

INSIGNIA SYSTEMS INC/MN
Form 10-Q
August 09, 2010

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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, 2010

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)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-1656308

(IRS Employer Identification No.)

8799 Brooklyn Blvd.

Minneapolis, MN 55445

(Address of principal executive offices)

(763) 392-6200

(Registrant's telephone number, including area code)

Not applicable.

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

Number of shares outstanding of Common Stock, \$.01 par value, as of July 30, 2010, was 15,546,210.

Insignia Systems, Inc.

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Insignia Systems, Inc.
BALANCE SHEETS
(Unaudited)

| | June 30, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 8,249,000 | \$ 8,797,000 |
| Short-term investments | 3,400,000 | 4,400,000 |
| Accounts receivable, net of allowance for doubtful accounts of \$8,000 | 4,590,000 | 2,890,000 |
| Inventories | 403,000 | 389,000 |
| Prepaid expenses and other | 235,000 | 394,000 |
| Total Current Assets | 16,877,000 | 16,870,000 |
| Other Assets: | | |
| Property and equipment, net | 1,041,000 | 927,000 |
| Other | 42,000 | 42,000 |
| Total Assets | \$ 17,960,000 | \$ 17,839,000 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Current maturities of long-term liabilities | \$ 219,000 | \$ 219,000 |
| Accounts payable | 2,345,000 | 2,253,000 |
| Accrued liabilities | | |
| Compensation | 833,000 | 778,000 |
| Retailer payments | 563,000 | 1,022,000 |
| Legal | 381,000 | 257,000 |
| Employee stock purchase plan | 93,000 | 131,000 |
| Other | 400,000 | 389,000 |
| Deferred revenue | 580,000 | 1,105,000 |
| Total Current Liabilities | 5,414,000 | 6,154,000 |
| Long-Term Liabilities, less current maturities | | |
| Commitments and Contingencies | | |
| Shareholders Equity: | | |
| Common stock, par value \$.01: | | |
| Authorized shares 40,000,000 | | |
| Issued and outstanding shares 15,544,000 at June 30, 2010 and 15,181,000 at December 31, 2009 | 155,000 | 152,000 |
| Additional paid-in capital | 33,217,000 | 32,578,000 |
| Accumulated deficit | (20,826,000) | (21,045,000) |
| Total Shareholders Equity | 12,546,000 | 11,685,000 |
| Total Liabilities and Shareholders Equity | \$ 17,960,000 | \$ 17,839,000 |

See accompanying notes to financial statements.

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Insignia Systems, Inc.
STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|-------------------|-----------------------------|---------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Services revenues | \$ 7,562,000 | \$ 5,285,000 | \$ 12,699,000 | \$ 10,916,000 |
| Products sold | 764,000 | 488,000 | 1,510,000 | 1,043,000 |
| Total Net Sales | 8,326,000 | 5,773,000 | 14,209,000 | 11,959,000 |
| Cost of services | 3,482,000 | 2,422,000 | 5,918,000 | 5,005,000 |
| Cost of goods sold | 499,000 | 326,000 | 1,016,000 | 706,000 |
| Total Cost of Sales | 3,981,000 | 2,748,000 | 6,934,000 | 5,711,000 |
| Gross Profit | 4,345,000 | 3,025,000 | 7,275,000 | 6,248,000 |
| Operating Expenses: | | | | |
| Selling | 1,775,000 | 1,511,000 | 3,411,000 | 3,018,000 |
| Marketing | 411,000 | 345,000 | 806,000 | 734,000 |
| General and administrative | 1,508,000 | 1,044,000 | 2,855,000 | 2,469,000 |
| Insurance settlement proceeds | | | | (1,387,000) |
| Total Operating Expenses | 3,694,000 | 2,900,000 | 7,072,000 | 4,834,000 |
| Operating Income | 651,000 | 125,000 | 203,000 | 1,414,000 |
| Other Income (Expense): | | | | |
| Interest income | 8,000 | 31,000 | 26,000 | 69,000 |
| Interest expense | (5,000) | (10,000) | (10,000) | (20,000) |
| Total Other Income | 3,000 | 21,000 | 16,000 | 49,000 |
| Income Before Taxes | 654,000 | 146,000 | 219,000 | 1,463,000 |
| Income tax expense | | 36,000 | | 36,000 |
| Net Income | \$ 654,000 | \$ 110,000 | \$ 219,000 | \$ 1,427,000 |
| Net income per share: | | | | |
| Basic | \$ 0.04 | \$ 0.01 | \$ 0.01 | \$ 0.09 |
| Diluted | \$ 0.04 | \$ 0.01 | \$ 0.01 | \$ 0.09 |
| Shares used in calculation of net income per share: | | | | |
| Basic | 15,487,000 | 15,129,000 | 15,434,000 | 15,129,000 |
| Diluted | 16,924,000 | 15,783,000 | 16,815,000 | 15,513,000 |

