

INSIGNIA SYSTEMS INC/MN  
Form 10-Q/A  
January 29, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D. C. 20549**

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**FORM 10-Q/A**

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

**for the quarterly period ended March 31, 2009**

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**

**41-1656308**

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(State or other jurisdiction of incorporation or organization)

(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 January 22, 2010, was 15,374,457.

**EXPLANATORY NOTE**

This Form 10-Q/A, consisting of Items 1 and 4 of Part I, Item 6 of Part II, and Exhibits 31.1, 31.2 and 32, is being filed to amend the registrant's Form 10-Q for the quarter ended March 31, 2009, in response to a comment letter received from the Commission dated December 22, 2009.

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(Unaudited)

|   | <b>March 31,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|---------------------------|------------------------------|
| <b>ASSETS</b>   |                           |                              |
| <b>Current Assets:</b>  |                           |                              |
| Cash and cash equivalents   | \$ 8,174,000              | \$ 11,052,000                |
| Short-term investments  | 1,100,000                 |                              |
| Accounts receivable, net of allowance for doubtful accounts of \$10,000 and \$7,000, respectively | 2,887,000                 | 2,767,000                    |
| Inventories   | 458,000                   | 442,000                      |
| Prepaid expenses and other  | 240,000                   | 238,000                      |
| <b>Total Current Assets</b>   | <b>12,859,000</b>         | <b>14,499,000</b>            |
| <b>Other Assets:</b>  |                           |                              |
| Property and equipment, net   | 970,000                   | 1,054,000                    |
| Other   | 40,000                    | 40,000                       |
| <b>Total Assets</b>   | <b>\$ 13,869,000</b>      | <b>\$ 15,593,000</b>         |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                           |                              |
| <b>Current Liabilities:</b>   |                           |                              |
| Current maturities of long-term liabilities   | \$ 179,000                | \$ 202,000                   |
| Accounts payable  | 2,386,000                 | 2,770,000                    |
| Accrued liabilities   |                           |                              |
| Compensation  | 624,000                   | 820,000                      |
| Employee stock purchase plan  | 37,000                    | 65,000                       |
| Legal   | 236,000                   | 365,000                      |
| Other commissions   | 29,000                    | 1,742,000                    |
| Other   | 450,000                   | 981,000                      |
| Deferred revenue  | 974,000                   | 1,158,000                    |
| <b>Total Current Liabilities</b>  | <b>4,915,000</b>          | <b>8,103,000</b>             |
| <b>Long-Term Liabilities, less current maturities</b>   | <b>219,000</b>            | <b>219,000</b>               |

**Commitments and Contingencies****Shareholders Equity:**

|   |   |                      |
|---|---|----------------------|
| Common stock, par value \$.01:                    |   |                      |
| Authorized shares                                 | 40,000,000  |                      |
| Issued and outstanding shares                     | 15,129,000 at March 31, 2009 and<br>15,069,000 at December 31, 2008 |                      |
|   | 151,000   | 151,000              |
| Additional paid-in capital                        | 32,028,000  | 31,881,000           |
| Accumulated deficit                               | (23,444,000)  | (24,761,000)         |
| Total Shareholders' Equity                        | 8,735,000   | 7,271,000            |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$ 13,869,000</b>  | <b>\$ 15,593,000</b> |

*See accompanying notes to financial statements.*

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

(Unaudited)

| <b>Three Months Ended March 31</b>                         | <b>2009</b>         | <b>2008</b>         |
|--|---------------------|---------------------|
| Services revenues  | \$ 5,631,000        | \$ 5,948,000        |
| Products sold  | 555,000             | 615,000             |
| Total Net Sales  | 6,186,000           | 6,563,000           |
| Cost of services   | 2,583,000           | 2,612,000           |
| Cost of goods sold   | 380,000             | 417,000             |
| Total Cost of Sales  | 2,963,000           | 3,029,000           |
| Gross Profit   | 3,223,000           | 3,534,000           |
| <b>Operating Expenses:</b>                                 |                     |                     |
| Selling  | 1,507,000           | 1,648,000           |
| Marketing  | 389,000             | 361,000             |
| General and administrative                                 | 1,425,000           | 1,822,000           |
| General and administrative (insurance settlement proceeds) | (1,387,000)         |                     |
| Total Operating Expenses                                   | 1,934,000           | 3,831,000           |
| Operating Income (Loss)                                    | 1,289,000           | (297,000)           |
| <b>Other Income (Expense):</b>                             |                     |                     |
| Interest income  | 38,000              | 73,000              |
| Interest expense   | (10,000)            | (16,000)            |
| Total Other Income   | 28,000              | 57,000              |
| <b>Net Income (Loss)</b>                                   | <b>\$ 1,317,000</b> | <b>\$ (240,000)</b> |
| Net income (loss) per share:                               |                     |                     |
| Basic  | \$ 0.09             | \$ (0.02)           |
| Diluted  | \$ 0.09             | \$ (0.02)           |
| Shares used in calculation of net income (loss) per share: |                     |                     |
| Basic  | 15,128,000          | 15,590,000          |
| Diluted  | 15,243,000          | 15,590,000          |

