

Edgar Filing: INTEGRITY INC - Form 10-Q

INTEGRITY INC
Form 10-Q
May 14, 2001

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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 March 31, 2001

OR

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

Commission File No. 000-24134

INTEGRITY INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware 63-0952549

(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

1000 Cody Road
Mobile, Alabama 36695

(Address of principal executive offices, zip code)

(334) 633-9000

Registrant's telephone number, including area code

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class -----	Outstanding at May 9, 2001 -----
Class A Common Stock, \$0.01 par value	2,184,000
Class B Common Stock, \$0.01 par value	3,435,000

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PART I.

FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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INTEGRITY INCORPORATED CONDENSED CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE DATA)

	Mar 31, 2001 ----- (Unaudited) -----
ASSETS	
Current Assets	
Cash	\$ 4,377
Trade receivables, less allowance for returns and doubtful accounts of \$1,647 and \$1,241	7,939
Other receivables	354
Inventories	3,664
Other current assets	2,992
Total current assets	19,326
Property and equipment, net of accumulated depreciation of \$4,661 and \$4,519	3,908
Product masters, net of accumulated amortization of \$12,256 and \$16,604	4,709
Other assets	3,707
Total assets	\$ 31,650
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Current portion of long-term debt	2,311
Accounts payable and accrued expenses	2,568
Royalties payable	6,844
Other current liabilities	786
Total current liabilities	12,509
Long-term debt	1,159
Other long-term liabilities	9
Total liabilities	13,677
Commitments and contingencies	0
Minority interest	799
Stockholders' Equity	
Preferred stock, \$.01 par value; 500,000 shares authorized; None issued and outstanding	0
Class A common stock, \$.01 par value; 7,500,000 shares authorized; 2,184,000 shares issued and outstanding	22
Class B common stock, \$.01 par value, 10,500,000 shares authorized; 3,435,000 shares issued and outstanding	34
Additional paid-in capital	13,857
Unearned stock option compensation	(259)
Retained earnings	3,759
Equity adjustments from foreign currency translation	(239)

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Total stockholders' equity	----- 17,174 -----
Total liabilities and stockholders' equity	\$ 31,650 =====

The accompanying notes are an integral part of these condensed consolidated financial statements.

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INTEGRITY INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	Three Months Ended March 31 2001	2000
	-----	-----
Net sales	\$ 20,894	\$ 13,897
Cost of sales	12,620	7,349
	-----	-----
Gross profit	8,274	6,548
Marketing and fulfillment expenses	3,503	3,302
General and administrative expenses	3,155	2,668
	-----	-----
Income from operations	1,616	578
Other expenses		
Interest expense, net	156	262
Other expenses	33	16
	-----	-----
Income before minority interest and taxes	1,427	300
Provision for income taxes	81	113
Minority interest, less applicable taxes	37	20
	-----	-----
Net income	\$ 1,309	\$ 167
	=====	=====
Adjustments to determine comprehensive income		
Foreign currency translation adjustments	(104)	4
	-----	-----
Comprehensive income	\$ 1,205	\$ 171
	=====	=====
NET INCOME PER SHARE		
Basic	\$ 0.23	\$ 0.03
	=====	=====
Diluted	\$ 0.21	\$ 0.03
	=====	=====
Weighted average number of shares outstanding		
Basic	5,619	5,614
Diluted	6,151	6,023

The accompanying notes are an integral part of these

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condensed consolidated financial statements.

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INTEGRITY INCORPORATED
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 (IN THOUSANDS)
 (UNAUDITED)

	Three months E 2001 -----
Cash flows from operating activities	
Net income	\$ 1,309
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation and amortization	277
Amortization of product masters	1,703
Minority interest	37
Stock compensation	13
Changes in operating assets and liabilities	
Trade receivables	(2,010)
Other receivables	207
Inventories	297
Other assets	(353)
Accounts payable, royalties payable and accrued expenses	3,402
Other current and non current liabilities	206
Other	0

Net cash provided by operating activities	5,088

Cash flows from investing activities	
Payments received on notes receivable	0
Purchases of property and equipment	(100)
Payments for product masters	(787)

Net cash used in investing activities	(887)

Cash flows from financing activities	
Net (repayments) borrowings under line of credit	0
Principal payments of long-term debt	(625)

Net cash used in financing activities	(625)

Net (decrease) increase in cash	3,576
Cash, beginning of year	801

Cash, end of period	\$ 4,377
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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INTEGRITY INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2001 AND MARCH 31, 2000
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

Integrity Incorporated (the "Company") is engaged in the production, creative content, distribution and publishing of music cassette tapes and compact discs, print music and related products, sold to the public primarily through retail sales outlets and direct to consumer marketing. A principal direct to consumer marketing method of distribution is continuity programs whereby subscribers receive products at regular intervals.

