INSIGNIA SYSTEMS INC/MN
Form 10-K
March 05, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

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.)

8799 Brooklyn Blvd., Minneapolis, MN 55445

(Address of principal executive offices)

(763) 392-6200

(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, $.01 par value	The NASDAQ Stock Market

Securities Registered Pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company 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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the last business day of the registrant s most recently completed second fiscal quarter (June 28, 2013) was approximately $28,004,000 based upon the price of the registrant s Common Stock on such date.

Number of shares outstanding of Common Stock, $.01 par value, as of February 26, 2014 was 12,850,131.

DOCUMENTS INCORPORATED BY REFERENCE:

The information called for Part III - Items 10, 11, 12, 13 and 14 of the Form 10-K is incorporated by reference from the registrant s definite proxy statement which will be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

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PART I.

Item 1. Business

General

Insignia Systems, Inc. (referred to in this Annual Report on Form 10-K as Insignia, we, us, our and the Company) markets in-store advertisi 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.

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-K. 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.

Industry and Market Background

According to Point-Of-Purchase Advertising International (POPAI), an industry non-profit trade association, more than 70% of brand purchase decisions are being made in-store. As a result, product manufacturers are constantly seeking in-store vehicles to motivate consumers to buy their branded products. The Company s market studies indicate that the shelf-edge sign represents the final and best opportunity for manufacturers to convince the consumer to buy.

Many consumers seek product information beyond price in order to make educated buying decisions. The Company s marketing studies indicate the most effective signs contain information supplied by the product manufacturer in combination with the retailer s price and design look.

Company Products

Insignia s POPSign Program

Insignia s POPSign program is an in-store, shelf-edge, point-of-purchase advertising program that enables manufacturers to deliver product-specific messages quickly and accurately in designs and formats that have been pre-approved and supported by participating retailers. Insignia POPSign delivers vital product selling information from manufacturers, such as product uses and features, nutritional information, advertising tag lines and product images. The brand information is combined with the retailer s store-specific prices and is displayed on the retailer s unique sign format that includes its logo and store colors. Each sign is displayed directly in front of the manufacturer s product in the participating retailer s stores. The Company s POPSign program offers special features and enhancements, such as ShapePOPS,® which is an enhancement to its Color POPSigns that was developed in 2011.

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The Company sells its POPSign programs directly to consumer packaged goods manufacturers and to Valassis Sales and Marketing Services, Inc. (Valassis) for resale to consumer packaged goods manufacturers. POPSign programs are delivered to retailers participating in the Company s POPSign retail network and to retailers under contract with Valassis and News America Marketing In-Store, LLC (News America).

Utilizing proprietary technology, the Company collects and organizes the data from manufacturers and retailers, then formats, prints and delivers the signs to its POPSign retailers and/or Valassis and News America s directly contracted retailers for distribution and display. Store personnel place the signs at the shelf for display cycles in participating stores in Insignia s contracted network of retailers. Personnel from a contracted third-party merchandising company place the signs at the shelf for display cycles in participating retail stores in Valassis and News America s contracted network of retailers. The Company charges manufacturers for the signs available to be placed in stores for each cycle. Retailers are paid a fee to display the signs and for product movement data provided to Insignia. The Company pays a fee to Valassis and News America for programs provided to retailers under direct contract with Valassis and News America.

Laser Printer and Vinyl Label Supplies

The Company provides a comprehensive offering of laser printable cardstock and vinyl labels to retailers for their in-store signage and shelf-edge product information needs. Products include adhesive and non-adhesive supplies in a variety of colors, sizes and weights. Approximately 4% of 2013 revenues came from the sale of laser printer and vinyl label supplies. The Company expects this percentage to be comparable in future periods.