*See accompanying notes to financial statements.*





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

## Statements of Shareholders' Equity

(Unaudited)

|                                     | Common Stock |            | Additional         | Accumulated     | Total        |
|-------------------------------------|--------------|------------|--------------------|-----------------|--------------|
|                                     | Shares       | Amount     | Paid-In<br>Capital | Deficit         |              |
| <b><u>Three Months Ended</u></b>    |              |            |                    |                 |              |
| <b><u>March 31, 2009</u></b>        |              |            |                    |                 |              |
| <b>Balance at December 31, 2008</b> | 15,069,000   | \$ 151,000 | \$ 31,881,000      | \$ (24,761,000) | \$ 7,271,000 |
| Issuance of common stock, net       | 60,000       |            | 49,000             |                 | 49,000       |
| Value of stock-based compensation   |              |            | 98,000             |                 | 98,000       |
| Net income                          |              |            |                    | 1,317,000       | 1,317,000    |
| <b>Balance at March 31, 2009</b>    | 15,129,000   | \$ 151,000 | \$ 32,028,000      | \$ (23,444,000) | \$ 8,735,000 |
| <b><u>Three Months Ended</u></b>    |              |            |                    |                 |              |
| <b><u>March 31, 2008</u></b>        |              |            |                    |                 |              |
| <b>Balance at December 31, 2007</b> | 15,550,000   | \$ 156,000 | \$ 32,025,000      | \$ (22,504,000) | \$ 9,677,000 |
| Issuance of common stock, net       | 40,000       |            | 95,000             |                 | 95,000       |
| Value of stock-based compensation   |              |            | 130,000            |                 | 130,000      |
| Net loss                            |              |            |                    | (240,000)       | (240,000)    |
| <b>Balance at March 31, 2008</b>    | 15,590,000   | \$ 156,000 | \$ 32,250,000      | \$ (22,744,000) | \$ 9,662,000 |

*See accompanying notes to financial statements.*



Table of Contents**Insignia Systems, Inc.****Statements of Cash Flows**

(Unaudited)

| <b>Three Months Ended March 31</b>   | <b>2009</b>  | <b>2008</b>  |
|--|--------------|--------------|
| <b>Operating Activities:</b>   |              |              |
| Net income (loss)  | \$ 1,317,000 | \$ (240,000) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |              |              |
| Depreciation and amortization  | 101,000      | 87,000       |
| Provision for bad debt expense   | 3,000        |              |
| Stock-based compensation   | 98,000       | 130,000      |
| Changes in operating assets and liabilities:   |              |              |
| Accounts receivable  | (123,000)    | (2,049,000)  |
| Inventories  | (16,000)     | (97,000)     |
| Prepaid expenses and other   | (2,000)      | (101,000)    |
| Accounts payable   | (384,000)    | 842,000      |
| Accrued liabilities  | (2,597,000)  | (35,000)     |
| Deferred revenue   | (184,000)    | 732,000      |
| Net cash used in operating activities  | (1,787,000)  | (731,000)    |
| <b>Investing Activities:</b>   |              |              |
| Purchases of property and equipment  | (17,000)     | (19,000)     |
| Purchase of investments  | (1,100,000)  |              |
| Net cash used in investing activities  | (1,117,000)  | (19,000)     |
| <b>Financing Activities:</b>   |              |              |
| Payment of long-term liabilities   | (23,000)     | (64,000)     |
| Proceeds from issuance of common stock, net  | 49,000       | 95,000       |
| Net cash provided by financing activities  | 26,000       | 31,000       |
| Decrease in cash and cash equivalents  | (2,878,000)  | (719,000)    |
| Cash and cash equivalents at beginning of period                                     | 11,052,000   | 7,393,000    |
| Cash and cash equivalents at end of period   | \$ 8,174,000 | \$ 6,674,000 |
| <b>Supplemental disclosures for cash flow information:</b>                           |              |              |
| Cash paid during period for interest   | \$           | \$ 6,000     |

*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 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.

