INSIGNIA SYSTEMS INC/MN
Form DEF 14A
April 18, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to § 240.14a-12

Insignia Systems, Inc.

(Name of Registrant as Specified In Its Charter)

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

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

6470 Sycamore Court North, Maple Grove, MN 55369

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

May 23, 2007

TO THE SHAREHOLDERS OF INSIGNIA SYSTEMS, INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Insignia Systems, Inc. (the Company), a Minnesota corporation, will be held on Wednesday, May 23, 2007 at 9:00 a.m., Central Time, at the Marriott Minneapolis West, 9960 Wayzata Boulevard, St. Louis Park, Minnesota, for the following purposes:

1. To elect six directors to serve for one year, and until their successors are elected;

2. To approve an amendment to the Company s 2003 Incentive Stock Option Plan to increase the number of shares reserved for issuance under the Plan from 1,625,000 to 1,875,000 shares;

3. To ratify the appointment of Grant Thornton LLP as the independent registered public accounting firm for the current year;

4. To transact such other business as may properly come before the meeting or any adjournment thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on March 28, 2007 as the record date for the determination of shareholders entitled to notice of and to vote at the meeting.

By Order of the Board of Directors

Scott F. Drill
Secretary

Maple Grove, Minnesota

April 18, 2007

ALL SHAREHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. HOWEVER, TO ENSURE YOUR REPRESENTATION AT THE MEETING, YOU ARE URGED TO VOTE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN THE POSTAGE-PAID ENVELOPE ENCLOSED FOR THAT PURPOSE.

PROXY STATEMENT

This Proxy Statement is furnished to the shareholders of Insignia Systems, Inc. in connection with the Board of Directors solicitation of proxies to be voted at the annual meeting of shareholders to be held on May 23, 2007 or any adjournment thereof (the Meeting). The mailing of this Proxy Statement to shareholders commenced on or about April 18, 2007.

All expenses in connection with solicitation of proxies will be borne by the Company. The Company will pay brokers, nominees, fiduciaries, or other custodians their reasonable expenses for sending proxy material to, and obtaining instructions from, persons for whom they hold stock of the Company. The Company expects to solicit proxies by mail, but directors, officers, and other employees of the Company may also solicit in person, by telephone, by telegraph or by mail. The Company s principal offices are located at 6470 Sycamore Court North, Maple Grove, Minnesota 55369.

Any proxy may be revoked at any time before it is voted by written notice, mailed or delivered to the Secretary of the Company, or by revocation in person at the Meeting; but if not so revoked, the shares represented by such proxy will be voted in the manner directed by the shareholder. If no direction is made, proxies received from shareholders will be voted for the proposals set forth in the Notice of Meeting.

The Company has 15,316,046 shares of Common Stock, par value $.01 per share (the Common Stock) outstanding and entitled to vote at the Meeting. Each share of Common Stock is entitled to one vote. Only shareholders of record at the close of business on March 28, 2007 are entitled to vote at the meeting and at any continuation or adjournment thereof. The presence, in person or by proxy, of the holders of a majority of the shares of Common Stock entitled to vote at the meeting will constitute a quorum for the transaction of business.

Under Minnesota law, each item of business properly presented at a meeting of shareholders at which a quorum is present must be approved by the vote of the holders of a majority of the shares present, in person or by proxy, and entitled to vote on that item of business. However, under Minnesota law, directors are elected by the affirmative vote of the holders of a plurality of the shares present and entitled to vote. Votes cast by proxy or in person at the Meeting will be tabulated at the Meeting to determine whether or not a quorum is present. Abstentions will be treated as unvoted for purposes of determining the approval of the matter submitted to the shareholders for a vote. If a broker indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter, those shares will not be considered as present and entitled to vote with respect to that matter.

ITEM I

ELECTION OF DIRECTORS

Pursuant to the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has fixed the size of the Board of Directors to be elected at the Annual Meeting at six. The Nominating and Corporate Governance Committee has nominated five of the current members of the Board for re-election. The Nominating and Corporate Governance Committee has also nominated Mr. Reid MacDonald to fill the other position. All of the nominees have consented to serve if elected and all of the nominees are independent as that term is defined in the Nasdaq Listing Standards. If any nominee should be unable to serve, or becomes unavailable for any reason (which is not anticipated), the persons named in the proxies may vote for such other persons as determined by them in their discretion.