The Impulse Retail System and SIGNright Sign System

Prior to 1996, the Company s primary product offering was the Impulse Retail System, a system developed by an independent product design and development firm. The Company continues to sell cardstock, maintenance agreements and supplies related to the Impulse Retail System to U.S. and international customers. Cardstock for the Impulse Retail System is sold by the Company in a variety of sizes and colors that can be customized to include pre-printed custom artwork, such as a retailer s logo. Approximately 2% of 2013 revenues came from the sale of cardstock, maintenance agreements and supplies. The Company expects this percentage to be comparable in future periods.

Stylus Software

In late 1993, the Company introduced Stylus; a PC-based software application used by retailers to produce signs, labels, and posters. The Stylus software allows retailers to create signs, labels and posters by manually entering the information or by importing information from a database. Less than 1% of 2013 revenues came from the sale of Stylus products and maintenance. The Company expects this percentage to decrease in future periods due to the Company focusing on other products for future growth.

Marketing and Sales

The Company directly markets the Insignia POPSign program to food and drug manufacturers and retailers. By utilizing the Insignia POPSign program, we believe these manufacturers and retailers can easily accomplish what had previously been either impossible or extremely difficult: tailoring national in-store advertising programs to regional and local needs with minimal effort. In addition to the benefits provided to manufacturers and retailers, we believe Insignia s POPSign program provides consumers more information and clear messages to aid in purchasing decisions. The Company believes its POPSign program is the most complete in-store advertising sign program available, benefiting consumers, retailers, and manufacturers. As of December 31, 2013 the Company and Valassis were parties to an Exclusive Reseller Agreement, as amended, which defined a strategic alliance between the companies and was in effect through December 31, 2017. In February 2014, the Company and Valassis signed a new agreement that replaced all prior agreements. As a result of this new agreement, which is in effect through December 31, 2017, among other things, Valassis is no longer an exclusive reseller of the Company s POPSign and the Company now has access to all consumer packaged goods manufacturers for the sale of POPSigns, in exchange for total consideration of $500,000 which will be paid in 2014.

During 2013 and 2012, foreign sales accounted for less than 1% of total net sales each year. The Company expects sales to foreign distributors will be less than 1% of total net sales in 2014.

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Competition

The Insignia POPSign program provides the vast majority of the Company s annual revenues. The POPSign program faces intense competition for the marketing expenditures of branded product manufacturers for at-shelf advertising-related signage. In particular, the Company faces significant competition from News America and Valassis, which also provide at-shelf advertising and promotional signage. Although settlement of prior litigation with News America resulted in a 10-year agreement that provides the Company additional opportunities to compete by offering signs with price in specific parts of News America s retail network, the Company will continue to compete for advertising dollars with News America s other at-shelf advertising and promotional signage offerings.

We believe the main strengths of the Insignia POPSign program in relation to its competitors are:

- the linking of manufacturers to retailers at a central distribution point for in-store advertising
- providing a complete call to action service
- supplying product-specific and store-specific messages at the retail shelf
- delivering vital product information and store-specific prices
- short lead times to program execution
- significant sales increases

Intellectual Property: Patents and Trademarks

The Company has developed and is using a number of trademarks, service marks, slogans, logos and other commercial symbols to advertise and sell its products. The Company owns U.S. registered trademarks for Insignia Systems, Inc. ® (and Design), Insignia POPS®, POPS Select®, Insignia POPSign®, Insignia ShelfPOPS®, UltraColor®, Stylus®, Stylus Work Center®, SIGNright®, Impulse®, DuraSign®, I-Care®, Check This Out®, Color POPSign®, BannerPOPS® and BrandPOPS®.

The Company is in the process of obtaining trademark registrations in the United States for the trademark Insignia EquityPOPS , Category POPS , ShapePOPS and ShapePOPS Premier.

The Company licenses the right to use a patented barcode on the sign cards for the Company s Impulse Retail System. Neither revenues from this product line, nor royalties paid under the license agreement, are considered material.

Key employees are required to enter into nondisclosure and invention assignment agreements. Customers, vendors and other third parties also must agree to nondisclosure restrictions to prevent unauthorized disclosure of our trade secrets or other confidential or proprietary information.

