INTEGRITY MUTUAL FUNDS INC
Form 10-Q
August 12, 2008
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission file number 0-25958

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

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

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

(701) 852-5292
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Yes No

As of July 31, 2008, there were 14,455,943 common shares of the issuer outstanding.

FORM 10-Q

INTEGRITY MUTUAL FUNDS, INC.

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

		(Unaudited) June 30, 2008		December 31, 2007
CURRENT ASSETS				
Cash and cash equivalents	$	3,283,011	$	3,143,250
Accounts receivable		2,141,163		2,191,626
Prepaids		53,827		69,767
Total current assets	$	5,478,001	$	5,404,643
PROPERTY AND EQUIPMENT	$	2,228,465	$	2,171,049
Less accumulated depreciation		(948,547)		(900,204)
Net property and equipment	$	1,279,918	$	1,270,845
OTHER ASSETS				
Deferred sales commissions	$	16,876	$	165,126
Goodwill		10,891,127		10,912,548
Deferred tax asset		84,484		144,719
Other assets (net of accumulated amortization of $396,821 for 2008 and $387,534 for 2007)		208,249		216,949
Total other assets	$	11,200,736	$	11,439,342
TOTAL ASSETS	$	17,958,655	$	18,114,830

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

		(Unaudited) June 30, 2008		December 31, 2007
CURRENT LIABILITIES				
Service fees payable	$	93,828	$	123,724
Accounts payable		487,217		587,521
Income taxes payable		87,119		20,512
Other current liabilities		2,306,676		2,316,171
Current portion of long-term debt		295,637		888,668
Total current liabilities	$	3,270,477	$	3,936,596
LONG-TERM LIABILITIES				
Notes payable	$	346,516	$	358,400
Subordinate commercial notes		-		561,000
Subordinate corporate notes		2,000,000		2,000,000
Convertible promissory note		950,000		950,000
Other long-term liabilities		805,014		983,877
Less current portion of long-term debt		(295,637)		(888,668)
Total long-term liabilities	$	3,805,893	$	3,964,609
TOTAL LIABILITIES	$	7,076,370	$	7,901,205
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; 14,455,943 and 14,455,943 shares issued and outstanding, respectively		1,446		1,446
Additional paid in capital - common stock		10,375,154		10,284,900
Receivable - unearned ESOP shares		(52,032)		(55,379)
Accumulated deficit		(967,283)		(1,542,342)
TOTAL STOCKHOLDERS' EQUITY	$	10,882,285	$	10,213,625
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	17,958,655	$	18,114,830

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited) Three Months Ended June 30,	
	2008	2007
OPERATING REVENUES		
Fee income	$ 1,496,241	$ 2,057,186
Commissions	7,419,555	8,318,482
Total revenue	$ 8,915,796	$ 10,375,668
OPERATING EXPENSES		
Compensation and benefits	$ 867,412	$ 970,613
Commission expense	7,038,807	7,904,812
Sub-advisory expenses	128,689	240,474
General and administrative expenses	470,545	671,614
Sales commissions amortized	47,808	110,739
Depreciation and amortization	28,935	61,166
Total operating expenses	$ 8,582,196	$ 9,959,418
OPERATING INCOME	$ 333,600	$ 416,250
OTHER INCOME (EXPENSES)		
Interest and other income	$ 344,992	$ 170,928
Interest expense	(82,074)	(83,843)
Net other income	$ 262,918	$ 87,085
INCOME BEFORE INCOME TAX EXPENSE	$ 596,518	$ 503,335
INCOME TAX EXPENSE	(259,997)	(203,824)
NET INCOME	$ 336,521	$ 299,511
NET INCOME PER SHARE:		
Basic	$ .02	$ .02
Diluted	$ .02	$ .01
AVERAGE COMMON SHARES OUTSTANDING:		
Basic	14,517,629	14,457,419
Diluted	17,567,629	22,485,388

