

INSIGNIA SYSTEMS INC/MN
Form 10-Q
May 01, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

for the quarterly period ended March 31, 2014

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)

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Minnesota

(State or other jurisdiction of incorporation or organization)

41-1656308

(IRS Employer Identification No.)

8799 Brooklyn Blvd.

Minneapolis, MN 55445

(Address of principal executive offices)

(763) 392-6200

(Registrant's telephone number, including area code)

Not applicable.

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares outstanding of Common Stock, \$.01 par value, as of April 29, 2014 was 12,887,397.

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| | | | | |
|-----------------------------|----|-------------------|----|-------------------|
| Cash and cash equivalents | \$ | 20,330,000 | \$ | 21,763,000 |
| Accounts receivable, net | | 5,460,000 | | 4,287,000 |
| Inventories | | 407,000 | | 307,000 |
| Deferred tax assets | | 171,000 | | 171,000 |
| Income tax receivable | | 12,000 | | 11,000 |
| Prepaid expenses and other | | 294,000 | | 324,000 |
| Total Current Assets | | 26,674,000 | | 26,863,000 |

Other Assets:

| | | | | |
|-----------------------------|--|-----------|--|-----------|
| Property and equipment, net | | 1,682,000 | | 1,753,000 |
| Other, net | | 3,135,000 | | 2,956,000 |

| | | | | |
|---------------------|----|-------------------|----|-------------------|
| Total Assets | \$ | 31,491,000 | \$ | 31,572,000 |
|---------------------|----|-------------------|----|-------------------|

LIABILITIES AND SHAREHOLDERS EQUITY**Current Liabilities:**

| | | | | |
|----------------------------------|----|------------------|----|------------------|
| Accounts payable | \$ | 2,695,000 | \$ | 2,636,000 |
| Accrued liabilities | | 1,052,000 | | 1,741,000 |
| Income tax payable | | 141,000 | | 22,000 |
| Deferred revenue | | 395,000 | | 261,000 |
| Total Current Liabilities | | 4,283,000 | | 4,660,000 |

Long-Term Liabilities:

| | | | | |
|------------------------------------|--|----------------|--|----------------|
| Deferred tax liabilities | | 284,000 | | 284,000 |
| Accrued income taxes | | 458,000 | | 458,000 |
| Total Long-Term Liabilities | | 742,000 | | 742,000 |

Commitments and Contingencies**Shareholders Equity:**

| | | | | |
|--|--|------------|--|------------|
| Common stock, par value \$.01: | | | | |
| Authorized shares - 40,000,000 | | | | |
| Issued and outstanding shares - 12,879,000 at March 31, 2014 and 12,782,000 at December 31, 2013 | | 129,000 | | 128,000 |
| Additional paid-in capital | | 21,162,000 | | 20,982,000 |
| Retained earnings | | 5,175,000 | | 5,060,000 |

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| | | | | |
|---|--|----------------------|-----------|-------------------|
| Total Shareholders' Equity | | 26,466,000 | | 26,170,000 |
| Total Liabilities and Shareholders' Equity | | \$ 31,491,000 | \$ | 31,572,000 |

See accompanying notes to financial statements.

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

(Unaudited)