The names and ages of the nominees, their current positions with the Company, and the year each first became a director, are as follows:

Name and Age	**Position**	**Director Since**
Donald J. Kramer (74)	Chairman of the Board and Director	2002
Scott F. Drill (54)	President, Chief Executive Officer, Secretary and Director	1998
Peter V. Derycz (44)	Director	2006
W. Robert Ramsdell (66)	Director	1999
Gordon F. Stofer (60)	Director	1990
Reid V. MacDonald (59)	Director Nominee	

Business Experience

Donald J. Kramer was elected Chairman of the Board of Directors in March 2004 and has been a director since December 2002. Until 1996, he was a principal of TA Associates, a private equity capital firm located in Boston, Massachusetts. He is also a director of Micro Component Technology, Inc., a manufacturer of semiconductor handling and testing equipment based in St. Paul, Minnesota.

Scott F. Drill has been President and Chief Executive Officer of the Company since February 24, 1998. From May 1996 to December 2002, he was also a partner in Minnesota Management Partners (MMP), a venture capital firm located in Minneapolis, Minnesota. Mr. Drill co-founded Varitronic Systems, Inc. in 1983, and was its President and CEO until it was sold in 1996. Prior to starting Varitronics, Mr. Drill held senior management positions in sales and marketing at Conklin Company and Kroy, Inc.

Peter V. Derycz was appointed to the Board in January 2006. Mr. Derycz is currently the founding partner and President of Derycz Scientific, a marketing services conglomerate focused on content re-purposing tools and services, in Los Angeles, CA. From 2003 to 2004, he was CEO of the Puerto Luperon Company, a luxury resort real estate development company. From 1990 to 2003, he was President, Chairman and CEO of Infotrieve, Inc., a global provider of content management technology and information services. He has also served as an advisor to various organizations in the US, Europe and Australia. He holds nine Internet technology patents.

W. Robert Ramsdell has been a director of the Company since October 1999. Mr. Ramsdell has been engaged in private investments in micro cap companies since 1990. From 1973 until his retirement in 1990, Mr. Ramsdell was senior partner, director of research and office manager of

Cantor Fitzgerald & Co. in Los Angeles, engaged in the institutional equity business. He has been a financial advisor to many companies including Occupational Urgent Care Systems (OUCH) and Preferred Voice.

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Gordon F. Stofer has been a director of the Company since February 1990. Since 1980, Mr. Stofer has been the managing general partner of Cherry Tree Investments, Inc., a venture capital and investment banking firm located in Minneapolis, Minnesota. Mr. Stofer has been a director of numerous public and private companies over the past 26 years.

Reid V. MacDonald, nominee for election as a director, has been President and CEO of Faribault Foods, Inc. since 1982, and served in other capacities with Faribault Foods, Inc. since 1974. Faribault Foods, Inc. is a privately held processor and marketer of canned specialty products. Mr. MacDonald has served on numerous public and private company and non-profit boards over the course of his career, and is the outgoing Chairman of the Food Processors Association, and is on the Board and Executive Committee of the Grocery Manufacturer s Association.

Compensation of Directors

Prior to 2003, the Company s directors did not receive any fees for their service on the Board of Directors, other than reimbursement of reasonable out-of-pocket expenses incurred on behalf of the Company. During 2006 outside directors received a fee of $10,000 per year and $1,000 for each Board meeting ($250 for each conference call meeting) that they attended. In addition, the Chair of each committee received $1,000 for each meeting of the committee, and members of the committee received $500 for each meeting of the committee that they attended. The 2003 Incentive Stock Option Plan provides for the grant to each non-employee director of a non-qualified option to purchase 10,000 shares of common stock at the time the director is first elected or appointed to the Board, and grants of non-qualified options for 5,000 shares each year that the director is re-elected. All grants have an exercise price equal to the closing market price on the date of grant.

DIRECTOR COMPENSATION

The following table summarizes the compensation paid by the Company to non-employee directors for the fiscal year ended December 31, 2006.

