INSIGNIA SYSTEMS INC/MN
Form 10-Q
November 14, 2007
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

for the quarterly period ended September 30, 2007

or

o 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**

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

6470 Sycamore Court North

Maple Grove, MN 55369

(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 x No o

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 o Accelerated filer o Non-accelerated filer x

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

Yes o No x

Number of shares outstanding of Common Stock, $.01 par value, as of October 31, 2007, was 15,536,325.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Insignia Systems, Inc.

BALANCE SHEETS

(Unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,875,000	$ 3,785,000
Accounts receivable net of $10,000 allowance	2,842,000	2,925,000
Inventories	496,000	452,000
Prepaid expenses and other	906,000	888,000
Total Current Assets	11,119,000	8,050,000
Other Assets:		
Property and equipment, net	413,000	477,000
Other	22,000	56,000
Total Assets	$ 11,554,000	$ 8,583,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Line of credit	$	$ 186,000
Current maturities of long-term liabilities	260,000	241,000
Accounts payable	1,480,000	1,345,000
Accrued liabilities		
Compensation	620,000	468,000
Employee stock purchase plan	114,000	98,000
Legal	180,000	105,000
Other	188,000	154,000
Deferred revenue	327,000	436,000
Total Current Liabilities	3,169,000	3,033,000
Long-Term Liabilities, less current maturities	491,000	688,000
Commitments and Contingencies		
Shareholders Equity:		
Common stock, par value $.01:		
Authorized shares 40,000,000		
Issued and outstanding shares 15,536,000 at September 30, 2007 and 15,152,000 at December 31, 2006	155,000	152,000
Additional paid-in capital	31,316,000	29,557,000
Accumulated deficit	(23,577,000)	(24,847,000)
Total Shareholders Equity	7,894,000	4,862,000
Total Liabilities and Shareholders Equity	$ 11,554,000	$ 8,583,000

See accompanying notes to financial statements.

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Insignia Systems, Inc.

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30 2007	2006	Nine Months Ended September 30 2007	2006
Services revenues	$5,718,000	$4,452,000	$17,281,000	$14,294,000
Products sold	743,000	660,000	2,214,000	2,093,000
Total Net Sales	6,461,000	5,112,000	19,495,000	16,387,000
Cost of services	2,372,000	2,113,000	7,017,000	6,360,000
Cost of products sold	481,000	399,000	1,352,000	1,221,000
Total Cost of Sales	2,853,000	2,512,000	8,369,000	7,581,000
Gross Profit	3,608,000	2,600,000	11,126,000	8,806,000
Operating Expenses:				
Selling	1,400,000	1,174,000	4,295,000	3,615,000
Marketing	357,000	265,000	1,052,000	754,000
Warrant expense (selling & marketing)	969,000		969,000	
General and administrative	1,245,000	935,000	3,569,000	2,686,000
Total Operating Expenses	3,971,000	2,374,000	9,885,000	7,055,000
Operating Income (Loss)	(363,000)	226,000	1,241,000	1,751,000
Other Income (Expense):				
Interest income	71,000	38,000	166,000	82,000
Interest expense	(19,000)	(36,000)	(77,000)	(117,000)
Other income				100,000
Total Other Income	52,000	2,000	89,000	65,000
Income (Loss) Before Taxes	(311,000)	228,000	1,330,000	1,816,000
Income tax expense	44,000		60,000	
Net Income (Loss)	$(355,000)	$228,000	$1,270,000	$1,816,000
Net income (loss) per share:				
Basic	$(0.02)	$0.02	$0.09	$0.12
Diluted	$(0.02)	$0.01	$0.08	$0.12
Shares used in calculation of net income (loss) per share:				
Basic	15,454,000	15,104,000	15,367,000	15,074,000
Diluted	15,454,000	15,897,000	16,178,000	15,408,000

See accompanying notes to financial statements.

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Insignia Systems, Inc.

STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total
Nine Months Ended September 30, 2007					
Balance at December 31, 2006	15,152,000	$152,000	$29,557,000	$(24,847,000)	$4,862,000
Issuance of common stock, net	384,000	3,000	442,000		445,000
Stock-based compensation			348,000		348,000
Warrant expense			969,000		969,000
Net income				1,270,000	1,270,000
Balance at September 30, 2007	15,536,000	$155,000	$31,316,000	$(23,577,000)	$7,894,000
Nine Months Ended September 30, 2006					
Balance at December 31, 2005	15,002,000	$150,000	$29,165,000	$(27,243,000)	$2,072,000
Issuance of common stock, net	147,000	2,000	134,000		136,000
Stock-based compensation			191,000		191,000
Net income				1,816,000	1,816,000
Balance at September 30, 2006	15,149,000	$152,000	$29,490,000	$(25,427,000)	$4,215,000

See accompanying notes to financial statements.

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Insignia Systems, Inc.

STATEMENTS OF CASH FLOWS

(Unaudited)

Nine Months Ended September 30	**2007**	**2006**
Operating Activities:		
Net income	$ 1,270,000	$ 1,816,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	188,000	154,000
Stock-based compensation	348,000	191,000
Warrant expense	969,000	
Changes in operating assets and liabilities:		
Accounts receivable	83,000	(709,000)
Inventories	(44,000)	(17,000)
Prepaid expenses and other	16,000	(127,000)
Accounts payable	135,000	(387,000)
Accrued liabilities	277,000	(170,000)
Deferred revenue	(109,000)	89,000
Net cash provided by operating activities	3,133,000	840,000
Investing Activities:		
Purchases of property and equipment	(124,000)	(194,000)
Net cash used in investing activities	(124,000)	(194,000)
Financing Activities:		
Net change in line of credit	(186,000)	32,000
Payment of long-term liabilities	(178,000)	(145,000)
Proceeds from issuance of common stock, net	445,000	136,000
Net cash provided by financing activities	81,000	23,000
Increase in cash and cash equivalents	3,090,000	669,000
Cash and cash equivalents at beginning of period	3,785,000	2,711,000
Cash and cash equivalents at end of period	$ 6,875,000	$ 3,380,000
Supplemental disclosures for cash flow information:		
Cash paid during periods for interest	$ 45,000	$ 73,000
Cash paid during periods for income taxes	60,000	

See accompanying notes to financial statements.

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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 September 30, 2007, and its results of operations for the three and nine months ended September 30, 2007 and 2006, and cash flows for the nine months ended September 30, 2007 and 2006. 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, 2006.

The Summary of Significant Accounting Policies in the Company s 2006 Annual Report on Form

10-K 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, 2007	**December 31, 2006**
Raw materials	$121,000	$162,000
Work-in-process	46,000	8,000
Finished goods	329,000	282,000
	$496,000	$452,000

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

	September 30, 2007	**December 31, 2006**
Production tooling, machinery and equipment	$1,806,000	$1,792,000
Office furniture and fixtures	191,000	191,000
Computer equipment and software	721,000	661,000
Leasehold improvements	368,000	341,000
	3,086,000	2,985,000
Accumulated depreciation and amortization	(2,673,000)	(2,508,000)
Net Property and Equipment	$413,000	$477,000

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Stock-Based Compensation. Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123(R)), using the modified prospective transition application method. Under this method, compensation expense is recognized for employee awards granted, modified, or settled subsequent to December 31, 2005, and the unvested portion of awards granted to employees prior to January 1, 2006. We use the straight-line method to recognize compensation expense over the requisite service period of the award.

There were 1,000 stock option awards in the third quarter of 2007. Total stock-based compensation expense recorded for the nine months ended September 30, 2007 and 2006, was $348,000 and $191,000, respectively.