| Three Months Ended March 31 | 2014 | | 2013 | |
|---|-------------|------------|-------------|------------|
| Services revenues | \$ | 5,951,000 | \$ | 6,967,000 |
| Products revenues | | 452,000 | | 429,000 |
| Total Net Sales | | 6,403,000 | | 7,396,000 |
| Cost of services | | 3,415,000 | | 3,571,000 |
| Cost of goods sold | | 305,000 | | 289,000 |
| Total Cost of Sales | | 3,720,000 | | 3,860,000 |
| Gross Profit | | 2,683,000 | | 3,536,000 |
| Operating Expenses: | | | | |
| Selling | | 1,351,000 | | 1,395,000 |
| Marketing | | 235,000 | | 209,000 |
| General and administrative | | 930,000 | | 956,000 |
| Total Operating Expenses | | 2,516,000 | | 2,560,000 |
| Operating Income | | 167,000 | | 976,000 |
| Other income | | 6,000 | | 7,000 |
| Income Before Taxes | | 173,000 | | 983,000 |
| Income tax expense | | 58,000 | | 563,000 |
| Net Income | \$ | 115,000 | \$ | 420,000 |
| Net income per share: | | | | |
| Basic | \$ | 0.01 | \$ | 0.03 |
| Diluted | \$ | 0.01 | \$ | 0.03 |
| Shares used in calculation of net income per share: | | | | |
| Basic | | 12,853,000 | | 13,654,000 |
| Diluted | | 13,091,000 | | 13,684,000 |

See accompanying notes to financial statements.

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

(Unaudited)

| Three Months Ended March 31 | 2014 | 2013 |
|---|---------------|---------------|
| Operating Activities: | | |
| Net income | \$ 115,000 | \$ 420,000 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 266,000 | 274,000 |
| Stock-based compensation | 36,000 | 77,000 |
| Gain on sale of property and equipment | | (12,000) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,173,000) | (2,338,000) |
| Inventories | (100,000) | (15,000) |
| Income tax receivable | (1,000) | (28,000) |
| Prepaid expenses and other | (10,000) | 92,000 |
| Accounts payable | (3,000) | 496,000 |
| Accrued liabilities | (689,000) | (770,000) |
| Income tax payable | 119,000 | 563,000 |
| Deferred revenue | 134,000 | 347,000 |
| Net cash used in operating activities | (1,306,000) | (894,000) |
| Investing Activities: | | |
| Purchases of property and equipment | (84,000) | (16,000) |
| Proceeds from sale of property and equipment | | 13,000 |
| Acquisition of selling rights | (188,000) | |
| Net cash used in investing activities | (272,000) | (3,000) |
| Financing Activities: | | |
| Proceeds from issuance of common stock | 145,000 | 87,000 |
| Net cash provided by financing activities | 145,000 | 87,000 |
| Decrease in cash and cash equivalents | (1,433,000) | (810,000) |
| Cash and cash equivalents at beginning of period | 21,763,000 | 20,271,000 |
| Cash and cash equivalents at end of period | \$ 20,330,000 | \$ 19,461,000 |
| Supplemental disclosures for cash flow information: | | |
| Cash paid during the period for income taxes | \$ 22,000 | \$ 30,000 |
| Non-cash investing activities: | | |
| Acquisition of selling rights in accounts payable | \$ 62,000 | \$ |

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 products, programs and services to consumer packaged goods manufacturers and retailers. The Company's products include the Insignia Point-of-Purchase Services (POPS) in-store advertising program, thermal sign card supplies for the Company's Impulse Retail systems, 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, 2014, its results of operations for the three months ended March 31, 2014 and 2013, and its cash flows for the three months ended March 31, 2014 and 2013. 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, 2013.

The Summary of Significant Accounting Policies in the Company's 2013 Annual Report on Form 10-K describes the Company's accounting policies.

Inventories. Inventories are primarily comprised of parts and supplies for Impulse Retail systems, 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:

| | March 31, 2014 | | December 31, 2013 |
|-----------------|---------------------------|----|------------------------------|
| Raw materials | \$ 103,000 | \$ | 71,000 |
| Work-in-process | 19,000 | | 12,000 |
| Finished goods | 285,000 | | 224,000 |
| | \$ 407,000 | \$ | 307,000 |

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

| | March 31, 2014 | December 31, 2013 |
|---|-------------------|----------------------|
| Property and Equipment: | | |
| Production tooling, machinery and equipment | \$ 3,908,000 | \$ 3,826,000 |
| Office furniture and fixtures | 260,000 | 260,000 |
| Computer equipment and software | 913,000 | 896,000 |
| Web site | 65,000 | 65,000 |
| Leasehold improvements | 616,000 | 616,000 |
| Construction in-progress | 19,000 | 34,000 |
| | 5,781,000 | 5,697,000 |
| Accumulated depreciation and amortization | (4,099,000) | (3,944,000) |
| Net Property and Equipment | \$ 1,682,000 | \$ 1,753,000 |

Depreciation expense was approximately \$155,000 and \$174,000 in the three months ended March 31, 2014 and 2013, respectively.

