

INSIGNIA SYSTEMS INC/MN
Form 10-K
March 04, 2015
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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, 2014

Commission File Number 1-13471

INSIGNIA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-1656308

(IRS Employer Identification No.)

8799 Brooklyn Blvd., Minneapolis, MN 55445

(Address of principal executive offices)

(763) 392-6200

(Registrant's telephone number, including area code)

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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 No

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 No

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

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

Indicate by check mark 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.

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 Accelerated filer Non-accelerated filer Smaller reporting company

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

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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 30, 2014) was approximately \$38,329,000 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 27, 2015 was 12,205,462.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report are incorporated into Part III.

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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) is a developer and marketer of innovative in-store products, programs, and services that help consumer goods manufacturers and retail partners drive sales at the point of purchase. The Company was incorporated in 1990, and since 1998, the Company focuses on managing a retail network; now made up of over 23,000 store locations, for the primary purpose of providing turn-key at-shelf market access for consumer packaged goods (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 promotion tactic. Internal testing has indicated the program can deliver significant sales impact 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. We expect to more fully roll out this product during 2015. The Company licenses this product from TLM Holdings, LLC, a company in which Insignia's Chief Sales and Marketing Officer, Tim Halfmann, serves as a non-operating principal.

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

In 2013, Point-Of-Purchase Advertising International (POPAI), an industry non-profit trade association, conducted a Shopper Engagement Study that showed more than 76% of brand purchase decisions are made in-store. As a result, product manufacturers seek access to in-store vehicles that prompt consumers to consider, and remind them to buy, their brand. Insignia is usually engaged as part of an overall, mixed-media, brand marketing campaign. Our programs offer manufacturers the unique benefit of helping to close the sale at the point of purchase, within the brick-and-mortar retail environment.

Company Products

Insignia's POPSign Program and Brand-Equity Signage

Insignia's POPSign program is an in-store, shelf-edge, point-of-purchase advertising and promotion tactic designed to assist CPG manufacturers in achieving marketing objectives. Depending on the design and format, Insignia POPSigns can deliver information from manufacturers such as product uses and features, nutritional information, advertising taglines, product images, or usage photos. The differentiating feature of Insignia POPSigns is that store-specific prices from the retailer, and each retailer's unique logo, are combined on the sign. Signs are installed in close proximity to the manufacturer's product in participating stores, and are maintained in two-week cycle increments. The Company's POPSign program offers special features and enhancements, such as ShapePOPS®, which is an enhancement to its Color POPSigns that were developed in 2011.

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In addition to POPSigns, Insignia offers a brand-equity signage program (without featured price or retailer logo) in a subset of managed retailers. This program offers CPG customers expanded market access for their advertising objectives.

Manufacturers pay program rates based upon the directed number of cycles and retailer/store count. The Company collects and organizes data from the manufacturer as well as the participating retailers, designs and prints the signage, and delivers signage. Depending on the agreement with the retailer, either a third-party professional installer or store personnel use placement instructions to install the correct signage at the shelf during the correct timeframe.

Legacy Products

Insignia offers custom design, printing and store signage programs directly to retailers that seek effective ways to communicate with their shoppers in store. Products include adhesive and non-adhesive supplies in a variety of colors, sizes and weights. 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 7% of 2014 revenues came from the sale of these legacy products. The Company expects this percentage to be comparable in 2015.

Marketing and Sales

The Company primarily markets and sells its programs to CPG manufacturers through a direct sales force. Insignia has direct relationships with many of the top 100 CPG manufacturers. Marketing support include customized sales pitches, selling tools such as rich media presentations, and online marketing efforts. The Company also maintains direct relationships with retailers in the network, through a direct field force as well as an in-house support team that enables retailer operations.

The participating retailer network is managed and maintained through direct relationships, and also through contracts with Valassis Sales and Marketing Services, Inc. (Valassis) and News America Marketing In-Store, LLC (News America).

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 set to remain effective through December 31, 2017. In February 2014, the Company and Valassis entered into a new Retail Access and Distribution Agreement that replaced all prior agreements. As a result of the new agreement, Valassis is no longer the exclusive reseller of the Company's POPSigns and the Company has access to all CPG manufacturers for the sale of POPSigns, in exchange for total consideration of \$250,000, which was paid in 2014.

During 2014 and 2013, 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 2015.

Competition

The Insignia POPSign program provided over 93% of the Company's total net sales for 2014. 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, which also provides at-shelf advertising and promotional signage. Although settlement of prior litigation with News America resulted in a 10-year agreement through 2021 that provides the Company with 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.

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The Company believes the main strengths of the Insignia POPSign program in relation to its competitors are:

- Depending on manufacturers objectives, benefits to the brand that range from sales lift, awareness building, program ROI, new tier generation, or support of retailer programs

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