Net Income Per Share. Basic net income 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 per share gives effect to all diluted potential common shares outstanding during the period. Options and warrants to purchase approximately 1,061,000 and 762,000 shares of common stock with weighted average exercise prices of $6.24 and $7.64 were outstanding at September 30, 2007 and 2006 and were not included in the computation of common stock equivalents for the three months ended September 30, 2007 and 2006 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 1,207,000 and 1,181,000 shares of common stock with weighted average exercise prices of $6.12 and $5.96 were outstanding at September 30, 2007 and 2006 and were not included in the computation of common stock equivalents for the nine months ended September 30, 2007 and 2006 because their exercise prices were higher than the average fair market value of the common shares during the reporting period.

Weighted average common shares outstanding for the three and nine months ended September 30, 2007 and 2006 were as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2007	**2006**	**2007**	**2006**
Denominator for basic net income (loss) per share weighted average shares	15,454,000	15,104,000	15,367,000	15,074,000
Effect of dilutive securities:				
Stock options and warrants		793,000	811,000	334,000
Denominator for diluted net income (loss) per share adjusted weighted average shares	15,454,000	15,897,000	16,178,000	15,408,000

2. **Line of Credit.** On September 16, 2004, the Company entered into a Financing Agreement, Security Agreement and Revolving Note (collectively, the Credit Agreement) with Marquette Business Credit, Inc. that initially provided for borrowings up to $1,500,000 for twelve months, subject to collateral availability. The borrowings were secured by all of the Company s assets. The Credit Agreement provided that borrowings would bear interest at 2.5% over prime, with a minimum monthly interest charge of $2,500, and an annual fee of 1% of the Revolving Note payable. On November 22, 2004, the Company entered into an amendment to the Credit Agreement to extend the term to April 30, 2006, and on May 8, 2006, the Company entered into a second amendment to the Credit Agreement to extend the term to April 30, 2007. The Company did not renew the Credit Agreement and all borrowings were repaid as of April 30, 2007.

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3. **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., and the New York action was subsequently dismissed.

On September 23, 2004, the Company brought suit against News America and Albertson s Inc. 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 similar to the claims in its New York action against Insignia and one of its officers. Motions to dismiss the counterclaims were argued in June 2007, and on September 28, 2007 the Court denied the motions to dismiss the counterclaims. The parties are now engaged in pre-trial discovery. Pursuant to Court order, all discovery and pre-trial matters must be completed by July 2008. Management believes that the allegations of the counterclaims are without merit. An evaluation of the likelihood of an unfavorable outcome and 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.

The Company filed claims in December 2006 and January 2007 with its directors and officers liability and general liability insurers related to the defense costs and insurance coverage for claims asserted by News America against the Company and one of its officers in the counterclaim above. The insurance companies have not agreed to pay any of these claims. For that reason, 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 owe the Company and its officer such defense costs and insurance coverage.

Management currently expects the amount of legal fees that will be incurred in connection with the ongoing lawsuit to be significant throughout 2007 and 2008. During the nine months ended September 30, 2007, the Company incurred legal fees of $1,286,000 related to the News America litigation. Legal fees are expensed as incurred.

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.

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4. **Concentrations.** During the nine months ended September 30, 2007, two customers accounted for 13% and 11% of the Company s total net sales. At September 30, 2007, these two customers represented 14%, and 10% of the Company s total accounts receivable. During the nine months ended September 30, 2006, these two customers accounted for 27% and 10% of the Company s total net sales.

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.

5. **Income Taxes.** At December 31, 2006, the Company had net operating loss carryforwards of approximately $23,000,000, which are available to offset future taxable income. These carryforwards are subject to the limitations of Internal Revenue Code Section 382. This Section provides limitations on the availability of net operating losses to offset current taxable income if an ownership change has occurred as defined by Internal Revenue Code Section 382. These carryforwards will begin expiring in 2009. The Company has established a valuation allowance against all deferred tax assets due to the uncertainties regarding the realization of the deferred tax assets based upon the Company s lack of historical earnings. Readers should refer to Note 8 of the Company s Financial Statements on Form 10-K for the year ended December 31, 2006, for additional information related to income taxes.

