

INSIGNIA SYSTEMS INC/MN
Form 10-Q
July 28, 2016
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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 June 30, 2016

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

(I.R.S. Employer Identification No.)

8799 Brooklyn Blvd.

Minneapolis, MN 55445

(Address of principal executive offices; zip code)

(763) 392-6200

(Registrant's telephone number, including area code)

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 reports), 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, 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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 July 25, 2016 was 11,645,233.

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Insignia Systems, Inc.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Insignia Systems, Inc.****CONDENSED BALANCE SHEETS**

| | June 30, 2016 (Unaudited) | December 31, 2015 |
|--|--|------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 10,772,000 | \$ 8,523,000 |
| Accounts receivable, net | 6,784,000 | 8,392,000 |
| Available for sale investments | 6,213,000 | 9,490,000 |
| Inventories | 570,000 | 391,000 |
| Income tax receivable | 465,000 | 1,000 |
| Prepaid expenses and other | 754,000 | 492,000 |
| Total Current Assets | 25,558,000 | 27,289,000 |
| Other Assets: | | |
| Property and equipment, net | 1,585,000 | 1,584,000 |
| Other, net | 2,222,000 | 2,841,000 |
| Total Assets | \$ 29,365,000 | \$ 31,714,000 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 2,382,000 | \$ 3,355,000 |
| Accrued liabilities: | | |
| Compensation | 744,000 | 1,494,000 |
| Other | 493,000 | 715,000 |
| Income tax payable | 80,000 | 264,000 |
| Deferred revenue | 396,000 | 164,000 |
| Total Current Liabilities | 4,095,000 | 5,992,000 |
| Long-Term Liabilities: | | |
| Deferred tax liabilities | 199,000 | 199,000 |
| Accrued income taxes | 528,000 | 528,000 |
| Deferred rent | 300,000 | 275,000 |
| Total Long-Term Liabilities | 1,027,000 | 1,002,000 |
| Commitments and Contingencies | | |
| Shareholders Equity: | | |
| Common stock, par value \$.01: | | |
| Authorized shares - 40,000,000 | | |
| Issued shares - 11,774,000 at June 30, 2016 and 11,721,000 at December 31, 2015 | | |
| Outstanding shares - 11,631,000 at June 30, 2016 and 11,633,000 at December 31, 2015 | 116,000 | 116,000 |
| Additional paid-in capital | 17,731,000 | 17,810,000 |

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| | | |
|---|----------------------|----------------------|
| Retained earnings | 6,396,000 | 6,805,000 |
| Accumulated other comprehensive loss | | (11,000) |
| Total Shareholders' Equity | 24,243,000 | 24,720,000 |
| Total Liabilities and Shareholders' Equity | \$ 29,365,000 | \$ 31,714,000 |

See accompanying notes to financial statements.

Table of Contents**Insignia Systems, Inc.****STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Unaudited)

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|--------------|-----------------------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Services revenues | \$ 6,163,000 | \$ 6,212,000 | \$ 11,780,000 | \$ 12,258,000 |
| Products revenues | 454,000 | 461,000 | 915,000 | 956,000 |
| Total Net Sales | 6,617,000 | 6,673,000 | 12,695,000 | 13,214,000 |
| Cost of services | 4,199,000 | 3,371,000 | 7,982,000 | 6,760,000 |
| Cost of goods sold | 302,000 | 316,000 | 630,000 | 666,000 |
| Total Cost of Sales | 4,501,000 | 3,687,000 | 8,612,000 | 7,426,000 |
| Gross Profit | 2,116,000 | 2,986,000 | 4,083,000 | 5,788,000 |
| Operating Expenses: | | | | |
| Selling | 1,036,000 | 1,145,000 | 2,144,000 | 2,489,000 |
| Marketing | 257,000 | 451,000 | 527,000 | 786,000 |
| General and administrative | 1,110,000 | 1,003,000 | 2,270,000 | 1,965,000 |
| Total Operating Expenses | 2,403,000 | 2,599,000 | 4,941,000 | 5,240,000 |
| Operating Income (Loss) | (287,000) | 387,000 | (858,000) | 548,000 |
| Other income | 15,000 | 27,000 | 32,000 | 37,000 |
| Income (Loss) Before Taxes | (272,000) | 414,000 | (826,000) | 585,000 |
| Income tax expense (benefit) | (185,000) | 164,000 | (417,000) | 239,000 |
| Net Income (Loss) | \$ (87,000) | \$ 250,000 | \$ (409,000) | \$ 346,000 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gain on available for sale securities | 2,000 | 1,000 | 11,000 | 7,000 |
| Comprehensive Income (Loss) | \$ (85,000) | \$ 251,000 | \$ (398,000) | \$ 353,000 |
| Net income (loss) per share: | | | | |
| Basic | \$ (0.01) | \$ 0.02 | \$ (0.04) | \$ 0.03 |
| Diluted | \$ (0.01) | \$ 0.02 | \$ (0.04) | \$ 0.03 |
| Shares used in calculation of net income (loss) per share: | | | | |
| Basic | 11,612,000 | 12,213,000 | 11,618,000 | 12,212,000 |
| Diluted | 11,612,000 | 12,392,000 | 11,618,000 | 12,406,000 |

See accompanying notes to financial statements.