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

During the three months ended March 31, 2014 and 2013, no stock option awards were granted by the Company. The Company estimated the fair value of stock-based rights granted during the three months ended March 31, 2014 under the employee stock purchase plan using the following weighted average assumptions: expected life of 1.0 year, expected volatility of 50%, dividend yield of 0% and risk-free interest rate of 0.13%. The total fair value of stock-based rights granted under the employee stock purchase plan during the three months ended March 31, 2014 and 2013 was approximately \$10,000 and \$11,000, respectively. Total stock-based compensation expense recorded for the three months ended March 31, 2014 and 2013, was \$36,000 and \$77,000, respectively.

During the three months ended March 31, 2014, there were 49,670 stock options exercised, for which the Company received proceeds of \$62,000. During the three months ended March 31, 2013, there were 6,666 stock options exercised, for which the Company received proceeds of \$13,000.

Net Income per Share. Basic net income per share is computed by dividing net income by the weighted average shares outstanding and excludes any potential dilutive effects of stock options. Diluted net income per share gives effect to all diluted potential common shares outstanding during the period.

Options to purchase approximately 459,000 shares of common stock with a weighted average exercise price of \$4.36 were outstanding at March 31, 2014 and were not included in the computation of common stock equivalents for the three months ended March 31, 2014 because their exercise prices were higher than the average fair market value of the common shares during the reporting period. Options to purchase approximately 1,322,000 shares of common stock with a weighted average exercise price of \$3.45 were outstanding at March 31, 2013 and were

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not included in the computation of common stock equivalents for the three months ended March 31, 2013 because their exercise prices were higher than the average fair market value of the common shares during the reporting period.

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Weighted average common shares outstanding for the three months ended March 31, 2014 and 2013 were as follows:

| Three months ended March 31 | 2014 | 2013 |
|--|------------|------------|
| Denominator for basic net income per share - weighted average shares | 12,853,000 | 13,654,000 |
| Effect of dilutive securities: | | |
| Stock options | 238,000 | 30,000 |
| Denominator for diluted net income per share - weighted average shares | 13,091,000 | 13,684,000 |

2. **Selling Arrangement.** In February 2011, the Company paid News America Marketing In-Store, LLC (News America) \$4,000,000 in exchange for a 10-year arrangement to sell signs with price into News America s network of retailers as News America s exclusive agent. The \$4,000,000 is being amortized on a straight-line basis over the 10-year term of the arrangement. Amortization expense, which was \$100,000 in each of the three months ended March 31, 2014 and 2013 and is expected to be \$400,000 per year over the next five years, is recorded within Cost of Services in the Company s Statements of Operations. The net carrying amount of the selling arrangement is recorded within Other Assets on the Company s Condensed Balance Sheets.

3. **Income Taxes.** For the three months ended March 31, 2014, the Company recorded income tax expense of \$58,000, or 33.5% of income before taxes. For the three months ended March 31, 2013, the Company recorded income tax expense of \$563,000, or 57.3% of income before taxes. The decrease in the effective tax rate during the three months ended March 31, 2014 is primarily the result of the tax benefit of disqualifying dispositions of stock options, which decreased the effective tax rate for the three months ended March 31, 2014 by 7.2%. The income tax provision for the three months ended March 31, 2014 and 2013 is comprised of federal and state taxes. The primary differences between the Company s March 31, 2014 and 2013 effective tax rates and the statutory federal rate are expenses related to stock-based compensation and nondeductible meals and entertainment.