Name (1)	**Fees Earned or Paid in Cash** (2)	**Option Awards** (3)	**Non-Equity Incentive Plan Compensation**	**Change in Pension Value and Nonqualified Deferred Compensation Earnings**	**All Other Compensation**	**Total**
Donald J. Kramer	$ 19,250	$ 5,990	$	$	$	$ 25,240

Peter V. Derycz	$12,667	$2,433	$	$	$	$15,100
W. Robert Ramsdell	$16,250	$1,735	$	$	$	$17,985
Gordon F. Stofer	$20,000	$1,735	$	$	$	$21,735
Gary L. Vars [4]	$12,167	$	$	$	$	$12,167

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(1) Scott F. Drill, the Company s President and Chief Executive Officer, is not included in this table as he is an employee of the Company and thus received no compensation for his service as a director.
(2) Reflects annual board retainer, and fees for attending board and committee meetings earned during 2006.
(3) Valuation is based on the stock-based compensation expense which the Company recognized during 2006 for financial statement purposes under FAS 123(R) for awards granted in 2006 and prior years utilizing assumptions discussed in Note 7 to the Company s financial statements for the year ended December 31, 2006, but disregarding the estimate of forfeitures.
(4) Gary L. Vars retired January 31, 2006, as an employee and executive officer of the Company. The Company entered into a Consulting Agreement with Mr. Vars, effective February 1, 2006, for a period of three years for a fee of $200,000 and a stock option grant to acquire 75,000 shares of common stock with an exercise price of $0.84, the market price of the stock of February 1, 2006. This agreement was approved by the Compensation Committee in December 2005. During 2006 the Company recognized $61,000 of expense related to the consulting fee and $18,270 of expense related to the value of the stock option grant, which are not reflected in the table of Director Compensation.

The following table shows the aggregate number of shares underlying outstanding stock options held by the Company s non-employee directors as of December 31, 2006.

Name	**Shares Underlying Outstanding Stock Option Awards**	**Exercisable**	**Unexercisable**
Donald J. Kramer	130,000	130,000	
Peter V. Derycz	10,000	10,000	
W. Robert Ramsdell	35,000	35,000	
Gordon F. Stofer	35,000	35,000	
Gary L. Vars [1]			

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(1) Does not include options for 150,000 shares granted while an employee, nor options for 75,000 shares granted for consulting services, all of which were exercisable as of December 31, 2006.

The following table shows the grant date fair value of all stock option awards made to the Company s non-employee directors during the year ended December 31, 2006.

Name	Grant Date Fair Value Of Option Awards In 2006
Donald J. Kramer	$ 1,735
Peter V. Derycz	$ 2,433
W. Robert Ramsdell	$ 1,735
Gordon F. Stofer	$ 1,735
Gary L. Vars [(1)]	$

(1) Does not include the fair value of options awarded to Mr. Vars in 2006 for consulting services.

Meetings and Committees of the Board of Directors

The Board of Directors met 12 times during 2006. Each director attended at least 75% of all meetings of the Board and committees of the Board on which he served. Directors are expected to attend substantially all of the meetings of the Board and the Committees on which they serve, except for good cause. Each director also attended the 2006 Annual Meeting of Shareholders. Directors who have excessive absences without good cause will not be nominated for re-election or, in extreme cases, will be asked to resign or be removed. The Board of Directors has three standing committees, the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee.

Audit Committee. The current members of the Audit Committee are Mr. Kramer, Mr. Ramsdell and Mr. Stofer, each of whom is independent as that term is defined in the Nasdaq Listing Standards. Mr. Kramer has been designated by the Board as the Audit Committee s financial expert, as that term is defined by rules of the Securities and Exchange Commission (SEC). The Audit Committee provides independent objective oversight of the Company s financial reporting system, reviews and evaluates significant matters relating to the audit and the internal controls of the Company, reviews the scope and results of audits by, and the recommendations of, the Company s independent auditors and approves additional services to be provided by the auditors. The Audit Committee also reviews and approves all related-party transactions. The Audit Committee operates pursuant to a written Charter that was most recently amended on February 19, 2004, and is available on the Company s website at www.insigniasystems.com. The Committee met eight times during 2006. These meetings were designed to facilitate

and encourage private communication between the Audit Committee and the Company s independent auditors. See the Report of the Audit Committee in this Proxy Statement.