See accompanying notes to financial statements.

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Insignia Systems, Inc.
Statements of Shareholders Equity
(Unaudited)

| | Common Stock | | Additional | Accumulated | Total |
|---------------------------------------|--------------|------------|--------------------|-----------------|---------------|
| | Shares | Amount | Paid-In Capital | Deficit | |
| Six Months Ended June 30, 2010 | | | | | |
| Balance at December 31, 2009 | 15,181,000 | \$ 152,000 | \$ 32,578,000 | \$ (21,045,000) | \$ 11,685,000 |
| Issuance of common stock, net | 448,000 | 4,000 | 705,000 | | 709,000 |
| Repurchase of common stock, net | (85,000) | (1,000) | (468,000) | | (469,000) |
| Value of stock-based compensation | | | 402,000 | | 402,000 |
| Net income | | | | 219,000 | 219,000 |
| Balance at June 30, 2010 | 15,544,000 | \$ 155,000 | \$ 33,217,000 | \$ (20,826,000) | \$ 12,546,000 |
| Six Months Ended June 30, 2009 | | | | | |
| Balance at December 31, 2008 | 15,069,000 | \$ 151,000 | \$ 31,881,000 | \$ (24,761,000) | \$ 7,271,000 |
| Issuance of common stock, net | 60,000 | | 44,000 | | 44,000 |
| Value of stock-based compensation | | | 298,000 | | 298,000 |
| Net income | | | | 1,427,000 | 1,427,000 |
| Balance at June 30, 2009 | 15,129,000 | \$ 151,000 | \$ 32,223,000 | \$ (23,334,000) | \$ 9,040,000 |

See accompanying notes to financial statements.

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Insignia Systems, Inc.
STATEMENTS OF CASH FLOWS
(Unaudited)

| Six Months Ended June 30 | 2010 | 2009 |
|---|--------------|--------------|
| Operating Activities: | | |
| Net income | \$ 219,000 | \$ 1,427,000 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 161,000 | 203,000 |
| Provision for income taxes | | 36,000 |
| Provision for bad debt expense | | 7,000 |
| Stock-based compensation | 402,000 | 298,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,700,000) | (1,323,000) |
| Inventories | (14,000) | 14,000 |
| Prepaid expenses and other | 159,000 | (56,000) |
| Accounts payable | 92,000 | (814,000) |
| Accrued liabilities | (307,000) | (2,583,000) |
| Deferred revenue | (525,000) | 358,000 |
| Net cash used in operating activities | (1,513,000) | (2,433,000) |
| Investing Activities: | | |
| Purchases of property and equipment | (275,000) | (38,000) |
| Purchases of investments | (2,600,000) | (1,900,000) |
| Proceeds from sale of investments | 3,600,000 | |
| Net cash provided by (used in) investing activities | 725,000 | (1,938,000) |
| Financing Activities: | | |
| Payment of long-term liabilities | | (23,000) |
| Proceeds from issuance of common stock, net | 714,000 | 44,000 |
| Repurchase of common stock, net | (474,000) | |
| Net cash provided by financing activities | 240,000 | 21,000 |
| Decrease in cash and cash equivalents | (548,000) | (4,350,000) |
| Cash and cash equivalents at beginning of period | 8,797,000 | 11,052,000 |
| Cash and cash equivalents at end of period | \$ 8,249,000 | \$ 6,702,000 |
| Supplemental disclosures for cash flow information: | | |
| Cash paid during periods for income taxes | \$ 40,000 | \$ 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 programs, services and products to retailers and consumer packaged goods manufacturers. The Company's services and products include the Insignia Point-of-Purchase Services (POPS) in-store advertising program, thermal sign card supplies for the Company's SIGNright and Impulse systems, Stylus software and laser printable cardstock and label supplies.

