officer of Xponential, Inc.

In October of 2006, Integrity Mutual Funds, Inc. issued a $950,000 convertible promissory note to PawnMart, Inc., in a private placement. The unsecured note carries an interest rate of 6.5% per annum, payable semi-annually, and matures on October 15, 2016. The holder of the note has the right, at any time after October 15, 2009, to convert the note in whole or in part, into $0.0001 par value common shares of the Company. The conversion price shall be equal to $0.50 per share. The entire principal amount of this note shall be automatically converted into common shares at the conversion price on October 15, 2016. PawnMart, Inc. is a wholly owned subsidiary of Xponential, Inc. Mr. Cummer is Chairman of the Board and Executive Vice President of PawnMart, Inc.

Mr. Steven D. Lysne was elected a director of Integrity Mutual Funds, Inc. on May 27, 2005. Mr. Lysne is CEO and general manager of SRT Communications, Inc. Integrity Mutual Funds, Inc. pays SRT Communications, Inc. for telephone and internet services. Payments made to SRT Communications, Inc. totaled $60,333 in 2006, $60,348 in 2005, and $53,769 in 2004.

NOTE 18 - **SUBSEQUENT EVENTS**

On January 24, 2007, Integrity Mutual Funds, Inc., announced that Robert E. Walstad, founder, Chief Executive Officer and Chairman of its Board of Directors is retiring from his positions with the Company, effective February 1, 2007. Concurrent with the retirement, the Company announced that Mark R. Anderson, President and Chief Operating Officer of the Company, would succeed Mr. Walstad as Director and Chief Executive Officer of the Company.

In connection with Mr. Walstad's retirement, the Company has entered into a Separation Agreement with Mr. Walstad, dated January 24, 2007 (the "Separation Agreement"). Under the terms of the Separation Agreement, subject to Mr. Walstad meeting his obligations thereunder in all material respects, Mr. Walstad is entitled to receive a cash payment in the amount of $274,500, options to purchase 60,000 common shares, and certain commission payments.

On February 16, 2007, Integrity Mutual Funds, Inc. announced that it had signed an agreement to acquire certain assets of United Heritage Financial Services (UHFS). UHFS currently has 120 independent registered representatives and is a wholly owned subsidiary of United Heritage Financial Group, Inc., of Meridian, Idaho. UHFS's registered representatives will become part of Capital Financial Services, Inc. (CFS), the retail brokerage division of Integrity.

Pursuant to the agreement, in exchange for receipt of the assets of UHFS set forth above, Integrity Mutual Funds, Inc. agrees to pay to UHFS 500,000 restricted IMFD shares and a deferred earn out cash payment totaling a maximum of $900,000 to be paid in 21 quarterly installments.

ADDITIONAL INFORMATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON ADDITIONAL INFORMATION

To the Stockholders and Directors
Integrity Mutual Funds, Inc. and Subsidiaries
Minot, North Dakota

Our report on our audit of the basic consolidated financial statements of Integrity Mutual Funds, Inc. and Subsidiaries for the years ended December 31, 2006, 2005 and 2004, appears on page F-1. Those audits were made for the purpose of forming an opinion on such consolidated financial statements taken as a whole. The information on page F-25, related to the 2006, 2005 and 2004 consolidated financial statements, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information, has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements for the years ended December 31, 2006, 2005 and 2004, taken as a whole.

We also have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Integrity Mutual Funds, Inc. and Subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the periods ended December 31, 2003 and 2002, none of which is presented herein, and we expressed unqualified opinions on those consolidated financial statements. In our opinion, the information on page F-25 relating to the 2003 and 2002 consolidated financial statements is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