Compensation Committee. The Compensation Committee currently consists of Mr. Stofer, Mr. Kramer and Mr. Ramsdell, all of whom are independent as that term is defined by the Nasdaq Listing Standards. Among other duties, the Compensation Committee reviews and approves the compensation of the Company s officers, benefits policies, strategies and pay levels necessary to support corporate objectives. The Compensation Committee also approves option grants to employees. The Committee operates pursuant to a written Charter that was most recently amended on February 20, 2007, and is available on the Company s website at www.insigniasystems.com. The Compensation Committee met nine times during 2006. See the Report of the Compensation Committee in this Proxy Statement.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee was formed in December 2002. The current members of the Committee are Mr. Stofer, Mr. Kramer and Mr. Ramsdell, each of whom is independent as that term is defined in the Nasdaq Listing Standards. The Committee operates pursuant to a written Charter that was most recently amended on February 19, 2004, and is available on the Company s website at www.insigniasystems.com. Among other duties, the Committee is responsible for nominating the slate of directors to be considered for election at the Company s annual meeting of shareholders. The Committee met two times in 2006.

The Nominating and Corporate Governance Committee Charter states that the Committee will evaluate candidates for election as directors using the following criteria: education, reputation, experience, industry knowledge, independence, leadership qualities, personal integrity, and such other criteria as the Committee deems relevant. The Committee will consider candidates recommended by the Board, management, shareholders, and others. The Charter authorizes the Committee to retain and pay advisors to assist it in identifying and evaluating candidates.

Shareholders who wish to recommend candidates to the Nominating and Corporate Governance Committee should submit the names and qualifications of the candidates to the Committee at least 120 days before the date of the Company s proxy statement for the previous year s Annual Meeting. Submittals should be in writing, addressed to the Committee at the Company s headquarters.

Shareholder Communications with the Board

Shareholders may send written communications to the Board or to any individual director at any time. Communications should be addressed to the Board or the individual director at the address of the Company s headquarters. The Board may direct that all of such communications be screened by an employee of the Company for relevance. The Board will respond to shareholder communications when it deems a response to be appropriate.

Code of Ethics

The Board of Directors has adopted a Code of Ethics to promote the highest honest and ethical conduct and compliance with laws, regulations and Company policies by the Company s directors, officers, employees and contractors.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR ELECTION OF THE SIX NOMINEES.

ITEM II

AMENDMENT TO 2003 INCENTIVE STOCK OPTION PLAN

The Board of Directors has adopted, subject to shareholder approval, an amendment to the Company s 2003 Incentive Stock Option Plan (the 2003 Plan). The amendment provides for an increase in the total number of shares available under the 2003 Plan from 1,625,000 shares to a total of 1,875,000 shares. On May 20, 2003, the shareholders approved the 2003 Plan to replace the 1990 Stock Plan (the 1990 Plan). On May 20, 2004, the

shareholders approved an increase in the total number of shares available under the 2003 Plan from 350,000 shares to a total of 1,000,000 shares and on May 18, 2005, the shareholders approved an increase in the total number of shares available under the 2003 Plan from 1,000,000 to 1,625,000. As of March 31, 2007, there were options outstanding to purchase 1,332,768 shares under the 2003 Plan.

The amendment to the 2003 Plan will enable the Company to grant awards as needed to attract, retain and motivate employees and other service providers. The 2003 Plan is intended to enhance the Company s ability to provide key individuals with awards and incentives commensurate with their contribution and competitive with those offered by other employers, and to increase shareholder value by further aligning the interest of key individuals with the interests of the Company s shareholders by providing an opportunity to benefit from stock price appreciation that generally accompanies improved financial performance. The Board of Directors believes that the Company s long term success is dependent upon the Company s ability to attract, retain and motivate highly qualified individuals who, by virtue of their ability and qualifications, make important contributions to the Company.

Summary of the Plan

The 2003 Plan provides for the granting of stock options to employees, non-employee directors, consultants and advisors. There are currently 88 employees and 4 non-employee directors who are eligible to receive options under the 2003 Plan. Prior to the increase which the shareholders are being asked to approve at the Annual Meeting, an aggregate of 1,625,000 shares of Common Stock had been issued or reserved for issuance under the 2003 Plan. Shares covered by expired or terminated stock options may be used for subsequent awards under the 2003 Plan.

The 2003 Plan is administered by the Compensation Committee, whose members are appointed by the Board. The Committee has the power to select recipients, make grants of stock options, and adopt regulations and procedures for the 2003 Plan. Non-employee directors receive automatic option grants for 10,000 shares in the year in which they are first appointed or elected to the Board, and option grants for 5,000 shares each year they are re-elected.