As of March 31, 2014 and December 31, 2013, the Company has unrecognized tax benefits totaling \$458,000, including interest, which relates to state nexus issues. The amount of the unrecognized tax benefits, if recognized, that would affect the effective income tax rates of future periods is \$458,000. Due to the current statute of limitations regarding the unrecognized tax benefits, the unrecognized tax benefits and associated interest is not expected to change significantly in 2014.

4. **Concentrations.** During the three months ended March 31, 2014, two customers accounted for 31% and 15% of the Company s total net sales. During the three months ended March 31, 2013, two customers accounted for 29% and 13% of the Company s total net sales. At March 31, 2014, three customers accounted for 34%, 13% and 13% of the Company s total accounts receivable. At December 31, 2013, two customers accounted for 47% and 14% of the Company s total accounts receivable.

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

5. **Retail Access and Distribution Agreement.** On February 21, 2014, the Company and Valassis Sales and Marketing Services, Inc. (Valassis) signed the Retail Access and Distribution Agreement (the New Valassis Agreement) that replaced all prior agreements. As a result of this new agreement, which was to be in effect through December 31, 2017, among other things, Valassis was no longer a reseller of the

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Company's POPSign and the Company regained access to all consumer packaged goods manufacturers for the sale of POPSigns, in exchange for total consideration of \$500,000 to be paid by the Company in 2014.

On March 24, 2014, the Company received notice of termination from Valassis of the New Valassis Agreement which was terminated in accordance with its provisions for termination for either party's convenience.

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The amount due to Valassis related to the Company regaining selling rights is being amortized over the original term of the New Valassis Agreement, which is approximately four years. The Company paid Valassis \$188,000 related to the acquisition of these selling rights during the three months ended March 31, 2014. The termination will be effective on August 11, 2014, and all other material aspects of the agreement will remain in effect until that date and the Company will continue to have access to all consumer packaged goods manufacturers for the sale of POPS signs as noted above. We are currently focused on maximizing opportunities available to us as a result of this termination to minimize whatever financial impact may result from it, and potentially have a positive impact on the Company.

6. **Shareholders Equity.** On December 3, 2013, the Board of Directors authorized the repurchase of up to \$5,000,000 of the Company's common stock on or before December 3, 2015. The plan allows the repurchases to be made in open market or privately negotiated transactions. For the three months ended March 31, 2014, the Company made no repurchases.

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

The following discussion should be read in conjunction with the Company's financial statements and related notes. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated due to various factors discussed under "Cautionary Statement Regarding Forward-Looking Statements" and elsewhere in this Quarterly Report on Form 10-Q and the "Risk Factors" described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, our Current Reports on Form 8-K and our other SEC filings.

Company Overview

Insignia Systems, Inc. (referred to in this Quarterly Report on Form 10-Q as "Insignia," "we," "us," "our" and the "Company") markets in-store advertising products, programs and services to consumer packaged goods manufacturers (customers) and retailers. The Company was incorporated in 1990. Since 1998, the Company has been focusing on providing in-store advertising services through the Insignia Point-Of-Purchase Services (POPS) in-store advertising program. Insignia POPS® includes the Insignia POPSign® program.

Insignia's POPSign is a national, account-specific, in-store, shelf-edge advertising program that we believe delivers significant sales increases. Funded by consumer packaged goods manufacturers, the program allows manufacturers to deliver vital product information to consumers at the point-of-purchase. The brand information is combined with each retailer's store-specific prices and is displayed on the retailer's unique sign format. We believe that combining manufacturer and retailer information produces a complete "call to action" that gets consumers the information they want and need to make purchasing decisions, while building store and brand equity.

For retailers, Insignia's POPSign program is a source of incremental revenue and is an in-store advertising program that delivers a complete "call to action" on a product-specific and store-specific basis. For consumer packaged goods manufacturers, Insignia's POPSign program provides access to what we believe is the optimum retail advertising site for their products—the retail shelf-edge. In addition, we believe manufacturers benefit from significant sales increases, short lead times, micro-marketing capabilities, such as store-specific and multiple language options, and a wide variety of program features and enhancements that provide unique advertising advantages.