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Insignia Systems, Inc.

STATEMENTS OF CASH FLOWS

(Unaudited)

| Six Months Ended June 30 | 2016 | 2015 |
|--|---------------|--------------|
| Operating Activities: | | |
| Net income (loss) | \$ (409,000) | \$ 346,000 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 785,000 | 567,000 |
| Changes in allowance for doubtful accounts | 19,000 | (32,000) |
| Deferred income tax expense | | 119,000 |
| Stock-based compensation expense | 108,000 | 278,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,589,000 | (141,000) |
| Inventories | (179,000) | 74,000 |
| Income tax receivable | (464,000) | 254,000 |
| Prepaid expenses and other | (36,000) | 263,000 |
| Accounts payable | (973,000) | (471,000) |
| Accrued liabilities | (947,000) | (570,000) |
| Income tax payable | (184,000) | 30,000 |
| Excess tax benefit from stock-based awards | | (3,000) |
| Deferred revenue | 232,000 | 1,009,000 |
| Net cash provided by (used in) operating activities | (459,000) | 1,723,000 |
| Investing Activities: | | |
| Purchases of property and equipment | (393,000) | (101,000) |
| Purchases of investments | | (3,439,000) |
| Proceeds from sale or maturity of investments | 3,288,000 | 3,332,000 |
| Net cash provided by (used in) investing activities | 2,895,000 | (208,000) |
| Financing Activities: | | |
| Proceeds from issuance of common stock, net | 60,000 | 56,000 |
| Excess tax benefit from stock-based awards | | 3,000 |
| Repurchase of common stock, net | (247,000) | (99,000) |
| Net cash used in financing activities | (187,000) | (40,000) |
| Increase in cash and cash equivalents | 2,249,000 | 1,475,000 |
| Cash and cash equivalents at beginning of period | 8,523,000 | 7,237,000 |
| Cash and cash equivalents at end of period | \$ 10,772,000 | \$ 8,712,000 |
| Supplemental disclosures for cash flow information: | | |
| Cash paid during the period for income taxes | \$ 238,000 | \$ 13,000 |

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 primarily to consumer packaged goods manufacturers. The Company's products include the Insignia Point-of-Purchase Services (POPS) in-store marketing program, thermal sign card supplies for the Company's Impulse Retail System, and laser printable cardstock and label supplies. In October 2014, the Company announced the introduction of a new product, The Like Machine™ (TLM). The Company previously licensed this product from TLM Holdings, LLC (TLMH), a company in which Insignia's former Chief Sales and Marketing Officer, Tim Halfmann, is the majority owner and serves as a principal. In March 2016, the Company and TLMH signed a new distribution agreement for the sale of The Like Machine to Insignia's customers. This distribution agreement replaced the Company's prior license agreement with TLMH. Mr. Halfmann resigned from Insignia, effective April 30, 2016 in order to focus his efforts more fully on The Like Machine product and its evolution going forward.

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 June 30, 2016, and its results of operations for the three and six months ended June 30, 2016 and 2015, and its cash flows for the six months ended June 30, 2016 and 2015. 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, 2015.

The Summary of Significant Accounting Policies in the Company's 2015 Annual Report on Form 10-K describes the Company's accounting policies.

Inventories. Inventories are primarily comprised of parts and supplies for Impulse machine, sign cards, rollstock and TLM devices. Inventory is valued at the lower of cost or market using the first-in, first-out (FIFO) method, and consisted of the following as of the dates indicated:

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| | June 30, 2016 | | December 31, 2015 |
|-----------------|--------------------------|----|------------------------------|
| Raw materials | \$ 82,000 | \$ | 69,000 |
| Work-in-process | 12,000 | | 4,000 |
| Finished goods | 476,000 | | 318,000 |
| | \$ 570,000 | \$ | 391,000 |

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Property and Equipment. Property and equipment consisted of the following as of the dates indicated:

| | June 30, 2016 | December 31, 2015 |
|---|------------------|----------------------|
| Property and Equipment: | | |
| Production tooling, machinery and equipment | \$ 3,728,000 | \$ 3,722,000 |
| Office furniture and fixtures | 322,000 | 145,000 |
| Computer equipment and software | 1,279,000 | 1,233,000 |
| Web site | 40,000 | 40,000 |
| Leasehold improvements | 577,000 | |
| Construction in-progress | 89,000 | 616,000 |
| | 6,035,000 | 5,756,000 |
| Accumulated depreciation and amortization | (4,450,000) | (4,172,000) |
| Net Property and Equipment | \$ 1,585,000 | \$ 1,584,000 |

Depreciation expense was approximately \$196,000 and \$390,000 in the three and six months ended June 30, 2016, respectively, and \$159,000 and \$322,000 in the three and six months ended June 30, 2015, 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 graded-attribution method over the requisite service period of the award.

