

SUPERIOR INDUSTRIES INTERNATIONAL INC

Form PRER14A

March 23, 2016

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SCHEDULE 14A INFORMATION

(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Amendment No. 1

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

☒ Preliminary Proxy Statement

☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

☐ Definitive Proxy Statement

☐ Definitive Additional Materials

☐ Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

SUPERIOR INDUSTRIES INTERNATIONAL, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.

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- .. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:

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PRELIMINARY PROXY STATEMENT SUBJECT TO COMPLETION

SUPERIOR INDUSTRIES INTERNATIONAL, INC.

March , 2016

Dear Superior Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Superior Industries International, Inc. (the Annual Meeting), which will be held at the Westin Detroit Metropolitan Airport (2501 Worldgateway Place, Detroit, Michigan 48242) on April 26, 2016, at 10:00 a.m. Eastern Time. During 2015, the Company continued to improve its performance and return capital to stockholders. The Company has also focused on engaging with stockholders on important topics, such as executive compensation.

In 2015, under your new management team and with the guidance of a refreshed board, we stayed focused on running the company and have achieved significant milestones that have benefited the company and its stockholders.

Improved Performance. The Company exceeded our full year outlook and achieved our stated goal of double-digit EBITDA margin as a percentage of net sales two years ahead of our original plan. In 2015, we also made progress towards and completed various manufacturing, operational, and organizational initiatives that continue to enhance our competitive position including:

We successfully and on schedule ramped up our new manufacturing plant in Mexico to manufacture our full range of wheel designs and achieved our objective of running the plant at its initially rated production capacity. Additionally, we began expansion of this new facility in 2015 and expect such expansion will be fully completed in the first quarter of 2016, further enhancing the Company's production capacity.

We have made organizational changes to further support our customer-centric culture, including the completion of our strategic relocation of our headquarters from Van Nuys, California to Southfield, Michigan in 2015 to be in closer proximity to our customers.

We added wheel polishing capabilities in Mexico in conjunction with a supplier/partner, allowing us to lower cost and streamline the delivery of wheels directly to our customers' production facilities.

We opened a new Shared Services Center in Mexico, centrally locating key support functions and allowing the sharing of best practices.

We also implemented a tax restructuring plan during the fourth quarter of 2015 that should reduce cash taxes and lower our effective tax rate.

Further highlights from our 2015 performance can also be found in the Proxy Summary and Compensation Discussion and Analysis sections of the attached proxy statement.

Strategic Plan. We have, in connection with our Board, developed a strategic plan for Superior, focused on improving our global competitiveness, building on our culture of product innovation and technology, evaluating opportunities for disciplined growth and value creation, maintaining a balanced approach to capital allocation and increasing our visibility with the financial community. We are seeking to achieve these priorities by, among other actions:

increasing our manufacturing and finishing capacities and capabilities;

diversifying our customer base;

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reducing our cost per wheel;

enhancing product quality and focusing on more complex products;

executing strategic investment in our intellectual property portfolio;

implementing a new ERP system and program management process and introducing sophisticated production planning tools;

engaging with customers on design ideas and engineering concepts;

establishing global relationships; and

continuing our strong track record of dividends and stock repurchases while maintaining financial capacity to opportunistically pursue potential M&A prospects.

Our management works closely with our Board to develop our strategic plan. The Board reviews Superior's strategic plan at least annually and more frequently as significant opportunities or events arise.

Continued to Return Capital to Stockholders. We continue to evaluate different strategies for maximizing our stockholders' return on investment. We are proud to have returned over \$38 million to our stockholders in 2015 through share repurchases and dividends, and \$49 million by the end of January 2016. We recently announced a new \$50.0 million share repurchase program and began repurchasing additional shares in February 2016.

Executive Compensation Highlights. Among other changes, we implemented a new long-term incentive program in 2015, with performance-based restricted stock units that can be earned based on our achievement over a three-year period on the following three performance measures: (i) return on invested capital; (ii) EBITDA margin; and (iii) relative total shareholder returns. Following these changes to the Company's long-term incentive program, approximately 2/3 of the target annual LTI awards consist of performance-based restricted stock units and 1/3 consist of time-based restricted stock units (RSUs). These changes to our executive compensation program, and other updates to our executive compensation, are described throughout this Proxy Statement.

Stockholder Engagement Highlights. We have conducted considerable stockholder outreach, through which we have sought ongoing input from our largest institutional investors and other stockholders holding approximately 65% of our outstanding shares, including GAMCO Asset Management Inc., a subsidiary of GAMCO Investors, Inc. ("GAMCO"), regarding our board composition, executive compensation and other practices, and implemented changes based on this input. We value stockholder views and insights, and our dialogue with stockholders has led to a number of changes, in particular, with respect to the addition of a new director in 2015 with capital markets experience and changes to our executive compensation program, which we believe addresses stockholders' concerns. We have described these changes throughout this Proxy Statement.

Further, following a request by GAMCO for a stockholder proposal regarding proxy access, we have chosen to offer a proxy access proposal to our stockholders for their consideration.

Your Vote is Important. We, and the rest of the Board of Directors (the Board), invite you to attend the Annual Meeting. If you are not able to attend in person, we encourage you to vote by proxy. These proxy materials contain detailed information about the matters on which we are asking you to vote.

Despite achieving our goals and the fact that its nominees have been defeated in each of the past three years, you should know that once again GAMCO has proposed three alternative nominees for election at the Annual Meeting in opposition to the nominees recommended by our Board. After interviewing and conducting a review of each of the nominees proposed by GAMCO, your **Board unanimously opposes the election of GAMCO's nominees for election at the Annual Meeting.** Your Board is deeply committed to Superior, its stockholders and the creation and enhancement of stockholder value. In the Board's opinion, the election of GAMCO's nominees for election at the Annual Meeting is not in the best interests of Superior and its stockholders. We strongly urge you to not return, and simply throw away, the **BLUE** proxy card sent to you by GAMCO and vote for our Board of Director nominees and on the other matters to be voted on at the Annual Meeting using the enclosed **WHITE** proxy card.

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Whether or not you plan to attend the Annual Meeting, your vote is important, and we encourage you to vote promptly. You can vote your shares over the telephone, via the Internet or by completing, dating, signing and returning the enclosed **WHITE** proxy card, as described in the enclosed Proxy Statement and proxy card. We strongly urge you to read the accompanying Proxy Statement carefully and vote **FOR** the election of each of the nominees nominated by our Board by promptly submitting the enclosed **WHITE** proxy card or voting instruction form. If you have previously submitted a **BLUE** proxy card sent by GAMCO, its affiliates or another party, you can revoke that proxy and vote for our Board's nominees and on the other matters to be voted on at the meeting by using the enclosed **WHITE** proxy card. *Only the latest dated proxy you submit will be counted.*

Thank you for your ongoing support of, and continued interest in, Superior.

