FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

INTEGRITY INC

CIK:**922865**| IRS No.: **630952549** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **000-24134** | Film No.: **99574732**
SIC: **3652** Phonograph records & prerecorded audio tapes & disks

Mailing Address
1000 CODY ROAD
MOBILE AL 36695-3425

Business Address
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MOBILE AL 36695
3346339000

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

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 0-24134

INTEGRITY INCORPORATED
(Exact name of registrant as specified in its charter)

INCORPORATED IN DELAWARE   I.R.S. EMPLOYER IDENTIFICATION NUMBER 63-0952549

1000 CODY ROAD
MOBILE, ALABAMA 36695
(Address of principal executive offices)

334-633-9000
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

CLASS A COMMON STOCK, $.01 PAR VALUE
(Title of Class)

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.   X   Yes   No
-----   -----

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference into Part III of this Form 10-K or any amendment to this form 10-K. [X]

The aggregate market value of the Class A Common Stock held by non-affiliates of the Registrant (assuming, for purposes of this calculation, without conceding, that all executive officers and directors are "affiliates"), was $7,977,200 at March 12, 1999, as reported by the Nasdaq SmallCap Market.

The number of shares of Registrant's Class A Common Stock, $.01 par value per share, outstanding at March 12, 1999 was 2,079,000.

The number of shares of Registrant's Class B Common Stock, $.01 par value per share, outstanding at March 12, 1999 was 3,435,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held May 7, 1999 are incorporated by reference into Part III.

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in this document and in documents incorporated by reference herein, including matters discussed under the caption "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 (the "Company" or "Integrity") 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 -- Factor's Affecting Future Performance." All written or oral forward-looking statements attributable to the Company are expressly qualified in their entirety by these cautionary statements.

PART 1.

ITEM 1. BUSINESS

INTRODUCTION

Integrity is a producer and publisher of Christian lifestyle products developed to facilitate worship, entertainment and education. Product formats include cassettes, compact discs, videos and songbooks. The Company produces Christian music ranging from praise and worship music, its largest category, to other styles of adult contemporary Christian music and children's music. Integrity's products are sold primarily through retail stores and direct to consumers throughout the United States and internationally in over 140 other countries worldwide. The Company has determined that its business is operated in segments based on these distribution channels. For specific information regarding the financial performance of each segment, see Note 9 to Notes to Consolidated Financial Statements.

Integrity's recorded music products fall into two broad categories (i) concept products which are centered on a specific theme, such as praise and worship music and (ii) artist products, in which the artist is the focal point. In addition to recorded music, Integrity produces Christian music video products, including a children's music series and praise and worship music recorded specifically for aerobic exercises. Integrity's products also include printed music, such as songbooks and sheet music, designed primarily for distribution to churches and choral groups.

Integrity was organized in Alabama as a corporation on May 1, 1987 and was reincorporated in Delaware on October 1, 1993.

PRODUCTS

Concept Products

Concept products are centered around a specific theme, such as praise and worship music or inspirational instrumental music, rather than being focused on a specific artist. The Company's original concept product series was Hosanna! Music(R), recorded praise and worship music, which is composed of live recordings sung by an audience and worship leader rather than a performing artist. The Company's Hosanna! Music(R) series has proven to be a successful product line having just produced its 88th recording.

The Company's concept product line now includes: FairHope Records(R), designed for budget-conscious customers, featuring classic praise and worship titles grouped according to themes; Urban Praise(R) series songs of worship for the African-American community; and Integrity Notes(R), a series of greeting cards for general occasions and specialty cards related to seasonal events, featuring verses from our praise and worship songs.

Artist Products

In addition to concept products, the Company also produces artist recordings which have recently included "Live From The Potter's House" with T.D. Jakes, "God Is Good" with Don Moen, "Holy Fire" with Paul Wilbur and "Majesty" with Ron Kenoly. Previous recordings by Ron Kenoly include Welcome Home, recipient of the Dove Foundation "Family Approved" seal of excellence;

"Sing Out," the first Integrity title to enter Billboard's Top 200; "God is Able", "High Places" and "Lift Him Up," which has received Gold certification by the Recording Industry Association of America. Previous recordings by Don Moen include the Gold-certified "Give Thanks", "Worship With Don Moen", and "God Will Make A Way". Previous recordings by Paul Wilbur include "Shalom Jerusalem" and "Up to Zion". A previous recording by T. D. Jakes was "Woman, Thou Art Loosed".

Other Products

The Company has also produced numerous musical video products, including: recordings of live performances by the Company's artists, such as Ron Kenoly's videos "Majesty", "High Places", "Welcome Home", "Sing Out", the first HOSANNA! title to appear on Billboard's Top 40 Music Video Chart, and the Gold-certified videos "Lift Him Up" and "God is Able". The popular children's music series Just-For-Kids(R), featuring the Donut Man(R), includes nine Gold-certified and one Platinum-certified videos. Other videos include the Gold-certified Praise! Aerobics(R), praise and worship music recorded specifically for aerobic exercises and "Woman Thou Art Loosed" with T. D. Jakes. Other products include Integrity Music Worship Software(R), designed to assist music ministers in the selection of songs (over 5,000 featured), planning rehearsals and services, and reviewing song usage tracking.

Integrity's Christian music products also include printed product lines such as songbooks and sheet music designed primarily for distribution to churches and choral groups. The Company produces "God With Us", winner of the Gospel Music Association Dove Award in April 1994 for best musical and still at the top of the non-seasonal musical charts for five years running; "Let Your Glory Fall", ranked among the top 10 in the non-seasonal musical charts; "We Hold These Truths", a patriotic musical, has ranked among the top 10 during the patriotic season; "Mighty Cross", nominated for the 1995 best musical Dove Award; "Because We Believe", ranked among the top 10 in the youth non-seasonal musical charts; and the recently released "God For Us", a sequel to "God With Us". These musicals were ranked by The Church Music Report ("TCMR"). Other printed music products include "The Celebration Hymnal", a joint venture with Word Entertainment, featuring over 700 songs and hymns.

PRODUCT CREATION

The Company's product development process is based upon the creation of new concept or artist products which are designed, scripted and marketed to respond to a specific demand. Integrity conducts a planning process for each new product in order to determine whether the final product is likely to be successful in the market for which it is designed.

New product concepts are based on responses to surveys of the Company's current customer base as well as other market and product research conducted by the Company and by independent consultants. Once a new product concept has been identified, Integrity assembles a creative team which includes one or more artists and producers, generally employed on a freelance or contract basis, and representatives of Integrity's creative, marketing and finance divisions. The executive vice president/creative director is responsible for the product creation process and the vice president of the Creative Group provides significant input in the creative process. Both play a key part with the creative team in the planning process, which includes finalizing the concept for the recording or series and selecting the songs to be used. During this initial planning, a member of the finance department develops a cost analysis for the project including projected sales and profitability.

Following the development of the product concept, the product is recorded at Integrity's studio in Mobile, Alabama, in live settings at churches or civic auditoriums, or in independent studios in cities such as Los Angeles, California or Nashville, Tennessee. A significant amount of recording is done in independent studios. The studios in Mobile, Alabama are mainly used as a post-production facility where the recordings are edited and mixed. The manufacturers receive the master recordings from Integrity in digital format and then produce a master to be used in the manufacturing process. The Company reviews the final manufacturing master prior to production to ensure that the quality of the recording has been maintained.

DISTRIBUTION

The Company distributes its products domestically through two primary channels: direct to consumer and retail markets. In addition, the Company has an international distribution network which reaches markets in over 140 countries.

Direct To Consumer

The Company's direct to consumer activities are based on a variety of methods designed to reach the consumer directly. Among the methods are continuity clubs, in which the member receives a selection every six to eight weeks and is billed for each selection. Shipments continue until the Company is instructed to cancel the membership. This differs from certain other music clubs in which members have a "negative option" allowing them to decline monthly selections before they are mailed and in which their only obligation is to purchase a certain number of products over a stated period of time.

The Company's potential direct to consumer database includes subscribers to Christian magazines, purchasers of Christian mail order products and donors to Christian ministries. When available, the Company obtains new mailing lists to conduct a one-time solicitation of an approved direct mailing. Once a response is received by Integrity, the customer's name is added to the Company's own mailing list. Integrity also builds its direct to consumer database through space advertisements in Christian magazines and through telemarketing.

The Company's first continuity club, Hosanna! Music(R) has just produced its 88th recording. Currently the Company operates several continuity clubs, including the Integrity Notes(R), and Urban Praise(R) series. The clubs are launched with a mailing of a new product announcement and solicitation to as many as 500,000 people. After the initial mailing, the Company postpones further direct mail solicitation campaigns for up to six months, utilizing the time to study the response and evaluate the sustainability of the initial members. If the initial membership proves to be sustainable based on product shipments, the Company will roll out the club in an extensive direct mail effort to an average of 900,000 people.

In addition to continuity clubs, the Company's direct to consumer program includes mail order catalog sales, telemarketing, one-time offers to active customers, and sales through the Internet. The mail order catalog and telemarketing programs are designed to increase sales to the Company's current customers by increasing their awareness of Integrity's full line of products, as well as to develop new customers for Integrity products. This program also includes direct sales to churches of products such as choral music and printed products, including "The Celebration Hymnal", which features over 700 songs and hymns, introduced in 1997 in a joint venture with Word Entertainment.

Retail Markets

Integrity's retail sales activities are targeted at two markets, the Christian bookstore ("CBA") market, and the general retail market. The Company currently utilizes Word Entertainment ("Word") to serve these markets.

All CBA orders are fulfilled through Word, which is responsible for warehousing Integrity's products which are shipped and invoiced based on orders received directly from Word's sales force through a computerized order entry system. Word services the Company's customers from one warehouse located in Tennessee. During 1998, SoundScan ranked Word as the number 2 distribution company in the CBA market. SoundScan also ranked Integrity as the number two record label in CBA, from the number three position in 1997. As a result of the distribution agreement with Word, the Company also has access to the Sony/Epic distribution system for sales in the general market.

Retail sales efforts are supported by Integrity's own in-house staff for marketing, covering such things as point-of-purchase advertising, radio promotion, and product publicity.

International

The Company's international sales are made through a subsidiary located in the United Kingdom, responsible for Europe; a subsidiary located in Australia, responsible for Australia, New Zealand and the Solomon Islands; and a subsidiary located in Singapore, responsible for Singapore and Myanmar (formerly known as Burma). In addition, products are sold to more than 60 independent distributors who are licensed to manufacture Integrity products from master recordings and distribute them in a country or region and approximately 18 importers to whom the Company provides products. The Company's international distribution network reaches markets in over 140 countries. The Company continually evaluates ways to expand into various markets through importers or through distributors licensed to produce Integrity products from a master recording. For specific financial information regarding the geographic areas that the Company's international distribution network reaches, see Note 9 to Notes to Consolidated Financial Statements.

The Company also develops products specifically for certain markets. This effort includes recording songs in indigenous languages as well as utilizing local artists and local songs to produce the recordings. Integrity currently produces products in the Russian, Spanish, Mandarin Chinese, French, German, Portuguese and Indonesian languages. Integrity artists are also involved in live performance tours to various countries.

MUSIC PUBLISHING

The Company's song catalog has accumulated ownership rights for over 2,400 songs and has generated a significant amount of royalty income from use by third parties. A majority of the songs appearing on Integrity recordings are published out of the Company's song catalog.

Integrity places great emphasis on the development and maintenance of its song catalog. Songs are selectively added to the song catalog based on the concept or theme of a specific product design or because the Company believes that the songs have the potential to be a part of a future Integrity product. The Company believes that its efforts have produced a distinctive Christian song catalog whose titles are used not only on recorded media and radio and television programming, but also in church services.

The Company licenses the use of its songs to churches and other choral groups through Christian Copyright Licensing, Inc. ("CCLI"). Through CCLI, churches and choral groups in the United States are able to pay one licensing fee for the use of numerous Christian music copyrights. The Company is paid a percentage of the licensing fees collected by CCLI based on CCLI's estimates of the percentage of Integrity songs utilized by the churches and choral groups.

WAREHOUSING AND FULFILLMENT

Integrity currently contracts with Word for its retail market warehousing, physical inventory and distribution functions. Word is one of several companies that provide this service in the CBA market. The current contract with Word extends through March 30, 2000. All retail market sales functions are currently performed by Word's sales force. Most direct to consumer fulfillment services, excluding warehousing and physical inventory functions, for Integrity's direct to consumer programs are provided by LCS Industries, Inc. ("LCS"), located in Clifton, New Jersey. Some of the data fulfillment services for direct to consumer are handled by Integrity's own staff in Mobile. In addition to managing most of the Company's database of customer names, LCS also provides most of the fulfillment activities of the direct to consumer operation, including order receipt and processing, data entry, invoicing and payment processing. Integrity's own distribution center located in Mobile is responsible for its direct to consumer and international warehousing, physical inventory and distribution functions.

COPYRIGHTS AND ROYALTY AGREEMENTS

The Company's music products are protected under applicable domestic and international copyright laws. In addition, Integrity currently has ownership rights to approximately 2,400 songs, which are also protected under copyright law. In general, works that are protected under copyright laws are proprietary, which means that for a fixed period of time the copyright owner has the exclusive right to control the publication (or other reproduction) of the copyrighted work. Subject to the compulsory licensing provisions of the United States Copyright Act covering audio records, a copyright owner may license others to publish, reproduce, or otherwise use its copyrighted work, on an exclusive or nonexclusive basis, subject to limitations (such as duration and territory) and upon such other terms and conditions, including royalty payments, as the copyright owner may require. However, the Company operates in an industry in which revenues are adversely affected by the unauthorized reproduction of recordings for commercial sale, commonly referred to as "piracy" and by home taping for personal use.

Integrity pays royalties in two different categories. The Integrity songwriters are paid by Integrity's publishing division when their songs are used on an Integrity product or by other companies when used on third party products. Artists, producers and other song publishers are paid based on Integrity's sales of products containing their works. Integrity owns the majority of the songs it produces, and does not have to pay publisher royalties to third parties for those songs.

COMPETITION

The Company faces intense competition for discretionary consumer spending from numerous other record companies and other forms of entertainment offered by film companies, video companies and others. Integrity competes directly with other record companies and music publishers that distribute Christian music to Christian bookstores, as well as a number of secular record companies, many of whom have substantially greater financial resources than the Company.

The Company competes with other record and music publishing companies, both Christian and secular, on the basis of the Company's ability to produce new products that are attractive to consumers, sign established and new artists and songwriters and gain access to distribution channels.

Many of the Company's competitors have significantly longer operating histories and several have greater revenues from their music product lines. The Company's ability to continue to compete successfully will be largely dependent upon its ability to build upon and maintain its reputation for quality Christian music and other communication products.

EMPLOYEES

As of December 31, 1998, the Company employed 149 individuals, 123 of whom are located at the Company's Mobile, Alabama, headquarters.

The Company has no collective bargaining agreements covering any of its employees, has never experienced any material labor disruption and is unaware of any efforts or plans to organize its employees. The Company considers relations with its employees to be good.