The 2003 Plan permits the grant of both stock options that qualify as incentive stock options under the Internal Revenue Code and options that do not so qualify (non-qualified options). Incentive stock options differ as to their tax treatment and are subject to a number of limitations under the Internal Revenue Code. Incentive stock options may only be granted to employees, and may not be granted with an exercise price less than 100% of the fair market value of the Common Stock on the date of the grant (or, for an option granted to a person holding more than 10% of the Company s voting stock, at less than 110% of fair market value). On March 30, 2007, the closing sale price of the Common Stock was $3.39 per share. The 2003 Plan states that the maximum number of shares for which any person may be granted options in any year shall not exceed 100,000 shares.

Following an optionee s death or disability, the optionee s options may be exercised by the optionee (or the optionee s legal representative or legatee) for a period of one year or until the expiration of the stated term of the option, whichever is less. If an optionee s employment with the Company terminates for any other reason, the optionee s options will remain exercisable for 90 days or until the expiration of the stated term, whichever is less, except if such optionee is terminated for conduct which is contrary to the best interest of the Company, or violates any written nondisclosure agreement, the optionee s options will immediately terminate. Options may not be transferred other than by will or the laws of descent and distribution, and during the lifetime of an optionee may be exercised only by the optionee.

The term of each option, which is fixed by the Committee at the time of grant, may not exceed ten years from the date the option is granted (except that an incentive option granted to a person holding more than 10% of the Company s voting stock may be exercisable only for five years). Options may be made exercisable in whole or in installments, as determined by the Committee. The vesting of options will be accelerated upon a change in control of the Company.

Federal Income Tax Treatment

Generally the grant of either an incentive stock option or a non-qualified option under the 2003 Plan will not cause recognition of income by the optionee or entitle the Company to an income tax deduction. Upon exercise of an option, the tax treatment will generally vary depending on whether the option is an incentive stock option or a

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non-qualified option. The exercise of an incentive stock option will generally not cause recognition of income by the optionee or entitle the Company to a tax deduction. However, the amount by which the fair market value of the shares obtained exceeds the exercise price on the date of exercise is an item of tax preference to the optionee for alternative minimum tax purposes.

The exercise of a non-qualified option will generally cause the optionee to recognize taxable income equal to the difference between the exercise price and the fair market value of the stock obtained on the day of exercise. The Company must then in most cases withhold the tax arising from the transaction. The exercise of a non-qualified option will also generally entitle the Company to an income tax deduction equal to the amount of the income recognized by the exercising option holder.

The foregoing discussion of the federal income tax treatment of options is necessarily general and any option holder should consult his tax advisor as to his own particular circumstances and applicable laws and regulations.

Registration with the SEC

Upon approval of the amendment to the 2003 Plan, the Company will file a Registration Statement on Form S-8 with the SEC to register the issuance of the additional shares.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR APPROVAL OF THE AMENDMENT TO THE 2003 PLAN.

ITEM III

RATIFICATION OF APPOINTMENT OF

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

While we are not required to do so, we are submitting the appointment of Grant Thornton LLP (Grant Thornton) as our independent registered public accounting firm for our fiscal year ending December 31, 2007, for ratification in order to ascertain the views of our shareholder on this appointment. If the appointment is not ratified by the shareholders, the Audit Committee will reconsider its selection. Grant Thornton has been the Company s auditors since 2003. A representative of Grant Thornton is expected to be present at the Meeting, and will be given the opportunity to make a statement and will be available to answer appropriate questions.

Audit and Audit Related Fees

The following table shows the fees for services rendered by Grant Thornton for the years ended December 31, 2006 and 2005.

	2006	**2005**
Audit Fees[(1)]	$104,000	$96,900
Audit-Related Fees[(2)]	12,800	9,000
Tax Fees[(3)]	13,500	13,500
All Other Fees		
Total	$130,300	$119,400

(1) Audit fees represent fees for professional services provided in connection with the audit of the Company s financial statements, reviews of quarterly financial statements, and filings of registration statements related to shares reserved for issuance under stock option plans.
(2) Audit-related fees represent fees for the audit of the Company s 401(k) plan.
(3) Tax fees represent fees for the preparation of tax filings and technical advice regarding various tax issues.

The Company s Audit Committee Charter states that before the principal accountant is engaged by the Company to render audit or non-audit services in any year, the engagement will be approved by the Company s Audit Committee. All of the services described above were pre-approved by the Company s Audit Committee.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE CURRENT YEAR.