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

		(Unaudited) Six Months Ended June 30, 2008		2007
OPERATING REVENUES				
Fee income	$	3,297,910	$	4,014,712
Commissions		14,900,570		14,571,373
Total revenue	$	18,198,480	$	18,586,085
OPERATING EXPENSES				
Compensation and benefits	$	1,680,213	$	2,246,919
Commission expense		14,193,801		14,034,403
Sub-advisory expenses		298,568		523,826
General and administrative expenses		1,131,018		1,349,863
Sales commissions amortized		139,264		215,923
Depreciation and amortization		57,630		167,823
Total operating expenses	$	17,500,494	$	18,538,757
OPERATING INCOME	$	697,986	$	47,328
OTHER INCOME (EXPENSES)				
Interest and other income	$	549,363	$	266,890
Interest expense		(164,897)		(164,928)
Net other income	$	384,466	$	101,962
INCOME BEFORE INCOME TAX EXPENSE	$	1,082,452	$	149,290
INCOME TAX EXPENSE		(461,644)		(81,350)
NET INCOME	$	620,808	$	67,940
NET INCOME PER SHARE:				
Basic	$	.04	$	.00
Diluted	$	.03	$	.00
AVERAGE COMMON SHARES OUTSTANDING:				
Basic		14,515,886		14,209,411
Diluted		17,985,947		16,631,147

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited) Six Months Ended June 30,			
		2008		2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$	620,808	$	67,940
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		57,630		166,605
Sales commissions amortized/charged off		139,264		215,563
Loss on sale of available-for-sale securities		-		11
Compensation expense - options		-		50,100
(Increase) decrease in:				
Accounts receivable		50,463		(373,996)
Income taxes receivable		-		(980)
Prepaids		15,940		22,237
Deferred tax asset		60,235		60,701
Deferred sales commissions capitalized, net of CDSC collected		8,986		(272,363)
Other assets		(587)		(99,947)
Increase (decrease) in:				
Service fees payable		(29,896)		19,264
Accounts payable		(100,304)		193,263
Income taxes payable		66,607		-
Other liabilities		15,505		355,032
Net cash provided by operating activities	$	904,651	$	403,430
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	$	(57,416)	$	(72,946)
Purchase of available-for-sale securities		-		(2)
Sale of available-for-sale securities		-		215
Purchase of goodwill		-		(77,919)
Net cash used by investing activities	$	(57,416)	$	(150,652)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of common stock	$	256	$	62,498
Short-term borrowing		-		120,085
Reduction of short-term borrowing		(25,000)		-
Reduction of notes payable		(11,884)		(11,032)
Reduction of long-term liability		(67,443)		-
Reduction of subordinate commercial notes		(561,000)		-
Repayments from ESOP		3,347		3,347
Preferred dividends paid		(45,750)		(45,750)
Net cash provided (used) by financing activities	$	(707,474)	$	129,148
NET INCREASE IN CASH AND CASH EQUIVALENTS	$	139,761	$	381,926
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	$	3,143,250		1,851,249

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	3,283,011	$	2,233,175
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Change in unrealized gain on available-for-sale securities	$	-	$	11
Increase (decrease) in goodwill		(21,421)		1,054,337
Increase (decrease) in other long-term liabilities		(111,421)		879,337
Increase (decrease) in common stock		90,000		175,000
Compensation expense - options		-		50,100
Preferred stock dividends declared		22,875		22,875

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTEGRITY MUTUAL FUNDS, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2008 and 2007

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Integrity Mutual Funds, Inc., a North Dakota corporation, and its subsidiaries (collectively, the "Company"), included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the footnotes thereto contained in the Annual Report on Form 10-K for the year ended December 31, 2007, of Integrity Mutual Funds, Inc., as filed with the SEC. The condensed consolidated balance sheet at December 31, 2007, contained herein, was derived from audited financial statements, but does not include all disclosures included in the Form 10-K and applicable under accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America, but not required for interim reporting purposes, have been condensed or omitted.

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (which are of a normal, recurring nature) necessary for a fair presentation of the financial statements. The results of operations for the six months ended June 30, 2008, are not necessarily indicative of operating results for the entire year.

NOTE 2 - RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In December of 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141R, "Business Combinations." SFAS No. 141R will significantly change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. Statement No. 141R will change the accounting treatment for certain specific items, including:

- Acquisition costs will be generally expensed as incurred;
- Non-controlling interests (formerly known as "minority interests") will be valued at fair value at the acquisition date;

- Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;
- In-process research and development will be recorded at fair value as an indefinite-lived intangible assets at the acquisition date;
- Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and
- Changed in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

SFAS No. 141R also includes as substantial number of new disclosure requirements. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. Accordingly, a calendar year-end company is required to record and disclose business combinations following existing GAAP until January 1, 2009. The Company cannot predict what, if any, impact SFAS No. 141R will have on its consolidated financial statements when it becomes effective in 2009.