GOVERNMENT REGULATION

The Company's direct to consumer program is subject to federal regulations governing unfair methods of competition and unfair or deceptive acts and practices in or affecting commerce. These regulations prohibit, in general, the solicitation of any order for sale of merchandise through the mail unless at the time of solicitation the seller has a reasonable basis to expect that he will be able to ship the merchandise within the time period indicated or within thirty days if no time period is indicated. If there is any delay in the applicable time period, the seller is required under the regulations to give the buyer the option to cancel the order and receive a prompt refund or consent to a delay in shipment. Management believes that the Company is in full compliance with the applicable federal regulations governing its direct to consumer programs.

ITEM 2. PROPERTIES.

The Company owns the approximately 25,000 square foot headquarters and studio facility it occupies in Mobile, Alabama, which houses the executive offices of Integrity as well as the management and sales staff. This facility was constructed in 1983 and is pledged as security against the Company's indebtedness.

ITEM 3. LEGAL PROCEEDINGS.

LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS.

No matters were submitted to a vote of the Company's stockholders during the fourth quarter of the year ended December 31, 1998.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Integrity's common stock is traded on The Nasdaq SmallCap Market under the symbol ITGR. The table below sets forth the quarterly high and low last sales price per share as reported on The Nasdaq National Market and The Nasdaq SmallCap Market for the Class A Common Stock from January 1, 1997 through March 12, 1999. The last sale price of the Class A Common Stock on March 12, 1999 was $4.00 per share.

<TABLE>
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	High	Low
Fiscal Year 1997		
First Quarter	2.125	1.25
Second Quarter	2.375	1.5

Third Quarter	2.25	1.625
Fourth Quarter	2.00	1.125
Fiscal Year 1998		
First Quarter	2.00	1.00
Second Quarter	3.75	1.63
Third Quarter	3.63	2.50
Fourth Quarter	12.25	1.50
Fiscal Year 1999		
First Quarter (through March 12, 1999)	7.25	3.50

</TABLE>

As of March 12, 1999, there were approximately 101 stockholders of record and 1,800 beneficial stockholders of Integrity's Class A Common Stock and three stockholders of record of Integrity's Class B Common Stock.

The current policy of Integrity's Board of Directors is to retain any future earnings to provide funds for the operation and expansion of Integrity's business, and, therefore, the Board of Directors does not anticipate paying any cash dividends in the foreseeable future. In addition, Integrity's ability to pay dividends is limited by its existing credit agreement and may be limited in the future by the terms of then-existing credit facilities. See Note 5 to the financial statements.

The Company's Class A Common Stock moved to The Nasdaq SmallCap Market effective October 2, 1998.

ITEM 6. SELECTED FINANCIAL DATA

The selected historical balance sheet and statement of operations presented below for each of the five years in the period ended December 31, 1998 have been derived from the consolidated financial statements for the Company audited by PricewaterhouseCoopers LLP, independent accountants.

The following selected financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," appearing elsewhere herein.

Year Ended December 31
(in thousands, except per share data)

<TABLE>
<CAPTION>

STATEMENT OF OPERATIONS	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$ 38,847	$ 34,954	$ 31,975	$ 37,671	$ 35,972
Cost of sales	17,985	15,236	14,981	15,547	12,636
Gross profit	20,862	19,718	16,994	22,124	23,336
Marketing and fulfillment expenses	9,023	9,450	10,711	16,308	11,992
General and administrative expenses	8,557	7,796	7,545	7,959	6,373
Loss on impairment of long-lived assets	0	0	1,200	0	0
Income (loss) from operations	3,282	2,472	(2,462)	(2,143)	4,971
Interest expense (net)	1,529	1,790	1,804	1,027	525
Other (income) expense	0	3	(153)	65	(10)
Income (loss) before extraordinary item, minority interest and taxes	1,753	679	(4,113)	(3,235)	4,456
Income tax (expense) benefit	369	0	654	1,183	(1,644)
Minority interest	(268)	(37)	0	0	0
Income (loss) before extraordinary item	1,854	642	(3,459)	(2,052)	2,812
Extraordinary item from early extinguishment of debt less applicable taxes of $47	0	0	(248)	0	0
Net income (loss)	$ 1,854	$ 642	$ (3,707)	$ (2,052)	$ 2,812

Basic EPS					
Income (loss) before extraordinary item	$ 0.34	$ 0.12	$ (0.63)	$ (0.37)	$ 0.59
Extraordinary item	0	0	(0.04)	0	0
Net income (loss)	$ 0.34	$ 0.12	$ (0.67)	$ (0.37)	$ 0.59
Diluted EPS					
Income before extraordinary item	$ 0.32	$ 0.12	$ (0.63)	$ (0.37)	$ 0.59
Extraordinary item	0	0	(0.04)	0	0
Net income	$ 0.32	$ 0.12	$ (0.67)	$ (0.37)	$ 0.59
Weighted average number of shares outstanding					
Basic	5,514	5,514	5,514	5,514	4,744
Diluted	5,805	5,514	5,514	5,514	4,744

</TABLE>

As of December 31
(in thousands)

<TABLE>
<CAPTION>

BALANCE SHEET DATA	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Net working capital	$ 9,827	$ 9,905	$ 10,467	$ (6,052)	$ 9,079
Total assets	31,617	30,775	$ 31,058	34,659	26,080
Total bank debt(3)	12,968	15,117	18,304	18,018	5,093
Stockholders' equity	12,981	11,196	10,487	12,693	14,800

</TABLE>

(3) Includes discount of $832 at December 31, 1998, $1,064 at December 31, 1997 and $1,296 at December 31, 1996.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements and Notes thereto included elsewhere herein.

OVERVIEW

The Company is a producer and publisher of Christian lifestyle products. The Company's recorded music products fall into two broad categories: concept products and artist products. Concept products are centered on a specific theme, such as praise and worship, and artist products feature a specific performer. Some of the Company's concept products are Hosanna! Music and Just-For-Kids. The Company has several artists under contract, including leaders in Christian music such as Don Moen, Ron Kenoly and Paul Wilbur. In addition to audio recordings, Integrity produces Christian music songsheets, software and video products. The Company has determined that its reportable segments are those that are based on the Company's distribution channels. These distribution channels are Retail, Direct to consumers, International and Other channels. The Retail channel primarily represents sales to Christian bookstores either directly from the Company or through third party distributors. Direct to consumers primarily represents sales from direct mail programs but also includes Internet sales, special event sales, and sales of choral and print products directly to churches, including sales of the Celebration Hymnal through a joint venture controlled by the Company. The International channel represents an international distribution network that reaches markets in over 140 countries. All transactions with foreign entities, whether they are shipped from the U.S. or one of the Company's three subsidiaries in Singapore, the United Kingdom and Australia are reported in the segment. Christian bookstores are the primary distribution channel for this segment, but there are also direct mail and other techniques used for these markets. Other channels include copyright revenue, excess inventory and other small distribution sales.

The following historical analysis shows the percentage of sales by segment:

	1998	1997	1996
Direct to Consumer	34.6%	33.2%	35.0%
Retail Markets	37.8%	40.7%	34.2%
International	16.5%	18.2%	20.3%
Other	11.1%	7.9%	10.5%

The Company's quarterly operating results may fluctuate significantly due to new product introductions, the timing of selling and marketing expenses, seasonality and changes in sales and product mixes.

RESULTS OF OPERATIONS

The following table sets forth operating results expressed as a percentage of net sales for the periods indicated and the percentage change in such operating results between periods.

Percentage of Net Sales
Year Ended December 31

	1998	1997	1996
Net Sales	100.0%	100.0%	100.0%
Cost of Sales	46.3%	43.6%	46.9%
Gross Profit	53.7%	56.4%	53.1%
Marketing and Fulfillment Expenses	23.2%	27.0%	33.5%
General and Administrative Expenses	22.0%	22.3%	23.6%
Loss on impairment of building	0	0	3.8%
Income (loss) from operations before taxes and minority interest	8.5%	7.1%	(7.8)%

THE YEAR ENDED DECEMBER 31, 1998 ("1998") COMPARED TO THE YEAR ENDED DECEMBER 31, 1997 ("1997")

Net sales increased 11.1% to $38.8 million in 1998 from $35.0 million in 1997, mainly attributable to strong unit sales during 1998. Unit sales increased by 31.4% to 6.7 million in 1998, from 5.1 million in 1997 due to 54 major releases and strong catalog sales from prior releases such as "Shout To The Lord", "God Can" and "Let Your Glory Fall". In 1998, new products accounted for 2.0 million units, or 30.0% of the total units sold. The new products offered were from existing product lines as well as new product lines featuring several of Integrity's best-selling artists, such as Don Moen, Ron Kenoly and Paul Wilbur. Sales in the direct to consumer segment increased 15.8% to $13.4 million, compared to $11.6 million in 1997. The increase in the direct to consumer segment was mainly due to increases in direct sales to churches of The Celebration Hymnal. Copyright and royalty income increased $618,000 to $4.3 million or 16.9%, compared to $3.7 million in 1997. Revenues across the Company's other segments were relatively flat from year to year. Bad debts and returns were $5.0 million in 1998 as compared to $6.0 million in 1997.

Gross profit increased 5.8% to $20.9 million in 1998 from $19.7 million in 1997 due primarily to the increase in sales discussed above. Gross profit as a percentage of sales was 53.7% and 56.4% for the years ended December 31, 1998 and 1997, respectively. The decrease in gross profit as a percentage of sales was primarily the result of a $700,000 write-down of certain older product masters that are no longer expected to recoup their costs as well as several bulk sales of older products at reduced prices during 1998.

Marketing and fulfillment expenses decreased 4.5% to $9.0 million or

23.2% of net sales in 1998, as compared with $9.5 million or 27.0% of net sales in 1997. This decrease was primarily attributable to lower, but more productive and targeted, marketing expenses in the direct to consumer segment.

General and administrative expenses increased 9.8% to $8.6 million or 22.0% of net sales in 1998, compared to $7.8 million or 22.3% of net sales in 1997. The increase in expenditures was mainly attributable to increases in personnel costs required to support the growth in the business.

As a result of the above, income from operations was $3.3 million or 8.5% of net sales in 1998, compared with $2.5 million or 7.1% of net sales in 1997.

Interest expense decreased to $1.5 million in 1998 compared with $1.8 million in 1997. The decrease was a result of lower average debt balances in 1998.

The Company recorded a net benefit from income taxes during 1998 of approximately $369,000 primarily as a result of a $750,000 reduction in the valuation allowance against deferred tax assets. This non-cash benefit is the result of two consecutive years of profitability coupled with management's expectations to generate taxable income in future periods to utilize those deferred tax assets, primarily net operating loss carry-forwards.

THE YEAR ENDED DECEMBER 31, 1997 ("1997") COMPARED TO THE YEAR ENDED DECEMBER 31, 1996 ("1996")

Net sales increased 9.3% to $35.0 million in 1997 from $32.0 million in 1996, mainly attributable to increased unit sales during 1997. Unit sales increased by 50.0% to 5.1 million in 1997 from 3.4 million in 1996 due to 48 major releases and strong catalog sales from prior releases such as "Shout To The Lord" and "Revival at Brownsville". In 1997, new products accounted for 2.1 million units, or 41.2% of the total units sold. The new products offered were from existing product lines as well as new product lines featuring several of Integrity's best-selling artists, such as Ron Kenoly. Sales in the retail segment increased 30% to $14.2 million, compared to $11.0 million in 1996 primarily due to the success of the new products released in 1997. The Company also experienced strong increases in copyright revenues, from $2.9 million in 1996 to $3.7 million in 1997. The direct to consumer segment increased $0.4 million, or 3.6% to $11.6 million, compared to $11.2 million in 1996, mainly as a result of the Company's focus on smaller, yet more profitable direct to consumer advertising mailings. Sales in the international segment were relatively flat from year to year. Bad debts and returns were $6.0 million in 1997 as compared to $7.3 million in 1996.

Gross profit increased 16.0% to $19.7 million in 1997 from $16.9 million in 1996 due primarily to the sales increases discussed above. Gross profit as a percentage of sales was 56.4% and 53.1% for the years ended December 31, 1997 and 1996, respectively. The increase in gross profit as a percentage of sales was primarily the result of a $1.7 million write down of certain product masters in 1996 with no comparable amount in 1997.

Marketing and fulfillment expenses decreased 11.8% to $9.5 million or 27.0% of net sales in 1997, as compared with $10.7 million or 33.5% of net sales in 1996. This decrease was primarily attributable to lower, but more productive and targeted, marketing expenses in the direct to consumer segment.

General and administrative expenses increased 3.3% to $7.8 million or 22.3% of net sales in 1997, compared to $7.5 million or 23.6% of net sales in 1996. The increase in expenses was mainly attributable to the Company's addition in late 1996 of a distribution center responsible for direct to consumer, church and international warehousing, physical inventory and distribution functions.

Operating expenses were higher by $1.2 million as a result of a write-down of the Company's corporate headquarters under the provisions of SFAS 121 "Accounting for the Impairment of Long-Lived Assets".

As a result of the above, income from operations was $2.5 million or 7.1% of net sales in 1997, compared with loss of $2.5 million or (7.8%) of net sales in 1996.

Interest expense was relatively flat from year to year.

The Company did not record any provision for or benefit from income taxes during 1997 as current period income was offset by net operating loss carryforwards. After careful review by management, it was determined that the remaining valuation allowance of $1.3 million at December 31, 1997 was still required as it was not more likely than not, based on past operating performance and current plans, that such amount would not be utilized in the future.

LIQUIDITY AND CAPITAL RESOURCES

The Company historically has financed its operations through cash generated from operations and from borrowings under a line of credit and term notes as needed. The Company's need for cash varies from quarter to quarter based on product releases and scheduled marketing promotions. 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. It is from these product masters that the Company's products are duplicated and distributed to customers. The Company believes that its working capital and funds available under its credit facility will be sufficient to fund its operating and capital requirements for the foreseeable future.

Cash generated from operations totaled $7.3 million, $6.4 million and $3.1 million for the years ended December 31, 1998, 1997 and 1996, respectively. The increase from 1997 to 1998 resulted primarily from increased earnings before depreciation and amortization. The increase from 1996 to 1997 resulted primarily from increased earnings before charges for depreciation and amortization, primarily due to lower marketing and fulfillment costs in the direct to consumer and retail segments.

Capital expenditures totaled $0.5 million, $0.3 million and $0.6 million for the years ended December 31, 1998, 1997 and 1996, respectively. During 1998 and 1997, capital expenditures were primarily for computer equipment and general improvements on the Company's corporate headquarters. The Company also invested $4.2 million, $3.3 million and $3.3 million in new product masters during 1998, 1997 and 1996, respectively. The Company expects its investments in capital expenditures and product masters during 1999 to remain relatively consistent with 1998 levels.