/s/ Donald J. Stebbins

Donald J. Stebbins

President and Chief Executive Officer

/s/ Margaret S. Dano

Margaret S. Dano

Chairman of the Board

This proxy statement is dated March , 2016 and is first being distributed to stockholders on or about March , 2016.

YOUR VOTE IS IMPORTANT

Please complete, date and sign your **WHITE** proxy card and return it promptly in the enclosed postage-paid envelope or vote over the telephone or via the Internet by following the instructions on the enclosed **WHITE** proxy card, whether or not you plan to attend the Annual Meeting. If you own shares in a brokerage account, your broker cannot vote your shares on any of the proposals, unless you provide voting instructions to your broker. **Therefore, it is very important that you exercise your right as a stockholder and vote on all proposals.**

If you have any questions or require any assistance with voting your shares, or if you need additional copies of the proxy materials, please contact:

1212 Avenue of the Americas, 24th Floor

New York, N.Y. 10036

(212) 297-0720

Call Toll-Free at: (877) 629-6356

E-mail: info@okapipartners.com

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SUPERIOR INDUSTRIES INTERNATIONAL, INC.

NOTICE OF 2016 ANNUAL MEETING OF STOCKHOLDERS

Time and Date: Tuesday, April 26, 2016 at 10:00 a.m. Eastern Time

Place: The Westin Detroit Metropolitan Airport

2501 Worldgateway Place

Detroit, Michigan 48242

Record Date: March 11, 2016

Each holder of Superior common stock as of the Record Date will be entitled to one vote on each matter for each share of common stock held on the Record Date.

- Items to Be Voted On:**
1. To elect the following eight nominees to the Board of Directors (the Board): Michael R. Bruynesteyn, Margaret S. Dano, Jack A. Hockema, Paul J. Humphries, James S. McElya, Timothy C. McQuay, Donald J. Stebbins and Francisco S. Uranga;
 2. To approve, in a non-binding advisory vote, executive compensation;
 3. To approve the material terms of the performance goals under the Superior Industries International, Inc. Annual Incentive Performance Plan;
 4. To consider a proposal regarding proxy access;
 5. To ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 25, 2016; and
 6. To act upon such other matters as may properly come before the Annual Meeting or any postponements or adjournments thereof.

Contested Election: SUPERIOR HAS RECEIVED A NOTICE FROM GAMCO ASSET MANAGEMENT INC. (GAMCO), A SUBSIDIARY OF GAMCO INVESTORS, INC., REGARDING ITS INTENT TO NOMINATE THREE ALTERNATIVE NOMINEES FOR ELECTION AT THE ANNUAL MEETING IN OPPOSITION TO THE NOMINEES RECOMMENDED BY OUR BOARD. **YOUR BOARD UNANIMOUSLY OPPOSES THE ELECTION OF GAMCO S NOMINEES FOR ELECTION AT THE ANNUAL MEETING, AND RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF THE EIGHT DIRECTOR NOMINEES NAMED IN THE ENCLOSED PROXY STATEMENT AND ON THE ENCLOSED WHITE PROXY CARD.** YOUR BOARD URGES YOU NOT TO SIGN OR RETURN THE BLUE PROXY CARD(S) THAT YOU MAY RECEIVE FROM GAMCO, ITS AFFILIATES OR ANY OTHER PARTY. TO VOTE FOR ALL OF THE SUPERIOR BOARD S NOMINEES, YOU MUST VOTE AND RETURN THE WHITE PROXY CARD. IF YOU PREVIOUSLY SIGNED A BLUE PROXY CARD SENT TO YOU BY GAMCO, ITS AFFILIATES OR ANY OTHER PARTY IN RESPECT OF THE ANNUAL MEETING, YOU CAN REVOKE IT BY SIGNING, DATING AND RETURNING THE ENCLOSED WHITE PROXY CARD.

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How to Vote: **YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE VOTE YOUR SHARES PROMPTLY BY COMPLETING, DATING, SIGNING AND RETURNING THE WHITE PROXY CARD, OVER THE TELEPHONE OR VIA THE INTERNET, AS DESCRIBED IN THE ENCLOSED PROXY STATEMENT.**

If you have previously submitted a BLUE proxy card sent by GAMCO, its affiliates or another party, you can revoke that proxy and vote for our Board's nominees and on the other matters to be voted on at the meeting by using the enclosed WHITE proxy card. *Only the latest dated proxy you submit will be counted.*

Contact Information: If you have any questions about the attached Proxy Statement or require assistance in voting your shares on the WHITE proxy card or voting instruction form, or need additional copies of Superior's proxy materials, please contact Okapi Partners LLC, our proxy solicitor assisting us with the Annual Meeting, toll free at (877) 629-6356.

BY ORDER OF THE BOARD OF
DIRECTORS,

/s/ Kerry A. Shiba
Kerry A. Shiba
Secretary

Southfield, Michigan

March , 2016

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PROXY SUMMARY

This summary highlights selected information contained elsewhere in this Proxy Statement. This summary does not contain all of the information that you should consider, and you should read the entire Proxy Statement carefully before voting. For more complete information regarding our 2015 performance, please review our 2015 Annual Report on Form 10-K.

The 2015 annual report to stockholders, including financial statements, is being made available to stockholders together with these proxy materials on or about , 2016.

2016 ANNUAL MEETING OF STOCKHOLDERS ANNUAL MEETING INFORMATION

Time and Date: Tuesday, April 26, 2016 at 10:00 a.m. Eastern Time

Place: The Westin Detroit Metropolitan Airport

2501 Worldgateway Place

Detroit, Michigan 48242

Record Date: March 11, 2016

Voting: You are entitled to vote at the meeting if you were a stockholder of record of Superior's common stock at the close of business on March 11, 2016 (the Record Date). Each holder of Superior common stock as of the Record Date will be entitled to one vote on each matter for each share of common stock held on the Record Date.

For more information regarding the Annual Meeting and voting, please see our Q&A Section, found at page 77.