Integrity Music Europe Ltd. was formed in 1988; Integrity Music Pty. Ltd. was formed in 1991; and Integrity Media Asia Pte. Ltd. was formed in 1995. These wholly-owned subsidiaries of the Company serve to expand the Company's presence in Western Europe, Australia and New Zealand, and Singapore, respectively. Celebration Hymnal LLC was formed in 1997 with Word Entertainment, for the purpose of producing and promoting The Celebration Hymnal. Word Entertainment's interest in the joint venture is presented as a minority interest in these financial statements, as the joint venture is controlled by the Company.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the financial statements for the year ended December 31, 2000 contained in the Company's Annual Report on Form 10-K. The unaudited condensed financial information has been prepared in accordance with the Company's customary accounting policies and practices. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation of results for the interim period, have been included.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Operating results for the quarter ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

PRINCIPLES OF CONSOLIDATION

The accompanying financial statements include the accounts of the Company, its wholly-owned subsidiaries, which include Integrity Music Pty. Ltd., Integrity Music Europe, Ltd., Integrity Media Asia Pte. Ltd., and of the Celebration Hymnal LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

REVENUE RECOGNITION

Revenue is recognized at the time of shipment. Provisions are made based on estimates derived from historical data for sales returns and allowances in the period in which the related products are shipped. The full amount of the returns allowance is shown, along with the allowance for doubtful accounts, as a

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reduction of accounts receivable in the accompanying financial statements. Generally, revenue derived from licensing the use of songs in the Company's song catalogs is recognized as payments are received from licensees.

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MARKETING COSTS

The Company incurs marketing costs utilizing various media to generate direct, retail and e-commerce sales to customers. Marketing expenditures that benefit future periods are capitalized and charged to operations using the straight-line method over a period of three months, which approximates the period during which the related sales are expected to be realized. Other marketing costs are expensed the first time advertising takes place. Prepaid marketing costs, including artwork, printing and direct mail packages, are included in assets in the accompanying financial statements. Marketing costs of approximately \$1.3 million and \$1.2 million were expensed for the three months ended March 31, 2001 and 2000, respectively.

FULFILLMENT COSTS

Fulfillment expenses are primarily comprised of distribution fees paid to third party distributors of the Company's products that are based on a percentage of sales. The services provided by the third party distributor include sales, fulfillment and storage of the Company's product for the Retail segment. Distribution fees represented approximately 80% of total fulfillment expense for the three months ended March 31, 2001. Also included in fulfillment expenses are fees paid to a third party service provider on a transaction basis for data entry, generation of invoices, and cash processing.

Additionally, in the Direct to Consumer segment, the Company completes the distribution and shipping function internally and includes a separate surcharge to customers related to this service. These costs, which approximated \$333,000 and \$286,000 for the three months ended March 31, 2001 and 2000, respectively, are recorded as a component of Cost of Sales and the related customer fee is recorded as a component of Net Sales.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company evaluates impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss would be recognized. Measurement of an impairment loss for long-lived assets would be based on the fair value of the asset.

PRODUCT MASTERS

Product masters, which include sound and video recordings and print masters, are amortized over their future estimated useful lives using a method that reasonably relates to the amount of net revenue expected to be realized. Management periodically reviews the product masters amortization rates and adjusts the amortization rate based on management's estimates for future sales. In conjunction with such analysis, any amounts that do not appear to be fully recoverable are charged to expense during the period the loss becomes estimatable. The costs of producing a product master include the cost of the musical talent, the cost of the technical talent for engineering, directing and mixing, costs for the use of the equipment to record and produce the master and studio facility charges.

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EARNINGS PER SHARE OF COMMON STOCK

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average of common shares outstanding for the period. Diluted earnings per share is calculated by dividing income available to common stockholders by the weighted average of common shares outstanding assuming issuance of potential dilutive common shares related to options and warrants.