In December of 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51." SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, SFAF No. 160 requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not believe the adoption of SFAS No. 160 will have a significant effect on the Company's consolidated financial statements.

In February of 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." SFAS No. 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company does not believe the adoption of SFAS No. 159 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 does not believe the adoption of SFAS No. 157 will have a significant effect on the Company's consolidated financial statements.

NOTE 3 - RECLASSIFICATION

Certain amounts in the 2007 condensed consolidated financial statements have been reclassified to conform to the 2008 presentation. These reclassifications had no effect on the Company's net income.

NOTE 4 - INCOME TAXES

The Company sponsors several mutual funds. Deferred sales commissions relating to some of its sponsored mutual funds are amortized over five years for income tax purposes and amortized over eight years for financial reporting purposes. The effects of these differences will create timing differences between when the commissions are deducted for income tax purposes and expensed as amortization for financial reporting purposes. Deferred tax assets or deferred tax liabilities may result from these timing differences.

The Company has completed various acquisitions in recent years, whereby the Company acquired the management rights to several mutual funds. These management rights have been classified as goodwill at the time of acquisition. The Company amortizes certain goodwill for tax purposes. The Company tests goodwill for impairment annually for book purposes, during the second quarter of each fiscal year. The annual test is done at the reporting unit level using a fair value approach, in accordance with the provisions of SFAS No. 142. Deferred tax assets or deferred tax liabilities may result from these timing differences.

In December of 2005, the Company adopted FASB Statement No. 123R, "Share-Based Payment" (See Note 6 - Stock Warrants, Stock Splits, and Stock Options.) As a result, the Company expenses stock-based employee compensation for book purposes on the grant date, but does not expense them for tax purposes until such options are exercised. Deferred tax assets are a result of these timing differences.

The Company has stated operating loss carryforwards that will expire over the next six to twenty years if unused, as well as a capital loss carryforward that will expire in 2008 if unused. Deferred tax assets are a result of these timing differences.

NOTE 5 - BUSINESS ACQUISITIONS

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 was subject to adjustment based on retention of assets in the fund, was 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 allows 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 if assets of the Fund reach $100 million and 150,000 options on the Company's common shares if 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 were issued on a private placement basis. In April of 2006, the one-year anniversary payment of 158,603 common shares was made, which reflected the assets of the acquired funds at the one-year anniversary. In June of 2007, the two-year anniversary payment of 138,797 common shares was made, which reflected the assets of the acquired funds at the two-year anniversary. The liability relating to this acquisition is valued at $107,064 as of June 30, 2008 and has been recorded by the Company as goodwill.

On March 7, 2007, the Company acquired certain assets of United Heritage Financial Services, Inc. (UHFS), a wholly owned subsidiary of United Heritage Financial Group, Inc., of Meridian, Idaho. UHFS had approximately 120 independent registered representatives who became part of Capital Financial Services, Inc. (CFS), the retail brokerage division of the Company. Pursuant to the agreement, in exchange for receipt of the assets of UHFS set forth above, the Company agreed to issue 500,000 restricted IMFD shares and pay a deferred cash earn out payment totaling a maximum of $900,000, to be paid in 21 quarterly installments. On March 7, 2007, the Company issued 500,000 restricted common shares to United Heritage Financial Group, Inc. As a result of this issuance of shares, $175,000 was recorded by the Company as goodwill relating to the purchase of the assets. As of June 30, 2008, the Company had made five quarterly installment payments totaling $127,991. The liability relating to this acquisition is valued at approximately $697,950 as of June 30, 2008, and has also been recorded by the Company as goodwill. As of June 30, 2008, the total goodwill recorded relating to this acquisition was $1,099,769.