Product Development

Product development for Insignia s POPSign program has been conducted internally and includes the proprietary data management and operations system, as well as the current offering of point-of-purchase and other advertising products. Ongoing internal systems enhancements, as well as the development of point-of-purchase and other advertising or promotional products, will be conducted utilizing both internal and external resources as appropriate.

Customers

During the year ended December 31, 2013, one customer accounted for 31% of the Company s total net sales. At December 31, 2013, this customer represented 47% of the Company s total accounts receivable. Additionally, another customer accounted for 14% of the Company s total accounts receivable as of December 31, 2013. During the year ended December 31, 2012, one customer accounted for 30% of the Company s total net sales. At December 31, 2012, this customer represented 43% of the Company s total accounts receivable.

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Backlog

Sales backlog on February 26, 2014 was approximately $14.5 million, the vast majority of which is for programs running during the remainder of 2014. The orders are believed to be firm, but there is no assurance that all of the backlog will actually result in revenues. Sales backlog on March 1, 2013 was approximately $13.3 million.

Seasonality

The Company s results of operations have fluctuated from quarter to quarter due to variations in net sales and operating expenses described in more detail below. There appears to be no seasonal pattern to these fluctuations.

The Company s results of operations fluctuate from quarter to quarter as a result of the following:

- The timing of promotional events for customers;
- Variations in the specific products which customers choose to advertise;
- Fluctuations in advertising budgets of customers and the amounts they commit to in-store advertising;
- Variations in the number of retailers in the Company s network;
- Sales incentives to sales staff and strategic partners; and
- Minimum program level commitments to retailers.

Environmental Matters

We believe our operations are in compliance with all applicable environmental regulations within the jurisdictions in which we operate.

Employees

As of February 28, 2014, the Company had 70 employees, including 63 full-time and seven part-time employees. We believe relations with our employees are good.

Segment Reporting

The Company operates in a single reportable segment.

Item 1A. Risk Factors

Forward-Looking Statements

Statements made in this Annual Report on Form 10-K, 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 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 described below.

Our business faces significant risks, including the risks described below. If any of the events or circumstances described in the following risks occurs, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline.

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Our Results Are Dependent on Our Manufacturing Partners Continued Use of Our POPS Program

We are largely dependent on our POPS program, which represents approximately 94% and 91% of the total net sales for fiscal 2013 and 2012, respectively. The POPS program is sold primarily to consumer packaged goods manufacturers. Should these manufacturers no longer perceive value in the POPS program, or if our POPS program does not continue to result in product sales increases, our business and results of operations would be adversely affected due to our heavy dependence on this program. Additionally, changes in economic conditions could result in reductions in advertising and promotional expenditures by branded product manufacturers, which may result in decreased spending for the in-store advertising services we offer.

We Are Dependent On Our Contracts with Retailers and Our Ability to Renew Those Contracts When Their Terms Expire

On an ongoing basis, we negotiate renewals of various retailer contracts which allow us access to place signs at shelf in their stores. Some of our retailer contracts require us to guarantee minimum payments. If we are unable to offer guarantees at the required levels in the new contracts, and the contracts are not renewed because of that reason or because of other reasons, it will have a material adverse effect on our operations and financial condition.

Our POPS business and results of operations could be adversely affected if the number of retailer partners decreases significantly or if the retailer partners fail to continue to perform their duties in placing and maintaining POPSigns at the shelf in their stores and providing product movement data to us.

Our Results Are Dependent On the Success of Our Relationship with Valassis and Our Selling Arrangement with News America

Our strategic alliance with Valassis offers an expanded network of retailers for placement of in-store advertising and thus far has resulted in increased revenues for the Company. If our strategic alliance with Valassis does not continue to be successful, our revenue levels and our participating retailer network could be adversely affected.

Additionally, our results will depend, in part, on the success of our sales and marketing efforts as News America s exclusive agent for signs with price into the News America network of retailers and upon our ability to successfully sell programs into this network. Additionally, if disputes with News America arise in the future regarding the operational aspects of our agreement, it could have an adverse effect on the Company.

