

INSIGNIA SYSTEMS INC/MN
Form 10-Q
November 03, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

for the quarterly period ended September 30, 2011

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: 1-13471

INSIGNIA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of incorporation or organization)

41-1656308
(IRS Employer Identification No.)

8799 Brooklyn Blvd.

Minneapolis, MN 55445

(Address of principal executive offices)

(763) 392-6200

(Registrant's telephone number, including area code)

Not applicable.

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

Yes No

Number of shares outstanding of Common Stock, \$.01 par value, as of October 26, 2011, was 14,575,906.

Insignia Systems, Inc.

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Item 1. Financial Statements

Insignia Systems, Inc.**BALANCE SHEETS**

| | September 30, 2011 (Unaudited) | December 31, 2010 |
|---|---|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$31,930,000 | \$13,196,000 |
| Short-term investments | — | 500,000 |
| Accounts receivable, net | 2,423,000 | 3,227,000 |
| Inventories | 433,000 | 414,000 |
| Deferred tax assets, net | 151,000 | 151,000 |
| Prepaid expenses and other | 787,000 | 360,000 |
| Total Current Assets | 35,724,000 | 17,848,000 |
| Other Assets: | | |
| Property and equipment, net | 1,934,000 | 975,000 |
| Non-current deferred tax assets, net | 166,000 | 5,551,000 |
| Other | 4,186,000 | 227,000 |
| Total Assets | \$42,010,000 | \$24,601,000 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$1,778,000 | \$2,335,000 |
| Income tax payable | 6,619,000 | — |
| Accrued liabilities | | |
| Compensation | 1,315,000 | 809,000 |
| Legal | — | 376,000 |
| Employee stock purchase plan | 138,000 | 170,000 |
| Retailer payments | 64,000 | 1,119,000 |
| Other | 254,000 | 400,000 |
| Deferred revenue | 240,000 | 134,000 |
| Total Current Liabilities | 10,408,000 | 5,343,000 |

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| | | |
|--|--------------|--------------|
| Long-Term Liabilities: | | |
| Accrued compensation | 800,000 | — |
| Accrued income taxes | 353,000 | — |
| Total Liabilities | 11,561,000 | 5,343,000 |
| Commitments and Contingencies | | |
| | — | — |
| Shareholders' Equity: | | |
| Common stock, par value \$0.01: | | |
| Authorized shares - 40,000,000 | | |
| Issued and outstanding shares - 14,743,000 at September 30, 2011 and 15,847,000 at December 31, 2010 | 147,000 | 159,000 |
| Additional paid-in capital | 24,609,000 | 33,548,000 |
| Retained earnings (accumulated deficit) | 5,693,000 | (14,449,000) |
| Total Shareholders' Equity | 30,449,000 | 19,258,000 |
| Total Liabilities and Shareholders' Equity | \$42,010,000 | \$24,601,000 |

See accompanying notes to financial statements.

Table of Contents**Insignia Systems, Inc.****STATEMENTS OF OPERATIONS**

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------------|-------------------|--------------|
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Services revenues | \$2,563,000 | \$7,858,000 | \$11,383,000 | \$20,557,000 |
| Products revenues | 497,000 | 659,000 | 1,650,000 | 2,169,000 |
| Total Net Sales | 3,060,000 | 8,517,000 | 13,033,000 | 22,726,000 |
| Cost of services | 2,532,000 | 3,600,000 | 7,780,000 | 9,518,000 |
| Cost of goods sold | 358,000 | 442,000 | 1,109,000 | 1,458,000 |
| Total Cost of Sales | 2,890,000 | 4,042,000 | 8,889,000 | 10,976,000 |
| Gross Profit | 170,000 | 4,475,000 | 4,144,000 | 11,750,000 |
| Operating Expenses: | | | | |
| Selling | 1,332,000 | 1,968,000 | 4,295,000 | 5,379,000 |
| Marketing | 426,000 | 429,000 | 1,273,000 | 1,235,000 |
| General and administrative | 1,242,000 | 1,146,000 | 4,505,000 | 4,001,000 |
| Gain from litigation settlement, net | — | — | (89,762,000) | — |
| Total Operating Expenses, net | 3,000,000 | 3,543,000 | (79,689,000) | 10,615,000 |
| Operating Income (Loss) | (2,830,000) | 932,000 | 83,833,000 | 1,135,000 |
| Other Income (Expense): | | | | |
| Interest income | 13,000 | 6,000 | 55,000 | 32,000 |
| Interest expense | — | (6,000) | — | (16,000) |
| Total Other Income | 13,000 | — | 55,000 | 16,000 |
| Income (Loss) Before Taxes | (2,817,000) | 932,000 | 83,888,000 | 1,151,000 |
| Income tax benefit (expense) | 1,096,000 | — | (32,411,000) | — |
| Net Income (Loss) | \$(1,721,000) | \$932,000 | \$51,477,000 | \$1,151,000 |
| Net income (loss) per share: | | | | |
| Basic | \$(0.11) | \$0.06 | \$3.31 | \$0.07 |
| Diluted | \$(0.11) | \$0.05 | \$3.23 | \$0.07 |
| Shares used in calculation of net income (loss) per share: | | | | |
| Basic | 15,121,000 | 15,642,000 | 15,551,000 | 15,503,000 |
| Diluted | 15,121,000 | 16,977,000 | 15,951,000 | 16,869,000 |
| Cash dividends declared per common share: | \$0.00 | \$0.00 | \$2.00 | \$0.00 |

See accompanying notes to financial statements.