NOTE 6 - GOODWILL

The changes in the carrying amount of goodwill for the six months ended June 30, 2008, are as follows:

	Mutual Fund Services		Broker-Dealer Services		Total	
Balance as of January 1, 2008	$	7,312,606	$	3,599,942	$	10,912,548
Goodwill acquired during the period		-		-		-
Goodwill acquisition price adjustment during the period (see Note 5)		-		(21,421)		(21,421)
Impairment losses		-		-		-
Balance as of June 30, 2008	$	7,312,606	$	3,578,521		10,891,127

The Company tests goodwill for impairment annually, during the second quarter of each fiscal year, at the reporting unit level using a fair value approach, in accordance with the provisions of SFAS No. 142. The annual testing resulted in no impairment charges to goodwill in 2008. 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 7 - STOCK WARRANTS, STOCK SPLITS, AND STOCK OPTIONS

In December of 2005, the Company adopted FASB Statement No. 123R, "Share-Based Payment," ("SFAS No. 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 No. 123R supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB25"). Total compensation costs and deferred tax benefits recognized for stock-based compensation awards for the six months ended June 30, 2008 and 2007, were as follows:

		2008		2007
Compensation costs	$	-	$	50,100
Less: deferred tax benefit		-		(19,640)
Compensation costs, net of taxes	$	-	$	30,460

Option activity for the twelve months ended December 31, 2007 and the six months ended June 30, 2008 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, 2007	5,758,113	$	.53	$	.27	$	608,000

	Granted	130,000		.86		.60		
	Exercised	-		-		-		
	Canceled	-		-		-		
Outstanding on December 31, 2007		5,888,113	$	.54	$	.28	$	1,081,950
	Granted	-		-		-		
	Exercised	-		-		-		
	Canceled	-		-		-		
Outstanding on June 30, 2008		5,888,113	$	.54	$	.28	$	0

Exercisable options at December 31, 2007 and June 30, 2008 were 5,888,113 and 5,888,113, respectively.

NOTE 8 - DEBT

Long-term debt at June 30, 2008 and December 31, 2007 was as follows:

	Rate		Current Portion		2008		2007
First Western Bank	7.25%		24,670		346,516		358,400
Subordinate commercial notes	9.00%		-		-		561,000
Subordinate corporate notes	9.25%		-		2,000,000		2,000,000
Convertible promissory note	6.50%		-		950,000		950,000
Future payments on acquisitions			270,967		805,014		983,877
Totals		$	295,637	$	4,101,530	$	4,853,277

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.

Subordinate Commercial Notes - In July of 2002, 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 did not represent ownership in the Company. The subordinate commercial notes carried an interest rate of 9% per annum, payable semi-annually. On June 30, 2008, the subordinate commercial notes matured and the liability was paid in full.

Subordinate Corporate Notes - In May of 2005, 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 June 30, 2008, $2,000,000 in subordinate corporate notes were 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.

Future Payments on Acquisitions - see Note 5 - Business Acquisitions

NOTE 9 - EARNINGS PER SHARE

Basic earnings per share are computed by dividing earnings available to common shareholders 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 shares had been converted to common shares. The following reconciles amounts reported in the financial statements:

	Three Months Ended June 30, 2008					Three Months Ended June 30, 2007				
		Numerator	Denominator		Per Share Amount		Numerator	Denominator		Per Share Amount
Net Income	$	336,521				$	299,511			
Less: Preferred Stock Dividends		(22,875)					(22,875)			
Income Available to Common Shareholders - Basic Earnings per Share	$	313,646	14,517,629	$	.02	$	276,636	14,457,419	$	.02
Effect of Dilutive Securities:										
Convertible Promissory Note Interest (net of taxes)		-	-				9,263	1,900,000		
Preferred Stock Dividends		22,875	3,050,000				22,875	3,050,000		
Stock Options and Warrants		-	-				-	3,077,969		
Income Available to Common Shareholders - Diluted Earnings per Share	$	336,521	17,567,629	$	.02	$	308,774	22,485,388	$	.01

	Six Months Ended June 30, 2008					Six Months Ended June 30, 2007				
		Numerator	Denominator		Per Share Amount		Numerator	Denominator		Per Share Amount
Net Income	$	620,808				$	67,940			
Less: Preferred Stock Dividends		(45,750)					(45,750)			
Income Available to Common Shareholders - Basic Earnings per Share	$	575,058	14,515,886	$	.04	$	22,190	14,209,411	$	.00
Effect of Dilutive Securities:										

Convertible Promissory Note Interest (net of taxes)		-	-				-	-		
Preferred Stock Dividends		45,750	3,050,000				-	-		
Stock Options and Warrants		-	420,061				-	2,421,736		
Income Available to Common Shareholders - Diluted Earnings per Share	$	620,808	17,985,947	$	.03	$	22,190	16,631,147	$	.00