2016 ANNUAL MEETING OF STOCKHOLDERS AGENDA AND VOTING RECOMMENDATIONS

Proposals:	Board Voting Recommendation:	Page Reference for More Detail:
1. Election of Directors	FOR all nominees	8
2. Advisory vote to approve executive compensation	FOR	33
3. Approval of the material terms of the performance goals under the Superior Industries International, Inc. Annual Incentive Performance Plan	FOR	36
4. Consideration of proxy access	NO RECOMMENDATION	39
5. Ratification of the appointment of Deloitte & Touche LLP as the	FOR	43

Company's independent registered public accounting firm for 2016

YOUR VOTE IS IMPORTANT. Whether or not you plan to attend the Annual Meeting, your vote is important, and we encourage you to vote promptly. You can vote your shares over the telephone, via the Internet or by completing, dating, signing and returning the enclosed WHITE proxy card, as described in the enclosed Proxy Statement and proxy card. We strongly urge you to read the accompanying Proxy Statement carefully and vote FOR the election of each of the nominees nominated by our Board of Directors by promptly submitting the enclosed WHITE proxy card or voting instruction form. If you have previously submitted a BLUE proxy card sent by GAMCO, its affiliates or another party, you can revoke that proxy and vote for our Board of Directors nominees and on the other matters to be voted on at the meeting by using the enclosed WHITE proxy card. Only the latest dated proxy you submit will be counted.

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2015 PERFORMANCE & BUSINESS HIGHLIGHTS

Since 2014, we have focused our strategic priorities with the goal of improving our financial performance and increasing value for stockholders. Even though the full impact of our initiatives does not immediately flow through to our bottom line because of the standard two-to-three year business cycle in our industry, we are already seeing positive results for 2015 and beyond.

Recent Business Highlights/Company Performance

- ii Our Total Shareholder Return (TSR) of 13% outperformed the TSR of our proxy peers (-26%), the Russell 2000 (-4%) and the S&P 500 (9%) from May 5, 2014 (the date Mr. Stebbins joined the Company as our CEO) through March 1, 2016, as shown in the chart below:

Source: FactSet as of March 1, 2016

- ii 173% increase in earnings per share from 2014 to 2015
- ii Maintained balance approach to capital allocation in 2015 with over \$38 million returned to stockholders in dividends and share repurchases and \$40 million in capital expenditures
- ii 2015 adjusted EBITDA⁽³⁾ of approximately \$76.1 million, a 36% increase year-over-year
- ii 2015 adjusted EBITDA⁽³⁾ as a percentage of value-added sales of approximately 21.1%, a 600 basis point improvement year-over-year
- ii 2015 adjusted EBITDA⁽³⁾ as a percentage of net sales of approximately 10.4%, achieving the goal of double digit EBITDA margin two years ahead of plan
- ii Received the 2015 supplier of the year award from General Motors
- ii Improved safety performance by 45% in 2015 versus 2014
- ii Improved quality performance by 27% in 2015 versus 2014

- ii In the fourth quarter of 2015, shipped 3.2 million wheels, the highest quarterly production since 2007

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- ii Brought into full production our new facility in Mexico
 - ii Completed the relocation of our headquarters from California to Michigan
 - ii In January 2016, we announced a new \$50 million stock repurchase program
- (1) Total Shareholder Returns calculated as the compounded return between two time periods, assuming that dividends are re-invested at the closing share price on the ex-dividend date
 - (2) Proxy Peers reflects the simple average TSR of Accuride, Commercial Vehicle Group, Dorman Products, Drew Industries, Fuel Systems Solutions, Gentherm, Miller Industries, Modine Manufacturing, Shiloh Industries, Spartan Motors, Standard Motor Products, Stoneridge, Strattec Security, and Tower International.
 - (3) For these purposes, we define adjusted EBITDA, as earnings before interest, taxes, depreciation, amortization, restructuring charges, costs from facility closures and impairments of long-lived assets and investments. This is the same definition we used in our publicly reported earnings release.

EXECUTIVE COMPENSATION HIGHLIGHTS

Highlights of our 2015 executive compensation program and recent changes are summarized below.

2015 Executive Compensation Highlights and Recent Changes

Strong 2015 Performance. Based on our strong EBITDA performance in 2015, the annual incentive pool for our NEOs was funded at 109.25% of target amounts. Consequently, non-equity plan compensation in 2015 increased (year over year) for the NEOs due to exceeding the 2015 target level of performance, whereas our 2014 EBITDA performance had fallen short of the 2014 target level of performance.

New Individual Performance Component of Annual Incentive. The Annual Incentive Performance Plan (AIPP) plays an important role in our approach to total compensation. We believe it motivates participants to focus on improving our performance on key financial measures during the year, and it requires that we achieve defined, objectively determinable goals before participants become eligible for an incentive payout. For all NEOs other than the CEO, the Compensation and Benefits Committee could exercise discretion to increase or decrease the fixed portion of the non-equity incentive bonus a NEO otherwise earned within a range of 0% to 200% depending on the NEO's annual performance rating (against pre-specified individual performance goals).

New Long-Term Incentive Plan (LTIP) Performance Measures. We implemented a new LTIP in 2015, with performance-based restricted stock units (PRSUs) that can be earned based on our achievement over a three-year period on the following three performance measures.

Return on invested capital (ROIC) (40% weighting)

EBITDA margin (40% weighting)

Relative TSR (20% weighting)

As discussed further in the *2015 Executive Compensation Components Long-Term Equity Incentive Compensation* section of this proxy, these performance measures were developed after a rigorous bottom-up financial analysis of our business.

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STOCKHOLDER ENGAGEMENT

We have conducted considerable stockholder outreach, through which we have sought ongoing input from our largest institutional investors and other stockholders regarding our executive compensation and other practices, and implemented changes based on this input. We value stockholder views and insights. Below are highlights of such stockholder engagement.

Pre-2015 Annual Meeting Stockholder Engagement:

Members of our senior executive team and members of the Compensation and Benefits Committee engaged in conversations with many of our largest stockholders.

Following such engagement and in response to the input provided by stockholders, prior to the completion of the 2015 annual meeting, we took a number of actions, which are detailed in this chart.