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The Company's internet address is www.insigniasystems.com. The Company has made all of the reports it files with the SEC available free of charge on its web site. The Company's web site is not incorporated by reference into this Report on Form 10-Q. Copies of reports can also be obtained free of charge by requesting them from Insignia Systems, Inc., 8799 Brooklyn Boulevard, Minneapolis, Minnesota 55445; Attention: CFO; telephone 763-392-6200.

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For the quarter ended March 31, 2014, the Company generated revenues of \$6,403,000, as compared with revenues of \$7,396,000 for the quarter ended March 31, 2013. Net income for the quarter ended March 31, 2014 was \$115,000, as compared to \$420,000 for the quarter ended March 31, 2013.

At March 31, 2014, our cash and cash equivalents balance was \$20,330,000, as compared to \$21,763,000 at December 31, 2013. We have no debt and believe we have adequate liquidity to fund operations for at least the next twelve months.

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.

| For the Three Months Ended March 31 | 2014 | 2013 |
|--|-------------|-------------|
| Net sales | 100.0% | 100.0% |
| Cost of sales | 58.1 | 52.2 |
| Gross profit | 41.9 | 47.8 |
| Operating expenses: | | |
| Selling | 21.1 | 18.9 |
| Marketing | 3.7 | 2.8 |
| General and administrative | 14.5 | 12.9 |
| Total operating expenses | 39.3 | 34.6 |
| Operating income | 2.6 | 13.2 |
| Other income | 0.1 | 0.1 |
| Income before taxes | 2.7 | 13.3 |
| Income tax expense | 0.9 | 7.6 |
| Net income | 1.8% | 5.7% |

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Net Sales. Net sales for the three months ended March 31, 2014 decreased 13.4% to \$6,403,000 compared to \$7,396,000 for the three months ended March 31, 2013.

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Service revenues from our POPSign programs for the three months ended March 31, 2014 decreased 14.6% to \$5,951,000 compared to \$6,967,000 for the three months ended March 31, 2013. The decrease was primarily due to a decrease of 6.8% in the number of signs placed, which we believe was largely due to timing of spring holidays, as well a decrease of 8.4% in average price per sign, which was a result of program mix.

Product sales for the three months ended March 31, 2014 increased 5.4% to \$452,000 compared to \$429,000 for the three months ended March 31, 2013. The increase was primarily due to higher sales of laser sign card supplies.

Gross Profit. Gross profit for the three months ended March 31, 2014 decreased 24.1% to \$2,683,000 compared to \$3,536,000 for the three months ended March 31, 2013. Gross profit as a percentage of total net sales decreased to 41.9% for the three months ended March 31, 2014, compared to 47.8% for the three months ended March 31, 2013.

POPSign program: Gross profit from our POPSign program revenues for the three months ended March 31, 2014 decreased 25.3% to \$2,536,000 compared to \$3,396,000 for the three months ended March 31, 2013. The decrease was primarily due to an overall decrease in sales, as our gross profit percentage is highly dependent on sales volume, combined with a decrease in the average sign rate. Gross profit as a percentage of POPSign program revenues for the three months ended March 31, 2014 decreased to 42.6% compared to

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48.7% for the three months ended March 31, 2013. The decrease was primarily due to the factors described above.

Product sales: Gross profit from our product sales for the three months ended March 31, 2014 increased 5.0% to \$147,000 compared to \$140,000 for the three months ended March 31, 2013. The increase was primarily due to increased sales. Gross profit as a percentage of product sales was 32.5% for the three months ended March 31, 2014 compared to 32.6% for the three months ended March 31, 2013. The decrease was primarily due to increased shipping costs.