The Company issued options to purchase an aggregate of 20,000 shares of common stock under its 2013 Omnibus Stock and Incentive Plan, as amended (the 2013 Plan), with a weighted average exercise price of \$2.90, during the six months ended June 30, 2016. The Company estimated the fair value of these awards using the following weighted average assumptions: expected life of 2.5 years, expected volatility of 41%, dividend yield of 0% and risk-free interest rate of 1.00%. The Company issued options to purchase an aggregate of 200,000 shares of common stock under the 2013 Plan, as amended, with a weighted average exercise price of \$2.82, during the six months ended June 30, 2015. The Company estimated the fair value of these awards using the following weighted average assumptions: expected life of 3.4 years, expected volatility of 45%, dividend yield of 0% and risk-free interest rate of 1.18%.

During the six months ended June 30, 2016, the Company issued 100,000 shares of restricted stock under the 2013 Plan. The shares underlying the awards were assigned a value of \$2.33 per share, based on the stock price on the date of the grant, and are scheduled to vest over five years. The Company issued 31,000 restricted stock units under the 2013 Plan during the six months ended June 30, 2015. Each unit represents the right to acquire one share of the Company's common stock. The units were assigned a value of \$2.82 per share, based on the stock price on the date of grant, and are scheduled to vest over three years.

The Company estimated the fair value of stock-based awards granted during the six months ended June 30, 2016, under the Company's employee stock purchase plan using the following weighted average assumptions: expected life of 1.0 years, expected volatility of 31%, dividend yield of 0% and risk-free interest rate of 0.61%.

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During May and June 2016, members of the Board of Directors received grants totaling 54,036 fully vested shares of common stock pursuant to the 2013 Plan. The shares were assigned a weighted average value of \$2.19 per share, based on the stock prices on the applicable grant dates, for a total value of \$119,000, of which \$109,000 is included in stock-based compensation expense for the six months ended June 30, 2016 and \$10,000 was accrued for and expensed in the prior year. In June 2015, members of the Board of Directors received similar grants totaling 37,233 shares pursuant to the 2013 Plan. The shares were assigned a value of \$2.82 per share, based on the stock price on the date of grant, for a total value of \$105,000, which is included in stock-based compensation expense for the six months ended June 30, 2015.

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Total stock-based compensation expense recorded for the three and six months ended June 30, 2016 was \$82,000 and \$108,000, respectively, and for the three and six months ended June 30, 2015 was \$195,000 and \$278,000, respectively.

During each of the three and six months ended June 30, 2016, there were approximately 61,000 shares issued pursuant to stock option exercises, for which the Company received proceeds of \$16,000. During the three and six months ended June 30, 2015 there were approximately 10,000 shares and 34,000 shares issued pursuant to stock option exercises, for which the Company received proceeds of \$1,000 and \$2,000, respectively. A portion of the stock option exercises in the three and six months ended June 30, 2016 and 2015 were completed on a cashless basis.

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

Due to the net loss incurred during the three and six months ended June 30, 2016, all stock awards were anti-dilutive for the period. Options to purchase approximately 628,000 and 650,000 shares of common stock with a weighted average exercise price of \$3.79 and \$3.89, respectively, were outstanding at June 30, 2015 and were not included in the computation of common stock equivalents for the three and six months ended June 30, 2015 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 six months ended June 30, 2016 and 2015 were as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|------------|-----------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Denominator for basic net income (loss) per share - weighted average shares | 11,612,000 | 12,213,000 | 11,618,000 | 12,212,000 |
| Effect of dilutive securities: | | | | |
| Stock options and restricted stock units and awards | | 179,000 | | 194,000 |
| Denominator for diluted net income (loss) per share - weighted average shares | 11,612,000 | 12,392,000 | 11,618,000 | 12,406,000 |

2. **Investments.** The Company carries certain investments intended to increase the yield on available cash balances. The Company has classified all investments as current assets, as they are available to fund current operations. These investments are in debt securities, with an average maturity of approximately one year, and are classified as available-for-sale.