Table of Contents**Insignia Systems, Inc.****STATEMENTS OF CASH FLOWS**

(Unaudited)

| Nine Months Ended September 30 | 2011 | 2010 |
|---|--------------|--------------|
| Operating Activities: | | |
| Net income | \$51,477,000 | \$1,151,000 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 444,000 | 249,000 |
| Deferred income tax expense | 5,385,000 | — |
| Stock-based compensation | 545,000 | 557,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 804,000 | (2,541,000) |
| Inventories | (19,000) | (140,000) |
| Prepaid expenses and other | (569,000) | (174,000) |
| Accounts payable | (557,000) | 778,000 |
| Accrued liabilities | (303,000) | 105,000 |
| Income tax payable | 8,919,000 | — |
| Accrued income taxes | 353,000 | — |
| Excess tax benefit from stock options | (2,300,000) | — |
| Deferred revenue | 106,000 | (501,000) |
| Net cash provided by (used in) operating activities | 64,285,000 | (516,000) |
| Investing Activities: | | |
| Purchases of property and equipment | (1,220,000) | (368,000) |
| Acquisition of selling arrangement | (4,000,000) | — |
| Purchases of investments | — | (3,800,000) |
| Proceeds from sale of investments | 500,000 | 5,700,000 |
| Net cash provided by (used in) investing activities | (4,720,000) | 1,532,000 |
| Financing Activities: | | |
| Proceeds from issuance of common stock, net | 3,125,000 | 713,000 |
| Excess tax benefit from stock options | 2,300,000 | — |
| Dividends paid | (31,335,000) | — |
| Repurchase of common stock, net | (14,921,000) | (469,000) |
| Net cash provided by (used in) financing activities | (40,831,000) | 244,000 |
| Increase in cash and cash equivalents | 18,734,000 | 1,260,000 |
| Cash and cash equivalents at beginning of period | 13,196,000 | 8,797,000 |
| Cash and cash equivalents at end of period | \$31,930,000 | \$10,057,000 |

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Supplemental disclosures for cash flow information:

| | | |
|---|---------------|--------------|
| Cash paid during periods for income taxes | \$ 17,746,000 | \$ 62,000 |
| Non-cash financing activities: | | |
| Cashless exercise of stock options and warrants | \$ 800,000 | \$ 3,363,000 |

See accompanying notes to financial statements.

Table of Contents**Insignia Systems, Inc.**

Notes To Financial Statements

(Unaudited)

1. Summary of Significant Accounting Policies.

Description of Business. Insignia Systems, Inc. (the “Company”) markets in-store advertising products, programs and services to consumer packaged goods manufacturers (customers) and retailers. The Company has been in business since 1990. The Company’s products and services includes the Insignia POPSign® program, thermal sign card supplies for the Company’s SIGNright and Impulse systems, Stylus software and laser printable cardstock and label supplies. Since 1998, the Company has been focusing on providing in-store services through the Insignia Point-of-Purchase Services (Insignia POPS®) in-store advertising program.

Basis of Presentation. Financial statements for the interim periods included herein are unaudited; however, they contain all adjustments, including normal recurring accruals, which in the opinion of management, are necessary to present fairly the financial position of the Company at September 30, 2011, its results of operations for the three and nine months ended September 30, 2011 and 2010, and its cash flows for the nine months ended September 30, 2011 and 2010. Results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

The financial statements do not include certain footnote disclosures and financial information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America and, therefore, should be read in conjunction with the financial statements and notes included in the Company’s Annual Report on Form 10-K/A for the year ended December 31, 2010.

The Summary of Significant Accounting Policies in the Company’s 2010 Annual Report on Form 10-K/A describes the Company’s accounting policies.

Inventories. Inventories are primarily comprised of parts and supplies for Impulse and SIGNright machines, sign cards, and rollstock. Inventory is valued at the lower of cost or market using the first-in, first-out (FIFO) method, and consists of the following:

| | September 30, 2011 | December 31, 2010 |
|-----------------|--------------------------|-------------------------|
| Raw materials | \$ 62,000 | \$ 132,000 |
| Work-in-process | 30,000 | 25,000 |
| Finished goods | 341,000 | 257,000 |
| | \$ 433,000 | \$ 414,000 |

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Property and Equipment. Property and equipment consists of the following:

| | September 30, 2011 | December 31, 2010 |
|---|--------------------------|-------------------------|
| Property and Equipment: | | |
| Production tooling, machinery and equipment | \$2,350,000 | \$2,344,000 |
| Office furniture and fixtures | 260,000 | 258,000 |
| Computer equipment and software | 1,056,000 | 936,000 |
| Web site | 38,000 | 38,000 |
| Leasehold improvements | 361,000 | 351,000 |
| Construction in progress | 1,082,000 | — |
| | 5,147,000 | 3,927,000 |
| Accumulated depreciation and amortization | (3,213,000) | (2,952,000) |
| Net Property and Equipment | \$1,934,000 | \$975,000 |

Stock-Based Compensation. The Company measures and recognizes compensation expense for all stock-based payments at fair value using the Black-Scholes option pricing model to determine the weighted average fair value of options and employee stock purchase plan rights. The Company recognizes stock-based compensation expense on a straight-line method over the requisite service period of the award.

