

STATE OF NORTH DAKOTA

BEFORE THE

COUNTY OF BURLEIGH

SECURITIES COMMISSIONER

In the Matter of Integrity Mutual Funds,)
Inc. f/k/a ND Holdings, Inc.; ND Capital,)
Inc.; and Robert E. Walstad,)
)
)
)
Respondents.)

**ORDER FOR AND NOTICE
OF CIVIL PENALTY AND
NOTICE OF RIGHT TO
REQUEST A HEARING**

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The North Dakota Securities Commissioner has advised the respondents, Integrity Mutual Funds, Inc.; ND Capital, Inc.; and Robert Walstad; that the Commissioner is prepared to commence formal action pursuant to North Dakota Century Code Chapter 10-04 and has reason to believe as follows:

1. Respondent, Integrity Mutual Funds, Inc. (Integrity), is a North Dakota corporation, which was incorporated in 1987 as a venture capital corporation pursuant to chapter 10-30.1 N.D.C.C. For all times relevant to this matter, it has been incorporated as a North Dakota venture capital corporation.
2. Respondent, ND Capital, Inc. (ND Cap) (CRD # 23311), is a North Dakota corporation that is a wholly owned subsidiary of Integrity. ND Cap is registered as a dealer in North Dakota, and is headquartered in Minot, North Dakota.
3. Respondent, Robert E. Walstad (CRD # 458161), is the president and a director of Respondent, Integrity, and is the president of ND Cap. Walstad has, from October 1987 to the present, been registered as a securities agent for ND Cap.
4. Since its inception, Integrity has created or acquired several companies, including, without limitation, two investment advisors, two securities dealers, two entities which were properly registered as both investment advisors and dealers, one transfer

agent, and one internet service provider. For several of the firm's purchases and acquisitions, Integrity did not comply with the requirements set forth in chapter 10-30.1 N.D.C.C.

5. Prior to August of 1997, Integrity has invested in at least one non-qualified entity as the term is used in section 10-30.1-01 N.D.C.C. Integrity continued to invest in non-qualified entities after that date. Integrity did not file any forms with the Secretary of State's office, which would report these investments, as required by section 10-30.1-02 N.D.C.C. Integrity was subject to civil penalties based its investments in non-qualified entities, pursuant to section 10-30.1-03 N.D.C.C.

6. Beginning in August of 1997, ND Cap offered for sale and sold securities issued by Integrity (then known as ND Holdings, Inc.). Those securities were debentures that offered a 10% per annum return to investors. ND Cap sold \$876,000 of debentures to 41 North Dakota resident individuals or entities.

7. Beginning in April of 1999, ND Cap offered for sale and sold securities issued by Integrity (then known as ND Holdings, Inc.). Those securities were corporate notes that offered a 10% per annum return to investors. ND Cap sold \$850,000 of debentures to 20 North Dakota resident individuals or entities. The Respondent, Robert Walstad, made one of the subject sales.

8. Page 3 of the offering circular used to sell the corporate notes describes the purpose of Integrity as follows:

"The principal business of the Company, incorporated as a North Dakota corporation on September 22, 1987, is acting as a holding company for mutual fund management, brokerage and transfer agency firms. N.D Holdings, Inc. . . . is a holding company primarily engaged, through various subsidiaries, in providing investment management, distribution, shareholder services, fund accounting and other related administrative services to the open-end investment

companies known as 'Integrity Mutual Funds' and 'Ranson Managed Portfolios' .
..”

“The company has been engaged in the financial services business since 1987.”

9. The offering circular for the corporate note offering did not disclose to investors that Integrity was a venture capital corporation, or that the statutory purpose of a venture capital corporation, pursuant to section 10-30.1-04(2) is

“solely to raise funds to be used to make investments in, and provide financing to, qualified entities in a manner that will encourage the establishment or expansion of business and industry, provide additional jobs within the state, and encourage research and development activities in the state.”

10. The offering circular for the corporate note offering did not disclose to investors that Integrity had violated Section 10-30.1-03 N.D.C.C. by investing in non-qualified entities, nor did it disclose to investors the penalties for violating the provision.