The Company signed a $19 million financing agreement with a bank on August 6, 1996. The credit agreement includes a $6 million revolving credit facility and $13 million term loan. At the Company's option, the loan carries an interest rate of the bank's base rate plus 1 1/2%, or LIBOR plus 3%. This facility replaced all of the Company's long-term and short-term borrowings. The lender received warrants exercisable for up to 12.5% of the Company's Class A Common Stock, with an exercise price of $1.875, and the warrants expire in 10 years. Under the terms of the financing agreement, the warrants became exercisable in August 1998. During the years ended December 31, 1998 and 1997, the Company made payments of $2.3 million and $1.7 million, respectively, under such agreements. At December 31, 1998, the Company had available borrowings of $1.9 million under such agreements.

SEASONALITY

Retail sales are typically higher in the third and fourth quarters because of holiday promotions. Direct to consumer sales are typically higher in the first quarter as a result of significant marketing promotions in late December. Direct to consumer promotions require a build

up in inventory in the fourth quarter and as a result, sales and accounts receivable increase in the first quarter. It is important to note that sales from quarter to quarter depend heavily on marketing promotions and new product releases. Accordingly, results of operations in any one quarter may not be indicative of results of operations for the entire year.

INFLATION

The impact of inflation on the Company's operating results has been moderate in recent years, reflecting generally lower rates of inflation in the economy and relative stability in the Company's cost of sales. In prior years, the Company has been able to adjust its selling prices to substantially recover increased costs. While inflation has not had, and the Company does not expect that it will have, a material impact upon operating results, there is no assurance that the Company's business will not be affected by inflation in the future.

YEAR 2000 COMPLIANCE

The Year 2000 Problem

The Company is devoting resources throughout its business operations to minimize the risk of potential disruption from the "Year 2000" problem. This problem is a result of computer programs having been written using two digits rather than four to define the applicable year. Information technology ("IT") systems that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations and system failures. The problem also extends to certain operating and control systems that rely on embedded chip systems. In addition, like every other business enterprise, the Company is at risk from Year 2000 failures on the part of its major business counterparts, including suppliers, distributors, contractors and service providers, as well as potential failures in public and private infrastructure service, including electricity, water, gas, transportation and communications.

State of Readiness

If the Company or its significant suppliers, distributors, contractors and service providers do not successfully achieve Year 2000 compliance, the Company's financial condition and results of operations could be materially and adversely affected, resulting from, among other things, the Company's inability in a timely manner:

- to efficiently manufacture, sell and ship existing products to distributors,
- to collect accounts receivable, and
- to produce and effectively market new products.

In December 1998, the Company formed a Year 2000 committee to identify and address any potential Year 2000 problems with the Company's internal IT systems, non-IT systems and products, as well as with its suppliers, distributors, contractors and service providers. This phase involved a review of all IT and significant non-IT systems and Company products, and testing of the Company's IT systems and significant non-IT systems. The Company completed this phase in February 1999 and determined that its internal IT systems are Year 2000 compliant, including all in-house software. In addition, the Company plans to perform a full scale Year 2000 simulation of its IT systems in May 1999.

Except for the Company's telephone system which will be replaced with a Year 2000 compliant telephone system in April 1999, the Company has determined that all internal non-IT systems and products either are Year 2000 compliant or a Year 2000 problem with such non-IT system or product will not be material to the Company's operation. In making this determination, the Company relied upon representations from certain third parties, including the vendors of its significant studio and recording equipment.

As described in Item 1, the Company's business depends upon the accurate and timely fulfillment of certain operations contracted to third-party service providers and manufacturers, including Word in the retail market segment, LCS in the direct to consumer segment, numerous international distributors in the international segment, and Eva-Tone in the production of musical recordings from the Company's master recordings. In February 1999, the Company developed a Year 2000 compliance questionnaire and solicited its principal suppliers, distributors, contractors and service providers to determine such party's Year 2000 status. As of March 1999, Word and Eva-

Tone have provided assurances that their systems are Year 2000 compliant. In addition, Eva-Tone indicated that all of its suppliers were Year 2000 compliant, and that in April 1999 it would perform a Year 2000 simulation involving actual orders with its suppliers and vendors. LCS has indicated that although the system it currently uses to fulfill its contract obligations with the Company is not Year 2000 compliant, it will move these operations to its existing Year 2000 compliant system in May 1999. Most significant distributors in the international segment have not been able to provide any assurances their systems are or will become Year 2000 compliant.

Costs to Address Year 2000

The total cost associated with the Company's Year 2000 remediation is not expected to exceed $40,000 or be material to the Company's financial condition or results of operations. The Company has not employed any outside consultants regarding Year 2000 remediation, and has not made any significant Year 2000 expenditures through the end of March 1999. The Company anticipates spending approximately $25,000 in April 1999 to replace its non-Year 2000 compliant telephone system. All other Year 2000 remediation costs will be incurred in the form of compensation and benefits of internal employees working on the Company's Year 2000 project.

The Company's Year 2000 Risks and Contingency Plan

There can be no assurance that unanticipated or undiscovered Year 2000 compliance problems will not have a material adverse effect on the Company's financial condition or results of operations. Such problems could result in a diversion of resources away from the Company's core business, and the Company's inability to efficiently sell and ship products to distributors, collect accounts receivable in a timely manner, and produce and market new products. These issues could in turn lead to significant additional operating costs and a decrease in product sales, as well as damage the Company's reputation in the industry. Upon a Year 2000 failure by one of the Company's domestic contractors or service providers, including Word, LCS or Eva-Tone, the Company's contingency plan includes utilizing alternate distributors, contractors and service providers and moving certain fulfillment functions in-house, such as order and payment processing. However, because of the volume of transactions that could be required to be performed upon the failure of a contractor such as LCS, the Company can not be certain it would be able to timely fulfill its domestic orders in-house, and as a result, the Company could suffer a significant decline in sales.

However, the most reasonably likely worst case Year 2000 scenario is that the Company's international distributors will encounter Year 2000 problems and will not be able to utilize their systems to efficiently sell and distribute the Company's products overseas. The Company is developing a contingency plan to address this scenario pursuant to which the Company would utilize alternate distributors and its foreign subsidiaries to fulfill international orders. However, due to the number and diversity of environments in which these distributors operate, the Company can not be certain that it would be able to timely fulfill international orders under these circumstances and that such a Year 2000 problem would not have a material adverse effect on the Company's financial condition or results of operation.

Year 2000 Forward-Looking Statements

The foregoing Year 2000 discussion contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements, including without limitation, anticipated costs and the dates by which the Company expects to complete actions, are based on management's best current estimates, which were derived utilizing numerous assumptions about future events, including the continued availability of certain resources, representations received from third parties and other factors. However, there can be no guarantee that these estimates will be achieved, and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, results of further Year 2000 testing, adequate resolution of Year 2000 problems by suppliers, distributors, contractors or service providers of the Company, the adequacy of and ability to further develop and implement contingency plans and similar uncertainties. The "forward-looking statements" contained in the foregoing Year 2000 discussion speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

RISK FACTORS

OUR COMPETITION INCLUDES OTHER MUSIC COMPANIES AND GENERAL ENTERTAINMENT COMPANIES

We face intense competition for discretionary consumer spending from numerous other music companies and entertainment companies that utilize various formats, including audio recordings, film, video, and other media.

Our products compete directly with the products of other record companies and music publishers that distribute Christian music to Christian bookstores, as well as a number of secular music companies. Many of these competitors have substantially greater financial resources than we have. This provides them with the ability to launch more new products, spend more on marketing those products, and pay more to artists and songwriters for new music and songs. Our ability to continue to compete successfully will be largely dependent upon our ability to successfully develop and launch new products that build upon and maintain our reputation for quality Christian music and other communication products.

OUR INDUSTRY IS SUBJECT TO CONSUMER TASTES AND DEMANDS

We operate in the recorded music, video productions and printed music industries. These industries involve a substantial degree of risk. Each music or video recording or printed product is an individual artistic work. Consumer taste, which is unpredictable and constantly changing, primarily determines the commercial success of any such work. Accordingly, there can be no assurance as to the financial success of any particular release, the timing of such success, or the popularity of any particular artist.

Furthermore, we must invest significant amounts for product development prior to the release of any product. These costs may not be recovered if the release is unsuccessful. Changes in the timing of new releases can also cause significant fluctuations in our quarterly operating results because of the marketing costs involved in launching a new product and the delay in receiving any sales revenue from the new product. There can be no assurance that our products will be successful releases or that any product will generate revenues sufficient to cover the cost of product development. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

OUR BUSINESS IS DEPENDENT ON ACCESS TO DISTRIBUTION CHANNELS

We distribute our products through three primary channels:

- Direct to Consumer
- Retail Sales; and
- License Arrangements.

If our access to any of these channels is interrupted, our sales could be significantly affected.

The direct to consumer channel is based on a variety of methods, but primarily is composed of our continuity clubs. The performance of these clubs could be affected by a number of factors including:

- the maturity of our mailing lists such that consumers no longer desire our products and cancel their participation;
- our failure to expand and revise our mailing lists to include new potential customers, or the inability to secure new mailing lists from which to build ours;
- our failure to offer new and appealing products to these customers; and
- increases in the cost of mailing and shipping, or increased regulation of mail order sales.

Currently, we rely on Word's sales force to perform all retail market sales functions for us, pursuant to a contract with them that extends through March 30, 2000. Failure to successfully renegotiate this contract with Word or failure of Word to fulfill the terms under this contract will immediately and adversely affect our sales.

In addition to our retail distribution channel, our international distribution channel also relies heavily on third parties to sell and deliver our products. We cannot quickly replace these third parties should they fail to perform, nor can we assume their duties in a timely manner. As a result,

the failure by any of these parties to fulfill their duties effectively and efficiently will immediately and adversely affect our sales.

INCREASES IN COSTS OF MAILING, PAPER, PRINTING AND DELIVERY WILL SIGNIFICANTLY INCREASE OUR COSTS OF GOODS SOLD

Increases in postal rates, as well as in paper, printing and delivery costs would affect our direct response programs. We generally ship orders by third class mail with the United States Postal Service. We rely heavily on discounts from the basic postal rate structure, such as discounts for bulk mailings, sorting by zip code, and carrier routes.

Any increase in postal rates, papers and printing or delivery costs could adversely affect our earnings.

WE DEPEND ON OUR SENIOR EXECUTIVES WHO HAVE EXPERIENCE UNIQUE TO OUR INDUSTRY

Our success has been largely dependent on the skills, experience and efforts of our senior management and especially our Chairman, President and Chief Executive Officer, P. Michael Coleman. Although we have employment agreements with some of our senior executives, they could still choose to leave the Company at any time. If they did we would have significant difficulty replacing them with individuals who had an equal level of experience in the Christian products market. This could affect our daily operations, creative development and ultimately our financial performance.

OUR CHANGE TO THE SMALLCAP MARKET MAY NOT RESULT IN AN ACTIVE TRADING MARKET

On February 23, 1998, new listing and maintenance rules for inclusion on both the Nasdaq National Market and The Nasdaq SmallCap Market became effective. Under the new rules, the market value of our publicly-traded shares failed to meet the listing requirements for the Nasdaq National Market. As a result, our Class A Common Stock has been moved to The Nasdaq SmallCap Market. The transition to The Nasdaq SmallCap Market became effective on October 2, 1998. We can not be certain that our transition to and position in The SmallCap Market will result in an active trading market for our Class A Common Stock.

OUR COMPANY IS CONTROLLED BY THE COLEMAN FAMILY

Our Chairman, President and Chief Executive Officer, P. Michael Coleman, and his family beneficially own 65,100 shares of Class A Common Stock and all 3,435,000 shares of Class B Common Stock outstanding. This represents approximately 94.3% of the total voting power of all classes of our voting stock. As a result, Mr. Coleman is able to elect all of our directors, amend our Amended Certificate of Incorporation (the "Amended Certificate"), effect or prevent a merger, sale of assets or other business acquisition or disposition, and otherwise control the outcome of actions requiring stockholder approval.

See "Security Ownership of Certain Beneficial Owners and Management" and "Certain Relationships and Related Transactions."

THE CLASS A COMMON STOCK HAS LIMITED VOTING RIGHTS

Our Amended Certificate limits the voting rights of our Class A Common Stock. Each share of our Class A Common Stock is entitled to one vote, while each share of our Class B Common Stock is entitled to ten votes on all matters with respect to which our stockholders have a right to vote. Both classes of our stock generally vote together as a single class. The shares of Class B Common Stock are convertible into shares of Class A Common Stock on a share-for-share basis at the election of the holder. Also, our Class B Common Stock must be converted to shares of Class A Common Stock automatically if it is transferred, except for transfers to or for the benefit of certain of Mr. Coleman's relatives. We do not have the authority to issue additional Class B Common Stock except as dividends or distributions on outstanding Class B Common Stock proportional to dividends or distributions on Class A Common Stock.

The disproportionate voting rights between our classes of stock could adversely affect the market price of our Class A Common Stock. The disproportionate voting rights may also make us a

less attractive target for a takeover than we otherwise might be, and render more difficult or discourage a merger proposal, a tender offer, or a proxy contest even if such actions were favored by holders of our Class A Common Stock.

Holders of Class A Common Stock may be deprived of an opportunity to sell their shares at a premium over the then prevailing market price due to the disproportionate voting rights between the two classes of stock.

CERTAIN PROVISIONS OF OUR AMENDED CERTIFICATE COULD DISCOURAGE A TAKE-OVER OF INTEGRITY

Our Board of Directors is authorized to issue shares of preferred stock. Our Board of Directors, without approval of the stockholders, is also authorized to establish the following provisions of any preferred stock: voting, dividend, redemption, conversion, liquidation, and other provisions.

The issuance of preferred stock could adversely affect the voting power or other rights of the holders of our common stock. Further, the issuance of preferred stock could make more difficult, or discourage, a third party's attempt to acquire control of us. Finally, we are also subject to the Delaware Business Combination Statute, which may render more difficult a change in our control.

THE MARKET PRICE OF OUR COMMON STOCK COULD BE VOLATILE

From time to time there may be significant volatility in the market price of the Class A Common Stock. Our quarterly operating results or those of other similar companies, changes in the conditions in the economy or the financial markets, projections and statements by industry analysts or other third parties could cause the price of the Class A Common Stock to fluctuate substantially.

ITEM 7(A). QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company's market risk is limited to fluctuations in interest rates as it pertains to the Company's borrowings under its credit facility. The Company pays interest on borrowings at either the lender's offered rate plus 1 1/2%, or LIBOR plus 3%. If the interest rates on the Company's borrowings average 100 basis points more in 1999 than they did in 1998, the Company's interest expense would increase and income before income taxes would decrease by $121,000. This amount is determined solely by considering the impact of the hypothetical change in the interest rate on the Company's borrowing cost without consideration for other factors such as actions management might take to mitigate its exposure to interest rate changes.