There were 367,000 stock option awards granted during the nine months ended September 30, 2011, and the Company estimated the fair value of these awards using the following weighted average assumptions: expected life of 4.3 years, expected volatility of 70%, dividend yield of 0% and risk-free interest rate of 1.81%. The total fair value of stock option awards granted during the nine months ended September 30, 2011 and 2010 was approximately \$814,000 and \$745,000, respectively. The Company estimated the fair value of stock-based rights granted during the nine months ended September 30, 2011 under the employee stock purchase plan using the following weighted average assumptions: expected life of 1 year, expected volatility of 30%, dividend yield of 0% and risk-free interest rate of 0.30%. The total fair value of stock-based rights granted under the employee stock purchase plan during the nine months ended September 30, 2011 and 2010 was approximately \$58,000 and \$80,000, respectively. Total stock-based compensation expense recorded for the three and nine months ended September 30, 2011, was \$172,000 and \$545,000, respectively, and for the three and nine months ended September 30, 2010 was \$156,000 and \$557,000, respectively. The total option exercises in the three and nine months ended September 30, 2011 were 18,000 and 1,635,000, respectively, for which the Company received proceeds of \$40,000 and \$2,976,000, respectively. Total option exercises in the three and nine months ended September 30, 2010 were 16,000 and 344,000, for which the Company received proceeds of \$34,000 and \$648,000.

Dividends Paid. On February 22, 2011, the Board of Directors approved a special \$2.00 per common share dividend totaling \$31,335,000, which was paid on May 2, 2011.

Net Income (Loss) Per Share. Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average shares outstanding and excludes any dilutive effects of stock options and warrants. Diluted net income (loss) per share gives effect to all diluted potential common shares outstanding during the period. Due to the net loss incurred during the three months ended September 30, 2011, all stock options were anti-dilutive. Options and

warrants to purchase approximately 656,000 shares of common stock with weighted average exercise prices of \$7.12 were outstanding at September 30, 2010 and were not included in the computation of common stock equivalents for the three months ended September 30, 2010 because their exercise prices were higher than the average fair market value of the common shares during the reporting period. Options and warrants to purchase approximately 646,000 and 525,000 shares of common stock with weighted average exercise prices of \$6.54 and \$7.55 were outstanding at September 30, 2011 and 2010 and were not included in the computation of common stock equivalents for the nine months ended September 30, 2011 and 2010 because their exercise prices were higher than the average fair market value of the common shares during the reporting period.

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Weighted average common shares outstanding for the three and nine months ended September 30, 2011 and 2010 were as follows:

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------|-------------------|------------|
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Denominator for basic net income per share - weighted average shares | 15,121,000 | 15,642,000 | 15,551,000 | 15,503,000 |
| Effect of dilutive securities: | | | | |
| Stock options and warrants | — | 1,335,000 | 400,000 | 1,366,000 |
| Denominator for diluted net income per share - weighted average shares | 15,121,000 | 16,977,000 | 15,951,000 | 16,869,000 |

2. Commitments and Contingencies.

Legal. On September 23, 2004, the Company brought suit against News America and Albertson's Inc. (Albertson's) in Federal District Court in Minneapolis, Minnesota, for violations of federal and state antitrust and false advertising laws, alleging that News America has acquired and maintained monopoly power through various wrongful acts designed to harm the Company in the in-store advertising and promotion products and services market. The suit sought injunctive relief sufficient to prevent further antitrust injury and an award of treble damages for the harm caused to the Company. On September 20, 2006, the State of Minnesota through its Attorney General intervened as a co-plaintiff in the business disparagement portion of the case. In December 2006, News America filed counterclaims in the case that included claims of alleged interference with contracts and alleged libel and slander against Insignia and one of its officers. On February 4, 2008, the Court approved a consent decree entered into by News America and the State of Minnesota under which News America agreed to not violate Minnesota's statutes prohibiting commercial disparagement. On July 29, 2008, the Company and Albertson's entered into a settlement agreement and mutual release, in which they each agreed to release all claims against the other, and the Company agreed to dismiss its lawsuit against Albertson's.

On February 7, 2011, trial in the Company's lawsuit against News America commenced in U.S. District Court for the District of Minnesota. On February 9, 2011, the Company and News America entered into a Settlement Agreement to settle the lawsuit. The Settlement Agreement included the dismissal with prejudice of the Company's lawsuit against News America. Pursuant to the Settlement Agreement, News America paid the Company \$125,000,000, and the Company paid News America \$4,000,000 in exchange for a 10-year arrangement to sell signs with price into News America's network of retailers as News America's exclusive agent. The Company is amortizing this amount on a straight-line basis over the 10-year term of the arrangement. Amortization expense related to this arrangement was \$100,000 and \$183,000 for the three and nine months ended September 30, 2011. The Company expects amortization expense of \$400,000 per year for the next five years related to this arrangement. The definitive agreement for the 10-year arrangement was approved by the U.S. District Court on June 6, 2011 and signed by both parties. Certain issues have arisen in connection with the implementation of the definitive agreement, which the parties are attempting to resolve.

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A reconciliation of the settlement proceeds to the gain from litigation settlement recognized in the statement of operations is as follows:

| | Three Months Ended September 30 2011 | | Nine Months Ended September 30 2010 | |
|--------------------------------------|---|------|--|------|
| Settlement proceeds | \$ — | \$ — | \$125,000,000 | \$ — |
| Less contingent attorney's fees | — | — | (31,250,000) | — |
| Less bonuses paid to employees | — | — | (3,988,000) | — |
| Gain from litigation settlement, net | \$ — | \$ — | \$89,762,000 | \$ — |

Legal fees of \$1,098,000 were incurred for the nine months ended September 30, 2011 in connection with this lawsuit, as the Company prepared for trial, worked through settlement discussions, and conducted post-settlement activities. Additionally, during the nine months ended September 30, 2011, a contingent fee payment of \$31,250,000 was made to the Company's lead trial counsel out of the settlement proceeds. Management does not expect significant legal fees and expenses in future periods after post-settlement activities are concluded. Legal fees and expenses are expensed as incurred and are included in general and administrative expenses in the statements of operations, except for the contingent fee payment which was included as a reduction of the gain from the litigation settlement.