**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 March 31, 2009, and its results of operations and cash flows for the three months ended March 31, 2009 and 2008. 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 for the year ended December 31, 2008.

The Summary of Significant Accounting Policies in the Company's 2008 Annual Report on Form 10-K describes the Company's accounting policies.

**Short-term Investments.** Short-term investments consist of short-term bank certificates of deposit with original maturities of between three and twelve months. These short-term investments are classified as held to maturity and are valued at cost which approximates fair value. These investments are considered Level 2 investments under Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*.

**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:

|                 | <b>March 31,</b> | <b>December</b> |
|-----------------|------------------|-----------------|
|                 | <b>2009</b>      | <b>31,</b>      |
|                 |                  | <b>2008</b>     |
| Raw materials   | \$ 97,000        | \$ 107,000      |
| Work-in-process | 53,000           | 64,000          |
| Finished goods  | 308,000          | 271,000         |
|                 | \$ 458,000       | \$ 442,000      |



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

|   | <b>March 31,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|---------------------------|------------------------------|
| Production tooling, machinery and equipment | \$ 2,113,000              | \$ 2,115,000                 |
| Office furniture and fixtures               | 253,000                   | 250,000                      |
| Computer equipment and software             | 728,000                   | 719,000                      |
| Web site                                    | 38,000                    | 38,000                       |
| Leasehold improvements                      | 257,000                   | 255,000                      |
|   | 3,389,000                 | 3,377,000                    |
| Accumulated depreciation and amortization   | (2,419,000)               | (2,323,000)                  |
| Net Property and Equipment                  | \$ 970,000                | \$ 1,054,000                 |

**Stock-Based Compensation.** The Company accounts for its stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R). The Company recognizes stock compensation expense on a straight-line method over the requisite service period of the award.

There were no stock option awards granted during the three months ended March 31, 2009. Total stock-based compensation expense recorded for the three months ended March 31, 2009 and 2008, was \$98,000 and \$130,000, respectively. The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock-based awards.

**Net Income (Loss) Per Share.** Basic net income (loss) per share is computed by dividing net income by the weighted average shares outstanding and excludes any dilutive effects of options, warrants and convertible securities. Diluted net income (loss) per share gives effect to all diluted potential common shares outstanding during the period. Options and warrants to purchase approximately 2,879,000 and 2,018,000 shares of common stock with weighted average exercise prices of \$3.78 and \$5.17 were outstanding at March 31, 2009 and 2008 and were not included in the computation of common stock equivalents for the three months ended March 31, 2009 and 2008 because their exercise prices were higher than the average fair market value of the common shares during the reporting period. During the three months ended March 31, 2008, the effect of options and warrants outstanding was anti-dilutive due to the net loss incurred during the period. Had net income been achieved, approximately 519,000 of common stock equivalents would have been included in the computation of diluted net income per share.

Weighted average common shares outstanding for the three months ended March 31, 2009 and 2008 were as follows:

| <b>Three Months Ended March 31</b> | <b>2009</b> | <b>2008</b> |
|------------------------------------|-------------|-------------|
|------------------------------------|-------------|-------------|

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|   |                                  |            |            |
|---|----------------------------------|------------|------------|
| Denominator for basic net income (loss) per share   | weighted average shares          | 15,128,000 | 15,590,000 |
| Effect of dilutive securities:                      |                                  |            |            |
| Stock options and warrants                          |                                  | 115,000    |            |
| Denominator for diluted net income (loss) per share | adjusted weighted average shares | 15,243,000 | 15,590,000 |

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**2. Commitments and Contingencies.**

**Legal.** In August 2000, News America Marketing In-Store, Inc. (News America), brought suit against the Company in U.S. District Court in New York, New York. The case was settled in November 2002. The terms of the settlement agreement are confidential. The settlement did not impact the Company's operating results.