We Face Significant Competition

We face significant competition from News America and Valassis, companies that also provide at-shelf advertising and promotional signage. Although the settlement with News America resulted in a 10-year agreement through 2021 that provides us additional opportunities to compete by offering signs with price in News America s network, we will continue to compete for advertising dollars with News America s other at-shelf advertising and promotional signage offerings. News America and Valassis have significantly greater financial resources that can be used to market their products. Should our competitors succeed in obtaining more of the at-shelf advertising business from our current customers, our revenues and related operations would be adversely affected.

We Have Been Involved In Major Litigation

We had been involved in major litigation with News America for several years. During 2011, the Company and News America entered into a settlement agreement to resolve the antitrust and false advertising lawsuit that had been outstanding for several years. Although the Company obtained a significant settlement in 2011, if future disputes with News America, or other companies arise, it could have a material adverse effect on our Company.

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Our Results of Operations May Be Subject To Significant Fluctuations

Our quarterly and annual operating results have fluctuated in the past and may vary in the future due to a wide variety of factors including:

- the addition or loss of contracts with retailers;
- the timing of seasonal events for customers or the loss of customers;
- the timing of new retail stores being added;
- costs of evaluating and developing new products;
- the timing of additional selling, marketing and general and administrative expenses; and
- competitive conditions in our industry.

Due to these factors, our quarterly and annual net sales, expenses and results of operations could vary significantly in the future and this could adversely affect the market price of our common stock.

Our Customers and Retailers May Be Susceptible To Changes in Economic Conditions

Our revenues are affected by our customers marketing and advertising spending and our revenues and results of operations may be subject to fluctuations based upon general economic conditions. Another economic downturn may reduce demand for our products and services or depress pricing of those products and services and have an adverse effect on our results of operations. Retailers may be impacted by changes in consumer spending as well, which may adversely impact our ability to renew contracts with our existing retailers as well as contract with new retailers on terms which are acceptable. In addition, if we are unable to successfully anticipate changing economic conditions, we may be unable to effectively plan for and respond to those changes, and our business could be negatively affected.

Investment in Our Stock Could Result in Fluctuating Returns

During the year ended December 31, 2013, the last reported price of our common stock as quoted on the NASDAQ Stock Market ranged from a low of $1.59 to a high of $3.02. We believe factors such as the fluctuations in our quarterly and annual operating results described above, the market s acceptance of our services and products, the performance of our business relative to market expectations, as well as general volatility in the securities markets, could cause the market price of our common stock to fluctuate substantially. In addition, the stock markets have experienced price and volume fluctuations, resulting in changes in the market prices of the stock of many companies, which may not have been directly related to the operating performance of those companies.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company currently leases approximately 41,000 square feet of office and warehouse space in suburban Minneapolis, Minnesota, through February 29, 2016. The Company believes that the 41,000 square feet of space will meet the Company s foreseeable needs.

Item 3. Legal Proceedings

From time to time, the Company is subject to various legal matters in the normal course of business. The Company currently has no material pending legal proceedings.

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Item 4. Mine Safety Disclosures

Not applicable.

PART II.

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

a) **Market Information**

The Company s common stock trades on the NASDAQ Capital Market® under the symbol ISIG. The following table summarizes the high and low sale prices per share of our common stock for the periods indicated as reported by NASDAQ.

2013	**High**	**Low**
First Quarter	$ 2.32	$ 1.59
Second Quarter	2.19	1.85
Third Quarter	3.02	2.05
Fourth Quarter	2.91	2.32

2012	**High**	**Low**
First Quarter	$ 2.24	$ 1.48
Second Quarter	2.11	1.63
Third Quarter	1.92	1.53
Fourth Quarter	1.80	1.51

b) **Approximate Number of Holders of Common Stock**

As of February 26, 2014, the Company had one class of Common Stock held by approximately 93 owners of record.

c) **Dividends**

The Board of Directors has not historically declared dividends, and it presently intends to retain all earnings for use in the Company s business and does not anticipate paying cash dividends in the foreseeable future.