Options and warrants to purchase 8,486,113 common shares at exercise prices between $0.35 and $1.43 were outstanding at June 30, 2008, but were not included in the computation of diluted earnings per share for the quarter ending June 30, 2008. Options and warrants to purchase 7,126,113 common shares at exercise prices between $0.475 and $1.43 were outstanding at June 30, 2008, but were not included in the computation of diluted earnings per share for the six months ending June 30, 2008. The options and warrants were not included in the calculations because their exercise prices were greater than the average market price of the common shares during those periods.

The Company had outstanding, at June 30, 2008, 3,050,000 Series A preferred shares. The preferred shares are entitled to receive a cumulative dividend at a rate of 6% per year, payable quarterly. The 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.

Additionally, the Company had outstanding at June 30, 2008, a $950,000 convertible promissory note. The unsecured note carries an interest rate of 6.5% per year, 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 common shares of the Company at a conversion price of $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.

The convertible promissory note was not included in the computation of diluted earnings per share for the quarter and six-month periods ended June 30, 2008 because the conversion price was greater than the average market price of the common shares during those periods.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Integrity Mutual Funds, Inc., derives a majority of its revenues and net income from sales of mutual funds, insurance products, and various other securities in Capital Financial Services, Inc. ("CFS"), the Company's broker-dealer subsidiary. Integrity Mutual Funds, Inc. also derives revenues and net income from 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., Montana Tax-Free Fund, Inc., and Integrity Fund of Funds, Inc. Integrity Managed Portfolios currently consists of one open-end investment company containing six separate series, 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 three separate series, including Integrity Small Cap Growth Fund, Integrity High Income Fund, and Integrity Growth & Income Fund.

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, shareholder services, fund accounting, and other related administrative services to the Funds. The broker-dealer services 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.

Segment Information

As of, and for the three months ended:	Mutual Fund Services	Broker-Dealer Services	Total
June 30, 2008			
Revenues from external customers	$ 1,131,181	$ 7,784,615	$ 8,915,796
Inter-segment revenues	-	5,406	5,406
Interest expense	82,074	-	82,074
Sales commissions amortized	47,808	-	47,808
Depreciation and amortization	24,476	4,459	28,935
Income (loss) before income tax expense	(59,298)	655,816	596,518
Income tax expense	2,837	257,160	259,997
Net income (loss)	(62,135)	398,656	336,521
June 30, 2007			
Revenues from external customers	$ 1,771,105	$ 8,604,563	$ 10,375,668
Inter-segment revenues	-	42,568	42,568
Interest expense	83,843	-	83,843
Stock-based employee compensation	45,000	-	45,000
Sales commissions amortized	110,739	-	110,739
Depreciation and amortization	58,701	2,465	61,166
Income (loss) before income tax benefit (expense)	(38,611)	541,946	503,335
Income tax benefit (expense)	9,239	(213,063)	(203,824)
Net income (loss)	(29,372)	328,883	299,511

As of, and for the six months ended:	Mutual Fund Services	Broker-Dealer Services	Total
June 30, 2008			
Revenues from external customers	$ 2,499,131	$ 15,699,349	$ 18,198,480
Inter-segment revenues	(8,672)	21,844	13,172
Interest expense	164,897	-	164,897

Sales commissions amortized	139,264	-	139,264
Depreciation and amortization	49,221	8,409	57,630
Income (loss) before income tax expense	(6,381)	1,088,833	1,082,452
Income tax expense	34,784	426,860	461,644
Net income (loss)	(41,165)	661,973	620,808
Segment assets	13,622,043	4,415,004	18,037,047
Expenditure for segment assets	36,577	20,839	57,416

June 30, 2007

Revenues from external customers	$ 3,644,239	$ 14,941,846	$ 18,586,085
Inter-segment revenues	-	68,516	68,516
Interest expense	164,928	-	164,928
Stock-based employee compensation	50,100	-	50,100
Sales commissions amortized	215,923	-	215,923
Depreciation and amortization	163,321	4,502	167,823
Income (loss) before income tax benefit (expense)	(584,608)	733,898	149,290
Income tax benefit (expense)	206,913	(288,263)	(81,350)
Net income (loss)	(377,695)	445,635	67,940
Segment assets	13,812,024	3,601,593	17,413,617
Expenditure for segment assets	43,824	29,122	72,946