These investments are accounted for in accordance with Accounting Standards Codification (ASC) 320-10, Investments Debt and Equity Securities. At June 30, 2016 and 2015, the Company s investment balances consisted solely of available-for-sale securities and were carried at

fair value in accordance with ASC 820-10 and were valued using Level 2 inputs.

3. **Selling Arrangement.** In 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 and \$200,000 in both of the three and six months ended June 30, 2016 and 2015, respectively, and is expected to be \$400,000 per year over the next four years and \$117,000 in the year ending December 31, 2021, is recorded within cost of services in the Company 's statements of comprehensive income (loss). The net carrying amount of the selling arrangement is recorded within other assets on the Company 's condensed balance sheet.

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4. **Income Taxes.** For the three and six months ended June 30, 2016, the Company recorded income tax benefit of \$185,000 and \$417,000, or 68.0% and 50.5% of loss before taxes, respectively. For the three and six months ended June 30, 2015, the Company recorded income tax expense of \$164,000 and \$239,000, or 39.6% and 40.9% of income before taxes, respectively. The income tax provision (benefit) for the three and six months ended June 30, 2016 and 2015 is comprised of federal and state taxes. The primary differences between the Company's June 30, 2016 and 2015 effective tax rates and the statutory federal rate are expenses related to stock-based compensation and nondeductible meals and entertainment. At relatively low levels of projected income (loss) before income taxes, these differences can result in large swings in the effective rate. The Company reassesses its effective rate each reporting period and adjusts the annual effective rate if deemed necessary, based on projected annual taxable income.

As of June 30, 2016 and December 31, 2015, the Company had unrecognized tax benefits totaling \$528,000, 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 \$528,000. 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 2016.

5. **Concentrations.** During the six months ended June 30, 2016, two customers accounted for 36% and 10% of the Company's total net sales. During the six months ended June 30, 2015, one customer accounted for 35% of the Company's total net sales. At June 30, 2016, one customer accounted for 45% of the Company's total accounts receivable. At December 31, 2015, one customer accounted for 62% 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.

6. **Share Repurchase.** On October 30, 2015, the Board of Directors authorized the repurchase of up to \$5,000,000 of the Company's common stock on or before October 30, 2017. The plan allows the repurchases to be made in open market or privately negotiated transactions. The plan does not obligate the Company to repurchase any particular number of shares, and may be suspended at any time at the Company's discretion. For the three and six months ended June 30, 2016, the Company repurchased approximately 60,000 and 100,000 shares, respectively, at a total cost of \$141,000 and \$247,000. As of June 30, 2016, the approximate dollar value of shares that may yet be purchased by the Company under the plan was \$4,740,000.

Under a prior plan that expired November 3, 2015, for the three and six months ended June 30, 2015, the Company repurchased approximately 2,000 and 33,000 shares, respectively, at a total cost of \$6,000 and \$99,000.

7. **Recently Issued Accounting Pronouncements.** In May 2014, the Financial Accounting Standards Board (FASB) issued guidance creating Accounting Standards Codification (ASC) Section 606, Revenue from Contracts with Customers. The new section will replace Section 605, Revenue Recognition and creates modifications to various

other revenue accounting standards for specialized transactions and industries. The section is intended to conform revenue accounting principles with a concurrently issued International Financial Reporting Standards with previously differing treatment between United States practice and those of much of the rest of the world, as well as, to enhance disclosures related to disaggregated revenue information. The updated guidance is effective for annual reporting periods beginning on or after December 15, 2017, and interim periods within those annual periods. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. We are in the process of determining the impact that the updated accounting guidance will have on our financial statements.

In February 2016, FASB issued ASU 2016-2, *Leases*, under which lessees will recognize most leases on the balance sheet. This will generally increase reported assets and liabilities. For public entities, this ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2018. ASU 2016-2

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mandates a modified retrospective transition method for all entities. We are in the process of determining the impact that the updated accounting guidance will have on our financial statements.

In March 2016, the FASB issued ASU 2016-9, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, this ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We are in the process of determining the impact that the updated accounting guidance will have on our financial statements.

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, 2015, 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*) is a developer and marketer of innovative in-store products, programs and services that help consumer packaged goods (CPG) manufacturers and retail partners drive sales at the point of purchase. The Company was incorporated in 1990. Since 1998, the Company has focused on managing a retail network, made up of over 22,000 store locations, for the primary purpose of providing turn-key at-shelf market access for CPG manufacturers' marketing programs. Insignia provides participating retailers with benefits including incremental revenue, incremental sales opportunities, increased shopper engagement in-store, and custom creative development and other in-kind services.