AUDIT COMMITTEE REPORT

The Audit Committee reviewed and discussed the 2006 audited financial statements with management and Grant Thornton LLP. Management represented to the Audit Committee that the Company s financial statements were prepared in accordance with generally accepted accounting principles. The discussions with Grant Thornton LLP also included the matters required by Statement on Auditing Standards No. 61 (Communication with Audit Committees).

Grant Thornton LLP provided to the Audit Committee the written disclosures and the letter regarding its independence as required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The Committee discussed with the independent auditors the auditors independence from management and the Company and considered the compatibility of nonaudit services with the auditors independence.

Based on the discussions with management and Grant Thornton LLP, the Audit Committee s review of the representations of management and the report of Grant Thornton LLP, the Audit Committee recommended to the Board that the audited financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission.

Submitted by the Audit Committee:

Donald Kramer, Chairman W. Robert Ramsdell Gordon Stofer

The preceding report shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933 (the 1933 Act) or the Securities Exchange Act of 1934 (the 1934 Act), except to the extent the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under the 1933 Act or the 1934 Act.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview and Philosophy

The Compensation Committee of the Board of Directors (the Committee) operates pursuant to a Charter adopted by the Board of Directors on February 24, 2003 and amended on February 20, 2007. The Charter includes a mission statement which states that the Committee s mission is to ensure that the Company s executive officers are compensated consistent with the following philosophy and objectives: (1) to support the Company s overall business strategy and objectives; (2) to attract, retain and motivate the best executives in the Company s industry; (3) to promote the Company s pay-for-performance philosophy; and (4) to ensure that the Company s compensation programs and practices are of the highest quality and designed with full consideration of all accounting, tax, securities law, and other regulatory requirements.

The main duties of the Committee, as described in the Charter, are as follows: (1) review and approve annual base salary and incentive compensation levels, employment agreements, and benefits of the Chief Executive Officer and other key executives; (2) review the performance of the Chief Executive Officer; (3) review and assess performance target goals established for bonus plans and determine if goals were achieved at the end of the plan year; (4) act as the administrative committee for the Company s stock plans, and any other incentive plans established by the Company; (5) consider and approve grants of incentive stock options, non-qualified stock options, restricted stock or any combination to any employee; and (6) prepare the Report of the Compensation Committee for

inclusion in the Annual Proxy Statement. The Committee has, from time to time, retained Towers Perrin to advise it on compensation matters. The Committee also consults with the Chief Executive Officer on compensation issues regarding the other executive officers.

It is the intention of the Committee to utilize a pay-for-performance compensation strategy that is directly related to achieving the financial objectives of the Company. The primary elements of the executive compensation program are base salary, annual incentives, and long-term incentives.

Base Salary

Base salaries of the Company s executive officers are intended to be competitive with the median base salaries paid by other corporations similar to the Company and to serve as a platform for performance-based (incentive) pay. Base salaries are determined for executive positions using compensation surveys, taking into account variables such as geography, job comparability, size of the company and nature of the business. In addition to base salary, executive officers are eligible to participate in the Company s employee benefit plans on the same terms as other employees.

Annual Incentives

In December 2005, the Committee approved the CEO 2006 Bonus Plan. Under the plan, the CEO was eligible to earn a bonus in 2006 equal to the sum of (a) 1% of total revenue from the Company s POPSign business between $15 million and $20 million, for a maximum bonus of $50,000, plus (b) 3.75% of the Company s gross margin for the POPSign business on POPSign revenue in excess of $20 million. The CEO earned a bonus of $42,187 in 2006 under tier (a) of the plan, but did not qualify for any bonus under tier (b) of the plan. There was no annual incentive plan in place for the other executive officers in 2006.

In December 2006, the Committee approved the CEO 2007 Bonus Plan. Under the plan, the CEO is eligible to earn a bonus in 2007 equal to the sum of (a) 1% of total revenue from the Company s POPSign business between $19 million and $24 million, for a maximum bonus of $50,000, plus (b) 3.75% of the Company s gross margin for the POPSign business on POPSign revenue in excess of $24 million.

In February 2007, the Committee also approved the 2007 Executive Incentive Plan. The employees eligible to participate in the plan are the Vice President of Finance, Senior Vice President of Marketing Services, Vice President of Operations, Vice President of Technology Development and Controller. Under the terms of the Plan, eligible employees may receive annual bonuses between 2% and 45% of base salary if the registrant achieves targets relating to Insignia POPS revenue and corporate net income.