d) **Issuer Repurchases of Equity Securities**

On July 18, 2013, the Company commenced a modified Dutch auction tender offer (Tender Offer) to purchase up to $12 million of its common stock. Under the terms of the Tender Offer, the Company s shareholders had the opportunity to tender some or all of their shares at a price within the range of $2.15 to $2.35 per share. The Tender Offer expired on August 15, 2013. The Tender Offer resulted in the purchase of 929,051 shares at $2.35 per share, for an aggregate cost to the Company of approximately $2.2 million, excluding fees and expenses related to the Tender Offer.

Our Tender Offer purchase activity for the year ended December 31, 2013, was:

Purchase Date	Total Number Of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part Of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased under the Plans or Programs
August 15, 2013	929,051	$ 2.35	929,051	$

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Additionally, on December 3, 2013, the Board of Directors of the Company approved a Stock Repurchase Plan (the Plan), authorizing the Company to repurchase up to $5,000,000 of the Company s Common Stock. Under the Plan, any shares repurchased must be purchased no later than December 3, 2015. The Plan allows the repurchases to be made in open market or privately negotiated transactions.

The Company did not repurchase any of its common stock during the fourth quarter of the fiscal year ended December 31, 2013.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the financial statements and the related notes included in this Annual Report. This Annual Report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those in such forward-looking statements as a result of many factors, including those discussed in Forward-Looking Statements and elsewhere in this Annual Report.

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 Years Ended December 31	**2013**	**2012**
Net sales	100.0%	100.0%
Cost of sales	54.1	63.8
Gross profit	45.9	36.2
Operating expenses:		
Selling	19.8	25.0
Marketing	3.1	5.7
General and administrative	14.4	16.8
Total operating expenses	37.3	47.5
Operating income (loss)	8.6	(11.3)
Other income	0.1	0.1
Income (loss) before taxes	8.7	(11.2)
Income tax expense (benefit)	3.7	(3.1)
Net income (loss)	5.0%	(8.1)%

Fiscal 2013 Compared to Fiscal 2012

Net Sales. Net sales for the year ended December 31, 2013 increased 37.6% to $27,755,000 compared to $20,174,000 for the year ended December 31, 2012.

Service revenues from our POPSign programs for the year ended December 31, 2013 increased 41.7% to $26,128,000 compared to $18,433,000 for the year ended December 31, 2012. The increase was primarily due to a 37% increase in the number of signs placed and a 4% increase in the average price of our signs placed from the previous year.

Product sales for the year ended December 31, 2013 decreased 6.5% to $1,627,000 compared to $1,741,000 for the year ended December 31, 2012. The decrease was primarily due to decreased sales of Stylus Software based upon decreased demand for this product from our customers.

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Gross Profit. Gross profit for the year ended December 31, 2013 increased 74.6% to $12,746,000 compared to $7,302,000 for the year ended December 31, 2012. Gross profit as a percentage of total net sales increased to 45.9% for 2013 compared to 36.2% for 2012.

Gross profit from our POPSign program revenues for the year ended December 31, 2013 increased 81.9% to $12,302,000 compared to $6,764,000 for the year ended December 31, 2012. The increase in gross profit from our POPSign program was primarily due to increased revenues resulting from enhanced product offerings and the effect of fixed costs being spread over higher sales. Gross profit as a percentage of POPSign program revenues increased to 47.1% for 2013 compared to 36.7% for 2012, due primarily to the factors described above.

Gross profit from our product sales for the year ended December 31, 2013 decreased 17.5% to $444,000 compared to $538,000 for the year ended December 31, 2012. Gross profit as a percentage of product sales decreased to 27.3% for 2013 compared to 30.9% for 2012. The decreases were primarily due to decreased sales and the effect of fixed costs being spread over lower sales.