The Company is subject to various other legal proceedings in the normal course of business. Management believes the outcome of these proceedings will not have a material adverse effect on the Company's financial position or results of operations.

Income Taxes. As a result of the taxable income generated by the settlement proceeds, \$5,385,000 of the deferred tax assets was utilized during the first nine months of 2011. For the three months ended September 30, 2011, an income tax benefit was recorded of \$1,096,000, or 38.9% of loss before income taxes. For the nine months ended September 30, 2011, the provision for income taxes was \$32,411,000, or 38.6% of income before income taxes. The 3. income tax provision (benefit) during the three and nine months ended September 30, 2011 is comprised of federal and state taxes. The primary difference between the Company's September 30, 2011 effective tax rate and the statutory federal rate is due to state income taxes. For the three and nine months ended September 30, 2010, no provision for income taxes or tax benefit was recorded as a full valuation allowance existed on the Company's deferred tax assets.

As of September 30, 2011, the Company had unrecognized tax benefits totaling \$353,000 related to state nexus issues (included in long-term liabilities). This amount does not include any potential interest or penalties. The amount of the unrecognized tax benefits, if recognized, that would affect the effective income tax rates of future periods is \$353,000. Due to the current statute of limitations regarding the unrecognized tax benefits, the unrecognized tax benefits, along with any associated interest and penalties, are reviewed quarterly.

Concentrations. During the nine months ended September 30, 2011, Nestle Co. and Valassis Sales and Marketing Services, Inc., accounted for 33% and 13%, respectively, of the Company's total net sales. At September 30, 2011, these customers accounted for 41% and 10%, respectively, of the Company's total accounts receivable. During the 4. nine months ended September 30, 2010, Nestle Co., Valassis Sales and Marketing Services, Inc. and General Mills, Inc. accounted for 19%, 19% and 15%, respectively, of the Company's total net sales. At September 30, 2010, these customers represented 34%, 10% and 8%, respectively, of the Company's total accounts receivable.

Although there are a number of customers that the Company sells to, the loss of a major customer could adversely affect operating results. Additionally, the loss of a major retailer from the Company's retail network could adversely affect operating results.

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Shareholders' Equity. On February 22, 2011, the Board of Directors authorized the repurchase of up to \$15,000,000 of the Company's common stock on or before January 31, 2012, under a new plan. On May 25, 2011 the Board amended the plan to increase the maximum share purchase amount from \$15,000,000 to \$20,000,000. 5. The plan does not obligate the Company to repurchase any particular number of shares, and may be suspended at any time at the Company's discretion. For the three and nine months ended September 30, 2011, the Company repurchased approximately 609,000 and 2,660,000 shares, respectively, at a total cost of \$1,872,000 and \$14,921,000, respectively. Subsequent to September 30, 2011, the Company has repurchased approximately 167,000 shares at a total cost of \$389,000.

New Accounting Pronouncements. In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2009-13, *Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force*, that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements. As a result of these amendments, multiple-deliverable revenue arrangements will be separated in more circumstances than under previous U.S. GAAP. The ASU does this by establishing a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence ("VSOE") if available, third-party evidence if VSOE is not available, or 6. estimated selling price if neither VSOE nor third-party evidence is available. A vendor will be required to determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. This ASU also eliminates the residual method of allocation and will require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the overall arrangement proportionally to each deliverable based on its relative selling price. This standard became effective for the Company in January 2011 and did not have a material impact on the Company's results of operations or financial condition.

In October 2009, the FASB issued ASU 2009-14, *Certain Revenue Arrangements That Include Software Elements — a consensus of the FASB Emerging Issues Task Force*. This ASU removes tangible products containing software components and nonsoftware components that function together to deliver the tangible product's essential functionality from the scope of the software revenue guidance in Subtopic 985-605 of the Codification. Additionally, ASU 2009-14 provides guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software that is not essential to the product's functionality. This standard became effective for the Company in January 2011 and did not have a material impact on the Company's results of operations or financial condition.

In December 2009, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures Topic 820 "Improving Disclosures about Fair Value Measurements."* This ASU requires new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Several of the new disclosures were effective for reporting periods beginning after December 15, 2009, with the remaining new disclosures effective for reporting periods beginning after December 15, 2010. The Company adopted the amended guidance and it did not have a significant impact on the Company's financial statements.

In July 2010, the FASB issued ASU 2010-20, *Receivables Topic 310 "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,"* to enhance the disclosures required for financing receivables (for example, loans, trade accounts receivable, notes receivable, and receivables relating to a lessor's leveraged, direct financing, and sales-type leases) and allowances for credit losses. The amended disclosures are designed to provide more information to financial statement users regarding the credit quality of a creditor's

financing receivables and the adequacy of its allowance for credit losses. The amended guidance is effective for period-end balances beginning with the first interim or annual reporting period ending on or after December 15, 2010. The amended guidance is effective for activity during a reporting period beginning on or after December 15, 2010. The Company adopted the amended guidance and it did not have a significant impact on the Company's financial statements.

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In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASU provides a consistent definition of fair value between U.S. GAAP and International Financial Reporting Standards. Additionally, the ASU changes certain fair value measurement principles and expands the disclosures for fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. The adoption of this ASU is not expected to have a significant impact on the Company's financial statements.