The Company is also exposed to market risk from changes in foreign exchange rates and commodity prices. The Company does not use any hedging transactions in order to modify the risk from these foreign currency exchange rate and commodity price fluctuations. The Company also does not use financial instruments for trading purposes and is not a party to any leveraged derivatives.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The response to this item is submitted in Part IV, Item 14 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information under the captions "Proposal I - Election of Directors - Certain Information Concerning Nominees", "Proposal I - Election of Directors - Executive Officers of the Company" and "Other Matters - Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's 1999 Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information under the caption "Proposal I - Election of Directors - Executive Compensation" in the Company's 1999 Proxy Statement is incorporated herein by reference. In no event shall the information contained in the proxy statement under the sections "Stockholder Return Comparison" or "Compensation Committee Report on Executive Compensation" be incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information under the caption "Proposal I - Election of Directors - Beneficial Owners of More Than Five Percent of the Company's Common Stock; Shares Held by Directors and Executive Officers" in the Company's 1999 Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information under the caption "Proposal I - Election of Directors - Certain Transactions" in the Company's 1999 Proxy Statement is incorporated herein by reference.

PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(A) 1. CONSOLIDATED FINANCIAL STATEMENTS
INDEX TO FINANCIAL STATEMENTS

<TABLE>
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REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and Stockholders of Integrity Incorporated

In our opinion, the accompanying consolidated financial statements listed in the index appearing under item 14(a)(1) and (2) on page 17 present fairly, in all material respects, the financial position of Integrity Incorporated and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICEWATERHOUSECOOPERS LLP

Atlanta, GA
February 19, 1999

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

<TABLE>
<CAPTION>

ASSETS	December 31 1998	1997
<S>	<C>	<C>
Current Assets		
Cash	$ 989	$ 523
Trade receivables, less allowance for returns and doubtful accounts of $696 and $812	4,913	4,258
Other receivables	1,637	2,033
Inventories	4,528	5,524
Other current assets	3,831	2,706
Total current assets	15,898	15,044
Property and equipment, net of accumulated depreciation of $3,575 and $3,085	3,473	3,499
Product masters, net of accumulated amortization of $11,325 and $7,537	9,050	8,618
Other assets	3,196	3,614
Total assets	$ 31,617	$ 30,775

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Current portion of long-term debt	$ 1,847	$ 1,838
Accounts payable and accrued expenses	2,732	2,156
Royalties payable	569	908
Other current liabilities	923	237
Total current liabilities	6,071	5,139
Long-term debt	11,121	13,279
Other long-term liabilities	60	207
Total liabilities	17,252	18,625
Commitments and contingencies	--	--
Minority interest	1,384	954
Stockholders' Equity		
Preferred stock, $.01 par value; 500,000 shares authorized, none issued and outstanding	0	0
Class A common stock, $.01 par value; 7,500,000 shares authorized; 2,079,000 shares issued and outstanding	21	21
Class B common stock, $.01 par value, 10,500,000 shares authorized; 3,435,000 shares issued and outstanding	34	34
Additional paid-in capital	13,428	13,428
Accumulated deficit	(449)	(2,303)
Equity adjustments from foreign translation	(53)	16
Total stockholders' equity	12,981	11,196
Total liabilities and stockholders' equity	$ 31,617	$ 30,775

</TABLE>

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

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

<TABLE>
<CAPTION>

	Year Ended December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
Net sales	$ 38,847	$ 34,954	$ 31,975
Cost of sales	17,985	15,236	14,981
Gross profit	20,862	19,718	16,994
Marketing and fulfillment expenses	9,023	9,450	10,711
General and administrative expenses	8,557	7,796	7,545
Loss on impairment of long-lived assets	0	0	1,200
Income (loss) from operations	3,282	2,472	(2,462)
Other expenses (income)			
Interest expense, net	1,529	1,790	1,804
Other expenses (income)	0	3	(153)
Income (loss) before extraordinary item, minority interest and taxes	1,753	679	(4,113)
Benefit from income taxes	369	0	654
Minority interest, less applicable taxes	(268)	(37)	0
Income (loss) before extraordinary item	1,854	642	(3,459)
Extraordinary item from early extinguishment of debt, less applicable taxes of $47	0	0	(248)
Net income (loss)	$ 1,854	$ 642	$ (3,707)

Adjustments to determine comprehensive income			
Foreign currency translation adjustments	(69)	67	108
Comprehensive income	$ 1,785	$ 709	$ (3,599)
BASIC EPS			
Income (loss) before extraordinary item	0.34	0.12	(0.63)
Extraordinary item	0	0	(0.04)
Net income (loss)	$ 0.34	$ 0.12	$ (0.67)
DILUTED EPS			
Income (loss) before extraordinary item	0.32	0.12	(0.63)
Extraordinary item	0	0	(0.04)
Net income (loss)	$ 0.32	$ 0.12	$ (0.67)
Weighted average number of shares outstanding (note 1)			
Basic	5,514	5,514	5,514
Diluted	5,805	5,514	5,514

</TABLE>

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

INTEGRITY INCORPORATED
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	Class A Common Stock		Class B Common Stock		Additional	(Accum. Deficit)	Equity Adj.	
	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings	From Translations	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1995	2,079,000	21	3,435,000	34	12,035	762	(159)	12,693
Net loss						(3,707)		(3,707)
Issue of stock warrants					1,393			1,393
Translation adjustments							108	108
Balance, December 31, 1996	2,079,000	21	3,435,000	34	13,428	(2,945)	(51)	10,487
Net income						642		642
Translation adjustments							67	67
Balance, December 31, 1997	2,079,000	21	3,435,000	34	13,428	(2,303)	16	11,196
Net income						1,854		1,854
Translation adjustments							(69)	(69)
Balance, December 31, 1998	2,079,000	$ 21	3,435,000	$ 34	$ 13,428	$ (449)	$ (53)	12,981

</TABLE>

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

INTEGRITY INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	Year Ended December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>

Cash flows from operating activities			
Net income (loss)	$ 1,854	$ 642	$ (3,707)
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	1,202	1,331	860
Loss on impairment of long-lived assets	0	0	1,200
Amortization of product masters	3,787	3,250	4,714
Extraordinary loss on debt extinguishment	0	0	295
Minority interest	268	37	0
Deferred income tax benefit	(527)	0	(509)
Changes in operating assets and liabilities			
Trade receivables	(655)	(63)	996
Other receivables	396	(1,090)	984
Inventories	996	(382)	(151)
Other assets	(691)	1,337	(54)
Accounts payable, royalties payable and accrued expenses	200	1,109	(1,382)
Other current and non current liabilities	468	206	(191)
Net cash provided by operating activities	7,298	6,377	3,055
Cash flows from investing activities			
Purchases of property and equipment	(463)	(299)	(583)
Payments for product masters	(4,220)	(3,267)	(3,329)
Net cash used in investing activities	(4,683)	(3,566)	(3,912)
Cash flows from financing activities			
Net (repayments) borrowings under line of credit	169	(2,040)	(12,018)
Proceeds from issuance of long-term debt	0	300	14,000
Principal payments of long-term debt	(2,318)	(1,679)	(400)
Loan issuance cost	0	0	(639)
Net cash (used) provided by financing activities	(2,149)	(3,419)	943
Net (decrease) increase in cash	466	(608)	86
Cash, beginning of year	523	1,131	1,045
Cash, end of year	$ 989	$ 523	$ 1,131
Supplemental disclosures of cash flow information			
Interest paid	$ 1,355	$ 1,790	$ 1,638
Income taxes paid	$ 0	$ 37	$ 0
Noncash financing activities			
Issuance of stock purchase warrants for debt	$ 0	$ 0	$ 1,393

</TABLE>

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

INTEGRITY INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Integrity Incorporated (the "Company") is engaged in the production, distribution and publishing of music cassette tapes and compact discs, print music and related products, primarily by direct to consumer marketing and wholesale trade methods. A principal direct to consumer marketing method of distribution is continuity programs whereby subscribers receive products at regular intervals.

Integrity Music Europe Limited was formed in 1988, Integrity Music PTY Limited was formed in 1991 and Integrity Media Asia Pte Ltd was formed in 1995. These subsidiaries serve to expand the Company's presence in Western Europe; Australia and New Zealand; and Singapore, respectively, and all are wholly-owned by the Company. Celebration Hymnal LLC was formed in 1997 as a 50/50 joint venture with Word Entertainment, for the purpose of producing and promoting The Celebration Hymnal. Word Entertainment's interest in the joint venture is presented as minority interest in these financial statements.

The Company's significant accounting policies are as follows:

PRINCIPLES OF CONSOLIDATION

The accompanying financial statements include the accounts of the Company and its controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company controls the operations of the joint venture through its majority position on the Board of Directors of The Celebration Hymnal LLC.

REVENUE RECOGNITION

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of deposits with banks and financial institutions which are unrestricted as to withdrawal or use and which have original maturities of three months or less.

INVENTORIES

Inventories, which consist principally of finished goods such as compact discs, cassette tapes, videos and print products, are stated at the lower of average cost or market using the first-in, first-out method.

MARKETING COSTS

The Company incurs marketing costs utilizing various media to generate direct sales to customers. Marketing expenditures that benefit future periods are capitalized and charged to operations using the straight-line method over a period of six 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 and approximated $1,326,000 and $1,119,000 at December 31, 1998 and 1997, respectively. Marketing costs expensed for the three years ended December 31, 1998, 1997 and 1996 approximated $4,455,000, $4,626,000 and $6,099,000, respectively.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The useful lives of buildings are 14 to 25 years; leasehold improvements, 2 years; data processing equipment, 5 years; studio equipment, 5 years; and furniture and fixtures, 5 to 7 years. Repairs and maintenance costs which do not increase the useful lives of the assets are charged to expense as incurred. Additions,

improvements and expenditures that significantly add to the productivity or extend the life of an asset are capitalized. When assets are replaced or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income.

PRODUCT MASTERS

Product masters, which include sound 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 evident. 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.

ADVANCE ROYALTIES

Royalties earned by publishers, producers, songwriters, or other artists are charged to expense in the period in which the related product sale occurs. Advance royalties paid are capitalized if the past performance and current popularity of the artist to whom the advance is made demonstrates such amounts will be recoverable from future royalties to be earned by the artist. Such capitalized amounts are included as a component of product masters in the consolidated balance sheet. Any portion of advances that subsequently appear not to be recoverable from future royalties are charged to expense during the period the loss becomes evident. The amount of capitalized advance royalties aggregated $1,256,000 and $889,000 at December 31, 1998 and December 31, 1997, respectively.

INCOME TAXES

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Management includes the consideration of future events to assess the likelihood that the tax benefits will be realized in the future.

STOCK-BASED COMPENSATION PLANS

The Company has elected to account for its stock-based compensation plans under Accounting Principals Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) with the associated disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation" (SFAS No. 123) in Note 11. SFAS No. 123 requires that companies which elect to not account for stock-based compensation as prescribed by that statement shall disclose among other things, pro forma effects on net income and net income per share as if SFAS No. 123 had been adopted. Under APB No. 25, because the exercise price of the Company's employee stock options equal the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

EARNINGS PER SHARE

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 weighted average of common shares outstanding assuming issuance of potential dilutive common shares related to options, warrants, convertible debt, or other stock agreements.

COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130). SFAS 130 establishes standards for the reporting and display of comprehensive income.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments including cash, cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value. The carrying amount

of long-term debt approximates fair value based on current rates of interest available to the Company for loans of similar maturities.

SIGNIFICANT ESTIMATES

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates inherent in the preparation of the accompanying consolidated financial statements include management's forecast of anticipated revenues from the sale of future and existing music, video and publishing-related products in order to evaluate the ultimate recoverability of product masters and artist advances. Management periodically reviews such estimates and it is possible that management's assessment of recoverability of product masters and artist advances may change based on actual results and other factors.

RECLASSIFICATIONS

Certain amounts have been reclassified to conform to current year presentation.

2. OTHER CURRENT ASSETS

Other current assets consist of the following:

<TABLE>
<CAPTION>

	December 31 (in thousands) 1998	1997
<S>	<C>	<C>
Prepaid supplies	$ 1,780	$ 1,087
Prepaid marketing costs	1,326	1,119
Deferred tax assets	642	81
Other	83	419
	$ 3,831	$ 2,706

3. PROPERTY AND EQUIPMENT

Property and equipment consists of:

	December 31 (in thousands) 1998	1997
Land	$ 625	$ 625
Buildings and leasehold improvements	2,633	2,611
Data processing and other equipment	1,354	1,105
Studio equipment	1,062	950
Furniture and fixtures	1,374	1,293
	7,048	6,584
Less - accumulated depreciation	(3,575)	(3,085)
	$ 3,473	$ 3,499

</TABLE>

Depreciation expense approximated $499,000, $509,000 and $600,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

During 1996, the Company recorded a charge to earnings of $1.2 million related to the abandonment of its Corporate headquarters construction project prior to completion.

4. OTHER ASSETS

Other assets consist of the following:

<TABLE>
<CAPTION>

	December 31 (in thousands) 1998	1997
<S>	<C>	<C>
Music copyrights, net of accumulated amortization	$ 2,014	$ 2,191
Deferred tax assets	494	528
Other	688	895
	$ 3,196	$ 3,614

</TABLE>

The music copyrights are being amortized over their future estimated useful lives, which approximates fifteen years. Accumulated amortization at December 31, 1998 and December 31, 1997 approximates $588,000 and $416,000, respectively.

5. DEBT

In August 1996, the Company entered into a $19 million credit agreement with a financial institution. The credit agreement includes a $6 million revolving credit facility (the Revolver) and $13 million term loan (the Term Loan) maturing on August 6, 2002. At the Company's option, the credit agreement carries an interest rate of the bank's base rate plus 1 1/2%, or LIBOR plus 3%. At December 31, 1998, the interest rates on the $4.1 million outstanding Revolver were 9.25%; and on the $9.5 million outstanding Term Loan were 8.22%. At December 31, 1997 the interest rates on the $3.9 million outstanding revolver were 8.9% and on the $11.6 million outstanding term loan were 8.8%.

At December 31, 1998, the Company had approximately $1.9 million of available funds under the Revolver.

The Company, in conjunction with the 1996 financing, issued warrants which are outstanding at December 31, 1998, to purchase 805,288 shares of Class A Common Stock. Each warrant entitles the record holder thereof to purchase one fully paid share of Class A Common Stock (for an aggregate of 805,288 shares) or one-fourth fully paid share of convertible preferred stock (for an aggregate of 201,322 shares) at the exercise price of $1.875. The warrants are subject to adjustment upon the issuance of additional shares of common stock by the Company. As a result of the issuance of shares of Class A Common Stock associated with the exercise of stock options and certain restricted stock grants, the Company expects that the warrants will be adjusted in the near future. The warrants became exercisable on August 6, 1998. On the date of issuance, the warrants had an estimated fair value of $1.73 or $1,393,000, which is recorded as a discount to the Revolver and Term Loan. Such discount is being accreted to interest expense on a straightline basis over the term of the facility. At December 31, 1998, the book value of the discount is $832,000 net of accumulated amortization of $561,000.