11. Beginning in July of 2000, ND Cap offered for sale and sold securities issued by Integrity (then known as ND Holdings, Inc.). Those securities were subordinated debentures that offered a 12% per annum return to investors. ND Cap sold \$625,000 of debentures to 13 North Dakota resident individuals or entities.

12. Pages 4-5 of the offering circular used to sell the subordinated debentures describes the purpose of Integrity as follows:

“The principal business of the Company, incorporated as a North Dakota corporation on September 22, 1987, is acting as a holding company for mutual fund management, brokerage and transfer agency firms. N.D Holdings, Inc. . . . is a holding company primarily engaged, through various subsidiaries, in providing investment management, distribution, shareholder services, fund accounting and other related administrative services to the open-end investment companies known as 'Integrity Mutual Funds' and 'Ranson Managed Portfolios' .
..”

“The company has been engaged in the financial services business since 1987.”

13. The offering circular for the subordinated debenture offering did not disclose to investors that Integrity was a venture capital corporation, or that the statutory purpose of a venture capital corporation, pursuant to section 10-30.1-04(2) is

“solely to raise funds to be used to make investments in, and provide financing to, qualified entities in a manner that will encourage the establishment or expansion of business and industry, provide additional jobs within the state, and encourage research and development activities in the state.”

14. The offering circular for the subordinated debenture offering did not disclose to investors that Integrity had violated Section 10-30.1-03 N.D.C.C. by investing in non-qualified entities, nor did it disclose to investors the penalties for violating the provision.

15. Beginning in July of 2002, ND Cap offered for sale and sold securities issued by Integrity. Those securities were subordinated commercial notes that offered a 9% per annum return to investors. ND Cap sold \$561,000 of debentures to 13 North Dakota resident individuals or entities.

16. Pages 5-6 of the offering circular used to sell the subordinated corporate note describes the purpose of Integrity as follows:

“Integrity Mutual Funds, Inc. is a holding company primarily engaged, through various subsidiaries, in providing investment management, distribution, shareholder services, fund accounting and other related administrative services to the open-end investment companies known as ‘Integrity Mutual Funds’ and ‘Ranson Managed Portfolios’ . . .”

“The company has been engaged in the financial services business since 1987.”

17. The offering circular for the subordinated corporate note offering did not disclose to investors that Integrity was a venture capital corporation, or that the statutory purpose of a venture capital corporation, pursuant to section 10-30.1-04(2) is

“solely to raise funds to be used to make investments in, and provide financing to, qualified entities in a manner that will encourage the establishment or

expansion of business and industry, provide additional jobs within the state, and encourage research and development activities in the state.”

18. The offering circular for the subordinated corporate note offering did not disclose to investors that Integrity had violated Section 10-30.1-03 N.D.C.C. by investing in non-qualified entities, nor did it disclose to investors the penalties for violating the provision.

19. Pursuant to section 10-04-15(3) N.D.C.C., it is a fraudulent and illegal practice for any person, in connection with a sale of any security, to make any untrue statement of material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

20. None of the securities described herein were registered under the Securities Act of 1951. Respondents have claimed to be exempt from registration pursuant to section 10-04-12 N.D.C.C., which provides for an exemption for securities issued by a venture capital corporation “organized under chapter 10-30.1”. Though not in the express terms of the exemption, the Commissioner finds that substantial compliance with chapter 10-30.1 is required for reliance on this exemption, and that based on the facts briefly described in paragraphs 1 through 4, above, Integrity has not substantially complied with chapter 10-30.1. Respondents have claimed no other securities exemptions, exempt transactions, or a status as a federal covered securities, for the transactions described above.

21. Pursuant to section 10-04-04 N.D.C.C., it is unlawful for any person to sell any security in this state unless it is registered, exempt from registration, sold through an exempt transaction, or is a federal covered security.

22. Based on the facts set forth above, respondent, Integrity engaged in 46 violations of the securities act by creating offering circulars, for the purpose of selling its securities, which contained material misstatements in violation of section 10-04-15 N.D.C.C., and 87

violations of the securities act by selling unregistered and non-exempt securities, which were not federal covered securities, in violation of section 10-04-04 N.D.C.C.