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

Overview

Insignia Systems, Inc. markets in-store advertising programs, services and products to retailers and consumer packaged goods manufacturers. The Company's services and products include the Insignia Point-of-Purchase Services (POPS) in-store advertising program, thermal sign card supplies for the Company's SIGNright and Impulse systems, Stylus software and laser printable cardstock and label supplies.

Results of Operations

The following table sets forth, for the periods indicated, certain items in the Company's Statements of Operations as a percentage of total net sales.

| | Three Months | | Nine Months | |
|----------------------------|--------------|--------|--------------|--------|
| | Ended | | Ended | |
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Net Sales | 100.0% | 100.0% | 100.0 % | 100.0% |
| Cost of sales | 94.4 | 47.5 | 68.2 | 48.3 |
| Gross Profit | 5.6 | 52.5 | 31.8 | 51.7 |
| Operating expenses: | | | | |
| Selling | 43.5 | 23.1 | 33.0 | 23.7 |
| Marketing | 13.9 | 5.0 | 9.7 | 5.4 |
| General and administrative | 40.6 | 13.5 | 34.6 | 17.6 |

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| | | | | |
|--------------------------------------|----------|--------|---------|-------|
| Gain from litigation settlement, net | 0.0 | 0.0 | (688.7) | 0.0 |
| Total operating expenses | 98.0 | 41.6 | (611.4) | 46.7 |
| Operating income (loss) | (92.4) | 10.9 | 643.2 | 5.0 |
| Other income | 0.4 | 0.0 | 0.4 | 0.1 |
| Income (loss) before taxes | (92.0) | 10.9 | 643.6 | 5.1 |
| Income tax expense (benefit) | (35.8) | 0.0 | 248.6 | 0.0 |
| Net income (loss) | (56.2)% | 10.9 % | 395.0 % | 5.1 % |

Decreased net sales in the three and nine months ended September 30, 2011 compared to the three and nine months ended September 30, 2010, combined with the effect of fixed costs in the costs of sales, resulted in a decrease in gross profit as a percent of total net sales in the 2011 periods. The decreases in gross profit and increased operating expenses as a percent of total net sales in the three and nine month 2011 periods were dramatically offset by the litigation settlement, resulting in significant net income in the nine months ended September 30, 2011 as compared to the net income in the nine months ended September 30, 2010. See the non-GAAP financial measures information which follows later in this section for a comparison of the 2011 and 2010 periods' non-GAAP net income (loss).

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Three and Nine Months ended September 30, 2011 Compared to Three and Nine Months Ended September 30, 2010

Net Sales. Net sales for the three months ended September 30, 2011, decreased 64.1% to \$3,060,000 compared to \$8,517,000 for the three months ended September 30, 2010. Net sales for the nine months ended September 30, 2011, decreased 42.7% to \$13,033,000 compared to \$22,726,000 for the nine months ended September 30, 2010.

Service revenues from our POPSign programs for the three months ended September 30, 2011, decreased 67.4% to \$2,563,000 compared to \$7,858,000 for the three months ended September 30, 2010. The decrease was primarily due to a decrease of 181% in the number of signs placed, combined with an 8% decrease in the average sign price. Service revenues from our POPSign programs for the nine months ended September 30, 2011, decreased 44.6% to \$11,383,000 compared to \$20,557,000 for the nine months ended September 30, 2010. The decrease in service revenues for the nine-month period was due primarily to a 72% decrease in the number of signs placed combined with a 5% decrease in the average sign price. The decrease in the number of signs displayed in the 2011 periods was primarily related to the expiration of the Kroger retailer contract at the end of 2010. For the three and nine months ended September 30, 2010, revenue recognized by advertising in Kroger stores was \$2,290,000 and \$7,293,000, respectively.

Product sales for the three months ended September 30, 2011, decreased 24.6% to \$497,000 compared to \$659,000 for the three months ended September 30, 2010. Product sales for the nine months ended September 30, 2011, decreased 23.9% to \$1,650,000 compared to \$2,169,000 for the nine months ended September 30, 2010. The decreases in both 2011 periods were primarily due to lower sales of laser printer supplies.

Gross Profit. Gross profit for the three months ended September 30, 2011, decreased 96.2% to \$170,000 compared to \$4,475,000 for the three months ended September 30, 2010. Gross profit for the nine months ended September 30, 2011, decreased 64.7% to \$4,144,000 compared to \$11,750,000 for the nine months ended September 30, 2010. Gross profit as a percentage of total net sales decreased to 5.6% for the three months ended September 30, 2011, compared to 52.5% for the three months ended September 30, 2010. Gross profit as a percentage of total net sales decreased to 31.8% for the nine months ended September 30, 2011, compared to 51.7% for the nine months ended September 30, 2010.

Gross profit from our POPSign program revenues for the three months ended September 30, 2011, decreased 99.3% to \$31,000 compared to \$4,258,000 for the three months ended September 30, 2010. Gross profit from our POPSign program revenues for the nine months ended September 30, 2011, decreased 67.4% to \$3,603,000 compared to \$11,039,000 for the nine months ended September 30, 2010. The decreases in both 2011 periods were primarily due to decreased sales. Gross profit as a percentage of POPSign program revenues for the three months ended September 30, 2011, decreased to 1.2% compared to 54.2% for the three months ended September 30, 2010. Gross profit as a

percentage of POPSign program revenues for the nine months ended September 30, 2011, decreased to 31.7% compared to 53.7% for the nine months ended September 30, 2010. The decreases in gross profit as a percentage of POPSign program revenues in both 2011 periods were primarily due to increased retailer costs and the effect of fixed costs on lower sales.