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FOREIGN CURRENCIES

Assets and liabilities at foreign subsidiaries are recorded based on their functional currencies. Amounts in foreign currencies are translated at the applicable exchange rate at the balance sheet date using the exchange rate in effect at the period end. Revenues and expenses of foreign subsidiaries are translated using the average rates applicable during the reporting period. The effects of foreign currency translation adjustments are included as a component of stockholders' equity and comprehensive income.

NOTE 2 - LONG TERM DEBT

The Company's financing agreement in effect for the first quarter of 2001 included a revolving credit facility and a term loan that were payable through August 2002. There was \$874,000 and \$874,000 outstanding under the credit facility and \$2.9 million and \$3.6 million outstanding under the term loan at March 31, 2001 and December 31, 2000, respectively. At the Company's option, the loan carries an interest rate of the bank's base rate plus .75%, or LIBOR plus 2%.

On April 25, 2001, the Company entered into a new \$20 million, five-year secured credit facility with LaSalle Bank N. A. The credit agreement includes a \$6 million line of credit and a \$14 million term loan. Through this new credit facility, the Company has refinanced its previous credit facility with Bank Austria Creditanstalt.

NOTE 3 - SEGMENT INFORMATION

Summarized financial information concerning the Company's reportable segments is shown in the following table, in thousands:

	Three months ended March 31 2001	2000
	-----	-----
NET SALES		
Direct to Consumer	\$ 11,063	\$ 3,679
Retail	8,860	7,613
International	1,561	1,980
Other	2,442	2,163
Eliminations	(3,032)	(1,538)
	-----	-----
Consolidated	\$ 20,894	\$ 13,897
	=====	=====
 OPERATING PROFIT (BEFORE MINORITY INTEREST)		
Direct to Consumer	2,136	552

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Retail	1,337	1,522
International	198	294
Other	(293)	(400)
	-----	-----
Consolidated	3,378	1,968
General corporate expense	(1,795)	(1,406)
Interest expense, net	(156)	(262)
	-----	-----
Income before income taxes and minority interest	\$ 1,427	\$ 300
	=====	=====

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ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net sales increased \$7.0 million or 50.3% to \$20.9 million for the three months ended March 31, 2001, as compared to \$13.9 million for the three months ended March 31, 2000. The increase in revenue is primarily attributable to increased volume in the Direct to Consumer segment. Sales in the Direct to Consumer segment increased \$7.4 million or 200.7% to \$11.1 million, compared to \$3.7 million in the same period in 2000. This increase was due primarily to the sales of the "Songs 4 Worship" products both on television direct marketing and in the new "Songs 4 Worship" continuity program. Most of the "Songs 4 Worship" revenue in the first quarter was from sales to Time Life for its television direct marketing continuity series. Though difficult to predict, management anticipates that sales to Time Life for the "Songs 4 Worship" series will decline from first quarter levels over the remainder of 2001.

Sales in the Retail segment increased \$1.2 million or 16.4% to \$8.9 million, compared to \$7.6 million in the same period in 2000. This increase was due primarily to the release of the third WoW Worship album, WoW Worship Green, a collection of the best selling praise and worship songs, created in partnership with Maranatha! and Vineyard. Sales of WoW Worship Green totaled \$1.6 million in the first quarter of 2001. The first WoW Worship album, WoW Worship Blue, was released in the second quarter of 1999, and the second, WoW Worship Orange, was released in the first quarter of 2000. Total WoW Worship sales were \$3.5 million for the first quarter of 2001 compared to \$2.8 million for the same period in 2000. Also contributing to the sales increase for the Retail segment in the first quarter of 2001 was \$894,000 in sales of "Songs 4 Worship" products released into the general market in the first quarter of 2001.

International sales decreased by 21.2% to \$1.6 million, as compared to \$2.0 million in the same period in 2000 due to unfavorable changes in foreign exchange rates in the first quarter of 2001 compared to the first quarter of 2000, and from increased competitive pressures in key foreign markets, especially Asia. Management expects these competitive pressures to continue for the remainder of 2001.

Sales in the Other segment increased by 15.5% to \$2.5 million, as compared to \$2.2 million in the same period in 2000 due primarily to additional copyright royalties generated from the increase in product sales and third party use. New product sales in all segments totaled 1.2 million units or 38.8% of total units sold for the three months ended March 31, 2001, as compared to 1.0 million units or 35.9% of total units sold for the same period in 2000. The

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increase in new product sales as a percentage of total sales is due primarily to the "Songs 4 Worship" and the WoW Worship Green releases discussed above.