Basis of Presentation. Financial statements for the interim periods included herein are unaudited; however, they contain all adjustments, including normal recurring accruals, which in the opinion of management, are necessary to present fairly the financial position of the Company at June 30, 2010, its results of operations for the three and six months ended June 30, 2010 and 2009, and its cash flows for the six months ended June 30, 2010 and 2009. 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, 2009.

The Summary of Significant Accounting Policies in the Company's 2009 Annual Report on Form 10-K describes the Company's accounting policies.

Inventories. Inventories are primarily comprised of parts and supplies for Impulse and SIGNright machines, sign cards, and rollstock. Inventory is valued at the lower of cost or market using the first-in, first-out (FIFO) method, and consists of the following:

| | June 30, 2010 | December 31, 2009 |
|-----------------|------------------|----------------------|
| Raw materials | \$ 53,000 | \$ 57,000 |
| Work-in-process | 44,000 | 52,000 |
| Finished goods | 306,000 | 280,000 |
| | \$ 403,000 | \$ 389,000 |

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

| | June 30, 2010 | December 31, 2009 |
|---|------------------|----------------------|
| Production tooling, machinery and equipment | \$ 2,336,000 | \$ 2,226,000 |
| Office furniture and fixtures | 258,000 | 255,000 |
| Computer equipment and software | 841,000 | 758,000 |
| Web site | 38,000 | 38,000 |
| Leasehold improvements | 351,000 | 322,000 |
| | 3,824,000 | 3,599,000 |
| Accumulated depreciation and amortization | (2,783,000) | (2,672,000) |
| Net Property and Equipment | \$ 1,041,000 | \$ 927,000 |

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

There were 334,500 stock option awards granted during the six months ended June 30, 2010, and the Company estimated the fair value of these awards using the following weighted average assumptions: expected life of 3.5 years, expected volatility of 55%, dividend yield of 0% and risk-free interest rate of 1.28%. The Company estimated the fair value of stock-based rights granted during the six months ended June 30, 2010, under the employee stock purchase plan using the following weighted average assumptions: expected life of 1 year, expected volatility of 55%, dividend yield of 0% and risk-free interest rate of 0.45%. Total stock-based compensation expense recorded for the six months ended June 30, 2010 and 2009, was \$402,000 and \$298,000, respectively.

Net Income Per Share. Basic net income per share is computed by dividing net income by the weighted average shares outstanding and excludes any dilutive effects of options, warrants and convertible securities. Diluted net income per share gives effect to all diluted potential common shares outstanding during the period. Options and warrants to purchase approximately 481,000 and 1,988,000 shares of common stock with weighted average exercise prices of \$7.73 and \$4.73 were outstanding at June 30, 2010 and 2009 and were not included in the computation of common stock equivalents for the three months ended June 30, 2010 and 2009 because their exercise prices were higher than the average fair market value of the common shares during the reporting period. Options and warrants to purchase approximately 459,000 and 2,433,000 shares of common stock with weighted average exercise prices of \$7.87 and \$4.17 were outstanding at June 30, 2010 and 2009 and were not included in the computation of common stock equivalents for the six months ended June 30, 2010 and 2009 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, 2010 and 2009 were as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|------------|-----------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Denominator for basic net income per share weighted average shares | 15,487,000 | 15,129,000 | 15,434,000 | 15,129,000 |
| Effect of dilutive securities: | | | | |
| Stock options and warrants | 1,437,000 | 654,000 | 1,381,000 | 384,000 |
| Denominator for diluted net income per share adjusted weighted average shares | 16,924,000 | 15,783,000 | 16,815,000 | 15,513,000 |