The Company believes it has sufficient net operating losses available to offset taxable net income; however, it recorded income tax expense of $44,000 for the quarter ended September 30, 2007, related to alternative minimum tax liability. The Company continues to provide a full valuation allowance against all deferred tax assets as of September 30, 2007.

The Company adopted the provisions of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards 5, *Accounting for Contingencies*. As required by Interpretation 48, which clarifies Statement 109, *Accounting for Income Taxes*, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied Interpretation 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of Interpretation 48, the Company recognized no liability for unrecognized tax benefits, which would have been accounted for as a reduction to the January 1, 2007, balance of retained earnings.

The Company is subject to income taxes in the U.S. federal jurisdiction and various states jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2003.

6. **Warrant Expense.** On July 2, 2007, the Company and Valassis Sales and Marketing Services, Inc. (Valassis), entered into Amendment No. 2 (the Amendment) to the Exclusive Reseller Agreement between the parties. The Amendment extends the term of the strategic alliance between the parties to December 31, 2017. The Amendment also expands the strategic alliance to increase the role of Valassis in developing and expanding the Company s participating retailer network. Valassis received a five-year warrant to acquire 800,000 shares of Insignia s common stock at a price of $4.04 and will be paid a cash commission by the Company on the revenue the Company realizes from POPS programs the consumer packaged goods manufacturers conduct in the new retail chains. The Company recorded $969,000 of expense for the quarter ended September 30, 2007, related to the fair value of the warrant.

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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.

	Nine Months Ended September 30				Three Months Ended September 30			
	2007		2006		2007		2006	
Net sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of sales	44.2		49.1		42.9		46.3	
Gross profit	55.8		50.9		57.1		53.7	
Operating expenses:								
Selling	21.7		23.0		22.0		22.1	
Marketing	5.5		5.2		5.4		4.6	
Warrant expense (selling & marketing)	15.0				5.0			
General and administrative	19.3		18.3		18.3		16.3	
Total operating expenses	61.5		46.5		50.7		43.0	
Operating income (loss)	(5.6	)	4.4		6.4		10.7	
Other income (expense)	0.8				0.5		0.4	
Income (loss) before taxes	(4.8	)	4.4		6.9		11.1	
Income tax expense	0.7				0.4			
Net income (loss)	(5.5	)%	4.4	%	6.5	%	11.1	%

A 19.0% increase in net sales for the first nine months of 2007 compared to the first nine months of 2006 resulted in a 26.3% increase in gross profit in 2007. This increase in gross profit was offset by increased legal expense in 2007, and warrant expense in 2007 which was not present in 2006, resulting in a 30.1% decrease in net income in the first nine months of 2007 compared to the first nine months of 2006.

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, 2006, included in our Form 10-K filed with the Securities and Exchange Commission on April 2, 2007. We believe our most critical accounting policies and estimates include the following:

- revenue recognition;
- allowance for doubtful accounts;
- inventory valuation;
- accounting for deferred income taxes;
- valuation of long-lived and intangible assets; and
- stock-based compensation.

Three and Nine Months ended September 30, 2007 Compared to Three and Nine Months Ended September 30, 2006

Net Sales. Net sales for the three months ended September 30, 2007, increased 26.4% to $6,461,000 compared to $5,112,000 for the three months ended September 30, 2006. Net sales for the nine months ended September 30, 2007, increased 19.0% to $19,495,000 compared to $16,387,000 for the nine months ended September 30, 2006.

Service revenues from our POPSign programs for the three months ended September 30, 2007, increased 28.4% to $5,718,000 compared to $4,452,000 for the three months ended September 30, 2006. Service revenues from our POPSign programs for the nine months ended September 30, 2007, increased 20.9% to $17,281,000 compared to $14,294,000 for the nine months ended September 30, 2006. The increases were primarily due to an increase in the number of POPSign programs sold to customers (consumer packaged goods manufacturers) during the period.