Gross profit increased to \$8.3 million or 39.6% of sales, as compared to \$6.5 million or 47.1% in the same period in 2000. Gross profit as a percentage of sales decreased in the first quarter of 2001 compared to the same period in 2000 mainly from the lower gross margin percentages for the WoW Worship albums and the combined "Songs 4 Worship" sales. The gross profit percentage in the Retail segment declined to 44.8% in 2001 from 49.6% in 2000 due primarily to increased sales of the WoW Worship albums and the retail sales of the "Songs 4 Worship" albums released into the general market in the first quarter of 2001. Because the WoW Worship albums were created in partnership with two other record companies, the Company's gross margin is lower due to higher royalties. The gross margins on the "Songs 4 Worship" sales are lower because the Company sells the product at a wholesale price in the general retail market. The gross margin percentage in the Direct to Consumer segment declined to 34.0% for the first quarter of 2001, from 51.9% in the first quarter of 2000, due to the wholesale pricing of the "Songs 4 Worship" sales to Time Life. The gross profit percentage in the International segment increased slightly in the first quarter of 2001 to 57.8% from 56.1% in 2000.

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The following table shows the gross margin by operating segment:

Gross margin	Three months ended March 31,	
	2001	2000
	-----	-----
Retail	44.8%	49.6%
Direct to Consumer	34.0%	51.9%
International	57.8%	56.1%
Other	-7.8%	-9.9%
Consolidated	39.6%	47.1%

The Other segment includes copyright revenues as well as certain expenses that are not charged to specific segments. These expenses include reductions in the carrying value of product masters as well as additions to the Company's reserves for product returns, inventory obsolescence and bad debts.

Marketing and fulfillment expenses increased 6.1% to \$3.5 million or 16.8% of net sales for the three months ended March 31, 2001, as compared to \$3.3 million or 23.8% of net sales for the same period in 2000. The increase in marketing and fulfillment expenses is primarily attributable to increased fulfillment costs in the Retail segment that now comprises 42.4% of consolidated net sales. Additionally, fulfillment costs related to the WoW Worship albums are at a higher rate than other products due to the joint marketing agreement discussed above. The distribution and fulfillment for the Direct to Consumer segment is handled with in-house personnel and the Company's own warehouse and shipping facility. The Company contracts with a third party for some data management, however, the customer service and actual fulfillment functions are performed in-house. The primary reason for the decline of marketing and fulfillment expenses as a percent of sales is that "Songs 4 Worship" sales to Time Life in the Direct to Consumer segment and "Songs 4 Worship" sales in the Retail segment bear no marketing or fulfillment expenses.

General and administrative expenses increased to \$3.2 million or 15.1%

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of net sales for the three months ended March 31, 2001, as compared to \$2.7 million or 19.2% of net sales for same period in 2000. The decrease from the 2000 period as a percentage of sales is primarily attributable to greater sales volume. The increase in general and administrative expenses is primarily attributable to increases in employee costs and professional fees.

Operating profit in the Direct to Consumer segment grew 287.0% to \$2.1 million for the three months ended March 31, 2001 from \$552,000 for the same period in 2000 due to the "Songs 4 Worship" sales mentioned previously and due to lower marketing and fulfillment costs related to these sales. Operating profit in the Retail segment declined 12.2% from \$1.5 million in the first quarter of 2000 to \$1.3 million in the first quarter of 2001 due primarily to an increase of \$306,000 in marketing and fulfillment expenses related to the WoW Worship albums and other CBA releases in the quarter. Operating profit in the International segment decreased by 32.7% to \$198,000 for the three months ended March 31, 2001 from \$294,000 for the same period in 2000 due to lower gross margins generated from the sales decline explained previously. Operating loss in the Other segment was \$293,000 compared to a loss of \$400,000 in the same period in 2000, for a difference of \$107,000, due to additional copyright income generated as a result of increased product sales and third party use.

Interest expense decreased \$106,000 to \$156,000 or 0.7% of net sales for the three month period ended March 31, 2001, as compared to \$262,000 or 1.9% of net sales for the same period in 2000. The decrease in the first three months of 2001 was the result of lower average debt levels for the period. The average interest rate for the three months ended March 31, 2001 and 2000 was 8.04% and 8.63%, respectively.