Operating Expenses

Selling. Selling expenses for the year ended December 31, 2013 increased 9.0% to $5,505,000 compared to $5,049,000 for the year ended December 31, 2012, primarily due to performance related compensation expenses. Selling expenses as a percentage of total net sales decreased to 19.8% in 2013 compared to 25.0% in 2012, primarily due to increased revenues.

Marketing. Marketing expenses for the year ended December 31, 2013 decreased 25.5% to $856,000 compared to $1,149,000 for the year ended December 31, 2012, primarily due to decreased staffing-related expenses. Marketing expenses as a percentage of total net sales decreased to 3.1% in 2013 compared to 5.7% in 2012, primarily due to increased revenues and the factors described above.

General and Administrative. General and administrative expenses for the year ended December 31, 2013 increased 17.7% to $3,988,000 compared to $3,388,000 for the year ended December 31, 2012, primarily due to performance related compensation expenses. General and administrative expenses as a percentage of total net sales decreased to 14.4% in 2013 compared to 16.8% in 2012, primarily due to increased revenues.

Other Income. Other income, which was comprised of interest income, for the year ended December 31, 2013 was $28,000 compared to other income of $27,000 for the year ended December 31, 2012. The increase in other income in 2013 was primarily the result of higher cash and cash equivalent balances during 2013.

Income Taxes. During the year ended December 31, 2013, the Company recorded an income tax expense of $1,046,000. During the year ended December 31, 2012, the Company recorded an income tax benefit of $633,000. The primary differences between the Company s December 31, 2013 and 2012 effective tax rates and the statutory federal rates are expenses related to equity compensation and nondeductible meals and entertainment.

Net Income (Loss). For the reasons stated above, the net income for the year ended December 31, 2013 was $1,379,000 compared to a net loss of $(1,624,000) for the year ended December 31, 2012.

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 December 31, 2013, working capital was $22,203,000 compared to $21,791,000 at December 31, 2012. During the year ended December 31, 2013, cash and cash equivalents increased by $1,492,000 from $20,271,000 at December 31, 2012 to $21,763,000 at December 31, 2013.

Net cash provided by operating activities during the year ended December 31, 2013 was $3,979,000. The net income of $1,379,000, plus non-cash adjustments of $1,757,000 and changes in operating assets and liabilities of $843,000 were the items that contributed to the cash provided by operating activities. The non-cash adjustments of $1,757,000 consisted of depreciation and amortization, deferred income tax expense, stock-based compensation expense and gain

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on sale of fixed assets. The most significant component of the $843,000 change in operating assets and liabilities was income tax receivable. The income tax receivable decreased during 2013 mainly due to payments received on tax refund claims. The Company expects accounts receivable, accounts payable, accrued liabilities and deferred revenue to fluctuate during future periods depending on the level of revenues and related business activity as well as billing arrangements with customers and payment terms with retailers.

Net cash of $250,000 was used in investing activities during the year ended December 31, 2013, due to the purchase of property and equipment related mainly to software and computer equipment of $265,000, partially offset by proceeds from the sale of property and equipment of $15,000.

Net cash of $2,237,000 was used in financing activities during the year ended December 31, 2013, due to the repurchase of common stock of $2,328,000, partially offset by proceeds received from the issuance of common stock under the employee stock purchase plan and other stock option exercises of $91,000.

In December 2013, the Board of Directors of the Company approved a Stock Repurchase Plan (the Plan), authorizing but not obligating the Company to repurchase up to $5,000,000 of the Company s Common Stock. The Company anticipates commencing this repurchase plan in the first quarter of 2014.

As a result of the Company s new agreement with Valassis, the Company will pay Valassis $500,000 in 2014 in exchange for the Company being able to sell POPSigns to all consumer packaged goods manufacturers.

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.

Critical Accounting Policies

Our discussion of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. During the preparation of these financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, net revenues, costs and expenses and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts, impairment of long-lived assets, income taxes, and stock-based compensation expense. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our financial statements.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements:

Revenue Recognition. The Company recognizes revenue from Insignia POPSigns ratably over the period of service, which is typically a two-week display cycle. We recognize revenue related to equipment, software and sign card sales at the time the products are shipped to customers. Revenue associated with maintenance agreements is recognized ratably over the life of the contract. Revenue that has been billed and not yet recognized is reflected as deferred revenue on our balance sheet.