Insignia's primary product is the Point-Of-Purchase Services (POPS®) in-store marketing program. Insignia POPS program is a national, account-specific, shelf-edge advertising and promotional tactic. Internal testing has indicated the program delivers incremental sales for the featured brand. The program allows manufacturers to deliver vital product information to consumers at the point-of-purchase, and to leverage the local retailer brand and store-specific prices to provide a unique *call to action* that draws attention to the featured brand and triggers a purchase decision. CPG customers benefit from Insignia's nimble operational capabilities, which include short lead times, in-house graphic design capabilities, post-program analytics, and micro-marketing capabilities such as variable or bilingual messaging.

In October 2014, the Company announced the introduction of a new product, *The Like Machine™*, which is an innovative new media that harnesses the power of social media, consumer engagement, and word-of-mouth recommendation at the point of purchase. The Company previously licensed this product from TLM Holdings, LLC (TLMH), a company in which

Insignia's former Chief Sales and Marketing Officer, Tim Halfmann, is the majority owner and serves as a principal. In March 2016, the Company and TLMH signed a new distribution agreement for the sale of The Like Machine to Insignia's customers. This distribution agreement replaced the Company's prior license agreement with TLMH. Mr. Halfmann resigned from Insignia, effective April 30, 2016 in order to focus his efforts more fully on The Like Machine product and its evolution going forward.

Table of Contents**2016 Business Overview**Summary of Financial Results

For the quarter ended June 30, 2016, the Company generated revenues of \$6,617,000, as compared with revenues of \$6,673,000 for the quarter ended June 30, 2015. For the six months ended June 30, 2016, we generated total net sales of \$12,695,000, as compared with total net sales of \$13,214,000 in the six months ended June 30, 2015. Net loss for the quarter ended June 30, 2016 was \$87,000, as compared to net income of \$250,000 for the quarter ended June 30, 2015. Net loss for the six months ended June 30, 2016 was \$409,000, as compared to net income of \$346,000 for the six months ended June 30, 2015.

During the six months ended June 30, 2016, cash and cash equivalents increased \$2,249,000 from \$8,523,000 at December 31, 2015, to \$10,772,000 at June 30, 2016, with available-for-sale investments of \$6,213,000 at June 30, 2016, compared to \$9,490,000 at December 31, 2015. We had no debt as of June 30, 2016.

Results of Operations

The following table sets forth, for the periods indicated, certain items in the Company's Statements of Comprehensive Income (Loss) as a percentage of total net sales.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|------------------------------|-------------------------------|--------|-----------------------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 68.0 | 55.2 | 67.8 | 56.2 |
| Gross profit | 32.0 | 44.8 | 32.2 | 43.8 |
| Operating expenses: | | | | |
| Selling | 15.6 | 17.2 | 16.9 | 18.9 |
| Marketing | 3.9 | 6.8 | 4.2 | 5.9 |
| General and administrative | 16.8 | 15.0 | 17.9 | 14.9 |
| Total operating expenses | 36.3 | 39.0 | 39.0 | 39.7 |
| Operating income (loss) | (4.3) | 5.8 | (6.8) | 4.1 |
| Other income | 0.2 | 0.4 | 0.3 | 0.3 |
| Income (loss) before taxes | (4.1) | 6.2 | (6.5) | 4.4 |
| Income tax expense (benefit) | (2.8) | 2.5 | (3.3) | 1.8 |
| Net income (loss) | (1.3)% | 3.7% | (3.2)% | 2.6% |

Three Months and Six Months Ended June 30, 2016 Compared to Three Months and Six Months Ended June 30, 2015

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Net Sales. Net sales for the three months ended June 30, 2016 decreased 0.8% to \$6,617,000 compared to \$6,673,000 for the three months ended June 30, 2015. Total net sales for the six months ended June 30, 2016 decreased 3.9% to \$12,695,000 compared to \$13,214,000 for the six months ended June 30, 2015.

Service revenues for the three months ended June 30, 2016 decreased 0.8% to \$6,163,000 compared to \$6,212,000 for the three months ended June 30, 2015. The decrease was primarily due to a 2% decrease in average price per sign, which was a result of program and customer mix. Service revenues for the six months ended June 30, 2016 decreased 3.9% to \$11,780,000 compared to \$12,258,000 for the six months ended June 30, 2015. The decrease was primarily due to a 2% decrease in the number of signs placed and a 2% decrease in average price per sign, which was a result of program and customer mix.

Product revenues for the three months ended June 30, 2016 decreased 1.5% to \$454,000 compared to \$461,000 for the three months ended June 30, 2015. The decrease was primarily due to lower sales of sign card supplies. Product revenues for the six months ended June 30, 2016 decreased 4.3% to \$915,000 compared to \$956,000 for the six months ended June 30, 2015. The decrease was primarily due to lower sales of sign card supplies.