Operating Expenses

Selling. Selling expenses for the three months ended March 31, 2014 decreased 3.2% to \$1,351,000 compared to \$1,395,000 for the three months ended March 31, 2013. The decrease in the 2014 period was primarily due to lower commissions resulting from a decrease in sales.

Selling expenses as a percentage of total net sales increased to 21.1% for the three months ended March 31, 2014 compared to 18.9% for the three months ended March 31, 2013. The increase in selling expenses as a percentage of total net sales in the 2014 period was primarily due to fixed sales personnel costs combined with decreased sales.

Marketing. Marketing expenses for the three months ended March 31, 2014 increased 12.4% to \$235,000 compared to \$209,000 for the three months ended March 31, 2013. Increased marketing expense was primarily the result of increased marketing initiatives.

Marketing expenses as a percentage of total net sales increased to 3.7% for the three months ended March 31, 2014 compared to 2.8% for the three months ended March 31, 2013. The increase in marketing expenses as a percentage of total net sales in the 2014 period was primarily due to an overall decrease in sales and increased marketing initiatives.

General and administrative. General and administrative expenses for the three months ended March 31, 2014 decreased 2.7% to \$930,000 compared to \$956,000 for the three months ended March 31, 2013. The decrease in the 2014 period as compared to the 2013 period was primarily the result of decreased compensation-related expenses.

General and administrative expenses as a percentage of total net sales increased to 14.5% for the three months ended March 31, 2014 compared to 12.9% for the three months ended March 31, 2013. Increased expense as a percentage of total net sales in the 2014 period was primarily due to an overall decrease in sales.

Other Income. Other income for the three months ended March 31, 2014 was \$6,000 compared to \$7,000 for the three months ended March 31, 2013. Other income is comprised of interest earned on cash and cash equivalents balances.

Income Taxes. For the three months ended March 31, 2014, the Company recorded income tax expense of \$58,000, or 33.5% of income before taxes, compared to \$563,000, or 57.3% of income before taxes for the three months ended March 31, 2013. The decrease in the effective tax rate during the three months ended March 31, 2014 is primarily the result of the tax benefit of disqualifying dispositions of stock options, which decreased the effective tax rate for the three months ended March 31, 2014 by 7.2%. The income tax provision for the three months ended March 31, 2014 and 2013, is comprised of federal and state taxes. The primary differences between the Company's March 31, 2014 and 2013 effective tax rates and the statutory federal rate are expenses related to stock-based compensation and nondeductible meals and entertainment.

Net Income. For the reasons stated above, net income for the three months ended March 31, 2014 was \$115,000 compared to \$420,000 for the three months ended March 31, 2013.

Liquidity and Capital Resources

The Company has financed its operations with proceeds from public and private stock sales, sales of its services and products and legal settlement proceeds. At March 31, 2014, working capital was \$22,391,000

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compared to \$22,203,000 at December 31, 2013. During the three months ended March 31, 2014, cash and cash equivalents decreased \$1,433,000 from \$21,763,000 at December 31, 2013, to \$20,330,000 at March 31, 2014.

Operating Activities: Net cash used in operating activities during the three months ended March 31, 2014, was \$1,306,000. The net income of \$115,000, plus non-cash adjustments of \$302,000 and changes in operating assets and liabilities of \$(1,723,000) resulted in the \$1,306,000 of cash used in operating activities. The largest component of the change in operating assets and liabilities was accounts receivable, which increased as a result of the timing of collections on these accounts. The non-cash adjustments consisted of depreciation and amortization expense and stock-based compensation expense. In the normal course of business, our accounts receivable, accounts payable, accrued liabilities and deferred revenue will fluctuate depending on the level of POPSign revenues and related business activity, as well as billing arrangements with customers and payment terms with retailers.

Investing Activities: Net cash used in investing activities during the three months ended March 31, 2014 was \$272,000, which was due to the acquisition of selling rights under the New Valassis Agreement and purchases of property and equipment. The Company paid an additional \$62,000 to Valassis in April 2014 under the terms of the New Valassis Agreement. The Company expects a similar level of capital expenditures in the future periods in 2014.