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2. **Commitments and Contingencies.**

Legal. On September 23, 2004, the Company brought suit against News America Marketing In-Store, Inc. (News America) and Albertson's Inc. (Albertson's) in Federal District Court in Minneapolis, Minnesota, for violations of federal and state antitrust and false advertising laws, alleging that News America has acquired and maintained monopoly power through various wrongful acts designed to harm the Company in the in-store advertising and promotion products and services market. The suit seeks injunctive relief

sufficient to prevent further antitrust injury and an award of treble damages to be determined at trial for the harm caused to the Company. On September 20, 2006, the State of Minnesota through its Attorney General intervened as a co-plaintiff in the business disparagement portion of the case. In December 2006, News America filed counterclaims in the case that included claims of alleged interference with contracts and alleged libel and slander against Insignia and one of its officers. On February 4, 2008, the Court approved a consent decree entered into by News America and the State of Minnesota under which News America agreed to not violate Minnesota's statutes prohibiting commercial disparagement. On July 29, 2008, the Company and Albertson's entered into a settlement agreement and mutual release, in which they each agreed to release all claims against the other, and the Company agreed to dismiss its lawsuit against Albertson's.

On September 30, 2009, the Court ruled on motions by both the Company and News America for Summary Judgment. The Court awarded Summary Judgment to the Company and one of its executive officers on all of News America's counterclaims and third-party claims. The Court also denied News America's Motion for Summary Judgment on the Company's claims against News America other than granting News America's uncontested motion on one claim in the Amended Complaint related to retailers. The Court's rulings set the stage for a trial on the Company's antitrust and unfair-competition claims against News America. At a status conference on May 4, 2010, the Court set December 6, 2010, as the date certain for starting the trial.

The Company filed claims in December 2006 and January 2007 with its director's and officer's liability and general liability insurers related to the defense costs and insurance coverage for claims asserted against the Company and one of its officers in News America's counterclaims. On August 9, 2007, the Company filed a complaint against the insurers in Hennepin County District Court, State of Minnesota requesting a declaratory judgment that the insurers owed the Company and its officer such defense costs and insurance coverage. In December 2007, the Company settled its claim against one of the insurers. In March 2009, the Company settled with the other insurer and received a payment of \$1,387,000 as part of the settlement. The Company recorded the payment in general and administrative expenses for the quarter ended March 31, 2009, and the litigation with the insurers is now concluded.

During the six months ended June 30, 2010, the Company incurred legal fees of \$927,000 related to the News America litigation. Management currently expects the amount of legal fees and expenses that will be incurred in connection with the ongoing lawsuit against News America to be significant throughout the remainder of 2010 and into 2011. Legal fees and expenses are expensed as incurred and are included in general and administrative expenses in the statements of operations.

The Company is subject to various other legal proceedings in the normal course of business. Management believes the outcome of these proceedings will not have a material adverse effect on the Company's financial position or results of operations.

3. **Income Taxes.** The Company carried a full valuation allowance against its net deferred tax asset at both June 30, 2010 and 2009. The Company did not record income tax expense for the six months ended June 30, 2010, due to the lack of taxable income for the period and the presence of a full valuation allowance against the deferred tax asset. The Company recorded income tax expense of \$36,000 for the six months ended June 30, 2009, related to alternative minimum tax liability. The valuation allowance has been established due to uncertainties regarding the realization of deferred tax assets.