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Gross Profit. Gross profit for the three months ended June 30, 2016 decreased 29.1% to \$2,116,000 compared to \$2,986,000 for the three months ended June 30, 2015. Gross profit for the six months ended June 30, 2016 decreased 29.5% to \$4,083,000 compared to \$5,788,000 for the six months ended June 30, 2015. Gross profit as a percentage of total net sales decreased to 32.0% for the three months ended June 30, 2016, compared to 44.8% for the three months ended June 30, 2015. Gross profit as a percentage of total net sales decreased to 32.2% for the six months ended June 30, 2016, compared to 43.8% for the six months ended June 30, 2015.

Service revenues: Gross profit from our service revenues for the three months ended June 30, 2016 decreased 30.9% to \$1,964,000 compared to \$2,841,000 for the three months ended June 30, 2015. The decrease was primarily due to increased costs associated with retail network growth initiatives and costs associated with the implementation project for our new IT operating infrastructure. We estimate that the implementation of this new IT operating infrastructure will increase 2016 expense by approximately \$400,000. The project is expected to be completed in mid-2017. Gross profit from our service revenues for the six months ended June 30, 2016 decreased 30.9% to \$3,798,000 compared to \$5,498,000 for the six months ended June 30, 2015. The decrease was primarily due to the factors described above, as well as, a decrease in sales, as our gross profit percentage is highly dependent on sales levels.

Gross profit as a percentage of service revenues for the three months ended June 30, 2016 decreased to 31.9% compared to 45.7% for the three months ended June 30, 2015. The decrease was primarily due to the factors described above. Gross profit as a percentage of service revenues for the six months ended June 30, 2016 decreased to 32.2% compared to 44.9% for the six months ended June 30, 2015. The decrease was primarily due to the factors described above.

Product revenues: Gross profit from our product revenues for the three months ended June 30, 2016 increased 4.8% to \$152,000 compared to \$145,000 for the three months ended June 30, 2015. The increase was primarily due to decreased facilities, production, and tooling costs. Gross profit from our product revenues for the six months ended June 30, 2016 decreased 1.7% to \$285,000 compared to \$290,000 for the six months ended June 30, 2015. The decrease was primarily due to a decrease in sales, partially offset by decreased facilities, production, and tooling costs.

Gross profit as a percentage of product revenues was 33.5% for the three months ended June 30, 2016 compared to 31.5% for the three months ended June 30, 2015. The increase was primarily due to decreased facilities, production, and tooling costs. Gross profit as a percentage of product revenues was 31.1% for the six months ended June 30, 2016 compared to 30.3% for the six months ended June 30, 2015. The increase was primarily due to decreased facilities, production, and tooling costs, partially offset by a decrease in sales.

Operating Expenses

Selling. Selling expenses for the three months ended June 30, 2016 decreased 9.5% to \$1,036,000 compared to \$1,145,000 for the three months ended June 30, 2015. The decrease was primarily due to lower variable compensation and other sales related expenses. Selling expenses for the six months ended June 30, 2016 decreased 13.9% to

\$2,144,000 compared to \$2,489,000 for the six months ended June 30, 2015. The decrease was primarily due to decreased staffing and staffing-related costs, combined with lower variable compensation and other sales related expenses.

Selling expenses as a percentage of total net sales decreased to 15.6% for the three months ended June 30, 2016 compared to 17.2% for the three months ended June 30, 2015. The decrease was primarily due to lower variable compensation and other sales related expenses, partially offset by decreased sales. Selling expenses as a percentage of total net sales decreased to 16.9% for the six months ended June 30, 2016 compared to 18.9% for the six months ended June 30, 2015. The decrease was primarily due to lower staffing and staffing-related costs, combined with lower variable compensation and other sales related expenses, partially offset by decreased sales.

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Marketing. Marketing expenses for the three months ended June 30, 2016 decreased 43.0% to \$257,000 compared to \$451,000 for the three months ended June 30, 2015. Decreased marketing expense was primarily due to decreased staffing and staff related costs, combined with decreased consulting fees. Marketing expenses for the six months ended June 30, 2016 decreased 33.0% to \$527,000 compared to \$786,000 for the six months ended June 30, 2015. The decrease was primarily due to the factors described above.

Marketing expenses as a percentage of total net sales decreased to 3.9% for the three months ended June 30, 2016 compared to 6.8% for the three months ended June 30, 2015. The decrease was primarily due to the factors described above, partially offset by decreased sales. Marketing expenses as a percentage of total net sales decreased to 4.2% for the six months ended June 30, 2016 compared to 5.9% for the six months ended June 30, 2015. The decrease was primarily due to the factors described above, partially offset by decreased sales.