Reconciliation of Segment Information

	For the Three Months Ended	
	June 30, 2008	June 30, 2007
Revenues:		
Total revenues for reportable segments	$ 8,921,202	$ 10,418,236
Elimination of inter-company revenues	(5,406)	(42,568)
Consolidated total revenues	$ 8,915,796	$ 10,375,668
Profit:		
Total reportable segment income (loss)	$ 336,521	$ 299,511

	For the Six Months Ended	
	June 30, 2008	June 30, 2007
Revenues:		
Total revenues for reportable segments	$ 18,211,652	$ 18,654,601
Elimination of inter-company revenues	(13,172)	(68,516)
Consolidated total revenues	$ 18,198,480	$ 18,586,085
Profit:		
Total reportable segment income (loss)	$ 620,808	$ 67,940
Assets:		
Total assets for reportable segments	$ 18,037,047	$ 17,413,617
Elimination of inter-company receivables	(78,392)	(78,392)
Consolidated assets	$ 17,958,655	$ 17,335,225

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 MANAGEMENT

By Investment Objective

	As of June 30, 2008	2007	% Change
FIXED INCOME			
Tax-Free Funds	$ 183,295,109	$ 198,943,552	(7.9)%
Taxable Funds (Corporate/Government)	79,156,595	172,529,748	(54.1)%
TOTAL FIXED INCOME FUNDS	$ 262,451,704	$ 371,473,300	(29.3)%
EQUITY			
Equity Funds	$ 39,807,018	$ 61,256,082	(35.0)%
Fund of Funds	11,241,757	13,909,633	(19.2)%
TOTAL EQUITY FUNDS	$ 51,048,775	$ 75,165,715	(32.1)%
TOTAL ASSETS UNDER MANAGEMENT	$ 313,500,479	$ 446,639,015	(29.8)%
Average for the Six Month Periods	$ 350,440,348	$ 452,729,248	(22.6)%

Assets under the Company's management were $313,500,479 at June 30, 2008, a decrease of 20.8% from $395,664,082 at December 31, 2007, and a decrease of 29.8% from $446,639,015 at June 30, 2007.

RESULTS OF OPERATIONS

	Three Months Ended June 30, 2008	2007	Six Months Ended June 30, 2008	2007
Net income	$ 336,521	$ 299,511	$ 620,808	$ 67,940
Income per share:				
Basic	$ .02	$ .02	$ .04	$ .00
Diluted	$ .02	$ .01	$ .03	$ .00

The Company reported net income for the quarter ended June 30, 2008, of $336,521, compared to net income of $299,511 for the same quarter in 2007. The Company reported net income for the six months ended June 30, 2008 of $620,808, compared to net income of $67,940 for the same period in 2007.

Operating revenues

Total operating revenues for the quarter ended June 30, 2008 were $8,915,796, a decrease of 14% from $10,375,668 for the quarter ended June 30, 2007. The decrease for the quarter resulted from decreased commission income relating to CFS, the Company's broker-dealer division, as well as a reduction in fee income received by the mutual fund division due to lower net asset levels in the Funds. Total operating revenues for the six months ended June 30, 2008 were $18,198,480, a decrease of 2% from $18,586,085 for the six months ended June 30, 2007. The decrease for the six-month period results primarily from a reduction in fee income received by the mutual fund division due to lower net asset levels in the Funds.

Fee Income

Fee income for the quarter ended June 30, 2008 was $1,496,241, a decrease of 27% from $2,057,186 for the quarter ended June 30, 2007. Fee income for the six months ended June 30, 2008 was $3,297,910, a decrease of 18% from $4,014,712 for the six months ended June 30, 2007. The decreases were due primarily to a reduction in fee income received by the mutual fund division due to lower net asset levels in the Funds.

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 4% of the Company's consolidated revenues for the six months ended June 30, 2008.

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 6% of the Company's consolidated revenues for the six months ended June 30, 2008.

The Company receives fees from the Funds for providing transfer agency, fund accounting, and other administrative services. These fees constituted 5% of the Company's consolidated revenues for the six months ended June 30, 2008.