Financing Activities: Net cash provided by financing activities during the three months ended March 31, 2014 was \$145,000 related to proceeds received from the issuance of common stock under our employee stock purchase plan and stock option exercises.

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

Critical Accounting Policies

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

Our significant accounting policies are described in Note 1 to the annual financial statements as of and for the year ended December 31, 2013, included in our Form 10-K filed with the Securities and Exchange Commission on March 5, 2014. We believe our most critical accounting policies and estimates include the following:

- revenue recognition;

- allowance for doubtful accounts;
- impairment of long-lived assets;
- income taxes; and
- stock-based compensation.

Cautionary Statement Regarding Forward-Looking Statements

Certain 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 that 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

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statements. Forward-looking statements include statements expressing the intent, belief or current expectations of the Company and members of our management team regarding, for instance: (i) our belief that our cash balance and cash generated by operations will provide adequate liquidity and capital resources for at least the next twelve months; (ii) that we are currently focused on maximizing opportunities available to us as a result of the termination of the New Valassis Agreement to minimize whatever financial impact may result from it, and potentially have a positive impact on the Company; (iii) that we expect fluctuations in accounts receivable and payable, accrued liabilities, and deferred revenue; and (iv) plans to repurchase Company stock. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this statement was made. These forward-looking statements are based on current information, which we have assessed and which by its nature is dynamic and subject to rapid and even abrupt changes.

The factors that could cause our estimates and assumptions as to future performance, and our actual results, to differ materially include the following: (i) the risk that management may be unable to fully or successfully implement its business plan to achieve and maintain increased sales and resultant profitability in the future; (ii) the risk that the Company will not be able to develop and implement new product offerings, including mobile, digital or other new offerings, in a successful manner; (iii) prevailing market conditions, including pricing and other competitive pressures, in the in-store advertising industry and, intense competition for agreements with retailers and consumer packaged goods manufacturers; (iv) potentially incorrect assumptions by management with respect to the financial effect of current strategic decisions, the effect of current sales trends on fiscal year 2014 results and the benefit of our relationships with News America and Valassis; (v) termination of all or a major portion of, or a significant change in terms and conditions of, a material agreement with a retailer, consumer packaged goods manufacturer, or News America; and (vi) other economic, business, market, financial, competitive and/or regulatory factors affecting the Company's business generally. Our risks and uncertainties also include, but are not limited to, the risks presented in our Annual Report on Form 10-K for the year ended December 31, 2013, any additional risks presented in our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K. We undertake no obligation (and expressly disclaim any such obligation) to update forward-looking statements made in this Form 10-Q to reflect events or circumstances after the date of this Form 10-Q or to update reasons why actual results would differ from those anticipated in any such forward-looking statements, other than as required by law.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control Over Financial Reporting

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

We described the most significant risk factors applicable to the Company in Part I, Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2013. We believe there have been no material changes from the risk factors disclosed on Form 10-K.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are included herewith:

| Exhibit Number | Description |
|-----------------------|---|
| 10.1 | Retail Access and Distribution Agreement dated February 21, 2014* |
| 31.1 | Certification of Principal Executive Officer |
| 31.2 | Certification of Principal Financial Officer |
| 32 | Section 1350 Certification |
| 101.1 | The following materials from Insignia Systems, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Balance Sheets; (ii) Statements of Operations; (iii) Statements of Cash Flows; and (iv) Notes to Financial Statements. |

* Confidential treatment has been requested for portions of this exhibit.

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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: May 1, 2014

Insignia Systems, Inc.
(Registrant)

/s/ Glen P. Dall
Glen P. Dall
President and Chief Executive Officer
(principal executive officer)

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

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EXHIBIT INDEX

| Exhibit Number | Description |
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| | |
|----|---|
| + | Filed herewith. |
| ++ | Furnished herewith. |
| * | Confidential treatment has been requested for portions of this exhibit. |