General and administrative. General and administrative expenses for the three months ended June 30, 2016 increased 10.7% to \$1,110,000 compared to \$1,003,000 for the three months ended June 30, 2015. The increase was primarily due to increased legal fees, partially offset by decreased staffing and staff related costs. General and administrative expenses for the six months ended June 30, 2016 increased 15.5% to \$2,270,000 compared to \$1,965,000 for the six months ended June 30, 2015. The increase was primarily due to the factors described above.

General and administrative expenses as a percentage of total net sales increased to 16.8% for the three months ended June 30, 2016 compared to 15.0% for the three months ended June 30, 2015. The increase was primarily due to the factors described above combined with decreased sales. General and administrative expenses as a percentage of total net sales increased to 17.9% for the six months ended June 30, 2016 compared to 14.9% for the six months ended June 30, 2015. The increase was primarily due to the factors described above combined with decreased sales.

Other Income. Other income for the three months ended June 30, 2016 was \$15,000 compared to \$27,000 for the three months ended June 30, 2015. Other income for the six months ended June 30, 2016 was \$32,000 compared to \$37,000 for the six months ended June 30, 2015. Other income is comprised of interest earned on cash, cash equivalents, and available-for-sale investment balances.

Income Taxes. For the three and six months ended June 30, 2016, the Company recorded income tax benefit of \$185,000 and \$417,000, or 68.0% and 50.5% of loss before taxes, respectively. For the three and six months ended June 30, 2015, the Company recorded income tax expense of \$164,000 and \$239,000, or 39.6% and 40.9% of income before taxes, respectively. The income tax provision (benefit) for the three and six months ended June 30, 2016 and 2015 is comprised of federal and state taxes. The primary differences between the Company's June 30, 2016 and 2015 effective tax rates and the statutory federal rate are expenses related to stock-based compensation and nondeductible meals and entertainment. At relatively low levels of projected income (loss) before income taxes, these differences can result in large swings in the effective rate. The Company reassesses its effective rate each reporting period and adjusts the annual effective rate if deemed necessary, based on projected annual taxable income.

Net Income (Loss). For the reasons stated above, net loss for the three and six months ended June 30, 2016 was \$87,000 and \$409,000, respectively, compared to net income of \$250,000 and \$346,000, respectively, for the three and six months ending June 30, 2015.

Other Comprehensive Income. Other comprehensive income is composed of unrealized gains and losses, net of tax, from available-for-sale investments.

Liquidity and Capital Resources

The Company has financed its operations with proceeds from stock sales and sales of its services and products. At June 30, 2016, working capital was \$21,463,000 compared to \$21,297,000 at December 31, 2015. During the six months ended June 30, 2016, cash and cash equivalents increased \$2,249,000 from \$8,523,000 at December 31, 2015, to \$10,772,000 at June 30, 2016, while available-for-sale investments decreased \$3,277,000 from \$9,490,000 at December 31, 2015, to \$6,213,000 at June 30, 2016.

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Operating Activities: Net cash used in operating activities during the six months ended June 30, 2016, was \$459,000. Net loss of \$409,000, plus non-cash adjustments of \$912,000 and changes in operating assets and liabilities of \$(962,000) resulted in the \$459,000 of cash used in operating activities. The largest component of the change in operating assets and liabilities was accounts receivables which decreased \$1,589,000 as a result of the timing of customer billings and cash receipts, offset by decreases in accounts payable and accrued liabilities totaling \$1,920,000 which will fluctuate based on normal business conditions. The non-cash adjustments consisted of depreciation and amortization expense, changes in allowance for doubtful accounts, 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 revenues and related business activity, as well as billing arrangements with customers and payment terms with retailers.

Investing Activities: Net cash provided by investing activities during the six months ended June 30, 2016 was \$2,895,000. This was related to the proceeds from sale or maturity of investments of \$3,288,000, partially offset by the purchase of property and equipment of \$393,000.

Financing Activities: Net cash used in financing activities during the six months ended June 30, 2016 was \$187,000, which related to the repurchase of common stock under the Company's share repurchase plan of \$247,000, partially offset by proceeds received from issuance of common stock under the employee stock purchase plan and stock option exercises of \$60,000.

The Company anticipates capital expenditures to approximate \$1.2 million in 2016; primarily related to the investment being made to upgrade the Company's technological infrastructure.

The Company believes that based upon current business conditions and plans, its existing cash and investment balances and future cash generated from operations will be sufficient for its cash requirements for at least the next twelve months.

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, 2015, included in our Form 10-K filed with the Securities and Exchange Commission on March 18, 2016. 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 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. 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

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balance and cash generated by operations will provide adequate liquidity and capital resources for at least the next twelve months; (ii) that we expect fluctuations in accounts receivable and payable, accrued liabilities, and deferred revenue; and (iii) 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.