Gross profit from our product sales for the three months ended September 30, 2011, decreased 35.9% to \$139,000 compared to \$217,000 for the three months ended September 30, 2010. Gross profit from our product sales for the nine months ended September 30, 2011, decreased 23.9% to \$541,000 compared to \$711,000 for the nine months ended September 30, 2010. The decreases in both 2011 periods were primarily due to decreased sales. Gross profit as a percentage of product sales was 28.0% for the three months ended September 30, 2011, compared to 32.9% for the three months ended September 30, 2010. The decrease was primarily due to the effect of fixed costs on lower sales partially offset by lower variable costs. Gross profit as a percentage of product sales was 32.8% for the nine months ended September 30, 2011, compared to 32.8% for the nine months ended September 30, 2010. No change year over year was primarily due to higher margin sales offset by the effect of fixed costs on lower total net sales.

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Operating Expenses

Selling. Selling expenses for the three months ended September 30, 2011, decreased 32.3% to \$1,332,000 compared to \$1,968,000 for the three months ended September 30, 2010. Selling expenses for the nine months ended September 30, 2011, decreased 20.2% to \$4,295,000 compared to \$5,379,000 for the nine months ended September 30, 2010. Decreases in the 2011 periods were primarily due to decreased sales commissions related to decreased POPSign program revenues.

Selling expenses as a percentage of total net sales increased to 43.5% for the three months ended September 30, 2011, compared to 23.1% for the three months ended September 30, 2010. Selling expenses as a percentage of total net sales increased to 33.0% for the nine months ended September 30, 2011, compared to 23.7% for the nine months ended September 30, 2010. The increases in the selling expenses as a percentage of total net sales in the 2011 periods were due to the effect of fixed selling expenses on lower sales.

Marketing. Marketing expenses for the three months ended September 30, 2011, decreased 0.7% to \$426,000 compared to \$429,000 for the three months ended September 30, 2010. Marketing expenses for the nine months ended September 30, 2011, increased 3.1% to \$1,273,000 compared to \$1,235,000 for the nine months ended September 30, 2010. Increased expenses in the nine-month 2011 period was primarily the result of increased marketing efforts.

Marketing expenses as a percentage of total net sales increased to 13.9% for the three months ended September 30, 2011, compared to 5.0% for the three months ended September 30, 2010. Marketing expenses as a percentage of total net sales increased to 9.7% for the nine months ended September 30, 2011, compared to 5.4% for the nine months ended September 30, 2010. The increases in marketing expenses as a percentage of total net sales in the 2011 periods were primarily due to decreased sales.

General and administrative. General and administrative expenses for the three months ended September 30, 2011, increased 8.4% to \$1,242,000 compared to \$1,146,000 for the three months ended September 30, 2010. General and administrative expenses for the nine months ended September 30, 2011, increased 12.6% to \$4,505,000 compared to \$4,001,000 for the nine months ended September 30, 2010. The increase in the third quarter 2011 period was primarily due to additional accounting fees related to the 2010 restatement, partially offset by decreased legal expense. The increase in the nine-month 2011 period was due to additional accounting and legal fees.

General and administrative expenses as a percentage of total net sales increased to 40.6% for the three months ended September 30, 2011, compared to 13.5% for the three months ended September 30, 2010. General and administrative

expenses as percentage of total net sales increased to 34.6% for the nine months ended September 30, 2011, compared to 17.6% for the nine months ended September 30, 2010. Increased expenses in the 2011 periods were primarily the result of additional accounting and legal fees relative to lower net sales.

Legal fees and expenses were \$158,000 for the three months ended September 30, 2011, compared to \$288,000 for the three months ended September 30, 2010. Legal fees and expenses were \$1,452,000 for the nine months ended September 30, 2011, compared to \$1,377,000 for the nine months ended September 30, 2010. Legal fees for the three and nine months ended September 30, 2011 were primarily due to post settlement activities. Management does not expect significant legal fees and expenses in future periods in connection with post-settlement activities.

Gain from litigation settlement. On February 9, 2011, the Company entered into a Settlement Agreement in its lawsuit against News America. As part of the Settlement Agreement, News America paid the Company \$125,000,000, and the Company paid News America \$4,000,000 in exchange for a 10-year arrangement to sell signs with price into News America's network of retailers as News America's exclusive agent. Netted against this settlement was a contingent fee payment of \$31,250,000 to the Company's lead trial counsel as well as performance bonus payments of \$3,988,000 to certain employees in connection with the settlement, resulting in a net pre-tax gain of \$89,762,000.

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Other Income. Other income for the three months ended September 30, 2011, was \$13,000 compared to \$0 for the three months ended September 30, 2010. Other income for the nine months ended September 30, 2011, was \$55,000 compared to \$16,000 for the nine months ended September 30, 2010. Higher other income in the 2011 periods was primarily due to increased interest income in the 2011 periods as a result of higher cash and cash equivalents balances in the 2011 periods, which was partially offset by lower interest rates.

Income Taxes. As a result of the taxable income generated by the settlement proceeds, \$5,385,000 of the deferred tax assets was utilized during the first nine months of 2011. For the three months ended September 30, 2011, an income tax benefit was recorded of \$1,096,000, or 38.9% of loss before income taxes. For the nine months ended September 30, 2011, the provision for income taxes was \$32,411,000, or 38.6% of income before income taxes. The income tax provision (benefit) during the three and nine months ended September 30, 2011 is comprised of federal and state taxes. The primary difference between the Company's September 30, 2011 effective tax rate and the statutory federal rate is due to state income taxes. For the three and nine months ended September 30, 2010, no provision for income taxes or tax benefit was recorded as a full valuation allowance existed on the Company's deferred tax assets.