Product sales for the three months ended September 30, 2007, increased 12.6% to $743,000 compared to $660,000 for the three months ended September 30, 2006. Product sales for the nine months ended September 30, 2007, increased 5.8% to $2,214,000 compared to $2,093,000 for the nine months ended September 30, 2006. The increases were primarily due to increased sales of laser label supplies which were partially offset by decreased sales of thermal sign card supplies.

Gross Profit. Gross profit for the three months ended September 30, 2007, increased 38.8% to $3,608,000 compared to $2,600,000 for the three months ended September 30, 2006. Gross profit for the nine months ended September 30, 2007, increased 26.3% to $11,126,000 compared to $8,806,000 for the nine months ended September 30, 2006. Gross profit as a percentage of total net sales increased to 55.8% for the three months ended September 30, 2007, compared to 50.9% for the three months ended September 30, 2006. Gross profit as a percentage of total net sales increased to 57.1% for the nine months ended September 30, 2007, compared to 53.7% for the nine months ended September 30, 2006.

Gross profit from our POPSign program revenues for the three months ended September 30, 2007, increased 43.1% to $3,346,000 compared to $2,339,000 for the three months ended September 30, 2006. Gross profit from our POPSign program revenues for the nine months ended September 30, 2007, increased 29.4% to $10,264,000 compared to $7,934,000 for the nine months ended September 30, 2006. The increases were primarily due to increased sales and the effect of fixed costs. Gross profit as a percentage of POPSign program revenues for the three months ended September 30, 2007, increased to 58.5% compared to 52.5% for the three months ended September 30, 2006. Gross profit as a percentage of POPSign program revenues for the nine months ended September 30, 2007, increased to 59.4%, compared to 55.5% for the nine months ended September 30, 2006. The increases were due to the factors discussed above.

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Gross profit from our product sales for the three months ended September 30, 2007, increased 0.4% to $262,000 compared to $261,000 for the three months ended September 30, 2006. Gross profit from our product sales for the nine months ended September 30, 2007, decreased 1.1% to $862,000 compared to $872,000 for the nine months ended September 30, 2006. The increases and decreases were primarily due to fluctuations in the sales mix. Gross profit as a percentage of product sales was 35.3% for the three months ended September 30, 2007, compared to 39.6% for the three months ended September 30, 2006. Gross profit as a percentage of product sales was 38.9% for the nine months ended September 30, 2007, compared to 41.7% for the nine months ended September 30, 2006. The decreases were due to changes in the sales mix toward lower margin products.

Operating Expenses

Selling. Selling expenses (exclusive of selling related warrant expense) for the three months ended September 30, 2007, increased 19.3% to $1,400,000 compared to $1,174,000 for the three months ended September 30, 2006, primarily due to increased sales commissions as a result of increased sales, and increased labor and benefit costs as a result of increased headcount, salary adjustments and increased stock-based compensation expense. Selling expenses (exclusive of selling related warrant expense) for the nine months ended September 30, 2007, increased 18.8% to $4,295,000 compared to $3,615,000 for the nine months ended September 30, 2006, primarily due to the factors described above as well as increased travel related costs.

Selling expenses (exclusive of selling related warrant expense) as a percentage of total net sales decreased to 21.7% for the three months ended September 30, 2007, compared to 23.0% for the three months ended September 30, 2006, due to the factors discussed above and the effect of increased sales in the 2007 period. Selling expenses (exclusive of selling related warrant expense) as a percentage of total net sales decreased to 22.0% for the nine months ended September 30, 2007, compared to 22.1% for the nine months ended September 30, 2006, due to the factors described above and the effect of increased sales in the 2007 period.