Prior to the current credit agreement, the Company had a revolving/term loan and a term loan under an agreement which provided for maximum borrowings of $15.0 and $3.0 million, respectively. During 1996, the Company recorded an extraordinary loss of $248,000, net of applicable income taxes of $47,000 related to the early retirement of this debt.

The Revolver and Term Loan contain certain restrictive covenants with respect to the Company, including, among other things, maintenance of working capital, limitations on the payments of dividends, the incurrence of additional indebtedness, certain liens and require the maintenance of certain financial ratios. Substantially all of the Company's assets are pledged as collateral for these loans. The Company is in compliance with these debt covenants at December 31, 1998.

Aggregate principal maturities of long-term debt at December 31, 1998 are as follows:

<TABLE>
<CAPTION>

Fiscal Year	Total (in thousands)
<S>	<C>
1999	$ 1,847
2000	2,563
2001	2,875
2002	6,515
	$ 13,800
Discount	832
	$ 12,968

</TABLE>

At December 31, 1998, approximately $415,000, net of accumulated amortization of $280,000, of loan issuance costs, included in other assets, are being amortized over the term of the debt agreements.

6. INCOME TAXES

The components of the benefit (provision) for income taxes for the three years ended December 31, 1998 are as follows, including an extraordinary item benefit of $47,000 in 1996:

<TABLE>
<CAPTION>

	Year Ended December 31 (in thousands) 1998	1997	1996
<S>	<C>	<C>	<C>
Current (provision) benefit			
Federal	$(138)	$ 0	$ 192
State	(20)	0	0
	(158)	0	192
Deferred benefit			
Federal	464	0	458
State	63	0	51
	527	0	509
Total benefit	$ 369	$ 0	$ 701

</TABLE>

The provision (benefit) for income taxes differs from the amount computed by applying the U. S. federal income tax rate (34%) because of the effect of the following items:

<TABLE>
<CAPTION>

	December 31 (in thousands) 1998	1997	1996
<S>	<C>	<C>	<C>
Income tax provision (benefit) at statutory rates	$ 596	$ 231	$(1,398)
State tax provision (benefit), net of federal taxes	70	27	(163)
Utilization of foreign tax credits	0	0	(159)
Nondeductible expenses	15	(2)	69
Other, net	(265)	(58)	(70)
Change in valuation allowance	(785)	(198)	1,067
Benefit for income taxes before extraordinary item	$ (369)	$ 0	$ (654)

</TABLE>

Deferred income taxes are recorded to reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities as of December 31, 1998 and 1997 are as follows (in thousands):

<TABLE>
<CAPTION>

	December 31 1998	1997
<S>	<C>	<C>
Deferred Assets		
Net operating loss carryforward	$ 413	$ 844
Reserves for returns and allowances	258	299
Impairment of building and depreciation	494	550
Write down of product masters	295	67
Tax credits	618	510
Non compete agreement	206	193
Other	100	211
	2,384	2,674
Deferred tax liabilities		
Prepaid marketing expenses	(380)	(293)
Other	(368)	(487)

	(748)	(780)
Deferred tax asset before valuation allowance	1,636	1,894
Valuation allowance for deferred tax assets	(500)	(1,285)
Net deferred tax asset	$ 1,136	$ 609
Current portion	(642)	(81)
Long term portion	$ 494	$ 528

</TABLE>

As of December 31, 1998, the Company's net operating loss carryforwards available to reduce taxable income for federal and state income tax purposes approximate $1,087,000. The Company's net operating loss carryforwards expire in periods 2001 to 2011. During the year ended December 31, 1998, the Company utilized approximately $1,135,000 of its net operating loss carryforward.

Management believes that it is more likely than not that it will generate taxable income sufficient to realize the net deferred tax asset recorded at December 31, 1998. Management believes that a valuation allowance of $500,000 as of December 31, 1998 is appropriate given the uncertainty of estimates surrounding future taxable income. There can be no assurance, however that the Company will generate a specific level of continuing earnings. For the year ended December 31, 1998, the Company reduced its valuation allowance by $785,000. Such reduction in the valuation allowance was the result of two consecutive years of profitability coupled with management's current projections that sufficient taxable income will realize the remaining deferred tax assets.

7. EMPLOYEE BENEFITS

The Company maintains a non-contributory defined contribution Profit Sharing Plan (the "Plan") covering substantially all employees of the Company. An employee is eligible to participate in the Plan after one year of service, as defined. The Company has not made contributions to the Plan during the years ended December 31, 1998 and 1996 as contributions are at the discretion of the Board of Directors. The Company did make a contribution to the Plan during the year ended December 31, 1997.

The Company also provides a qualifying 401k Plan ("401k Plan") covering substantially all employees of the Company. An employee is eligible to participate in the 401k Plan after one year of service and is allowed to make elective contributions of up to 12% of their annual salary. Company contributions to the 401k Plan are discretionary and are determined annually by the Company's Board of Directors. The Company contributed approximately $102,000; $175,000 and $57,000 during the years ended December 31, 1998, 1997 and 1996, respectively. The Board of Directors amended the 401(k) Plan in 1997 to include qualified non-elective contributions to satisfy minimum contributions.

8. RELATED PARTY TRANSACTIONS

Integrity Worship Ministries, formerly known as Worship International ("Worship"), a not-for-profit charitable organization, of which the principal stockholder of the Company is a member of the

board of directors. The Company donated $7,895, $12,642 and $6,500 of inventory to Worship during 1998, 1997 and 1996, respectively.

One of the Company's exclusive songwriters and artists, who is also an officer of the Company, received royalties of approximately $208,149, $197,831 and $206,000 for the three years ended December 31, 1998, 1997 and 1996. Amounts due to the officer at December 31, 1998 and 1997 approximate $57,957 and $8,800, respectively. Due from this officer at December 31, 1998 is $49,817 advanced against future royalties.

9. SEGMENT REPORTING

The Company is a multinational corporation with wholly-owned subsidiaries in the United States, Australia, the United Kingdom and Singapore. Transfers between companies primarily represent inter-company export sales of U.S. produced goods and are accounted for based on established sales prices between the related companies. Intercompany sales and profits are eliminated during consolidation. In computing earnings from operations for foreign subsidiaries, no allocations of general corporate expenses, interest or income taxes have been recorded.

During 1998 the Company adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (FAS 131). FAS 131 amends the way the companies report information about operating segments. The Company has retroactively applied the provisions of FAS 131 to all periods presented.

The Company has determined that its reportable segments are those that are based on the Company's distribution channels. These distribution channels are Retail, Direct to consumers, International and Other channels. The Retail channel primarily represents sales to Christian bookstores and others either directly from the Company or through third party distributors. Direct to consumers primarily represents sales from direct mail programs but also includes Internet sales, special event sales, and sales direct to churches, including through the Company's hymnal joint venture. The International channel represents all transactions with foreign entities, whether they are shipped from the US or one of the Company's three foreign subsidiaries. Christian bookstores are the primary distribution channel for this segment, but there are also direct mail and other techniques used for these markets. The other channels segment includes copyright revenue from the song catalog, excess inventory and other small distribution sales.

The accounting policies of the reportable segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements. The Company evaluates the performance of its operating segments based on net revenues and operating income before taxes. Intersegment sales are not significant.

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

<TABLE>
<CAPTION>

	1998	1997	1996
NET SALES			
Direct to consumer	$ 13,430	$ 11,602	$ 11,199
Retail	14,702	14,214	10,951
International	6,392	6,346	6,501
Other	6,534	4,700	5,716
Eliminations	(2,211)	(1,908)	(2,392)
Consolidated	$ 38,847	$ 34,954	$ 31,975
OPERATING PROFIT (BEFORE MINORITY INTEREST)			
Direct to consumer	2,954	3,158	295
Retail	3,018	3,121	1,081
International	1,436	1,452	1,197
Other	1,798	278	1,829
Consolidated	9,206	8,009	4,402
General corporate expense	5,924	5,540	6,711
Interest expense, net	1,529	1,790	1,804
Income (loss) before income taxes and minority interest	$ 1,753	$ 679	$ (4,113)
IDENTIFIABLE ASSETS			
Direct to consumer	$ 0	$ 0	
Retail	0	0	
International	2,596	2,218	
Other	1,993	2,191	
General corporate assets	27,028	26,366	
Total assets	$ 31,617	$ 30,775	

</TABLE>

The Company does not allocate any separate assets to its retail or direct to consumer segments as those segments are managed based on profit centers. The primary assets used in these segments are product masters and other intangibles which are shared among all segments. The Company does not track property and equipment usage by segments.

The Company sells its products throughout the world and operates primarily in the U.S. Export sales are handled through the Company's international sales division and through certain foreign subsidiaries. Geographic financial information is as follows (in thousands):

	1998	1997	1996
NET SALES			
United States	$ 32,464	$ 29,875	$ 26,253
Europe	1,956	1,638	1,763
Australia	1,011	1,267	1,638
Asia	938	0	0
Other	2,478	2,174	2,321
	$ 38,847	$ 34,954	$ 31,975
IDENTIFIABLE ASSETS			
United States	$ 29,021	$ 28,557	
Europe	1,368	1,104	
Australia	494	565	
Asia	734	0	
Other	0	549	
	$ 31,617	$ 30,775	

10. STOCKHOLDERS' EQUITY

Each holder of the Company's Class B common stock is entitled to 10 votes per share. Holders of Class A common stock are entitled to one vote per share. The rights of each share of Class A and Class B stock are identical in all respects except as to voting privileges. No dividends were declared or paid during the years ended December 31, 1998 and 1997.

11. STOCK COMPENSATION PLANS

The Company has two stock option plans, which provide for the granting of stock options to officers, employees and non-employee directors. The Long-term Incentive Plan (the "Incentive Plan") permits grants of not only incentive stock options, but also non-qualified stock options, stock appreciation rights, performance shares, restricted stock and other stock based awards. The Incentive Plan is authorized to issue up to 525,000 shares of Class A Common Stock in connection with such awards. Under the Incentive Plan, awards may not be granted at less than the market value at the date of the grant, and vesting terms are generally five years. The 1994 Stock Option Plan for Outside Directors (the "Directors' Plan"), grants 1,000 options to purchase Class A Common stock annually to Directors following the annual meeting. Such options have an exercise price equal to the fair market value at grant date and are exercisable six months from date of grant.

The Executive Stock Purchase Plan permits certain employees to purchase shares of common stock from the Company. Under this Plan, there are 50,000 shares of Class A common stock reserved at December 31, 1998.

Effective December 28, 1995, the Company's Board of Directors adopted the 1995 Cash Incentive Plan. Awards may be granted by the Company's Compensation Committee and any award made is expressed in a number of units payable only in cash. Vesting is one-fifth of the units of an award on each anniversary of the date of grant until vested in full. Participants become vested in full six months after the occurrence of a change in control (as defined by the agreement) of the Company. The value of all units is measured as the difference between the fair market value of the Company's stock on the grant date and the fair market value of the Company's stock on any given date subsequent to the grant date. To the extent the fair market value of the stock exceeds the fair market value at the date of grant, compensation expense will be charged to the Company's statement of operations. As of December 31, 1998, 127,500 awards have been granted. At December 31, 1998, a provision was recorded in the amount of $123,930 for the difference in the fair market value of the stock between the grant date and the end of the year.

The Company accounts for stock-based compensation plans under APB 25, "Accounting for Stock Issued to Employees". As a result, the Company has recognized compensation expense only for the 1995 Cash Incentive Plan discussed above. The Company is not required to recognize compensation expense for the other option plans as the exercise price is equal to, or greater than, the fair market value at the date of grant. The Company has adopted the disclosure provisions of SFAS 123, "Accounting for Stock Based Compensation: (FAS 123)." Had compensation cost for the Company's stock-based incentive compensation plans been determined based on the fair value at the grant dates for awards under these plans consistent with the methodology prescribed by FAS 123 and if these values had been recorded in the statement of operations, the Company's net income (loss) and per share results would have been reduced to the pro forma amounts indicated below for the years ended December 31, 1998, 1997, and 1996, respectively.

<TABLE>
<CAPTION>

<S>	<C>	1998 <C>	1997 <C>	1996 <C>
Net income	As reported	$ 1,854,000	$ 642,000	$(3,707,000)
	Pro forma	1,785,000	543,000	(3,778,000)
Basic EPS	As reported	0.34	0.12	(0.67)
	Pro forma	0.32	0.10	(0.69)
Diluted EPS	As reported	0.32	0.12	(0.67)
	Pro forma	0.31	0.10	(0.69)

</TABLE>

These pro forma amounts represent the estimated fair value of stock options issued during 1998, 1997 and 1995 and are being amortized to expense over the applicable vesting period. Additional options may be granted in future years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 1998, 1997 and

1996, respectively: Dividend yields of 0%, expected volatility of 70% each year, risk-free interest rates that approximate the yield of a five year government bond, and a specific vesting period for each option.

The following table summarizes the changes in the number of shares under option:

<TABLE>
<CAPTION>

	EXERCISE PRICE RANGES				
<S>	$0.50 - $2.00 <C>	$2.01 - $5.00 <C>	$5.01 - $10.00 <C>	Total shares under option <C>	Weighted average option price per share <C>
Outstanding at 12/31/95		50,000	206,000	256,000	6.14
Granted	120,000	73,000	0	193,000	2.20
Exercised	0	0	0	0	
Forfeited	0	0	(81,000)	(81,000)	8.32
Outstanding at 12/31/96	120,000	123,000	125,000	368,000	3.60
Granted	141,027	0	0	141,027	1.74
Exercised	0	0	0	0	
Forfeited	(35,000)	0	(113,000)	(148,000)	7.21
Outstanding at 12/31/97	226,027	123,000	12,000	361,027	1.39
Granted	20,000	13,000	0	33,000	1.64
Exercised	0	0	0	0	
Forfeited	(60,000)	0	0	(60,000)	1.58
Outstanding at 12/31/98	186,027	136,000	12,000	334,027	1.38

Exercisable at 12/31/98	128,805
	=======
Plan shares available for future grants	215,973
	=======

</TABLE>

The Company also has 805,288 warrants outstanding at December 31, 1998 at an exercise price of $1.875. These warrants were issued in 1996 with an estimated fair value of $1,393,000 and have a life of ten years.

The weighted-average fair value of options granted is $1.32, $1.01, and $0.83 for the years ended December 31, 1998, 1997 and 1996, respectively. The weighted average remaining contractual life for all options outstanding is 7.7 years.

12. COMMITMENTS AND CONTINGENCIES

The Company is subject to legal proceeding and other claims which may arise in the ordinary course of business. However, the company is not party to any material legal proceedings. The Company's commitments under lease agreements for equipment are not significant.

13. SUBSEQUENT EVENT

During February 1999, the Company granted 100,000 shares of restricted stock to an officer which have a fair value of approximately $300,000. The restricted stock vests after an additional seven years of employment by the officer. The grant is subject to shareholder approval. As a result of this grant, the Company's debt agreement requires the issuance of approximately 38,000 additional warrants to its primary lender at the fair value.

14. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

<TABLE>
<CAPTION>

	1998 Three Months Ended (in thousands, except per share data)			
	Mar 31	Jun 30	Sep 30	Dec 31
<S>	<C>	<C>	<C>	<C>
Net Sales	$ 9,453	$ 9,678	$ 10,196	$ 9,520
Gross Profit	5,456	5,650	4,939	4,817
Net Income	454	174	442	784
Basic earnings per share	$ .09	$ .03	$ .08	$ .14
Diluted earnings per share	$ .08	$ .03	$ .08	$ .13

	1998 Three Months Ended (in thousands, except per share data)			
	Mar 31	Jun 30	Sep 30	Dec 31
Net Sales	$ 8,674	$ 8,451	$ 9,157	$ 8,672
Gross Profit	4,964	4,951	4,969	4,834
Net Income (loss)	184	(163)	275	346
Basic earnings (loss) per share	$ .03	$ (.03)	$ .06	$ .06
Diluted earnings (loss) per share	$ .03	$ (.03)	$ .06	$ .06

</TABLE>

2. FINANCIAL STATEMENT SCHEDULE

The following consolidated financial statement schedules of the Company are set forth herewith:

INTEGRITY INCORPORATED
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(DOLLAR AMOUNTS IN THOUSANDS)

<TABLE>
<CAPTION>

Description	Balance at Beg. Of Period	Additions Charged to costs and expenses	Deductions(1)	Balance at end of Period
<S>	<C>	<C>	<C>	<C>
1996				
Allowance for returns and doubtful accounts	1,676	7,311	(7,303)	1,684
1997				
Allowance for returns and doubtful accounts	1,684	5,174	(6,046)	812
1998				
Allowance for returns and doubtful accounts	812	4,852	(4,968)	696

</TABLE>

(1) Represents write-offs during the respective period for product returns and uncollectible accounts.

<TABLE>
<CAPTION>

Description	Balance at Beg. Of Period	Charged to costs and expenses	Adjustments	Balance at end of Period
<S>	<C>	<C>	<C>	<C>
1996				
Valuation on deferred tax assets	0	1,067		1,067
1997				
Valuation on deferred tax assets	1,067	218		1,285
1998				
Valuation on deferred tax assets	1,285		(785)	500

</TABLE>

All other schedules have been omitted, as they are not required under the related instructions, are inapplicable, or because the information required is included in the consolidated financial statements or notes thereto.

3. EXHIBITS

The exhibits indicated below are either incorporated by reference herein or are bound separately and accompany the copies of this report filed with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc. Copies of such exhibits will be furnished to any requesting stockholder of the Company upon payment of the costs of copying and transmitting the same.

INDEX TO EXHIBITS

Exhibit Description

<TABLE>
<CAPTION>

Exhibit Number	
<S>	<C>
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).
4.1	See Exhibits 3(i), 3(i).1 and 3(ii) for provisions of the Certificate of Incorporation, as amended, and Bylaws, as amended, of the Registrant defining rights of holders of Class A and Class B Common Stock of the Registrant.
4.2	Form of Class A Common Stock certificate of the Registrant (incorporated by reference from Exhibit 4.2 to the Registrant's Registration Statement on Form S-1 (File No. 33-78582), and amendments thereto, originally filed on May 6, 1994).
10.1	Agreement dated as of June 1, 1994, by and between Integrity Music, Inc. and LCS Industries, Inc. (Portions of the foregoing have been granted confidential treatment.) (incorporated by reference from Exhibit 10.13 to the Registrant's Registration Statement on Form S-1 (File No. 33-78582), and amendments thereto, originally filed on May 6, 1994).
10.2	Form of Continuity Club Membership Agreement (incorporated by reference from Exhibit 10.25 to the Registrant's Registration Statement on Form S-1 (File No. 33-78582), and amendments thereto, originally filed on May 6, 1994).
10.3	Tax Indemnification Agreement by and between Integrity Music, Inc. and P. Michael Coleman (incorporated by reference from Exhibit 10.41 to the Registrant's Registration Statement on Form S-1 (File No. 33-78582), and amendments thereto, originally filed on May 6, 1994).
10.4	Loan and Security Agreement, dated as of August 2, 1996, by and among Integrity Incorporated and Creditanstalt Corporate Finance, Inc., (incorporated by reference from Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).
10.5	Stock Pledge Agreement, dated as of August 2, 1996, by Integrity Incorporated in favor of Creditanstalt Corporate Finance, Inc., (incorporated by reference from Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).
10.6	Conditional Assignment and Trademark Security Agreement, dated August 2, 1996, between Integrity Incorporated and Creditanstalt Corporate Finance, Inc. (incorporated by reference from Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).
10.7	Collateral Assignment and Agreement, dated as of August 2, 1996, by and between Integrity Incorporated and Creditanstalt Corporate Finance, Inc., (incorporated by reference from Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).

</TABLE>

<TABLE>

<S>	<C>
10.8	Copyright Security Agreement, dated as of August 2, 1996, made by Integrity Incorporated in favor of Creditanstalt Corporate Finance, Inc., (incorporated by reference from Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).
10.9	Warrant Agreement, dated August 2, 1996, made by Integrity Incorporated in favor of Creditanstalt Corporate Finance, Inc., (incorporated by reference from Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).
10.10	Product Distribution Agreement by and between Integrity Incorporated and Word, Inc., dated as of April 1, 1996. (The foregoing is the subject of a request for

	confidential treatment.) (incorporated by reference from Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).
10.11	First Amendment to Loan and Security Agreement, dated as of February 14, 1997, by and among Integrity Incorporated and Creditanstalt Corporate Finance, Inc. (incorporated by reference from Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996).
10.12	Amended and Restated Stock Pledge Agreement, dated as of January 22, 1997, by Integrity Incorporated in favor of Creditanstalt Corporate Finance, Inc. (incorporated by reference from Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996). EXECUTIVE COMPENSATION PLANS AND ARRANGEMENTS
10.13	Integrity Music, Inc. Profit Sharing Plan (incorporated by reference from Exhibit 10.42 to the Registrant's Registration Statement on Form S-1 (File No. 33-78582), and amendments thereto, originally filed on May 6, 1994).
10.14	1994 Management Incentive Plan (incorporated by reference from Exhibit 10.43 to the Registrant's Registration Statement on Form S-1 (File No. 33-78582), and amendments thereto, originally filed on May 6, 1994).
10.15	Integrity Music, Inc. Long-Term Incentive Plan (incorporated by reference) from Exhibit 4(c) to the Registrant's Registration Statement on Form S-8 (File No. 33-86126) filed on November 7, 1994).
10.16	Form of Stock Option Agreement under the Integrity Music, Inc. Long-Term Incentive Plan (incorporated by reference from Exhibit 10.45 to the Registrant's Registration Statement on Form S-1 (File No. 33-78582), and amendments thereto, originally filed on May 6, 1994).
10.17	Integrity Music, Inc. 1994 Stock Option Plan for Outside Directors (incorporated by reference from Exhibit 4(c) to the Registrant's Registration Statement on Form S-8 (File No. 33-86128) filed on November 7, 1994).
10.18	Form of Indemnification Agreement (incorporated by reference from Exhibit 10.47 to the Registrant's Registration Statement on Form S-1 (File No. 33-78582), and amendments thereto, originally filed on May 6, 1994).
10.19	Integrity Music, Inc. Employee Stock Purchase Plan (incorporated by reference from Exhibit 4(c) to the Registrant's Registration Statement on Form S-8 (File No. 33-84584) filed on September 29, 1994).
10.20	Integrity Music, Inc. 401(k) Employee Savings Plan (incorporated by reference from Exhibit 10.50 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995).
10.21	Amendment Number three to the Integrity Music, Inc. 401(k) Employee Savings Plan, dated as of April 2, 1997 (incorporated by reference from Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997).
10.22	Defined Contribution Master Plan and Trust Agreement relating to Non-Standardized Profit Sharing Plan (incorporated by reference from Exhibit 10.51 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995).
10.23	Form of Key Employee Change in Control Agreement (incorporated by reference from Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995).

</TABLE>

<TABLE>

<S>	<C>
10.24	Integrity Incorporated 1995 Cash Incentive Plan

	(incorporated by reference from Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995).
10.25	Integrity Incorporated Severance Agreement (incorporated by reference from Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995).
10.26	Employment Agreement by and among Integrity Incorporated and Jerry Weimer dated as of March 28, 1996 (incorporated by reference from Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996).
10.27	Employment Agreement by and among Integrity Incorporated and Don Moen dated as of October 1, 1998.
10.28	Employment Agreement by and among Integrity Incorporated and Daniel McGuffey dated as of January 1, 1998.
11	Statement of Computation of Per Share Earnings
21	Subsidiaries of the Registrant
23	Consent of Independent Accountant
27	Financial Data Schedule (for SEC only)

</TABLE>

(b) Reports on Form 8-K

The Registrant filed no reports on Form 8-K during the last quarter of the fiscal year ended December 31, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on March 12, 1999.

INTEGRITY INCORPORATED

By: /s/ P. Michael Coleman
P. Michael Coleman
Chairman, President and
Chief Executive Officer

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated on March 12, 1999.

<TABLE>
<CAPTION>

Signature	Title
<S>	<C>
/s/ P. Michael Coleman P. Michael Coleman	Chairman, President and Chief Executive Officer (Principal Executive Officer)
/s/ Alison S. Richardson Alison S. Richardson	Senior Vice President, Finance and Administration (Principal Financial and Accounting Officer)
/s/ Jean C. Coleman Jean C. Coleman	Director
/s/ John B. Ellis John B. Ellis	Director
/s/ Charles V. Simpson Charles V. Simpson	Director
/s/ Heeth Varnedoe III Heeth Varnedoe III	Director

</TABLE>

EXHIBIT 10.27

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into as of the 1st day of October, 1998, by and among INTEGRITY INCORPORATED, a Delaware corporation, ("Employer") and DONALD J. MOEN, an individual currently residing in MOBILE, ALABAMA ("Employee").

In consideration of the promises, covenants and conditions set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Employee and Employer agree as follows:

1. Employment.

Employer hereby employs Employee and Employee hereby accepts employment in the position of Executive Vice President, Creative Director (the "Position") upon the terms and conditions hereinafter set forth.

2. Services and Appearances.

(a) General Services. During the term of employment hereunder and except as otherwise provided herein, Employee shall devote his full professional time and energy to the performance of his duties as Executive Vice President, Creative Director and shall use his best efforts in the performance of the same. Employee will report directly to the Chief Operating Officer, serve on the Executive Committee (defined herein as a committee consisting of Employee, the President of Employer and the Executive Vice President-Chief Operating Officer of Employer), and participate in all Senior Management meetings. Employer and Employee agree that Employee's duties in the Position shall be determined by Employer and may be altered by Employer from time to time at its sole discretion. Employer and Employee acknowledge and agree that Employee's initial duties in the Position shall consist of, among other things, providing creative direction for the product planning and production of all Employer's music and technology product lines (and management control of the foregoing, except for technology products); convening and coordinating Employer's creative team; overseeing songwriter relationships and song development; pioneering new product concepts and championing research and development of those new concepts (searching for new and fresh developments in music that Employer should pursue, then developing and maintaining the relevant relationships and contacts in these areas); participating on creative teams (such as the PraiseGathering/Print Development team) and in the various product development meetings, and quarterly company-wide creative planning sessions.

(b) Attendance at Industry and Employer Events. During the term of employment hereunder, Employee agrees to attend various industry and Employer events, as Employee and the Executive Committee members of Employer (the "Executive Committee") deem appropriate (e.g. CBA, GMA, NRB and choral reading sessions); and Employee will perform at those events when in Employee's judgment such performance is in the best interest of Employer and Employee's career as an artist.

(c) Attendance at Other Events. As a corporate representative, Employee will at times appear at certain events or on television/radio programs, or provide material for published articles proclaiming the mission of Employer, what God is doing today and other ministry-related topics. Employee and the Executive Committee will determine what events are appropriate investments of Employee's time and energy.

(d) Participation as Host, Narrator or Worship Leader. Employee acknowledges that in his Position, Employee will, from time to time, be asked to participate in recorded and print projects as a host, narrator or worship leader. Such projects are not subject to the Artist Agreement, separately executed by and between Employee and Employer as of the date hereof. Employee and Employer will agree in writing, prior to the commencement of any project on which Employee performs in any capacity, whether or not the project will be subject to the Artist Agreement.

(e) Availability to Tour.

(i) In addition to other appearances Employee makes as a senior officer of Employer, if requested by Employer, Employee agrees to make himself available to tour on behalf of Employer. Providing Employee is in reasonable compliance with this touring provision, Employee shall have the option to accept or reject any specific opportunities or requests. Employer agrees that a minimum per concert honorarium paid by the promoter or host is appropriate whenever Employer uses Employee's name, image or likeness to promote a tour. Employer will not require Employee to accept any concert appearances where Employee will not receive an appropriate honorarium (e.g., for an extended international tour, approximately $3,000 per concert). When it is beneficial to Employer's mission (as to be determined by Employee and the Executive Committee) for Laura Moen to accompany

Employee on certain dates or tours, her reasonable travel expenses will be paid. If the travel is international, Employer will pay (or require the promoter or host to pay) for Business Class airfare for Ms. Moen.

(ii) In the event that Employer acts as promoter of a tour, Employer shall agree in advance on a minimum per concert honorarium. Following the tour,

after gross revenue from the tour has been reduced by all expenses of the tour, including Employee's honorarium, Employer will pay Employee twenty percent (20%) of the profit, if any. If there is no profit, then Employer shall have no further obligation to Employee.

(iii) While Employee will be allowed great personal latitude in setting Employee's appearance and travel schedule, Employee agrees to submit himself to the review and counsel of the Executive Committee with regard to all decisions regarding allocation of Employee's professional time and energies.

(f) Employee will be allowed to make personal appearances, not to exceed one weekend each month, for which Employee shall not be financially accountable to Employer and for which Employee can retain any fees or honorariums, provided Employee is personally responsible for all direct costs of such appearances. Employee's secretary, provided by Employer, may assist Employee in the booking and coordination of these events, at no cost or expense to Employee.

(g) Employee will be expected to maintain reasonable office hours and when away from the office, to communicate with Employee's staff and secretary at reasonable intervals. Executive Committee members should always be able to reach Employee by telephone within twenty-four (24) hours. Employee is, however, allowed and encouraged to schedule and take up to five (5) days per month away from the office to devote concentrated time to Employee's songwriting activities.

3. Compensation.

For and in consideration of the promises and covenants made herein and the services to be provided hereunder, Employer agrees to compensate Employee as follows:

(a) Signing Bonus. Employer has paid to Employee a non-refundable, non-recoupable cash bonus of Twenty-Five Thousand Dollars and No Cents ($25,000), less taxes and other normal withholdings.

(b) Base Compensation. Employer shall pay to Employee an annual base salary in the amount of One Hundred and Forty Three Thousand Five Hundred and Eighty-One Dollars and No Cents ($143,581), less taxes and other normal withholdings. Said salary shall be paid to Employee in equal semi-monthly installments. The annual base salary referred to in this Section 3(a) shall hereinafter be referred to as the "Annual Base Compensation."