The Company recorded an income tax provision of \$81,000 and \$113,000 for the three months ended March 31, 2001 and 2000, respectively. The company recorded a one-time tax benefit of \$390,000 related to foreign tax credits for the three months ended March 31, 2001. The Company's effective tax

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rate for the first quarter of 2001 was 5.7%. The Company's forecasted effective tax rate for the year 2001 is 33%, as compared to 24% for the year 2000.

Net income for the three months ended March 31, 2001 increased by \$1.1 million to \$1.3 million, as compared to \$167,000 for the same period in 2000.

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically and will continue to finance its operations primarily through cash generated from operations and from borrowings under a line of credit and term notes as needed. The Company's principal uses of cash historically have been the production and recording of product masters to build the Company's product master library and debt service. For the periods ended March 31, 2001 and 2000, the Company had average daily borrowings under the credit agreement of \$4.4 million and \$5.6 million at average rates of 8.04% and 8.63%, respectively. At March 31, 2001, the Company had \$5.1 million available to borrow under this agreement.

On April 25, 2001, the Company entered into a new \$20 million, five-year secured credit facility with LaSalle Bank N. A. The credit agreement includes a \$6 million line of credit and a \$14 million term loan. Through this new credit facility, the Company has refinanced its previous credit facility with Bank Austria Creditanstalt.

Cash generated from operations totaled \$5.1 million and \$3.3 million

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for the three months ended March 31, 2001 and 2000, respectively. The increase from 2000 to 2001 resulted primarily from increased earnings before depreciation and amortization and the timing of payments for liabilities, principally royalties.

Investing activities used \$887,000 and \$1.0 million during the three months ended March 31, 2001 and 2000, respectively. This consisted, partially, of capital expenditures for computer equipment and capital improvements to existing buildings totaling \$100,000 and \$265,000 for the three months ended March 31, 2001 and 2000, respectively. The investments in product masters for the three months ended March 31, 2001 and 2000 totaled \$787,000 and \$1.0 million, respectively. The investment in product masters related to releases in the first quarter and the continued development of other products by the Company.

The Company made principal payments on its term loan of \$625,000 and \$625,000 in the three months ended March 31, 2001 and 2000, respectively.

During the three month period ended March 31, 2001, the company did not make any distributions to its 50% partner in the Celebration Hymnal LLC joint venture, Word Entertainment.

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in this document including matters discussed under the caption "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Integrity Incorporated to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. The words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," and similar expressions are intended to identify such forward-looking statements. The Company's actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including without limitation those discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors" in the Company's Report on Form 10-K for the fiscal year ended December 31, 2000. All written or oral forward-looking statements attributable to the Company are expressly qualified in their entirety by these

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cautionary statements. Any forward-looking statements represent management's estimates only as of the date of this report and should not be relied upon as representing estimates as of any subsequent date. While Integrity may elect to update forward-looking statements at some point in the future, Integrity specifically disclaims any obligation to do so, even if its estimates change.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the Item 7A disclosure made in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

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PART II.

OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(A) EXHIBITS

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
3(i)	Certificate of Incorporation of the Registrant, as amended (incorporated by reference from Exhibit 4(a) to the Registrant's Registration Statement on Form S-8 (File No. 33-84584) filed on September 29, 1994).
3(i).1	Certificate of Amendment to the Certificate of Incorporation of the Registrant, dated July 21, 1995, (incorporated by reference from Exhibit 3(i).1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995).
3(ii)	Bylaws of the Registrant, as amended (incorporated by reference from Exhibit 3(ii) to the Registrant's Registration Statement on Form S-1 (File No. 33-78582), and amendments thereto, originally filed on May 6, 1994).
4	Form of Class A Common Stock certificate of the Registrant
10.1	Credit Agreement dated April 25, 2001 by and between Integrity Incorporated and LaSalle Bank National Association (The foregoing is the subject of a request for confidential treatment).
10.2	Intellectual Property Security Agreement dated April 25, 2001 by Integrity Incorporated in favor of LaSalle Bank National Association.
10.3	Security and Pledge Agreement dated April 25, 2001 by Integrity Incorporated in favor of LaSalle Bank National Association.

(B) REPORTS ON FORM 8-K

There were no reports on Form 8-K filed for the quarter ended March 31, 2001.

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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 INCORPORATED

Date: May 11, 2001

/s/ P. Michael Coleman

P. Michael Coleman
Chairman, President and Chief Executive Officer

Date: May 11, 2001

/s/ Donald S. Ellington

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Donald S. Ellington
Senior Vice President of Finance and Administration
(Principal Financial and Accounting Officer)