23. Based on the facts set forth above, respondent, ND Cap engaged in 46 violations of the securities act by selling securities by use of an offering circulars which ND Cap knew or should have known contained material misstatements in violation of section 10-04-15 N.D.C.C., and 87 violations of the securities act by selling unregistered and non-exempt securities, which were not federal covered securities, in violation of section 10-04-04 N.D.C.C.

24. Based on the facts set forth above, respondent, Walstad engaged in 1 violation of the securities act by actually selling securities by use of an offering circulars which ND Cap knew or should have known contained material misstatements in violation of section 10-04-15 N.D.C.C., and 1 violation of the securities act by actually selling unregistered and non-exempt securities, which were not federal covered securities, in violation of section 10-04-04 N.D.C.C. Additionally, Walstad materially aided the other respondents in conducting each of the violations described above.

25. Pursuant to section 10-04-16 N.D.C.C., when it shall appear to the Commissioner that any person has engaged in, or is engaging in, or is about to engage in any act or practice which is declared illegal in this chapter, the Commissioner may issue any order and collect civil penalties against any person found in an administrative action to have violated any provision of the chapter in an amount not to exceed \$10,000 for each violation.

26. The violations described above are sufficient grounds for the Commissioner to assess civil penalties against respondent pursuant to section 10-04-16 N.D.C.C.

27. The following Order is necessary and appropriate in the public interest and for the protection of investors.

ORDER FOR AND NOTICE OF CIVIL PENALTY

Now, therefore, the Commissioner hereby assesses civil penalties as follows:

1. Respondent, Integrity Mutual Funds, Inc., is hereby assessed and shall pay to the Securities Department a civil penalty of \$133,000.
2. Respondent, ND Capital Corporation, is hereby assessed and shall pay to the Securities Department a civil penalty of \$133,000.
3. Respondent, Robert E. Walstad, is hereby assessed and shall pay to the Securities Department a civil penalty of \$20,000.

NOTICE OF RIGHT TO REQUEST HEARING

YOU ARE NOTIFIED that pursuant to §10-04-12 N.D.C.C. you may request a hearing before the Securities Commissioner if such a request is made in writing WITHIN FIFTEEN (15) DAYS AFTER THE RECEIPT OF THIS ORDER. The respondent has the right to be represented by legal counsel at the hearing.

Dated at Bismarck, North Dakota on this 15th day of March, 2004.





Karen J. Tyler, Securities Commissioner
Office of the Securities Commissioner
State Capitol, Fifth Floor
600 East Boulevard
Bismarck, ND 58505-0510
Ph. # (701) 328-2900

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)
 Respondents.)

AFFIDAVIT OF MAILING

I, Jacqui Ferderer, being first duly sworn, state that I am a citizen of the United States over the age of twenty-one years and not a party to or interested in the above-entitled proceeding.

On, March 15, 2004, I deposited in the Central Mailing Bureau of the United States Post Office Department in the State Capitol in Bismarck, North Dakota, true and correct copies of the following document:

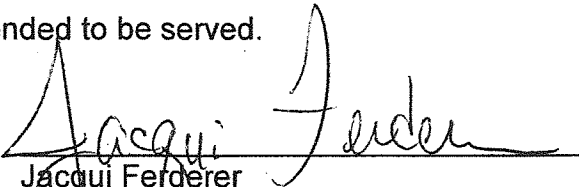
**ORDER FOR AND NOTICE OF CIVIL PENALTY AND
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A copy of the above document was securely enclosed in an envelope with postage prepaid, sent via Certified U. S. mail, return receipt requested, and addressed to each of the following:

John C. Kapsner, Vogel Law Firm
200 N. 3rd. Street, Suite 201
P. O. Box 2097
Bismarck, ND 58502-2097

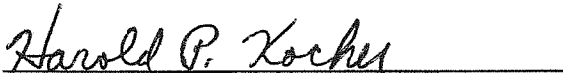
Jacqueline L. Case, Corporate Secretary
ND Capital, Inc.
1 North Main Street
Minot, ND 58703-3189

To the best of my knowledge, information, and belief, the address given above is the last known address of the party intended to be served.


Jacqui Ferderer

Subscribed and sworn to before me this 15th day of March, 2004.




Harold P. Kocher, Notary Public
Burleigh County, North Dakota
My commission expires 4/26/2008