Pre-2015 Annual Meeting Actions:

ü Redesigned Annual Incentive Performance Plan (AIPP) aligned with performance driven culture to incorporate an individual performance multiplier for each participant other than the CEO

ü Implemented a Long Term Incentive (LTIP) program driven by performance outcomes

ü Based the LTIP performance awards on 1/3 RSUs and 2/3 PRSUs vesting over 3 years

ü Discontinued restricted stock (which had historically been subject solely to time based vesting) and stock option awards for key employees

ü Adopted Stock ownership guidelines for executives and directors

ü Adopted a formal claw back policy for all incentive-based awards granted on or after March 6, 2014

Post-2015 Annual Meeting Stockholder Engagement:

Post-2015 Annual Meeting Actions:

Emphasis on performance-based equity awards is important and ideally represents 2/3rds of total equity awards

Large sign-on equity awards (such as Mr. Stebbins' 2014 inducement award) that are purely time-based are disfavored

Proxy statement description of compensation program was uneven, hard to follow and lacked detail

Introduce more balance and variety in the performance criteria used for incentive awards, where EBITDA is used in both short and long-term incentives

ü This 2/3rds performance-based LTIP concentration for CEO compensation is mandated by our CEO's 2014 employment agreement. We leveraged this concentration in 2015 as the basis for our LTIP grants to all other NEOs. We have continued this performance-based LTIP concentration in 2016 for grants to all NEOs.

ü Large sign-on equity award for new CEO was one-time event in 2014 to attract and retain top talent; three-year cliff vesting provides long-term link to stockholder value. We will continue to evaluate and consider stockholder opinion with respect to onboarding compensation in the future.

ü Refinements made for 2016 proxy statement disclosure

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ü In 2016, Cumulative EPS will replace EBITDA margin as a performance measure for 40% of the PRSU awards.

ü We expect to have Compensation and Benefits Committee members continue to meet with stockholders up until and through the 2016 annual meeting and thereafter

ü CEO base salary remained the same for both 2015 and 2016 (and has remained the same since the CEO's appointment in 2014)

ü Maintained LTIP with heavy (2/3rds) emphasis on performance-based PRSU component

ü Modified the Executive Stock Ownership Guidelines to implement a mandatory holding requirement on 100% of net shares acquired upon vesting or exercise until the requirement is met

ü Comprehensive review of executive compensation program by a newly-hired independent consultant to the Compensation and Benefits Committee

ü Continue to evaluate mix of LTIP performance measures to reflect our business strategy

ü In 2016, Cumulative EPS will replace EBITDA Margin as a performance measure.

ü Performance criteria for the LTIP awards will include cumulative EPS (40%), ROIC (40%) and TSR

relative to our peer group (20%).

ii In 2016, we are adjusting the target LTIP award size for all NEOs (other than the CEO) to increase the portion of their compensation that is performance-based and at risk.

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CORPORATE GOVERNANCE HIGHLIGHTS

Our Board is committed to having a sound governance structure that promotes the best interests of our stockholders. The following table highlights certain of our governance practices:

Requirement that at least a majority of the Board be independent

Majority withhold vote policy in uncontested elections of directors with a director resignation policy

Separation of the Chairman of the Board and Chief Executive Officer roles (independent Chairman of the Board)

Annual election of all directors (the Board was declassified in 2014 at the initiative of the Board)

Annual Board and Committee self-evaluation

Audit, Compensation & Benefits and Nominating and Corporate Governance Committees are comprised entirely of independent directors

Limitation on the number of a director's outside board memberships to three

The independent directors meet regularly without the presence of management

Stock ownership and retention requirement for non-management directors and executive officers

No waivers of code of conduct policy for any director or executive officer

Risk oversight by the full Board and committees

The charters of the committees of the Board clearly establish the committees' respective roles and responsibilities, including the authority to hire outside advisors independently of management

Our stockholders have the right to call special meetings

No poison pill in place

Clear and robust corporate governance guidelines

In addition, in connection with a review of our corporate governance practices and the consideration of input from our stockholders (including the receipt of a stockholder proxy access proposal from GAMCO for inclusion in the 2017 annual meeting pursuant to Rule 14a-8 of the Exchange Act), we have included in this proxy statement a proxy access proposal for evaluation by our stockholders which, if supported by our stockholders and adopted by our Board, would allow any stockholder or group of stockholders that has maintained ownership of 3% or more of the Company's shares continuously for at least 3 years to include a specified number of director nominees in the Company's proxy materials for the Company's annual meeting of stockholders, subject to the procedures set forth in Proposal No. 4. See Proposal No. 4 Advisory Vote Regarding Proxy Access beginning on p [].

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Name	Age	Director Since	Principal Occupation	Independent	Board Committees		
Michael R. Bruynesteyn	52	2015	Treasurer & Vice President, Strategic Finance of Turner Construction Company	X	Audit Committee		
Margaret S. Dano (Chairman of the Board)	56	2007	Retired Vice President, Worldwide Operations, Garrett Engine Boosting Systems (a division of Honeywell International, Inc.)	X	Nominating & Corporate Governance Committee		
Jack H. Hockema	69	2014	Chairman & CEO of Kaiser Aluminum Corporation	X	Audit and Nominating and Corporate Governance (Chair) Committees		
Paul J. Humphries	61	2014	President of High Reliability Solution (a business group of Flextronics International Ltd.)	X	Audit and Compensation & Benefits Committees		
James S. McElya	68	2013	Chairman of the Board of Directors, Affinia Group Intermediate Holdings Inc.	X	Compensation & Benefits (Chair) and Nominating and Corporate Governance Committees		
Timothy C. McQuay	64	2011	Retired Managing Director, Investment Banking with Noble Financial Markets	X	Audit (Chair) and Compensation & Benefits Committees		
Donald J. Stebbins	58	2014	President and CEO of Superior		Direct to Consumer	4,064	4,156

Industries International, Inc.		
International	2,249	2,283
Book Publishing	2,971	2,406
Other	3,437	3,428
Eliminations	(1,455)	(1,619)
	<u> </u>	<u> </u>
Consolidated	\$ 21,408	\$ 22,582
	<u> </u>	<u> </u>
Operating profit (before minority interest)		
Retail	\$ 2,145	\$ 1,776
Direct to Consumer	1,138	837
International	(321)	335
Book Publishing	454	326
Other	1,514	1,405
Eliminations	(307)	(48)
	<u> </u>	<u> </u>
Consolidated	4,623	4,631
General corporate expense	(2,097)	(2,233)
Interest expense, net	(205)	(46)
	<u> </u>	<u> </u>
Income before income taxes and minority interest	\$ 2,321	\$ 2,352
	<u> </u>	<u> </u>

Note 4 PURCHASE TRANSACTION

On June 28, 2002, the Company purchased all assets and assumed the outstanding liabilities of INO Records, LLC (formerly M2 Communications, L.L.C.). The Company paid, net of cash acquired, \$4.8 million to complete the transaction. The transaction was funded partly from operating cash and the issuance of \$3 million additional debt through the Company's credit facility. The Company accounted for

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this transaction under the purchase method of accounting and accordingly, allocated the purchase price to cash, accounts receivable, fixed assets and intangibles.