Net Income (Loss). The net loss for the three months ended September 30, 2011, was \$(1,721,000) compared to a net income of \$932,000 for the three months ended September 30, 2010. Net income for the nine months ended September 30, 2011, was \$51,477,000 compared to \$1,151,000 for the nine months ended September 30, 2010.

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To supplement the Company's financial statements presented in accordance with accounting principles generally accepted in the United States (GAAP), the Company has provided certain non-GAAP financial measures of financial performance in prior public announcements. These non-GAAP measures include:

- net income (loss) before gain from litigation settlement (net of tax), and
- net income (loss) before gain from litigation settlement (net of tax) and News America related legal expense.

The Company's reference to these non-GAAP measures should be considered in addition to results prepared under current accounting standards, but are not a substitute for, or superior to, GAAP results.

These non-GAAP measures are provided to enhance investors' overall understanding of the Company's current financial performance and ability to generate cash flows. In many cases non-GAAP financial measures are used by analysts and investors to evaluate the Company's performance. Reconciliation to the nearest GAAP measure can be found in the financial table included below.

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------|-------------------|-------------|
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Net income (loss) | \$(1,721,000) | \$932,000 | \$51,477,000 | \$1,151,000 |
| Adjustment: | | | | |
| Gain from litigation settlement (net of tax) (<i>see below</i>) | — | — | (55,062,000) | — |
| Non-GAAP net income (loss) before gain from litigation settlement (net of tax) | (1,721,000) | 932,000 | (3,585,000) | 1,151,000 |
| Adjustment: | | | | |
| News America related legal expense | 80,000 | 261,000 | 1,098,000 | 1,188,000 |
| Non-GAAP net income (loss) before gain from litigation settlement (net of tax) and News America related legal expense | \$(1,641,000) | \$1,193,000 | \$(2,487,000) | \$2,339,000 |
| Gain from litigation settlement (net of tax): | | | | |
| Settlement proceeds | \$— | \$— | \$125,000,000 | \$— |
| Less contingent attorney's fees | — | — | (31,250,000) | — |
| Less bonuses paid to employees | — | — | (3,988,000) | — |
| | — | — | 89,762,000 | — |

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| | | | | |
|--|-----|-----|--------------|-----|
| Less settlement related income taxes | — | — | (34,700,000) | — |
| Gain from litigation settlement (net of tax) | \$— | \$— | \$55,062,000 | \$— |

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Liquidity and Capital Resources

The Company has financed its operations with proceeds from public and private stock sales and sales of its services and products. At September 30, 2011, working capital is \$25,316,000 compared to \$12,505,000 at December 31, 2010. During the nine months ended September 30, 2011, cash, cash equivalents and short-term investments increased \$18,234,000 from \$13,696,000 at December 31, 2010, to \$31,930,000 at September 30, 2011.

Net cash provided by operating activities during the nine months ended September 30, 2011, was \$64,285,000. Net income of \$51,477,000, plus non-cash adjustments of \$6,374,000 and changes in operating assets and liabilities of \$6,434,000 resulted in the \$64,285,000 of cash provided by operating activities. The non-cash adjustments consisted of depreciation and amortization expense, deferred income tax expense and stock-based compensation expense. The most significant component of the change in operating assets and liabilities was income tax payable. Income tax payable increased by \$8,919,000, before the excess tax benefit from stock options of \$2,300,000 was reclassified to additional paid-in capital, primarily due to taxable income generated by the litigation settlement. Accrued retailer payments decreased \$1,055,000 primarily related to the payment to one of our retailers, and accrued compensation increased \$1,306,000 primarily due to the terms of the performance bonus plan related to the News America settlement, partially offset by decreased accrued commissions. The Company expects accounts receivable, accounts payable, accrued liabilities and deferred revenue to fluctuate during future periods depending on the level of POPSign revenues and related business activity as well as billing arrangements with customers and payment terms with retailers.

Net cash of \$4,720,000 was used in investing activities during the nine months ended September 30, 2011. Proceeds from the sale of investments were more than offset by the purchase of property and equipment and the payment of \$4,000,000 in exchange for a 10-year selling arrangement. Proceeds of \$500,000 during the nine months consisted entirely of redemptions of 6-month certificates of deposit. Capital expenditures of \$1,220,000 during the period consisted primarily of the construction in progress of a laser die cutter and related equipment. The Company expects additional capital expenditures of approximately \$1,000,000 as it completes the purchase and installation of the laser die cutter and related equipment, which is expected to be placed in service no later than December 31, 2011.

Net cash of \$40,831,000, which included dividends paid of \$31,335,000 and an excess tax benefit from stock options of \$2,300,000, was used in financing activities during the nine months ended September 30, 2011. The repurchase of common stock of \$14,921,000, pursuant to a plan adopted on February 22, 2011, and further amended May 25, 2011, was partially offset by \$3,125,000 of proceeds from the issuance of common stock from the exercise of employee stock options and the employee stock purchase plan.

The Company believes that based upon current business conditions, its existing cash balance and future cash from operations will be sufficient for its cash requirements for the remainder of 2011 and for the next twelve months. However, there can be no assurances that this will occur or that the Company will be able to secure additional financing from public or private stock sales or from other financing agreements if needed.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

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Our significant accounting policies are described in Note 1 to the annual financial statements as of and for the year ended December 31, 2010, included in our Form 10-K/A filed with the Securities and Exchange Commission on September 9, 2011. We believe our most critical accounting policies and estimates include the following:

- revenue recognition;
- allowance for doubtful accounts;
- income taxes; and
- stock-based compensation.