(c) Benefits. Employee shall be entitled to receive or participate in all employment benefits or benefit plans as generally made available by

Employer to its employees, if any, to the same extent and under the same terms and conditions as other covered employees having comparable position and stature.

(d) Vacation.

(i) Employee shall be entitled to four weeks (20 days) of paid vacation per fiscal year.

(ii) Employee will also be allowed up to three (3) weeks per year for touring and personal engagements, independent of Employer. While Employee will have great latitude in determining the advisability and time of such engagements, these dates will be subject to the approval by the Executive Committee in advance, taking into account Employee's executive responsibility and recording and writing commitments to Employer. In such event, Employee shall pay all costs associated with these dates and after deduction of all expenses, Employee shall pay twenty percent (20%) of any profits to Employer.

(e) Bonus. Employee shall become a participant in Employer's Senior Management Bonus Plan, at fifteen percent (15%) of Employee's Annual Base Compensation, and in accordance with the terms of such Bonus Plan as such terms are defined therein.

(f) Options. Employer has granted to Employee incentive stock options to purchase 59,722 shares of the Employer's Class A Common Stock pursuant to the Integrity Incorporated Amended and Restated Long-Term Incentive Plan, effective as of May 3, 1996, at an exercise price equal to the fair market value of the Class A Common Stock as of the date of grant.

(g) 1995 Cash Incentive Plan. Employee is a participant in Employer's 1995 Cash Incentive Plan, which is attached hereto as Exhibit A and is hereby expressly incorporated into and made a part of this Agreement as if its terms were set forth in full herein.

4. Term and Termination.

Employee's employment with Employer shall continue for a period of three (3) years from the 1st day of October, 1998, unless earlier terminated as provided in this Agreement. Employee acknowledges and agrees that this Agreement, and his employment with Employer, shall be terminated upon the occurrence of any of the following events:

(a) Employee's death;

(b) Employee becoming or remaining Disabled for a substantially continuous period of six months. For purposes of this Paragraph, the term "Disabled" shall mean Employee's inability to perform the essential functions of his position with or without reasonable accommodation;

(c) Mutual written agreement between Employer and Employee to terminate; or

(d) Immediately upon written notice of termination from Employer for "cause." For purposes of this Agreement, "cause" shall mean (i) Employee's conviction of, confession to, or plea of guilty or nolo contendere to, any felony or any crime involving an act of dishonesty, fraud, misappropriation, embezzlement, or moral turpitude; (ii) any fraudulent, dishonest or disloyal conduct by Employee that results in an injury, monetary or otherwise, to the Employer; (iii) Employee's possession of illegal drugs or excessive use of drugs, intoxicating liquors or narcotics; (iv) misconduct or gross negligence by Employee in connection with the performance of his duties hereunder that results in an injury, monetary or otherwise, to the Employer; (v) failure by the Employee to substantially perform his duties hereunder within a reasonable time after receiving written notice of non-performance from Employer; or (vi) a material breach of this Agreement by Employee; provided, however, that in the case of (ii) through (vi) above, the determination that Employee's conduct constitutes "cause" shall be made by the Board of Directors of the Employer acting reasonably and in good faith and; provided further, that in the case of (vi) above, such conduct shall not constitute "cause" unless the Board shall have delivered to the Employee notice setting forth with specificity (A) the conduct deemed to qualify as "cause", (B) reasonable action that would remedy such objection, and (C) a reasonable time (not less than fifteen (15) days) within which the Employee may take such remedial action, and the Employee shall not have taken such specified remedial action within such specified reasonable time.

In the event that Employee's employment with Employer terminates pursuant to a change of control, the terms and conditions of the Key Employee Change in Control Agreement, set forth in Section 6 to this Agreement, shall govern, including but not limited to the definition of "cause" therein.

5. Severance.

Employer and Employee have agreed to and executed a separate agreement entitled Severance Agreement ("Severance Agreement"). The Severance Agreement, which is attached hereto as Exhibit B, is hereby expressly incorporated into and made a part of this Agreement as if its terms were set forth in full herein; provided that to the

extent there are inconsistencies between the terms of the Severance Agreement and the terms of this Agreement, including defined terms, the provisions of this Agreement shall govern.

6. Change in Control.

Employer and Employee have agreed to and executed a separate agreement entitled Key Employee Change in Control Agreement ("Change in Control Agreement"). The Change in Control Agreement, which is attached hereto as Exhibit C, is hereby expressly incorporated into and made a part of this Agreement as if its terms were set forth in full herein.

7. Non-disclosure of Confidential Information.

(a) Definitions.

The following definitions shall apply to this Agreement:

(i) "Trade Secrets" means all secret, proprietary or confidential information regarding Employer or its business, including any and all information not generally known to, or ascertainable by, persons not employed by Employer, the disclosure or knowledge of which would permit those persons to derive actual or potential economic value therefrom or to cause economic or financial harm to Employer. Such information shall include, but not be limited to, new product concepts and ideas under consideration or planned for development, financial information, strategic plans and forecasts, marketing plans and forecasts, customer lists, mailing lists, computer software (including without limitation, source code, object code and manuals), customer billing or order information, technical information regarding Employer's products or services, prices offered to or paid by customers, purchase and supply information, current and future development and expansion or contraction plans of Employer, sales and marketing plans and techniques, information concerning personnel assignments and operations of Employer and matters concerning the financial affairs, future plans and management of Employer. "Trade Secrets" shall not include information that has become generally available to the public by the act of one who has the right to disclose such information without violating any legal right of Employer.

(ii) "Confidential Information" means information, other than Trade Secrets, which relates to Employer, Employer's activities, Employer's business or Employer's suppliers or customers that is not generally known by persons not employed by Employer and which is or has been disclosed to Employee or of which Employee became aware as a consequence of or through his relationship to Employer. "Confidential

Information" shall not include information that has become generally available to the public by the act of one who has the right to disclose such information without violating any legal right of Employer.

(iii) "Documents" means originals or copies of handbooks, manuals, files, memoranda, correspondence, notes, photographs, slides, overheads, audio or visual tapes, cassettes, or disks, and records maintained on computer or other electronic media.

(b) Covenant Regarding Non-disclosure of Trade Secrets or Confidential Information.

Employee covenants and agrees that: (i) during his employment with Employer he will not use or disclose any Trade Secrets or Confidential Information of Employer other than as necessary in connection with the performance of his duties as an employee of Employer; and (ii) for a period of two (2) years immediately following the termination of his employment with Employer, Employee shall not, directly or indirectly, transmit or disclose any Trade Secret or Confidential Information of Employer to any person and shall not make use of any such Trade Secret or Confidential Information, directly or indirectly, for himself or others, without the prior written consent of Employer, except for a disclosure that is required by any law or order, in which case Employee shall provide Employer prior written notice of such requirement and an opportunity to contest such disclosure. However, to the extent that such information is a "trade secret" as that term is defined under a state or federal law, this subparagraph is not intended to, and does not, limit Employer's rights or remedies thereunder and the time period for prohibition on disclosure or use of such information is until such information becomes generally known to the public through the act of one who has the right to disclose such information without violating a legal right of Employer.

(c) Return of Information.

Employee agrees that he shall return all Trade Secrets, Confidential Information or other property of Employer immediately upon the termination of his employment with Employer, including all handbooks, training materials, reports, policy statements, programs, customer lists, mailing lists and other documents provided by Employer or acquired by Employee as a result of his employment with Employer, and all copies thereof.

8. Inventions and Other Developments.

All rights and obligations relating to all inventions, formulas, techniques, processes, concepts, systems and programs, mailing lists and customer lists and compilations, whether or not patented or patentable, or subject to copyright, made or conceived, individually or in conjunction with others, by Employee during the term of his employment with Employer that relate to activities or proposed activities of Employer or that result from work performed by Employee for Employer shall be the property of the Employer and, to the extent covered, shall be as set forth in the Exclusive Artist Agreement and the Exclusive Songwriter Agreement, each of which has been executed contemporaneously with this Agreement and is hereby expressly incorporated into and made part of this Agreement as if its terms were set forth in full herein.

9. Non-recruitment of Employees Covenant.

Employee agrees that he will not, for so long as he is employed by Employer, and for a period of two (2) years immediately following the termination of his employment, solicit or induce, or attempt to solicit or induce, (i) any employee of the Employer to terminate his or her relationship with Employer or (ii) any current or former employee to enter into an employment or agency relationship with Employee or with any other person or entity other than Employer.

10. Covenant Not to Compete.

Employee expressly covenants and agrees that during the term of his employment with Employer and for a period of two (2) years immediately following the termination of said employment for any reason, he will not, directly or indirectly, seek, obtain or accept a "Competitive Position" in the "Restricted Territory" with a "Competitor" of Employer. For purposes of this Agreement, a "Competitor" of Employer is any business, individual, partnership, joint venture, association, firm, corporation or other entity engaged, wholly or in part, in the production, publishing or distribution of Christian music or Christian videos; a "Competitive Position" is any employment with a "Competitor" of Employer in a position in which Employee will use or is likely to use any Confidential Information or Trade Secrets (as those terms are defined in Paragraph 7 of this Agreement), or in which Employee has creative or managerial duties for such "Competitor" of Employer that are the same as or substantially similar to those actually performed by Employee for Employer with respect to Employer's music business (including Employee being an executive producer, producer or creating any like product of Employer for any Competitor of Employer, but excluding any activities pursuant to the Exclusive Songwriter Agreement and Exclusive Artist Agreement); and "Restricted Territory" is the geographical area set forth in Exhibit D to this Agreement. Nothing contained in this Paragraph is intended to prevent Employee from investing in stock or other securities listed on a national securities exchange or actively traded on the over the counter market of any Competitor; provided, however, that Employee shall not hold more than a total of five percent (5%) of all issued and outstanding stock or other securities of any such corporation. In consideration of Employee's full compliance with all the terms and conditions of this provision, Employer shall pay to Employee, for the corresponding two

(2) year period, Employee's Annual Base Compensation (at the annual rate in effect during the last full year of Employee's employment) and shall provide fully paid medical and dental benefits, equal to or equivalent to the coverage then currently provided to Employer's senior management personnel.

11. Relief.

Employee acknowledges that the covenants and promises contained in this Agreement are reasonable and necessary means of protecting and preserving Employer's goodwill and its interest in the confidentiality and proprietary value of its Trade Secrets and Confidential Information. Employee further acknowledges that the same are reasonable and necessary means of protecting Employer from unfair competition by Employee. Employee agrees that any breach of the covenants or promises contained in paragraphs 7, 8, 9 or 10 will leave Employer with no adequate remedy at law and may cause Employer to suffer irreparable damage and injury. Employee further agrees that any breach of these covenants or promises will entitle Employer to injunctive relief in any court of competent jurisdiction without the necessity of posting any bond. Employee also agrees that any such injunctive relief shall be in addition to any damages that may be recoverable by Employer as a result of such breach.

Employee further agrees that no failure or delay by Employer in exercising, enforcing or asserting any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise of any such right, power or privilege.

12. Severability.

The covenants and other provisions set forth in this Agreement shall be considered and construed as separate and independent covenants and provisions. Should any covenant or provision, or any part thereof, be held invalid, void or unenforceable in any court of competent jurisdiction, such invalidity, voidness or unenforceability shall not render invalid, void or unenforceable any other part, covenant or provision of this Agreement. If any portion of the foregoing covenants or provisions is found to be invalid or unenforceable by a court of competent jurisdiction because its duration, territory, definition of activities or definition of information covered is invalid or unreasonable in scope, the invalid or unreasonable term shall be eliminated, redefined, or replaced with a new enforceable term such that the intent of Employer and Employee in agreeing to the covenants and provisions of this Agreement will not be impaired and the covenant or provision in question shall be enforceable to the fullest extent of the applicable laws.

13. Governing Law and Disputes.

This Agreement shall be governed and construed in accordance with the laws of the State of Alabama.

10

Employer and Employee agree that, except as provided in paragraph 11 hereof, any dispute arising in connection with, or relating to, this Agreement or the termination of this Agreement, to the maximum extent allowable by applicable law, shall be subject to resolution through informal methods and, failing such efforts, through arbitration. Either party may notify the other party of the existence of a dispute by written notice. The parties shall thereafter attempt in good faith to resolve their differences within the thirty (30) days after the receipt of such notice. If the dispute cannot be resolved within the thirty (30) day period, either party may file a written demand for arbitration with the other party. The arbitration shall proceed in accordance with the terms of the Federal Arbitration Act and the rules and procedures of the American Arbitration Association. The parties will attempt to choose an arbitrator acceptable to the Employer and Employee, but if agreement on an arbitrator cannot be reached within ten (10) days after either party files a written demand for arbitration, a single arbitrator shall be appointed through the American Arbitration Association's procedures to resolve the dispute.

Employer and Employee agree that in the event that arbitration is necessary, the arbitrator shall apply the substantive laws of the state of Alabama and any applicable federal law. The place for the arbitration shall be Mobile, Alabama.

The award of the arbitrator shall be binding and conclusive upon the parties. Either party shall have the right to have the award made the judgment of a court of competent jurisdiction.

14. Assignment.

This Agreement may not be assigned by Employee to any other person or entity but may be assigned by Employer at its discretion to any successor to all, or any part, of the stock or assets of Employer or to any lender of Employer.

15. Titles.

The titles, headings and captions used in this Agreement are for convenience of reference only and shall in no way limit, define, expand, or otherwise affect the meaning or construction of any provision of this Agreement.

16. Entire Agreement.

This Agreement is intended by the Parties hereto to be the final expression of their agreement with respect to the subject matter hereof and represents the complete and exclusive statement of the terms of their agreement, notwithstanding any representations, statements or agreements to the contrary heretofore made. Except for the 1995 Cash Incentive Plan as expressly noted herein, this Agreement supersedes any former agreements between the Parties governing the same subject matter, including the Letter Agreement, dated October 23, 1998. This Agreement may be modified only by a written instrument signed by each of the Parties hereto.

IN WITNESS WHEREOF, the undersigned set their hands and seals as of the 1st day of October, 1998.

INTEGRITY INCORPORATED	DON MOEN
/s/	/s/ [SEAL]
----------------------------------	----------------------------
NAME:	DON MOEN
TITLE:	

ATTEST:

/s/

Secretary

[CORPORATE SEAL]

EXHIBIT 10.28

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into as of the 1st day of January, 1998, by and among Integrity Incorporated, a Delaware corporation, ("Employer") and Danny McGuffey, an individual currently residing in Nashville, Tennessee ("Employee").

In consideration of the promises, covenants and conditions set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Employee and Employer agree as follows:

1. Employment.

Employee hereby employs Employee and Employee hereby accepts employment in the position of Senior Vice President and General Manager, Integrity Label Group (the "Position") upon the terms and conditions hereinafter set forth.