The following pro-forma information presents the results of operations of the Company as if the acquisition of M2 Communications, L.L.C. had been completed as of January 1, 2002 (in thousands, except per share data):

For the Nine months Ended September 30, 2002

	As Reported	Pro-Forma (unaudited)
Net Sales	\$49,809	\$55,510
Net Income	\$ 1,631	\$ 1,971
Basic EPS	\$ 0.29	\$ 0.35
Diluted EPS	\$ 0.27	\$ 0.33

For the Year Ended December 31, 2002

	As Reported	Pro-Forma (unaudited)
Net Sales	\$66,345	\$72,046
Net Income	\$ 2,216	\$ 2,556
Basic EPS	\$ 0.40	\$ 0.46
Diluted EPS	\$ 0.37	\$ 0.41

On March 31, 2003, the Company purchased all assets and assumed the outstanding liabilities of Sarepta Music (Pty) Ltd. The Company paid, net of cash acquired, \$191 thousand to complete the transaction. The Company accounted for this transaction under the purchase method of accounting and accordingly, allocated the purchase price to cash, accounts receivable, fixed assets and intangibles.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**Sales For the Nine months Ended September 30, 2003**

Net sales for the nine months ended September 30, 2003, increased \$3.5 million or 7.1%, from \$49.8 million in 2002 to \$53.4 million in 2003. The increase was due to the incremental sales for Integrity Publishers, INO Records, LLC (formerly M2 Communications, L.L.C., name changed September 30, 2003), and Sarepta. Combined, these divisions had revenues of \$14.5 million compared to \$7.2 million in the same period in 2002. Softness in our CBA retail markets in the second quarter, absence of any major product releases, a sluggish overall economy, and the outbreak of the Iraqi war had significant negative impacts on revenues for the nine-month period. Also negatively impacting sales for the period was the continued decline of the Songs4Worship sales down 39% or \$4.5 million from \$11.6 million in 2002 to \$7.1 million in 2003.

Sales in the Retail segment remained flat at \$24.2 million in 2002 and 2003. INO Records contributed \$8.5 million in sales for the period, compared to \$4.8 million in the 2002 period. Poor retail conditions, especially in the CBA markets, had significant impacts on revenues for the retail segment for the nine months ended September 30, 2003.

Sales in the Direct to Consumer segment decreased \$1.3 million, or 10.3%, from \$13.0 million in 2002 to \$11.7 million in 2003. A reduction of \$2.1 million in Songs4Worship sales was the primary reason for the decrease.

International sales increased \$380 thousand or 5.5%, from \$6.9 million in 2002 to \$7.2 million in 2003 due primarily to Sarepta sales of \$662 thousand. Revenues in Singapore continue to be impacted by their poor economy and the outbreak of the SARS virus. In Singapore, sales were down 21% for the nine months ended September 30, 2003 compared to the same period in 2002. Negatively impacting

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International sales for the period was the reduction in International Songs4Worship sales down 41% from \$1.9 million in 2002 to \$1.2 million for the same period in 2003.

Book Publishing sales increased \$2.9 million or 118.6%, from \$2.4 million in 2002 to \$5.3 million in 2003. The Book Publishing division released its first titles in the third quarter of 2002.

Sales in the Other segment increased \$365 thousand, or 4.7%, from \$7.7 million in 2002 to \$8.1 million 2003. Copyright royalty revenue, the most significant item in the Other category, which increased approximately \$661 thousand for the period, accounted for the overall sales increase for this segment.

Management is cautiously optimistic that retail conditions will continue to improve in the fourth quarter of 2003. Although it is possible that the revenue shortfall in the first nine months of the year will not be recovered, management is cautiously optimistic that the fourth quarter 2003 revenues will be close to original projections.

Sales For the Three Months Ended September 30, 2003

Net sales for the quarter ended September 30, 2003 decreased \$1.2 million, or 5.2% to \$21.4 million, from \$22.6 million in the same period in 2002. The decrease was mainly attributable to the poor retail sales environment in the CBA market.

Sales in the Retail segment decreased \$1.8 million, or 15.0%, from \$11.9 million in 2002 to \$10.1 million in 2003. This decrease was primarily due to declines in our CBA retail and special markets categories. Helping offset the declines was an increase of \$1.1 million in sales to the general market.

Sales in the Direct to Consumer segment decreased \$92 thousand, or 2.2%, from \$4.2 million in 2002 to \$4.1 million in 2003. A reduction of \$403 thousand in Songs4Worship sales was the primary reason for the decrease.

International sales decreased \$34 thousand, or 1.5%, from \$2.3 million in 2002 to \$2.2 million in 2003 due primarily to a reduction of \$586 thousand in Songs4Worship sales. The decrease was partially offset by sales of \$360 thousand for Sarepta.

Book Publishing sales increased \$565 thousand, or 23.5%, from \$2.4 million in 2002 to \$3.0 million in 2003.

Sales in the Other segment remained flat at \$3.4 million for both the 2003 and 2002 periods. Copyright royalty, the most significant contributor to the Other segment, recorded sales of \$3.4 million and \$3.3 million in the 2003 and 2002 periods, respectively.

Gross margins For the Nine months Ended September 30, 2003

Gross profit increased \$1.1 million or 4.4%, from \$25.4 million for the nine months ended September 30, 2002, compared to \$26.5 million for the same period in 2003 due primarily to the increase in revenues. Gross profit as a percentage of sales decreased to 49.7% for the nine-month period ended September 30, 2003 from 51.0% for the same period in 2002 primarily due to the lower margin sales of INO Records.

The gross profit percentage in the Retail segment increased slightly to 46.2% for the nine months ended September 30, 2003, from 45.1% in the same period in 2002. The gross margin percentage in the Direct to Consumer segment increased to 58.7% for the nine-month period ended September 30, 2003, from 53.2% in the same period of 2002, due to the reduction in the lower margin Songs4Worship sales to Time Life. The gross profit percentage in the International segment decreased to 45.3% for the nine-month period ended September 30, 2003, from 48.5% for the same period in 2002. The gross profit percentage in the Book Publishing segment decreased slightly to 52.5% in 2003, from 53.7% in the 2002 period. In the Other segment, gross profit percentage decreased to 37.3% for the nine months ended

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September 30, 2003, from 42.8% for the same period in 2002 due to higher write-offs of product masters in 2003 compared to 2002.