Cautionary Statement Regarding Forward-Looking Information

Statements made in this quarterly report on Form 10-Q, in the Company's other SEC filings, in press releases and in oral statements to shareholders and securities analysts, which are not statements of historical or current facts, are "forward-looking statements." Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Company to be materially different from the results or performance expressed or implied by such forward-looking statements. The words "believes," "expects," "anticipates," "seeks" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. These statements are subject to the risks and uncertainties that could cause actual results to differ materially and adversely from the forward-looking statements. These risks and uncertainties include, but are not limited to, the risks presented in our Annual Report on Form 10-K/A for the year ended December 31, 2010.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report. Disclosure controls and procedures ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and are designed to ensure that information required to be disclosed by us in these reports is accumulated and communicated to the Company's management, including its Chief Executive Office and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosures.

(b) Changes in Internal Controls Over Financial Reporting

There was no change in our internal controls over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On September 23, 2004, the Company brought suit against News America and Albertson's Inc. (Albertson's) in Federal District Court in Minneapolis, Minnesota, for violations of federal and state antitrust and false advertising laws, alleging that News America has acquired and maintained monopoly power through various wrongful acts designed to harm the Company in the in-store advertising and promotion products and services market. The suit sought injunctive relief sufficient to prevent further antitrust injury and an award of treble damages for the harm caused to the Company. On September 20, 2006, the State of Minnesota through its Attorney General intervened as a co-plaintiff in the business disparagement portion of the case. In December 2006, News America filed counterclaims in the case that included claims of alleged interference with contracts and alleged libel and slander against Insignia and one of its officers. On February 4, 2008, the Court approved a consent decree entered into by News America and the State of Minnesota under which News America agreed to not violate Minnesota's statutes prohibiting commercial disparagement. On July 29, 2008, the Company and Albertson's entered into a settlement agreement and mutual release, in which they each agreed to release all claims against the other, and the Company agreed to dismiss its lawsuit against Albertson's.

On February 7, 2011, trial in the Company's lawsuit against News America commenced in U.S. District Court for the District of Minnesota. On February 9, 2011, the Company and News America entered into a Settlement Agreement to settle the lawsuit. The Settlement Agreement included the dismissal with prejudice of the Company's lawsuit against News America. Pursuant to the Settlement Agreement, News America paid the Company \$125,000,000, and the Company paid News America \$4,000,000 in exchange for a 10-year arrangement to sell signs with price into News America's network of retailers as News America's exclusive agent. The definitive agreement for the 10-year arrangement was approved by the U.S. District Court on June 6, 2011 and signed by both parties. Certain issues have arisen in connection with the implementation of the definitive agreement, which the parties are attempting to resolve.

Legal fees of \$1,098,000 were incurred in the nine months ended September 30, 2011 in connection with this lawsuit as the Company prepared for trial, worked through settlement discussions, and conducted post-settlement activities. Additionally, during the nine months ended September 30, 2011, a contingent fee payment of \$31,250,000 was made to the Company's lead trial counsel out of the settlement proceeds. Management does not expect significant legal fees and expenses in future periods after post-settlement activities are concluded. Legal fees and expenses are expensed as incurred and are included in general and administrative expenses in the statements of operations, except for the contingent fee payment which was included as a reduction of the gain from the litigation settlement.

The Company is subject to various other legal proceedings in the normal course of business. Management believes the outcome of these proceedings will not have a material adverse effect on the Company's financial position or results of operations.

Item 1A. Risk Factors

We described the most significant risk factors applicable to the Company in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K/A for the year ended December 31, 2010. We believe there have been no material changes from the risk factors disclosed on Form 10-K/A.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On February 22, 2011, the Board of Directors authorized the repurchase of up to \$15,000,000 of the Company's common stock on or before January 31, 2012, under a new plan. On May 25, 2011 the Board amended the plan to increase the maximum share purchase amount from \$15,000,000 to \$20,000,000. The plan does not obligate the Company to repurchase any particular number of shares, and may be suspended at any time at the Company's discretion.

Our share repurchase program activity for the three months ended September 30, 2011, under the plan was:

| | Total Number Of Shares Repurchased | Average Price Paid Per Share | Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under The Plans Or Programs |
|----------------------|---|--|--|--|
| July 1-31, 2011 | 14,674 | \$ 3.74 | 2,065,828 | \$ 6,896,000 |
| August 1-31, 2011 | 310,290 | \$ 3.14 | 2,376,118 | \$ 5,921,000 |
| September 1-30, 2011 | 284,181 | \$ 2.96 | 2,660,259 | \$ 5,079,000 |

Item 3. Defaults upon Senior Securities

None.

Item 4. Removed and Reserved**Item 5. Other Information**

None.

Item 6. Exhibits

The following exhibits are included herewith:

- 31.1 Certification of Principal Executive Officer
- 31.2 Certification of Principal Financial Officer
- 32 Section 1350 Certification

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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.

Dated: November 3, 2011 Insignia Systems, Inc.
(Registrant)

/s/ Scott F. Drill
Scott F. Drill
President and Chief Executive Officer
(principal executive officer)

/s/ John C. Gonsior
John C. Gonsior
Vice President, Finance and
Chief Financial Officer
(principal financial officer)

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EXHIBIT INDEX

31.1 Certification of Principal Executive Officer

31.2 Certification of Principal Financial Officer

32 Section 1350 Certification