BRADY, MARTZ & ASSOCIATES, P.C.
Minot, North Dakota USA

March 6, 2007

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES

SELECTED FINANCIAL DATA*

FOR THE YEARS ENDED DECEMBER 31, AS INDICATED

| | 2006 | | 2005 | | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating revenue | $ | 26,786,964 | $ | 19,440,756 | $ | 16,990,571 | $ | 13,956,173 | $ | 14,443,661 |
| Operating income (loss) | $ | 64,700 | $ | (204,125) | $ | (165,018) | $ | 496,009 | $ | 434,467 |
| Income tax benefit (expense) | $ | (11,091) | $ | 118,750 | $ | 124,110 | $ | (144,330) | $ | (73,298) |
| Basic earnings (loss) per share | $ | (.01) | $ | (.03) | $ | (.03) | $ | .01 | $ | .03 |
| Diluted earnings (loss) per share | $ | (.01) | $ | (.03) | $ | (.03) | $ | .01 | $ | .03 |
| Total assets | $ | 15,466,130 | $ | 15,192,914 | $ | 13,907,987 | $ | 15,675,216 | $ | 12,693,909 |
| Long-term obligations | $ | 4,090,158 | $ | 4,138,745 | $ | 2,749,649 | $ | 4,422,427 | $ | 2,894,511 |
| Shareholders' equity | $ | 9,398,208 | $ | 9,403,721 | $ | 9,505,829 | $ | 9,201,106 | $ | 7,152,773 |
| Dividends paid | $ | 0 | $ | 0 | $ | 0 | $ | 0 | $ | 0 |

*Excludes discontinued operations of Magic Internet Services, Inc.

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES

QUARTERLY RESULTS OF CONSOLIDATED OPERATIONS (UNAUDITED)

| | Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 3-31-06 | | 6-30-06 | | 9-30-06 | | 12-31-06 | |
| Revenues | $ | 6,347,664 | $ | 6,356,201 | $ | 7,015,276 | $ | 7,067,823 |

| | | | | |
|---|---|---|---|---|
| Operating income (loss) | (78,763) | 93,472 | (168,118) | 218,109 |
| Other income (expense) | (69,398) | 16,534 | (7,090) | (53,042) |
| Income tax benefit (expense) | 30,097 | (23,140) | 56,406 | (74,454) |
| Net income (loss) | (118,065) | 86,867 | (118,801) | 90,612 |
| | | | | |
| Per Share(1) | | | | |
| Operating income (loss) | (0.01) | 0.01 | (0.01) | 0.01 |
| Other income (expense) | (0.01) | 0.00 | (0.00) | (0.00) |
| Income tax benefit (expense) | 0.00 | (0.00) | 0.00 | (0.00) |

| | Quarter Ended | | | |
|---|---|---|---|---|
| | 3-31-05 | 6-30-05 | 9-30-05 | 12-31-05 |
| Revenues | $ 4,548,021 | $ 4,631,193 | $ 5,070,069 | $ 5,191,473 |
| Operating income (loss) | 34,650 | (71,269) | (82,531) | (84,975) |
| Other expense | (49,672) | (51,413) | (80,578) | (65,375) |
| Income tax benefit | 9,457 | 45,759 | 12,198 | 51,336 |
| Net loss | (5,565) | (76,923) | (150,911) | (99,014) |
| | | | | |
| Per Share(1) | | | | |
| Operating income (loss) | 0.00 | (0.00) | (0.01) | (0.01) |
| Other expense | (0.00) | (0.00) | (0.01) | (0.01) |
| Income tax benefit | 0.00 | 0.00 | 0.00 | 0.01 |

| | Quarter Ended | | | |
|---|---|---|---|---|
| | 3-31-04 | 6-30-04 | 9-30-04 | 12-31-04 |
| Revenues | $ 4,306,668 | $ 4,251,239 | $ 4,136,926 | $ 4,295,738 |
| Operating income (loss) | 324,678 | (152,156) | 21,273 | (358,813) |
| Other expenses | (66,475) | (61,652) | (29,523) | (51,442) |
| Income tax benefit (expense) | (110,580) | 78,461 | 2,397 | 153,832 |
| Net income (loss) | 147,623 | (135,347) | (5,853) | (256,423) |
| | | | | |
| Per Share(1) | | | | |
| Operating income (loss) | 0.03 | (0.01) | 0.00 | (0.03) |
| Other expense | (0.01) | (0.01) | (0.00) | (0.00) |
| Income tax benefit (expense) | (0.01) | 0.01 | 0.00 | 0.01 |

(1) For calculating per share amounts, basic and diluted common share are not materially different.

The above financial information is unaudited. In the opinion of management, all adjustments (which are of a normal recurring nature) have been included for a fair presentation.