Gross margins For the Three Months Ended September 30, 2003

Gross profit for the Company decreased \$482 thousand or 4.2% from \$11.4 million for the quarter ended September 30, 2002, compared to \$10.9 million for the same period in 2003. Gross profit as a percentage of sales increased to 50.9% for the quarter ended September 30, 2003 from 50.4% for the same period in 2002.

The gross profit percentage in the Retail segment increased from 45.0% for the quarter ended September 30, 2002, to 48.0% in the same period in 2003 due to a change in sales mix. The gross profit percentage in the Direct to Consumer segment increased to 59.3% for the quarter ended September 30, 2003, from 53.5% in the same period of 2002, due to reduction of Songs4Worship sales to Time Life for the period. The gross profit percentage in the International segment decreased to 38.6% for the quarter ended September 30, 2003, from 48.2% for the same period in 2002, due primarily to product mix. In the Book Publishing segment, gross profit percentage decreased to 52.6% in 2003, from 53.7% in 2002. In the Other segment, gross profit percentage increased to 46.0% for the quarter ended September 30, 2003, from 43.7% for the same period in 2002 due to a reduction in product costs in 2003 compared to 2002.

The following table shows the gross margin by operating segment:

	Nine months Ended September 30,	
	2003	2002
Gross margin		
Retail	46.2%	45.1%
Direct to Consumer	58.7%	53.2%
International	45.3%	48.5%
Book Publishing	52.5%	53.7%
Other	37.3%	42.75%
Eliminations	17.8%	7.6%
Consolidated	49.7%	51.0%

	Three Months Ended September 30,	
	2003	2002
Gross margin		
Retail	48.0%	45.0%
Direct to Consumer	59.3%	53.5%
International	38.6%	48.2%
Book Publishing	52.6%	53.7%
Other	46.0%	43.7%
Eliminations	27.5%	6.6%
Consolidated	50.9%	50.4%

Other Financial Analysis and Discussion

Marketing and fulfillment expenses decreased \$218 thousand or 2.1% to \$10.0 million or 18.2% of net sales for the nine months ended September 30, 2003, as compared to \$10.2 million or 20.5% of net sales for the same period in 2002. The decrease in marketing and fulfillment expenses for the nine months ended September 30, 2003 is primarily attributable to lower marketing expenses in the Direct to Consumer segment. The decrease in marketing and fulfillment expenses as a percentage of net sales for the nine months ended September 30, 2003 is due to lower marketing expenses in the Direct to Consumer segment for the nine months ended September 30, 2003 compared to the same period in

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2002. For the quarter ended September 30, 2003, marketing and fulfillment expenses decreased \$759 thousand, or 17.6%, to \$3.6 million, from \$4.3 million in the same period in 2002. As a percentage of sales, marketing and fulfillment expenses were 16.6% for the quarter ended September 30, 2003, compared to 19.1% for the same period in 2002 due primarily to a new fulfillment arrangement for the INO Records radio promotion of the album *Almost There* which contains the hit single *I Can Only Imagine*. INO receives a lower net sales price for these radio promotion sales, but incurs no fulfillment fee. In the three months ended September 30, 2003, INO's marketing and fulfillment expenses decreased \$542 thousand, or 60%, compared to the three months ended September 30, 2002.

General and administrative expenses increased \$2.1 million or 17.5% to \$14.1 million for the nine months ended September 30, 2003, as compared to \$12.0 million for the same period in 2002. Of the \$2.1 million increase for the period, 71% was due to INO, Integrity Publishers and Sarepta with a combined increase of \$1.5 million. INO was not purchased until June 30, 2002, and therefore had only one quarter's G&A expenses in the prior year period. Sarepta was a first quarter, 2003, acquisition. Integrity Publishers was still in a start-up mode in the prior year period. The remaining \$600 thousand increase for the period was spread among several categories primarily health insurance premiums, foreign exchange, travel expenses, depreciation and personnel. As a percentage of sales, general and administrative expenses increased from 24.0% for the nine-month period ended September 30, 2002, to 26.3% for the same period in 2003.

For the quarter ended September 30, 2003, general and administrative expenses increased \$317 thousand, or 6.9%, to \$4.9 million for the three months ended September 30, 2003 compared to \$4.6 million for the same period in 2002. Of the \$317 thousand increase, 68% of the increase was due to INO and Sarepta, with a combined increase of \$216 thousand for the period. The remaining increase of \$101 thousand for the period was the result of the increased depreciation and other expenses related to the use of the new building.

Operating profit in the Retail segment decreased \$294 thousand or 7.2% to \$3.8 million, or 15.6% of net sales, for the nine months ended September 30, 2003, from \$4.1 million or 16.8% of net sales in the same period in 2002. The decrease is due to the reduction in retail sales in the Integrity Music division of the Company. Operating profit in the Direct to Consumer segment increased \$869 thousand or 56.0% to \$2.4 million, or 20.7% of net sales, for the nine months ended September 30, 2003, from \$1.6 million, or 11.9% of net sales, for the nine months ended September 30, 2002, due primarily to reductions in marketing expenses. Operating profit in the International segment decreased \$857 thousand or 80.8%, to \$204 thousand, or 2.8% of net sales, for the nine-month period ended September 30, 2003, from \$1.1 million, or 15.5% of net sales, for the same period in 2002. This reduction was primarily attributable to poor economic conditions in our major international markets, which resulted in lower lease revenues received from third-party distributors and declines in revenues and operating profits from our divisions in Europe, Asia and Australia. Integrity Publishers, the book publishing subsidiary formed on June 29, 2001, recorded an operating loss of \$202 thousand or 3.8% of net sales for the nine months ended September 30, 2003 compared to an operating loss of \$576 thousand, or 23.9% of net sales, for the same period in 2002. Integrity Publishers was still in start-up mode for the nine months ended September 30, 2002. Operating profit in the Other segment decreased \$133 thousand or 4.5%, to \$2.8 million, or 34.7% of net sales, for the nine months ended September 30, 2003, compared to \$2.9 million, or 38.1% of net sales, for the same period in 2002 due primarily to higher write-offs of product masters in 2003 compared to 2002.