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4. **Concentrations.** During the six months ended June 30 2010, Valassis Sales and Marketing Services, Inc., General Mills, Inc., and Nestle Co. accounted for 20%, 19% and 17%, respectively, of the Company's total net sales. At June 30, 2010, these customers represented 26%, 13% and 15%, respectively, of the Company's total accounts receivable. During the six months ended June 30, 2009, Valassis Sales and Marketing Services, Inc., General Mills, Inc., and Nestle Co. accounted for 20%, 19% and 14%, respectively, of the Company's total net sales. At June 30, 2009, these customers represented 10%, 31% and 18%, respectively, 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 cause a delay in and possible loss of sales, which would adversely affect operating results. Additionally, the loss of a major retailer from the Company's retail network could adversely affect operating results.

5. **New Accounting Pronouncements.** In December 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures Topic 820 Improving Disclosures about Fair Value Measurements*. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Some of the new disclosures are effective for reporting periods beginning after December 15, 2009, with the remaining new disclosures effective for reporting periods beginning after December 15, 2010. The adoption of this ASU will not have a material impact on our financial statements.

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

Overview

Insignia Systems, Inc. markets in-store advertising programs, services and products to retailers and consumer packaged goods manufacturers. The Company's services and products include the Insignia Point-of-Purchase Services (POPS) in-store advertising program, thermal sign card supplies for the Company's SIGNright and Impulse systems, Stylus software and laser printable cardstock and label supplies.

Results of Operations

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

| | Three Months Ended | | Six Months Ended | |
|-------------------------------|--------------------|--------|------------------|--------|
| | June 30 | | June 30 | |
| | 2010 | 2009 | 2010 | 2009 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 47.8 | 47.6 | 48.8 | 47.8 |
| Gross profit | 52.2 | 52.4 | 51.2 | 52.2 |
| Operating expenses: | | | | |
| Selling | 21.3 | 26.1 | 24.0 | 25.2 |
| Marketing | 5.0 | 6.0 | 5.7 | 6.1 |
| General and administrative | 18.1 | 18.1 | 20.1 | 20.7 |
| Insurance settlement proceeds | | | | (11.6) |
| Total operating expenses | 44.4 | 50.2 | 49.8 | 40.4 |
| Operating income | 7.8 | 2.2 | 1.4 | 11.8 |
| Other income | | 0.3 | 0.1 | 0.4 |
| Income before taxes | 7.8 | 2.5 | 1.5 | 12.2 |
| Income tax expense | | 0.6 | | 0.3 |
| Net income | 7.8% | 1.9% | 1.5% | 11.9% |

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Increased net sales in the first six months of 2010 compared to the first six months of 2009 resulted in increased gross profit for the 2010 period. This increased gross profit for the 2010 period was largely offset by increased operating expenses for the 2010 period. Also, during the first six months of 2009 the Company received proceeds of \$1,387,000 as part of a settlement in the Company's claims against one of its insurers for defense costs in the News America litigation. Net income for the first six months of 2010 was \$179,000 higher than net income for the first six months of 2009 when excluding the insurance settlement proceeds for the first six months of 2009.

Three and Six Months ended June 30, 2010 Compared to Three and Six Months Ended June 30, 2009

Net Sales. Net sales for the three months ended June 30, 2010, increased 44.2% to \$8,326,000 compared to \$5,773,000 for the three months ended June 30, 2009. Net sales for the six months ended June 30, 2010, increased 18.8% to \$14,209,000 compared to \$11,959,000 for the six months ended June 30, 2009.

Service revenues from our POPSign programs for the three months ended June 30, 2010, increased 43.1% to \$7,562,000 compared to \$5,285,000 for the three months ended June 30, 2009, primarily due to an increase in the number of POPSign programs executed for customers (consumer packaged goods manufacturers) at stores in the Company's retail network. Service revenues from our POPSign programs for the six months ended June 30, 2010, increased 16.3% to \$12,699,000 compared to \$10,916,000 for the six months ended June 30, 2009. The increase in service revenues for the six month 2010 period was due to an increase in the number of POPSign programs executed for customers and an increase in the average program price.