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 3% of the Company's consolidated revenues for the six months ended June 30, 2008.

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 the quarter ended June 30, 2008 was $7,419,555, a decrease of 11% from $8,318,482 for the quarter ended June 30, 2007. The decrease for the quarter was due primarily to a decrease in commissions received by CFS due to market conditions. Commission income for the six months ended June 30, 2008 was $14,900,570, an increase of 2% from $14,571,373 for the six months ended June 30, 2007. The increase for the six-month period was due primarily to ongoing recruiting efforts for new registered representatives in CFS. Commission revenues constituted 82% of the Company's consolidated revenues for the six months ended June 30, 2008.

Operating expenses

Total operating expenses for the quarter ended June 30, 2008 were $8,582,196, a decrease of 14% from $9,959,418 for the quarter ended June 30, 2007. Total operating expenses for the six months ended June 30, 2008 were $17,500,494, a decrease of 6% from $18,538,757 for the six months ended June 30, 2007. The decreases resulted from the net decreases in the expense categories described in the paragraphs below.

Compensation and benefits

Compensation and benefits expense for the quarter ended June 30, 2008 was $867,412, a decrease of 11% from $970,613 for the quarter ended June 30, 2007. The decrease resulted primarily from a reduction in compensation paid to employee-status wholesalers due to decreased sales activity in the Funds and a reduction in the number of employee-status wholesalers. Compensation and benefits expense for the six months ended June 30, 2008 was $1,680,213, a decrease of 25% from $2,246,919 for the six months ended June 30, 2007. The decrease resulted primarily from a separation agreement entered into by the Company in 2007, as well as a reduction in compensation paid to employee-status wholesalers due to decreased sales activity in the Funds and a reduction in the number of employee-status wholesalers.

On January 24, 2007, the Company announced the retirement of Robert E. Walstad, the Company's founder, chief executive officer and chairman of the board of directors, effective February 1, 2007. In connection with Mr. Walstad's retirement, the Company entered into a separation agreement with Mr. Walstad. Under the terms of the separation agreement, subject to Mr. Walstad meeting his obligations thereunder in all 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. The $274,500 separation payment was expensed in February of 2007.

Commission expense

Commission expense for the quarter ended June 30, 2008 was $7,038,807, a decrease of 11% from $7,904,812 for the quarter ended June 30, 2007. Commission expense for the six months ended June 30, 2008 was $14,193,801, an increase of 1% from $14,034,403 for the six months ended June 30, 2007. The decrease in commission expense for the quarter ended June 30, 2008 and the increase in commission expense for the six months ended June 30, 2008, correspond with the decrease in commission income for the quarter ended June 30, 2008 and the increase in commission income for the six months ended June 30, 2008.

Sub-advisory expense

Total sub-advisory expenses for the quarter ended June 30, 2008 were $128,689, a decrease of 46% from $240,474 for the quarter ended June 30, 2007. Total sub-advisory expenses for the six months ended June 30, 2008 were $298,568, a decrease of 43% from $523,826 for the six months ended June 30, 2007. The decreases were due to reduced sub-advisory fees paid due to lower net assets levels in the Funds. Sub-advisory fees are paid to outside investment advisors for advisory services provided to certain of the Funds.

General and administrative expense

Total general and administrative expenses for the quarter ended June 30, 2008 were $470,545, a decrease of 30% from $671,614 for the quarter ended June 30, 2007. Total general and administrative expenses for the six months ended June 30, 2008 were $1,131,018, a decrease of 16% from $1,349,863 for the six months ended June 30, 2007. The decreases were due primarily to lower Fund distribution costs, which was due to a reduction in sales activity in the Funds.

Sales commissions amortized

Sales commissions amortized during the quarter ended June 30, 2008 were $47,808, a decrease of 57% from $110,739 for the quarter ended June 30, 2007. Sales commissions amortized during the six months ended June 30, 2008 were $139,264, a decrease of 36% from $215,923 for the six months ended June 30, 2007. The decreases were due primarily to decreased sales activity in the Funds.

Sales commissions paid to broker-dealers in connection with the sale of shares of the Funds sold without a front-end sales load ("FESL"), which include B and C shares, are capitalized and amortized on a straight-line basis over a period not exceeding eight years. CDSCs 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 CDSCs received from early redemptions from Integrity Fund of Funds, Inc. have been recorded as revenue. Sales commissions amortized can be expected to decrease if sales of shares of Funds sold without a FESL decrease.