Operating profit in the Retail segment increased \$369 thousand or 20.8% to \$2.1 million, or 21.1% of net sales, for the three months ended September 30, 2003, from \$1.8 million, or 14.9% of net sales, for the same period in 2002. The increase is due primarily to increase in sales to the general market for the period. Operating profit in the Direct to Consumer segment increased \$301 thousand or 36.0%, to \$1.1 million or 28.0% of net sales, for the three months ended September 30, 2003, from \$837 thousand or 20.1% of net sales, in the same period in 2002 due to a reduction of marketing expenses in 2003. Operating profit in the International segment decreased \$656 thousand or 195.8% to an operating loss of \$321 thousand, or 14.3%, of net sales, for the three-month period ended September 30, 2003, from an operating profit of \$335 thousand, or 14.7% of net sales, for the same period in 2002 due primarily to poor

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results in the U.K. subsidiary. For the three month period, sales were down \$326 thousand, marketing and fulfillment expenses were up \$137 thousand, and general and administrative expenses were up \$52 thousand. The Book Publishing segment recorded an operating profit of \$454 thousand, or 15.3% of net sales, for the three months ended September 30, 2003 compared to an operating profit of \$326 thousand, or 13.5% of net sales, for the same period in 2002. The Book Publishing segment was still in start-up mode in 2002. Negatively impacting the 2003 performance in the third quarter was the poor retail sales environment described earlier. Operating profit in the Other segment increased \$109 thousand or 7.8% to \$1.5 million, or 44.0% of net sales, for the three months ended September 30, 2003, from \$1.4 million, or 41.0% of net sales, for the same period in 2002. This increase in operating profit for the Other segment was due to lower product costs booked during the period.

Net interest expense increased \$133 thousand or 71.5% to \$319 thousand, or 0.6% of net sales, for the nine-month period ended September 30, 2003, as compared to \$186 thousand, or 0.4% of net sales, for the same period in 2002. The increase for the nine months ended September 30, 2003 was due to higher average loan balances in 2003. The average interest rates for the nine months ended September 30, 2003 and 2002 were 4.0% and 4.75%, respectively. The average monthly loan balances for the nine months ended September 30, 2003 and 2002 were \$12.0 million and \$6.7 million, respectively.

The Company recorded a provision for income tax of \$776 thousand for the nine months ended September 30, 2003, compared to a provision of \$1.1 million for the same period in 2002. The Company's effective tax rate for the first nine months of 2003 was 36.2%, compared to 36.7% for the first nine months of 2002. The Company expects that its effective tax rate for the year 2003 will be approximately 35% to 37%.

Net income for the nine months ended September 30, 2003 was \$1.2 million, compared to net income of \$1.6 million for the same period in 2002.

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically and will continue to finance its operations primarily through cash generated from operations and from borrowings under a line of credit and term loan 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, author and artist advances 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 fiscal year ending December 31, 2003 and beyond.

On April 25, 2001, the Company entered into a \$20 million, five-year secured credit facility with LaSalle Bank. The credit agreement included a \$6 million line of credit, an \$11 million secured term loan, and a \$3 million mortgage term loan. Through this credit facility, the Company refinanced its previous credit facility with Bank Austria. Of the \$11 million initial term facility, \$3.0 million was used for the pay-off to Bank Austria, \$3.4 million was used for stock warrant repurchases, and \$3.1 million expired, leaving \$1.5 million available at December 31, 2001. The \$3.1 million portion expired on December 19, 2001 due to time and use restrictions. On March 30, 2002, the credit facility was amended to decrease the allowed borrowings under this secured term facility to \$6.4 million and the mortgage term loan was amended to increase the allowed borrowings for this facility to \$4.6 million. On June 28, 2002, the term facility was again amended to increase total allowed borrowings to \$9.4 million, an increase of \$3.0 million. On June 28, 2002, this additional \$3.0 million was then used to partially fund the acquisition of INO Records (formerly M2 Communications). On December 31, 2002, the mortgage term facility was amended to increase the allowed borrowings to \$5.1 million. At September 30, 2003, the Company had available borrowings of \$3.0 million under the line of credit, zero under the mortgage term loan, and zero under the secured term loan.

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At September 30, 2003, there was \$3.0 million outstanding under the line of credit, \$5.875 million outstanding under the secured term loan, and \$4.607 million outstanding under the mortgage term loan. For the nine months ended September 30, 2003, the Company had average daily borrowings under the LaSalle credit facility of \$12.0 million at an average interest rate of 4.0%. For the nine months ended September 30, 2002, the Company had average daily borrowings under the LaSalle facility of \$6.7 million at an average interest rate of 4.6%. At the Company's option, the LaSalle credit facility bears interest at the bank's base rate plus a margin ranging from 0.00% to 0.50%, or LIBOR plus a margin ranging from 2.25% to 3.00%. The actual margin is a function of the Company's leverage ratio as calculated quarterly.

Cash provided by operating activities totaled \$250 thousand for the nine months ended September 30, 2003, compared to cash provided by operations of \$4.1 million for the nine months ended September 30, 2002. The decrease from 2002 to 2003 resulted primarily from unfavorable changes in working capital accounts and a decline in net income.

Investing activities used \$7.2 million and \$9.8 million during the nine months ended September 30, 2003 and 2002, respectively. Investing activities for the nine months ended September 30, 2003 consisted of the purchase of Sarepta Music (Pty) Ltd for \$191 thousand on March 31, 2003, capital expenditures for computer equipment and capital improvements to existing buildings totaling \$4.2 million and investments in product masters totaling \$2.8 million. Of the \$4.2 million in capital equipment and improvements for the 2003 period, \$3.4 million relates to the completion of a new building and expansion of parking facilities at the Company's corporate campus in Mobile. As of September 30, 2003, the new building was complete. Investing activities for the nine months ended September 30, 2002 consisted of the purchase of INO Records (formerly M2 Communications) for \$4.8 million on June 28, 2002, capital expenditures for computer equipment and capital improvements to existing buildings totaling \$2.3 million, and investment in product masters totaling \$2.7 million. The investment in product masters for the nine months ended September 30, 2003 relates primarily to development of products scheduled for release within the next six to eighteen months.

The Company announced on April 3, 2003 that it had completed the purchase of Sarepta Music (Pty) Ltd, a leading Christian music distributor and record label located in South Africa.

The Company made principal payments on its LaSalle facility of \$2.0 million and \$1.7 million in the nine months ended September 30, 2003 and 2002, respectively.

During the nine months ended September 30, 2003 and 2002, the Company made distributions to Word Entertainment, its 50% partner in the Celebration Hymnal LLC joint venture, of \$250 thousand.

Recent Accounting Pronouncements:

In August 2001, FASB issued SFAS No. 143, (SFAS 143), *Accounting for Asset Retirement Obligations*, which is effective for fiscal years beginning after June 15, 2002. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 requires, among other things, that the retirement obligations be recognized when they are incurred and displayed as liabilities on the balance sheet. In addition, the asset's retirement costs are to be capitalized as part of the asset's carrying amount and subsequently allocated to expense over the asset's useful life. The adoption of SFAS No. 143 had no effect on the Company's financial position, results of operations or cash flows.