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 2016 results and the benefit of our relationship with News America; (v) termination of all or a major portion of, or a significant change in terms and conditions of, a material agreement with a consumer packaged goods manufacturer, retailer, or News America; (vi) other economic, business, market, financial, competitive and/or regulatory factors affecting the Company's business generally; (vii) our ability to successfully implement our new IT operating infrastructure; and (viii) our ability to attract and retain highly qualified managerial, operational and sales personnel. 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, 2015, 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 principal executive officer and principal 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 principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by

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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 the rules and forms of the SEC, and are designed to ensure that information required to be disclosed by us in these reports is accumulated and communicated to our management, including our principal executive officer and principal 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.

Table of Contents**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, 2015. We believe there have been no material changes from the risk factors disclosed in that Form 10-K.

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

On October 30, 2015, the Board of Directors authorized the repurchase of up to \$5,000,000 of the Company's common stock on or before October 30, 2017. The plan allows the repurchases to be made in open market or privately negotiated transactions. The plan does not obligate the Company to repurchase any particular number of shares, and may be suspended at any time at the Company's discretion.

Our share repurchase activity for the three months ended June 30, 2016, was as follows:

| | 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 |
|------------------|---|---|---|---|
| April 1-30, 2016 | | \$ | | \$ 4,878,000 |
| May 1-31, 2016 | 7,547(1) | \$ 2.31 | 7,002 | \$ 4,862,000 |
| June 1-30, 2016 | 53,050 | \$ 2.30 | 53,050 | \$ 4,740,000 |
| Total | 60,597 | \$ 2.30 | | |

(1) Includes 545 shares surrendered to the Company to satisfy minimum withholding tax obligations in connection with the vesting of restricted stock units. These shares were not purchased under the Board of Directors authorization described above.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Unless otherwise indicated, all documents incorporated herein by reference to a document filed with the SEC pursuant to the Exchange Act are located under SEC file number 001-13471.

| Exhibit Number | Description |
|----------------|--|
| 3.1 | Composite Articles of Incorporation of Registrant, as amended through July 31, 2008 (incorporated by reference to Exhibit 3.1 to annual report on Form 10-K for the year ended December 31, 2015) |
| 3.2 | Composite Bylaws of Registrant, as amended through December 5, 2015 (incorporated by reference to Exhibit 3.2 to annual report on Form 10-K for the year ended December 31, 2015) |
| 10.1* | Employment Agreement with Kristine Glancy, dated April 8, 2016 (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed April 13, 2016) |
| 10.2* | Change in Control Agreement with Kristine Glancy, dated April 8, 2016 (incorporated by reference to Exhibit 10.2 to current report on Form 8-K filed April 13, 2016) |
| 10.3* | Restricted Stock Award Agreement under 2013 Omnibus Stock and Incentive Plan, dated May 13, 2016 (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed May 17, 2016) |
| 31.1 | Certification of Principal Executive Officer |
| 31.2 | Certification of Principal Accounting and Financial Officer |
| 32 | Section 1350 Certification |
| 101 | The following materials from Insignia Systems, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Balance Sheets; (ii) Statements of Comprehensive Income (Loss); (iii) Statements of Cash Flows; and (iv) Notes to Financial Statements. |

* Management compensatory contract or arrangement required to be included as an exhibit to this quarterly report on Form 10-Q.

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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.

Insignia Systems, Inc.
(Registrant)

Dated: July 28, 2016

/s/ Kristine A. Glancy
Kristine A. Glancy
President and Chief Executive Officer
(on behalf of registrant)

Dated: July 28, 2016

/s/ Mark Cherrey
Mark Cherrey
Director of Finance and Controller
(interim principal accounting and financial officer)

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EXHIBIT INDEX

| Exhibit Number | Description | Method of Filing |
|-----------------------|--|---------------------------|
| 3.1 | Composite Articles of Incorporation of Registrant, as amended through July 31, 2008 | Incorporated by Reference |
| 3.2 | Composite Bylaws of Registrant, as amended through December 5, 2015 | Incorporated by Reference |
| 10.1* | Employment Agreement with Kristine Glancy, dated April 8, 2016 | Incorporated by Reference |
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| 10.3* | Restricted Stock Award Agreement under 2013 Omnibus Stock and Incentive Plan, dated May 13, 2016 | Incorporated by Reference |
| 31.1 | Certification of Principal Executive Officer | Filed Electronically |
| 31.2 | Certification of Principal Financial Officer | Filed Electronically |
| 32 | Section 1350 Certification | Furnished Electronically |
| 101 | The following materials from Insignia Systems, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Balance Sheets; (ii) Statements of Comprehensive Income (Loss); (iii) Statements of Cash Flows; and (iv) Notes to Financial Statements. | Filed Electronically |

* Management compensatory contract or arrangement required to be included as an exhibit to this quarterly report on Form 10-Q.