Marketing. Marketing expenses (exclusive of marketing related warrant expense) for the three months ended September 30, 2007, increased 34.7% to $357,000 compared to $265,000 for the three months ended September 30, 2006, primarily due to increased labor and benefit costs as a result of increased headcount, salary adjustments and increased stock-based compensation expense. Marketing expenses (exclusive of marketing related warrant expense) for the nine months ended September 30, 2007, increased 39.5% to $1,052,000 compared to $754,000 for the nine months ended September 30, 2006, primarily due to increased labor and benefit costs (as a result of increased headcount, salary adjustments and increased stock-based compensation expense) and increased data acquisition and analysis costs.

Marketing expenses (exclusive of marketing related warrant expense) as a percentage of total net sales increased to 5.5% for the three months ended September 30, 2007, compared to 5.2% for the three months ended September 30, 2006, primarily due to the factor discussed above and the effect of increased sales during the three months ended September 30, 2007. Marketing expenses (exclusive of marketing related warrant expense) as a percentage of total net sales increased to 5.4% for the nine months ended September 30, 2007, compared to 4.6% for the nine months ended September 30, 2006, primarily due to the factors discussed above and the effect of higher net sales during the nine months ended September 30, 2007.

Warrant expense (selling and marketing). On July 2, 2007, the Company and Valassis Sales and Marketing Services, Inc. (Valassis), entered into Amendment No. 2 (the Amendment) to the Exclusive Reseller Agreement between the parties. The Amendment extends the term of the strategic alliance between the parties to December 31, 2017. The Amendment also expands the strategic alliance to increase the role of Valassis in the selling and marketing efforts of developing and expanding the Company s participating retailer network. Valassis received a five-year warrant to acquire 800,000 shares of Insignia s common stock at a price of $4.04 and will be paid a cash commission by the Company on the revenue the Company realizes from POPS programs the consumer packaged goods manufacturers conduct in the new retail chains. The Company recorded $969,000 of expense for the quarter and nine months ended September 30, 2007, related to the fair value of the warrant.

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General and administrative. General and administrative expenses for the three months ended September 30, 2007, increased 33.2% to $1,245,000 compared to $935,000 for the three months ended September 30, 2006, primarily due to increased legal expense and increased labor and benefit costs (resulting from increased headcount, salary adjustments and increased stock-based compensation costs). General and administrative expenses for the nine months ended September 30, 2007 increased 32.9% to $3,569,000 compared to $2,686,000 for the nine months ended September 30, 2006, primarily due to increased legal expense and increased labor and benefit costs (resulting from increased headcount, salary adjustments and increased stock-based compensation costs).

General and administrative expenses as a percentage of total net sales increased to 19.3% for the three months ended September 30, 2007, compared to 18.3% for the three months ended September 30, 2006, primarily due to the factors described above and the effect of higher net sales in the 2007 period. General and administrative expenses as a percentage of total net sales increased to 18.3% for the nine months ended September 30, 2007, compared to 16.4% for the nine months ended September 30, 2006. The increase was primarily due to factors discussed above and the effect of higher net sales during the nine months ended September 30, 2007.

Legal fees for the three months ended September 30, 2007, were $496,000 compared to $322,000 for the three months ended September 30, 2006. Legal fees for the nine months ended September 30, 2007, were $1,388,000 compared to $833,000 for the nine months ended September 30, 2006. The legal fees in each period were incurred primarily in connection with the News America lawsuit described in Note 3 to the financial statements. Legal fees increased in the 2007 periods primarily due to the increase in activity in the News America litigation as the parties prepare for trial scheduled to commence in 2008. We currently expect the amount of additional legal fees that will be incurred in connection with the ongoing lawsuits to be significant throughout the remainder of 2007 and 2008. Also, 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.