Allowance for Doubtful Accounts. An allowance is established for estimated uncollectible accounts receivable. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company s previous loss history, the customer s current ability to pay its obligation to the Company, the condition of the general economy and the industry as a whole and other relevant facts and circumstances. Unexpected changes in the aforementioned factors could result in materially different amounts.

Impairment of Long-Lived Assets. The Company periodically evaluates the carrying value of its long-lived assets for impairment indicators. If indicators of impairment are present, we evaluate the carrying value of the assets in relation to the future cash flows of the underlying assets to assess recoverability of the assets. The estimates of these future cash flows are based on assumptions and projections believed by management to be reasonable and supportable. They

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require management s subjective judgments and take into account assumptions about revenue and expense growth rates. Impaired assets are then recorded at their estimated fair market value.

Income Taxes. Deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. In providing for deferred taxes, we consider tax regulations of the jurisdictions in which we operate, estimates of future taxable income, and available tax planning strategies. If tax regulations, operating results or the ability to implement tax-planning strategies vary, adjustments to the carrying value of deferred tax assets and liabilities may be required. Valuation allowances are recorded related to deferred tax assets based on the more likely than not criteria.

We recognize 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.

Stock-Based Compensation. We measure and recognize compensation expense for all stock-based payments at fair value. We use the Black-Scholes option pricing model to determine the weighted average fair value of options and employee stock purchase plan rights. The determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as by assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

The expected terms of the options and employee stock purchase plan rights are based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at grant date. Volatility is based on historical volatility of the Company s stock. The Company has not historically issued any dividends beyond the one-time dividend in 2011 and does not expect to in the future. Forfeitures are estimated at the time of the grant and revised, if necessary, in subsequent periods if actual forfeitures differ from estimates.

If factors change and we employ different assumptions in the valuation of grants in future periods, the compensation expense that we record may differ significantly from what we have recorded in the current period.

New Accounting Pronouncements

None.

Off-Balance Sheet Transactions

None.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

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Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

The following are included on the pages indicated:

Report of Independent Registered Public Accounting Firm	15
Balance Sheets as of December 31, 2013 and 2012	16
Statements of Operations for the years ended December 31, 2013 and 2012	17
Statements of Shareholders Equity for the years ended December 31, 2013 and 2012	18
Statements of Cash Flows for the years ended December 31, 2013 and 2012	19
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Insignia Systems, Inc.

We have audited the accompanying balance sheets of Insignia Systems, Inc. (the Company) as of December 31, 2013 and 2012, and the related statements of operations, shareholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Insignia Systems, Inc. as of December 31, 2013 and 2012 and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota

March 5, 2014

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Insignia Systems, Inc.

BALANCE SHEETS

As of December 31		**2013**		**2012**
ASSETS				
Current Assets:				
Cash and cash equivalents	$	21,763,000	$	20,271,000
Accounts receivable, net		4,287,000		3,784,000
Inventories		307,000		310,000
Deferred tax assets		171,000		478,000
Income tax receivable		11,000		800,000
Prepaid expenses and other		324,000		516,000
Total Current Assets		26,863,000		26,159,000
Other Assets:				
Property and equipment, net		1,753,000		2,149,000
Other, net		2,956,000		3,398,000
Total Assets	$	31,572,000	$	31,706,000
LIABILITIES AND SHAREHOLDERS EQUITY				
Current Liabilities:				
Accounts payable	$	2,636,000	$	2,122,000
Accrued liabilities:				
Compensation		1,236,000		1,303,000
Other		505,000		541,000
Income tax payable		22,000		
Deferred revenue		261,000		402,000
Total Current Liabilities		4,660,000		4,368,000
Long-Term Liabilities:				
Deferred tax liabilities		284,000		413,000