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS No. 146). SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities, such as restructuring, involuntarily terminating employees, and consolidating facilities, initiated after December 31, 2002. The Company's adoption of SFAS 146 did not have a significant impact on its financial position, results of operations or cash flows.

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In November 2002, the FASB Interpretation (FIN) No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others was issued. The interpretation provides guidance of the guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. The Company has adopted the disclosure requirements of the interpretation as of December 31, 2002. The accounting guidelines are applicable to guarantees issued after December 31, 2002 and require that the Company record a liability for the fair value of such guarantees in the balance sheet. The Company's adoption of FIN No. 45 did not have a significant impact on its financial position, results of operations or cash flow.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN No. 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company's adoption of FIN No. 46 did not have a significant impact on its financial position, results of operations or cash flow.

The Company adopted the disclosure requirements of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure-an Amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, effective January 1, 2003. SFAS No. 148 amends SFAS No. 123 Accounting for Stock-Based Compensation to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The amendments pertaining to the alternative methods of transition are effective for financial statements for fiscal years ended after December 15, 2002. The amendments to the disclosure requirements are effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002. As permitted by SFAS No. 148 and SFAS No. 123, we continue to apply the accounting provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations in accounting for our stock option plans and our employee stock purchase plan and the disclosure-only provisions of SFAS No. 123 as amended by SFAS 148. We did not record stock-based compensation expense in the three months ended September 30, 2003 and June 30, 2002, as all options granted under our plans had an exercise price equal to fair market value. The adoption of the additional disclosure requirement did not have a significant impact on our reported results of operations, financial position or cash flows.

SFAS No. 148 requires us to provide pro forma disclosure of the impact on our results of operations had we adopted the expense measurement provisions of SFAS No. 123. SFAS No. 123 permits the use of either a fair value based method or the intrinsic value method to measure the expense associated with our stock option plans and our employee stock purchase plan. The pro forma impact on our results of operations had we adopted the fair value based method of SFAS No. 123 using the Black-Scholes option-pricing model are shown below:

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	Nine Months Ended September 30	
	2003	2002
Net income (loss) as reported	\$ 1,207	\$ 1,631
Deduct:		
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	\$ 139	\$ 139
Pro forma net income (loss)	\$ 1,068	\$ 1,492
Net income (loss) per share:		
Basic as reported	\$ 0.22	\$ 0.29
Diluted as reported	\$ 0.20	\$ 0.27
Basic Pro forma	\$ 0.19	\$ 0.27
Diluted Pro forma	\$ 0.18	\$ 0.25

In April 2003, the FASB issued Financial Accounting Standard No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, (FAS No.149). This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and other hedging activities entered into after June 30, 2003. The Company does not expect the adoption of FAS No. 149, to have a material effect on its financial statements.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material effect on the Company's financial statements.

Special Cautionary Notice Regarding Forward-Looking Statements

Certain of the matters discussed in this report including matters discussed under the caption Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. The words expect, anticipate, intend, plan, believe, seek, estimate, and similar expressions are intended to identify such forward-looking statements. The Company's actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including without limitation those discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002. All written or oral forward-looking statements attributable to the Company are expressly qualified in their entirety by these cautionary statements. Any forward-looking statements represent management's estimates only as of the date of this report and should not be relied upon as representing estimates as of any subsequent date. While the Company may elect to update forward-looking statements at some point in the future, the Company specifically disclaims any obligation to do so, even if its estimates change.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk is limited to fluctuations in interest rates as they pertain to the Company's borrowings under its credit facility. As of April 25, 2001, the Company paid interest on borrowings at either LaSalle's base rate or an Adjusted LIBOR, plus an Interest Rate Margin. The Interest Rate Margin is based upon the Leverage Ratio as of the last day of a fiscal quarter. Prior to April 25, 2001, under the Bank Austria credit facility, the Company paid interest on borrowings at either the lender's base rate plus 0.75%, or LIBOR plus 2%. Prior to September 2000, the interest rate was the bank's base rate plus 1 1/2% or LIBOR plus 3%. In the event that interest rates were to increase 100 basis points, the Company's interest expense would increase and income before income tax would decrease by \$90,075, assuming current debt levels are maintained. (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 of 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 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer (CEO), and the Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report, were effective in timely bringing to their attention material information related to the Company required to be included in the Company's periodic SEC filings.

During the quarter, the Company implemented a new fully-integrated software system for the operations at its main facilities in Mobile, Alabama. This new software system services all operations for Integrity Media, Inc., with the exception of its book publishing subsidiary, Integrity Publishers, Inc., and its international subsidiaries in Europe, Asia, Australia and South Africa. Management discovered during the implementation isolated instances whereby new internal control procedures were not followed. All instances were detected on a timely basis and new controls set in place. Management does not believe any of these instances had any material impact on financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.****(a) Exhibits**

Exhibit Number	Exhibit Description
3(i)	Certificate of Incorporation of the Registrant, as amended (incorporated by reference from Exhibit 4(a) to the Registrant's Registration Statement on Form S-8 (File No. 33-84584) filed on September 29, 1994).
3(i).1	Certificate of Amendment to the Certificate of Incorporation of the Registrant, dated July 21, 1995, (incorporated by reference from Exhibit 3(i).1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995).
3(i).2	Certificate of Amendment to the Certificate of Incorporation of the Registrant, dated May 24, 2002
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 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001).
10.1	Stock Purchase Agreement by and between Integrity Media, Inc. and Anton Jacobus Bekker, Paul Michael Alcock and Sarepta Music (Pty) Ltd dated March 18, 2003 (incorporated by reference from Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
10.2	Seventh Amendment to Credit Agreement by and between Integrity Media, Inc. Integrity Publishers, Inc., Integrity Direct, LLC, M2 Communications, L.L.C., and LaSalle Bank National Association, dated August 28, 2003.
31.1	Certification of Chief Executive Officer of Integrity Media, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer of Integrity Media, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Financial Officer of Integrity Media, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Executive Officer of Integrity Media, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

On November 5, 2003, Integrity Media, Inc. filed Form 8-K announcing its financial results for the quarter and nine months ended September 30, 2003.

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SIGNATURES

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

Date: November 12, 2003

Date: November 12, 2003

Integrity Media, Inc.

/s/ P. Michael Coleman

P. Michael Coleman
Chairman, President and Chief Executive Officer

/s/ Donald S. Ellington

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