Other Income (Expense). Other income for the three months ended September 30, 2007, was $52,000 compared to $2,000 for the three months ended September 30, 2006. During the third quarter of 2007 higher cash balances and higher interest rates resulted in higher interest income, which combined with the absence of line of credit interest expense in the third quarter of 2007, resulted in the increased other income in the 2007 period. Other income for the nine months ended September 30, 2007, was $89,000 compared to $65,000 for the nine months ended September 30, 2006. During the first nine months of 2007 higher cash balances and higher interest rates resulted in higher interest income in the 2007 period. Interest expense was lower in the nine months ended September 30, 2007, as a result of the expiration of the line of credit on April 30, 2007. Other income for the nine months ended September 30, 2006, includes $100,000 of income from the sale of certain VALUStix assets per the terms of a settlement agreement.

Income Taxes. The Company recorded income tax expense of $44,000 for the quarter ended September 30, 2007 and $60,000 for the nine months ended September 30, 2007, related to alternative minimum tax liability.

Net Income (Loss). The net loss for the three months ended September 30, 2007, was $(355,000) compared to a net income of $228,000 for the three months ended September 30, 2006. Net income for the nine months ended September 30, 2007, was $1,270,000 compared to $1,816,000 for the nine months ended September 30, 2006.

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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, 2007, working capital was $7,950,000 compared to $5,017,000 at December 31, 2006. During the nine months ended September 30, 2007, cash and cash equivalents increased $3,090,000 to $6,875,000 at September 30, 2007, compared to $3,785,000 at December 31, 2006.

Net cash provided by operating activities during the nine months ended September 30, 2007, was $3,133,000. The increase in cash and cash equivalents resulted from net income of $1,270,000, non-cash expense of $1,505,000 for depreciation, amortization, stock-based compensation and warrant expense, and $358,000 of changes to operating assets and liabilities during the nine months ended September 30, 2007. The fair value of the Valassis warrant of $969,000 for selling and marketing related activities is included in the $1,505,000 of non-cash expense.

Net cash of $124,000 was used in investing activities during the nine months ended September 30, 2007, due to the purchase of property and equipment, primarily the purchase of computer hardware and software. Capital expenditures for the remainder of 2007 are expected to be comparable to previous quarters of 2007.

Net cash of $81,000 was provided by financing activities during the nine months ended September 30, 2007, as a result of $445,000 of proceeds from the issuance of common stock (from warrant, employee stock option and employee stock purchase plan exercises, net of expenses) which were partially offset by the $186,000 pay down on the line of credit and the payment of $178,000 of principal on long-term liabilities. Through April 30, 2007, the Company maintained a line of credit balance sufficient to generate interest charges to cover the required monthly minimum fee. The Company did not renew the line of credit agreement which expired on April 30, 2007.

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 in the foreseeable future. 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.

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 for the year ended December 31, 2006, and updated in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

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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 are effective in timely alerting them to material information relating to the Company required to be included in the Company s periodic filings under the Exchange Act.

(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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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., and the New York action was subsequently dismissed.

On September 23, 2004, the Company brought suit against News America and Albertson s Inc. 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 similar to the claims in its New York action against Insignia and one of its officers. Motions to dismiss the counterclaims were argued in June 2007, and on September 28, 2007 the Court denied the motions to dismiss the counterclaims. The parties are now engaged in pre-trial discovery. Pursuant to Court order, all discovery and pre-trial matters must be completed by July 2008. Management believes that the allegations of the counterclaims are without merit. An evaluation of the likelihood of an unfavorable outcome and 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.

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The Company filed claims in December 2006 and January 2007 with its directors and officers liability and general liability insurers related to the defense costs and insurance coverage for claims asserted by News America against the Company and one of its officers in the counterclaim above. The insurance companies have not agreed to pay any of these claims. For that reason, 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 owe the Company and its officer such defense costs and insurance coverage.

Management currently expects the amount of legal fees that will be incurred in connection with the ongoing lawsuit to be significant throughout 2007 and 2008. During the nine months ended September 30, 2007, the Company incurred legal fees of $1,286,000 related to the News America litigation. Legal fees are expensed as incurred.

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

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

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 14, 2007	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