In October 2003, News America brought suit against the Company in U.S. District Court in New York, New York, alleging that the Company has engaged in deceptive acts and practices, has interfered with existing business relationships with retailers and prospective economic advantage, and has engaged in unfair competition. The suit sought unspecified damages and injunctive relief. In February 2007 the U.S. District Court in New York transferred this action to Minnesota where the claims became part of the lawsuit the Company filed against News America and Albertson's Inc. in 2004 (described below), and the New York action was subsequently dismissed.

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 seeks injunctive relief sufficient to prevent further antitrust injury and an award of treble damages to be determined at trial for the harm caused to the Company. On June 30, 2006 the Court denied the motions of News America and Albertson's to dismiss the suit. On September 20, 2006, the State of Minnesota through its Attorney General intervened as a co-plaintiff in the business disparagement portion of the Minnesota case. In December 2006, News America filed counterclaims in the Minnesota case that included claims similar to those in its New York action against Insignia and one of its officers, plus claims for damages for two alleged incidents of libel and slander. 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. Pursuant to Court order, all discovery and pre-trial matters were completed by May 1, 2009. Motions by the Company and by News America for summary judgment were argued on May 11, 2009, and the Court has not yet ruled on these motions.

The Company filed claims in December 2006 and January 2007 with its director's and officer's liability and general liability insurers related to the defense costs and insurance coverage for claims asserted against the Company and one of its officers in News America's counterclaims. On August 9, 2007, the Company filed a complaint against the insurers in Hennepin County District Court, State of Minnesota requesting a declaratory judgment that the insurers owed the Company and its officer such defense costs and insurance coverage. In December 2007, the Company settled its claim against one of the insurers. Also, in March 2009, the Company settled with the other insurer and received a payment of \$1,387,000 as part of the settlement. The Company recorded the payment in general and administrative expenses for the quarter ended March 31, 2009, and the litigation with the insurers is now concluded.

Although management believes that News America's counterclaims are without merit, an evaluation of the likelihood of an unfavorable outcome and an estimate of the potential liability cannot be rendered at this time. If the Company is required to pay a significant amount in settlement or damages, it will have a material adverse effect on its operations and financial condition. In addition, a negative outcome of this litigation could affect long-term competitive aspects of the Company's business.

Management currently expects the amount of legal fees and expenses that will be incurred in connection with the ongoing lawsuit against News America to be significant throughout 2009. During the three months ended



March 31, 2009, the Company incurred legal fees of \$715,000 related to the News America litigation which were offset by the \$1,387,000 payment received from settlement of its claim against one of its insurers. Legal fees and expenses are expensed as incurred and are included in general and administrative expenses in the statements of operations.

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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.

3. **Income Taxes.** The Company continues to carry a full valuation allowance against its net deferred tax asset at March 31, 2009, and has therefore not recorded income tax expense for the three months ended March 31, 2009. The valuation allowance has been established due to uncertainties regarding the realization of deferred tax assets. Income tax expense was not recorded for the three months ended March 31, 2008, due to the Company's lack of profitability during that quarter.
4. **Concentrations.** During the three months ended March 31, 2009, three customers accounted for 24%, 16% and 11% of the Company's total net sales. At March 31, 2009 these customers represented 8%, 26% and 14% of the Company's total accounts receivable. During the three months ended March 31, 2008, one other customer accounted for 13% of the Company's total net sales and this customer represented 18% 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 cause a delay in and possible loss of sales, which would adversely affect operating results. Additionally, the loss of a major retailer from the Company's retail network could adversely affect operating results.

5. **New Accounting Pronouncements.** In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and is applied prospectively. The Company does not expect the adoption of FSP FAS 157-4 to have a material effect on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 are effective for interim and annual reporting periods ending after June 15, 2009. The Company does not expect the adoption of FSP FAS 107-1 and APB 28-1 to have a material effect on its consolidated financial statements.

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**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 were effective as of the end of the period covered by this report.

(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 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

**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: January 29, 2010

Insignia Systems, Inc.  
(Registrant)

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

/s/ Justin W. Shireman  
Justin W. Shireman  
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

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