2. Services.

During the term of employment hereunder, Employee shall devote his full professional time and energy to the performance of his duties as Senior Vice President and General Manager, Integrity Label Group and shall use his best efforts in the performance of the same. Employer and Employee agree that Employee's duties in the Position shall be determined by Employer and may be altered by Employer from time to time at its sole discretion. Employer and Employee acknowledge and agree that Employee's initial duties in the Position shall consist of, among other things, general oversight of retail sales, marketing, packaging, and special markets.

3. Compensation.

For and in consideration of the promises and covenants made herein and the services to be provided hereunder, Employer agrees to compensate Employee as follows:

(a) Base Compensation. Employer shall pay to Employee an annual base salary in the amount of One Hundred Sixteen Thousand Dollars and No Cents ($116,000.00), less taxes and other normal withholdings. Said salary shall be paid to Employee in equal semi-monthly installments. Employer shall pay to Employee a minimum annual bonus in the amount of Ten Thousand Dollars and No Cents ($10,000.00), less taxes and other normal withholdings. Said bonus shall be paid to Employee in equal quarterly installments. The annual base salary and annual bonus referred to in this Section 3(a) shall hereinafter be referred to as the "Annual Base Compensation." The Annual Base Compensation may be increased for merit or cost of living during the term of the Agreement at the discretion of Employer.

(b) Benefits. Employee shall be entitled to receive or participate in all employment benefits or benefit plans listed on Schedule 1 as generally made available by Employer to its employees, if any, to the same extent and under the same conditions as other covered employees.

(c) Vacation. Employee shall be entitled to three weeks of paid vacation per fiscal year.

(d) Bonus. Employee shall be entitled to receive cash bonuses pursuant to the general terms outlined in the offer letter dated 12/20/96. Bonus targets will be adjusted annually based on approved operating plan.

(e) Options. Employer shall have granted, as part of the original offer letter dated 12/20/96, incentive stock options to purchase 50,000 shares of the Employer's Class A Common Stock pursuant to the Employer's Incentive Stock Option Plan.

4. Term and Termination.

Employee's employment with Employer shall begin on the 1st day of January, 1997. The term of this Agreement, however, shall begin on the 1st day of January, 1998 and shall continue until terminated as provided in this Agreement. Employee acknowledges and agrees that this Agreement, and his employment with Employer, shall be terminated upon the occurrence of any of the following events:

(a) Employee's death;

(b) Employee becoming or remaining Disabled for substantially continuous period of six months. For purposes of this Paragraph, the term "Disabled" shall mean Employee's inability to perform the essential functions of his position with or without reasonable accommodation;

(c) Mutual written agreement between Employer and Employee to terminate;

(d) Upon six (6) months prior written notice of termination from Employer to Employee for any reason or no reason at all. Provided: Employer, at its sole discretion, may elect to pay to Employee an amount equal to Employee's salary for six (6) months in lieu of providing the notice set forth in this subparagraph; or

(e) Immediately upon written notice of termination from Employer "for cause." For purposes of this Agreement, a termination shall be considered to be "for cause" if it occurs in conjunction with a determination by Employer that Employee has committed or engaged in either (i) any act that constitutes, on the part of Employee, fraud, dishonesty, breach of fiduciary duty or (ii) conduct by Employee in his office with the Employer

that is grossly inappropriate and demonstrably likely to lead to material injury to Employer, as determined by the Board of Directors of Employer acting reasonably and in good faith; provided, that in the case of (ii) above, such conduct shall not constitute "cause" unless Employer's Board of Directors shall have delivered to Employee notice setting forth with specificity (A) the conduct deemed to qualify as "cause", (B) reasonable action that would remedy such objection, and (C) a reasonable time (not less than thirty (30) days) within which Employee may take such remedial action within the specified time.

5. Severance Payment.

If Employee's employment with Employer is terminated pursuant to Section 4(d), the Employee shall be entitled to receive as a severance benefit aggregate Severance Payments in an amount equal to the greater of (i) the amount the Employee was to receive as Annual Base Compensation under his Employment Agreement multiplied by 3 less 1/12 of such Annual Base Compensation amount for each full month of the Employee's service with the Employer after the date of this Agreement and (ii) one-half of Employee's Annual Base Compensation, less, in the case of either (i) or (ii), any amount paid in lieu of termination notice under Section 4(d). The Severance Payments may be made by the Employer as semi-monthly salary continuation payments or as a lump sum payment within ninety (90) days after termination of Employee's employment with Employer, as determined by the Employer in its sole and absolute discretion.

6. Change in Control.

Contemporaneously with their execution of this Agreement, Employer and

Employee have agreed to and executed a separate agreement entitled Key Employee Change in Control Agreement ("Change in Control Agreement"). The Change in Control Agreement, which is attached hereto as Exhibit A, is hereby expressly incorporated into and made a part of this Agreement as if its terms were set forth in full herein.

7. Non-disclosure of Confidential Information.

(a) Definitions.

The following definitions shall apply to this Agreement:

(i) "Trade Secrets" means all secret, proprietary or confidential information regarding Employer or its business, including any and all information not generally known to, or ascertainable by, persons not employed by Employer, the disclosure or knowledge of which would permit those persons to derive actual or potential economic value therefrom or to cause economic or financial harm to Employer. Such information shall include, but not be limited to, financial information, strategic plans and forecasts, marketing plans and forecasts, customer lists,

mailing lists, computer software (including without limitation, source code, object code and manuals), customer billing or order information, technical information regarding Employer's products or services, prices offered to or paid by customers, purchase and supply information, current and future development and expansion or contraction plans of Employer, sales and marketing plans and techniques, information concerning personnel assignments and operations of Employer and matters concerning the financial affairs, future plans and management of Employer. "Trade Secrets" shall not include information that has become generally available to the public by the act of one who has the right to disclose such information without violating a legal right of Employer.

(ii) "Confidential Information" means information, other than Trade Secrets, which relates to Employer, Employer's activities, Employer's business or Employer's suppliers or customers that is not generally known by persons not employed by Employer and which is or has been disclosed to Employee or of which Employee became aware as a consequence of or through his relationship to Employer. "Confidential Information" shall not include information that has become generally available to the public by the act of one who has the right to disclose such information without violating any legal right of Employer.

(iii) "Documents" means originals or copies of handbooks, manuals, files, memoranda, correspondence, notes, photographs, slides, overheads, audio or visual tapes, cassettes, or disks, and records maintained on computer or other electronic media.

(b) Covenant Regarding Non-disclosure of Trade Secrets or Confidential Information.

Employee covenants and agrees that: (i) during his employment with Employer he will not use or disclose any Trade Secrets or Confidential Information of Employer other than as necessary in connection with the performance of his duties as an employee of Employer; and (ii) for a period of two (2) years immediately following the termination of his employment with Employer, Employee shall not, directly or indirectly, transmit or disclose any Trade Secret or Confidential Information of Employer to any person and shall not make use of any such Trade Secret or Confidential Information, directly or indirectly, for himself or others, without the prior written consent of Employer, except for a disclosure that is required by any law or order, in which case Employee shall provide Employer prior written notice of such requirement and an opportunity to contest such disclosure. However, to the extent that such information is a "trade secret" as that term is defined under a state or federal law, this subparagraph is not intended to, and does not, limit Employer's rights or remedies thereunder and the time period for prohibition on disclosure or

use of such information is until such information becomes generally known to the public through the act of one who has the right to disclose such information without violating a legal right of Employer.

(c) Return of Information.

Employee agrees that he shall return all Trade Secrets, Confidential Information or other property of Employer immediately upon the termination of his employment with Employer, including all handbooks, training materials, reports, policy statements, programs, customer lists, mailing lists and other documents provided by Employer or acquired by Employee as a result of his employment with Employer, and all copies thereof.

8. Inventions and Other Developments.

All inventions, formulas, techniques, processes, concepts, systems and programs, mailing lists and customer lists and compilations, whether or not patented or patentable, or subject to copyright, made or conceived, individually or in conjunction with others, by Employee during the term of his employment with Employer that relate to activities or proposed activities of Employer or that result from work performed by Employee for Employer are the sole and exclusive property of Employer; provided, that Employee shall retain all rights to, and may copyright in his name, all songs written by Employee. Employee further agrees that, subject to the proviso in the immediately preceding sentence, upon request by Employer, he will assign title to any such inventions, formulas, techniques, processes, concepts, systems and programs, and lists and compilations to Employer and will sign any and all documents necessary to effect such assignment.

9. Non-recruitment of Employees Covenant.

Employee agrees that he will not, for so long as he is employed by Employer, and for a period of two (2) years immediately following the termination of his employment, solicit or induce, or attempt to solicit or induce, any employee of the Employer to terminate his or her relationship with Employer or to enter into an employment or agency relationship with Employee or with any other person or entity other than Employer.

10. Covenant Not to Compete.

Employee expressly covenants and agrees that during the term of his employment with Employer and for a period of two (2) years immediately following the termination of said employment for any reason, he will not, directly or indirectly, seek, obtain or accept a "Competitive Position" in the "Restricted Territory" with a "Competitor" of Employer. For purposes of this Agreement, a "Competitor" of Employer is any business, individual, partnership, joint venture, association, firm, corporation or other entity engaged, wholly or in part, in the production, publishing or distribution of Christian music or Christian videos; a "Competitive Position" is any employment with a "Competitor" of Employer in

a position in which Employee will use or is likely to use any Confidential Information or Trade Secrets (as those terms are defined in Paragraph 7 of this Agreement), or in which Employee has managerial duties for such "Competitor" of Employer that are the same as or substantially similar to those actually performed by Employee for Employer with respect to Employer's praise and worship music business; and "Restricted Territory" is the geographical area set forth in Exhibit B to this Agreement. Nothing contained in this Paragraph is intended to prevent Employee from investing in stock or other securities listed on a national securities exchange or actively traded on the over the counter market of any Competitor; provided, however, that Employee shall not hold more than a total of five percent (5%) of all issued and outstanding stock or other securities of any such corporation.

11. Relief.

Employee acknowledges that the covenants and promises contained in this Agreement are reasonable and necessary means of protecting and preserving Employer's goodwill and its interest in the confidentiality and proprietary value of its Trade Secrets and Confidential Information. Employee further acknowledges that the same are reasonable and necessary means of protecting Employer from unfair competition by Employee. Employee agrees that any breach of the covenants or promises contained in paragraphs 7, 8, 9 or 10 will leave Employer with no adequate remedy at law and may cause Employer to suffer irreparable damage and injury. Employee further agrees that any breach of these covenants or promises will entitle Employer to injunctive relief in any court of competent jurisdiction without the necessity of posting any bond. Employee also agrees that any such injunctive relief shall be in addition to any damages that may be recoverable by Employer as a result of such breach. Employer agrees that Employee will be entitled to seek a declaratory judgment as to the enforceability of any of the covenants or promises contained in paragraphs 7, 8, 9 or 10.

Employee further agrees that no failure or delay by Employer in exercising, enforcing or asserting any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise of any such right, power or privilege.

12. Severability.

The covenants and other provisions set forth in this Agreement shall be considered and construed as separate and independent covenants and provisions. Should any covenant or provision, or any part thereof, be held invalid, void or unenforceable in any court of competent jurisdiction, such invalidity, voidness or unenforceability shall not render invalid, void or unenforceable any other part, covenant or provision of this Agreement. If any portion of the foregoing covenants or provisions is found to be invalid or unenforceable by a court of competent jurisdiction because its duration, territory, definition of activities or definition of information covered is invalid or unreasonable in scope, the invalid or unreasonable term shall be eliminated, redefined, or replaced with a new enforceable term such that the intent of Employer and Employee in agreeing to the covenants and provisions of this Agreement will not be impaired and the covenant or provision in question shall be enforceable to the fullest extent of the applicable laws.

13. Disputes and Governing Law.

Employer and Employee agree that, except as provided in paragraph 11 hereof, any dispute arising in connection with, or relating to, this Agreement or the termination of this Agreement, to the maximum extent allowable by applicable law, shall be subject to resolution through informal methods and, failing such efforts, through arbitration. Either party may notify the other party of the existence of a dispute by written notice. The parties shall thereafter attempt in good faith to resolve their differences within the thirty (30) days after the receipt of such notice. If the dispute cannot be resolved within the thirty (30) day period, either party may file a written demand for arbitration with the other party. The arbitration shall proceed in accordance with the terms of the Federal Arbitration Act and the rules and procedures of the American Arbitration Association. The parties will attempt to choose an arbitrator acceptable to the Employer and Employee, but if agreement on an arbitrator cannot be reached within ten (10) days after either party files a written demand for arbitration, a single arbitrator shall be appointed through the American Arbitration Association's procedures to resolve the dispute.

Employer and Employee agree that in the event that arbitration is necessary, the arbitrator shall apply the substantive laws of the state of Alabama and any applicable federal law. The place for the arbitration shall be Mobile, Alabama.

The award of the arbitrator shall be binding and conclusive upon the parties. Either party shall have the right to have the award made the judgment of a court of competent jurisdiction in the state of Alabama.

14. Assignment.

This Agreement may not be assigned by Employee to any other person or entity but may be assigned by Employer at its discretion to any successor to all, or any part, of the stock or assets of Employer or to any lender of Employer.

15. Titles.

The titles, headings and captions used in this Agreement are for convenience of reference only and shall in no way limit, define, expand, or otherwise affect the meaning or construction of any provision of this Agreement.

16. Entire Agreement.

This Agreement is intended by the Parties hereto to be the final expression of their agreement with respect to the subject matter hereof and represents the complete and exclusive statement of the terms of their agreement, notwithstanding any representations, statements or agreements to the contrary heretofore made. Except as expressly noted herein, this Agreement supersedes any former agreements between the Parties governing the same subject matter. This Agreement may be modified only by a written instrument signed by each of the Parties hereto.

IN WITNESS WHEREOF, the undersigned set their hands and seals as of the 1st day of January, 1998.

INTEGRITY INCORPORATED

/s/

NAME:
TITLE:

ATTEST:
/s/

Secretary

[CORPORATE SEAL]

DANNY McGUFFEY

/s/ [SEAL]

DANNY McGUFFEY

EXHIBIT 11

STATEMENT OF COMPUTATION OF PER SHARE EARNINGS

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Weighted average number of issued shares each period	5,514,000	5,514,000	5,514,000
Common stock equivalents, computed using treasury stock method	291,000	0	0
	5,805,000	5,514,000	5,514,000
Shares used in			
Basic EPS	5,514,000	5,514,000	5,514,000
Diluted EPS	5,805,000	5,514,000	5,514,000

</TABLE>

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Integrity Music, Inc.

Integrity Music Europe Limited

Integrity Music Pty. Ltd.

Integrity Media Asia Pte. Ltd.

Celebration Hymnal LLC

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANT

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-86126, Nos. 33-86128 and Nos. 33-84584) of Integrity Incorporated of our report dated February 19, 1999 appearing on page 18 of this Form 10-K.

PRICEWATERHOUSECOOPERS LLP
Atlanta, Georgia

March 25, 1999

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