The Company believes these plans are consistent with its pay-for-performance compensation strategy.

Long-term Incentives

The 1990 Stock Plan and the 2003 Incentive Stock Option Plan, are the basis of the Company s long-term incentive plans for executive officers and other key employees. The objective of the plans is to align executives long-term interests with those of the shareholders by creating a direct incentive for executives to increase shareholder value. The stock option grants allow executives to purchase shares of Company stock at a price equal to the fair market value of the stock on the date of grant over a term of five to ten years. The options generally vest and become exercisable over a period of up to three years following the date of grant. The award of option grants is consistent with the Company s objective to include in total compensation a long-term equity interest for executive officers, with greater opportunity for reward if long-term performance is sustained. The Committee granted options to the named executive officers on May 16, 2006 as shown in the Grants of Plan-Based Awards table.

The Company also maintains the Employee Stock Purchase Plan, pursuant to which eligible employees can contribute up to ten percent of their base pay per year to purchase shares of Common Stock. The shares are issued by the Company at a price per share equal to 85 percent of market value on the first day of the offering period or the last day of the plan year, whichever is lower.

Conclusion

The Committee believes that the executive compensation plan discussed in this Proxy Statement is consistent with the overall corporate strategy for growth in earnings and shareholder value.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on our reviews and discussion with management, the Compensation Committee recommended to the Board of Directors, and the Board has approved, that the Compensation Discussion and Analysis be included in this Proxy Statement.

Submitted by the Compensation Committee:

Gordon Stofer, Chairman Donald Kramer W. Robert Ramsdell

SUMMARY COMPENSATION TABLE

The following table shows, for our Chief Executive Officer, our Chief Financial Officer and each of the other two executive officers, together referred to as our named executive officers, information concerning compensation earned for service in all capacities during the fiscal year ended December 31, 2006.

Name and Position	Year	Salary	Bonus(1)	Option Awards(2)	Non-Equity Incentive Plan Compensation(1)	All Other Compensation(3)	Total
Scott F. Drill(4) President, Chief Executive Officer and Secretary	2006	$275,000	$	$54,794	$ 42,187	$ 17,971	$389,952
Justin W. Shireman Vice President of Finance, Chief Financial Officer and Treasurer	2006	$140,000	$	$23,964	$	$ 464	$164,428
Scott J. Simcox Senior Vice President, Marketing Services	2006	$160,175	$	$25,232	$	$ 12,326	$197,733
A. Thomas Lucas Vice President, Operations	2006	$135,500	$	$21,380	$	$ 472	$157,352

(1) Only discretionary and guaranteed bonuses are disclosed in the Bonus column. Bonuses based upon the achievement of certain performance targets are reported in the Non-Equity Incentive Plan Compensation column.
(2) Valuation is based on the stock-based compensation expense which the Company recognized during 2006 for financial statement purposes under FAS 123(R) for awards granted in 2006 and prior years utilizing assumptions discussed in Note 7 to the Company s financial statements for the year ended December 31, 2006, but disregarding the estimate of forfeitures.
(3) For Mr. Drill and Mr. Simcox the amounts represent car allowance and premiums paid for group term life insurance. For Mr. Shireman and Mr. Lucas the amounts represent premiums paid for group term life insurance.
(4) Amounts under the Non-Equity Incentive Plan Compensation column were earned by Mr. Drill under the 2006 CEO Bonus Plan and were based upon the achievement of certain revenue and gross profit performance targets.

GRANTS OF PLAN-BASED AWARDS

The following table summarizes the 2006 grants of equity and non-equity plan-based awards to the named executive officers.

Name	Grant Date	Estimated Future Payouts, Under Non-Equity Incentive Plan Awards Threshold	Target	Maximum	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise Or Base price of Option Awards ($/Share)	Grant Date Fair Value Of Stock And Option Awards ($) (1)
Scott F. Drill	05/16/2006				100,000	$ 1.19	$ 52,807
	12/28/2006	(2)	(2)	(2)			
Justin W. Shireman	05/16/2006				50,000	$ 1.19	$ 26,403
Scott J. Simcox	05/16/2006				70,000	$ 1.19	$ 36,965
A. Thomas Lucas	05/16/2006				50,000	$ 1.19	$ 26,403

(1) Valuation is based on the grant date fair value of those awards determined pursuant to FAS 123(R) utilizing assumption discussed in Note 7 to the Company s financial statements for the year ended December 31, 2006. The actual compensation cost recognized by the Company during fiscal 2006 for these awards in addition to the cost of equity awards granted in prior years are listed in the Option Awards column of the Summary Compensation Table.