Depreciation and amortization

Depreciation and amortization expense for the quarter ended June 30, 2008 was $28,935, a decrease of 53% from $61,166 for the quarter ended June 30, 2007. Depreciation and amortization expense for the six months ended June 30, 2008 was $57,630, a decrease of 66% from $167,823 for the six months ended June 30, 2007. The decreases were due to accelerated amortization of computer software costs during 2007.

Interest and other income

Interest and other income for the quarter ended June 30, 2008 was $344,992, an increase of 102% from $170,928 for the quarter ended June 30, 2007. Interest and other income for the six months ended June 30, 2008 was $549,363, an increase of 106% from $266,890 for the six months ended June 30, 2007. The increases were due primarily to an increase in due diligence and marketing allowances received by CFS.

Liquidity and capital resources

Net cash provided by operating activities was $904,651 for the six months ended June 30, 2008, as compared to net cash provided by operating activities of $403,430 during the six months ended June 30, 2007.

Net cash used by investing activities was $57,416 for the six months ended June 30, 2008, compared to net cash used by investing activities of $150,652 for the six months ended June 30, 2007. During the six months ended June 30, 2008, the primary use of cash for investing activities was the purchase of additional computer equipment.

Net cash used by financing activities was $707,474 for the six months ended June 30, 2008, compared to net cash provided by financing activities of $129,148 for the six months ended June 30, 2007. During the six months ended June 30, 2008, the Company paid out $45,750 in preferred stock dividends, made two payments totaling $67,443 relating to the United Heritage acquisition (see Note 5 - Business Acquisitions), paid out $561,000 relating to subordinated commercial notes that matured on June 30, 2008 and repaid $36,884 of bank debt.

At June 30, 2008, the Company held $3,283,011 in cash and cash equivalents, as compared to $3,143,250 at December 31, 2007. 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 March of 2007, the Company borrowed $120,085 from First Western Bank & Trust. The current balance of $85,085 carries an interest rate of 6.50% and matures on April 15, 2009.

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.

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 payments 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 Securities and Exchange Commission ("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," "estimate," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Such statements are subject to certain risks and uncertainties, including those set forth in this "Forward-Looking Statements" section, 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. If the Company's assets under management decline, or do not grow in accordance with the Company's plans, fee revenues and earnings would be materially adversely affected. Assets under management 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 over 8,700 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 material 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 the Funds, as a group, are concentrated are themselves concentrated in certain regions of the United States. The Company's fee revenues may, therefore, be adversely affected by economic conditions within such regions.

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 that may adversely affect the general economy.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable as a Smaller Reporting Company

Item 4. 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-15(e) and Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, pursuant to Rule 13a-15(b) of the Exchange Act. 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 June 30, 2008, 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 over financial reporting during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Not Applicable as a Smaller Reporting Company

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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

None

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
April 2008	-	-	-	$597,754
May 2008	-	-	-	$597,754
June 2008	-	-	-	$597,754
Total	-	-	-	$597,754

Item 3. Defaults Upon Senior Securities

None

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

At the Annual Meeting of Shareholders held on May 30, 2008, the following proposals were adopted by the margins indicated:

1. To elect a Board of Directors of the Company.

Number of votes cast for:

Gregory Philipps	13,742,332
Vance A. Castleman	9,495,248
Jeffrey A. Cummer	8,506,746

Myron D. Thompson	8,123,986
Vaune M. Cripe	8,116,955
Peter A. Quist	8,083,022

2. To ratify the selection of Brady, Martz & Associates, P.C., as the Company's independent auditors for the fiscal year ending December 31, 2008.

For	13,727,521
Against	70,102
Abstain	52,298

Item 5. Other Information

None

Item 6. Exhibits

Exhibits

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

INTEGRITY MUTUAL FUNDS, INC.
SIGNATURES

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

INTEGRITY MUTUAL FUNDS, INC.

Date: August 12, 2008 By /s/ Bradley P. Wells

Bradley P. Wells
Interim Chief Executive Officer
and President
(Principal Executive Officer)

Date: August 12, 2008 By /s/ Heather Ackerman

Heather Ackerman
Chief Financial Officer
(Principal Financial Officer)