(2) Represents future amounts payable under the 2007 CEO Bonus Plan adopted December 28, 2006, whereby bonus may be earned in 2007 based upon POPS revenue. For POPS revenue between $19 million and $24 million a bonus will be earned equal to 1% of revenue within this POPS revenue window. For POPS revenue over $24 million a bonus will be earned equal to 3.75% of the corporation s gross margin for POPS revenue over $24 million.

Option Grant Policies

Options granted under the 2003 Incentive Stock Option Plan are granted at an exercise price determined by the Compensation Committee (the Committee) on the date of grant equal to the fair market value on the date of grant. No options have been granted under the 1990 Stock Option Plan since 2003. The Committee considers grants to key employees (including executives) annually at its meeting in conjunction with the annual shareholder meeting (typically May of each year) and quarterly during the year for grants to new employees and when indicated by circumstances. The Committee considers the impact of the release of material information proximal to the date of option grants prior to making grants.

POTENTIAL CHANGE IN CONTROL PAYMENTS

The following table presents the estimated total amounts that would be paid out to the named executive officers for a qualifying termination following a change in control (assuming a change in control occurred on December 31, 2006).

Name	Payment Amount
Scott F. Drill	$ 550,000
Justin W. Shireman	$ 280,000
Scott J. Simcox	$ 360,000
A. Thomas Lucas	$ 140,000

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Messrs. Drill, Shireman, Simcox and Lucas have Change in Control Agreements with the Company. Messrs. Drill s, Shireman s and Simcox s agreements provide that, following a change in control of the Company, they will receive severance payments equal to two years salary if they are terminated without cause, or if they voluntarily terminate for good reason, defined in the agreement to include demotion, reduction in salary or benefits, relocation, and certain other events. In addition, Mr. Drill s agreement provides that he will receive his severance payment if he voluntarily terminates his employment for any reason following a hostile takeover of the Company. Mr. Lucas agreement provides that, following a change in control of the Company he will receive severance payments equal to one year s salary if he is terminated without cause, or if he voluntarily terminates for good reason. Benefits under the agreements are payable in a lump sum.

OUTSTANDING EQUITY AWARDS AT FISCAL 2006 YEAR-END

The following table sets forth certain information concerning equity awards to the named executive officers at December 31, 2006.

	Option Awards				
Name	**Grant Date**	**Number of Securities Underlying Unexercised Options Exercisable**	**Number of Securities Underlying Unexercised Options Unexercisable**	**Option Exercise Price**	**Option Expiration Date**
Scott F. Drill	05/17/2001	75,000		$7.87	05/17/2011
	05/22/2002	50,000		$9.30	05/22/2012
	05/20/2003	35,000		$5.80	05/20/2013
	05/20/2004	40,000	20,000	$1.31	05/20/2014
	05/18/2005	33,333	66,667	$0.96	05/18/2015
	05/16/2006		100,000	$1.19	05/16/2016
Justin W. Shireman	05/20/2003	10,000		$6.06	05/20/2013
	02/19/2004	5,000		$1.95	02/19/2014
	05/20/2004	10,000	5,000	$1.31	05/20/2014
	05/18/2005	13,333	26,667	$0.96	05/18/2015
	12/01/2005	6,666	13,334	$0.58	12/01/2015
	05/16/2006		50,000	$1.19	05/16/2016

Scott J. Simcox	04/11/2000	10,000		$4.28	04/11/2010
	05/17/2001	10,000		$7.87	05/17/2011
	05/22/2002	10,000		$9.30	05/22/2012
	05/20/2003	7,500		$5.80	05/20/2013
	02/19/2004	5,000		$1.95	02/19/2014
	05/20/2004	13,333	6,667	$1.31	05/20/2014
	05/18/2005	11,666	23,334	$0.96	05/18/2015
	05/16/2006		70,000	$1.19	05/16/2016
A. Thomas Lucas	04/11/2000	10,000		$4.28	