Product sales for the three months ended June 30, 2010, increased 56.6% to \$764,000 compared to \$488,000 for the three months ended June 30, 2009. Product sales for the six months ended June 30, 2010, increased 44.8% to \$1,510,000 compared to \$1,043,000 for the six months ended June 30, 2009. The increases in both 2010 periods were primarily due to higher sales of laser printer supplies based on increased demand for those products from one of our customers.

Gross Profit. Gross profit for the three months ended June 30, 2010, increased 43.6% to \$4,345,000 compared to \$3,025,000 for the three months ended June 30, 2009. Gross profit for the six months ended June 30, 2010, increased 16.4% to \$7,275,000 compared to \$6,248,000 for the six months ended June 30, 2009. Gross profit as a percentage of total net sales decreased to 52.2% for the three months ended June 30, 2010, compared to 52.4% for the three months ended June 30, 2009. Gross profit as a percentage of total net sales decreased to 51.2% for the six months ended June 30, 2010, compared to 52.2% for the six months ended June 30, 2009.

Gross profit from our POPSign program revenues for the three months ended June 30, 2010, increased 42.5% to \$4,080,000 compared to \$2,863,000 for the three months ended June 30, 2009. Gross profit from our POPSign program revenues for the six months ended June 30, 2010, increased 14.7% to \$6,781,000 compared to \$5,911,000 for the six months ended June 30, 2009. The increases in both 2010 periods were primarily due to increased sales which were partially offset by increased retailer expenses. Gross profit as a percentage of POPSign program revenues for the three months ended June 30, 2010, decreased to 54.0% compared to 54.2% for the three months ended June 30, 2009. Gross profit as a percentage of POPSign program revenues for the six months ended June 30, 2010, decreased to 53.4% compared to 54.2% for the six months ended June 30, 2009. The decreases in gross profit as a percentage of POPSign program revenues in both 2010 periods were primarily due to the effect of increased variable retailer expenses which were partially offset by the effect of fixed costs.

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Gross profit from our product sales for the three months ended June 30, 2010, increased 63.6% to \$265,000 compared to \$162,000 for the three months ended June 30, 2009. Gross profit from our product sales for the six months ended June 30, 2010, increased 46.6% to \$494,000 compared to \$337,000 for the six months ended June 30, 2009. The increases in both 2010 periods were primarily due to increased sales. Gross profit as a percentage of product sales was 34.7% for the three months ended June 30, 2010, compared to 33.2% for the three months ended June 30, 2009. Gross profit as a percentage of product sales was 32.7% for the six months ended June 30, 2010, compared to 32.3% for the six months ended June 30, 2009. The increases in both 2010 periods were due to the effect of fixed costs which more than offset the effect of significantly increased sales of lower margin products.

Operating Expenses

Selling. Selling expenses for the three months ended June 30, 2010, increased 17.5% to \$1,775,000 compared to \$1,511,000 for the three months ended June 30, 2009. Selling expenses for the six months ended June 30, 2010, increased 13.0% to \$3,411,000 compared to \$3,018,000 for the six months ended June 30, 2009. Increases in the 2010 periods were primarily due to increased sales commissions, increased staffing levels and benefits, and increased travel related expenses. The increased sales commissions were due to increased POPSign program revenues.

Selling expenses as a percentage of total net sales decreased to 21.3% for the three months ended June 30, 2010, compared to 26.1% for the three months ended June 30, 2009. Selling expenses as a percentage of total net sales decreased to 24.0% for the six months ended June 30, 2010, compared to 25.2% for the six months ended June 30, 2009. The decreases in the selling expenses as a percentage of total net sales in the 2010 periods were due to the effect of the increased costs discussed above in combination with the effect of increased sales.

Marketing. Marketing expenses for the three months ended June 30, 2010, increased 19.1% to \$411,000 compared to \$345,000 for the three months ended June 30, 2009. Marketing expenses for the six months ended June 30, 2010, increased 9.8% to \$806,000 compared to \$734,000 for the six months ended June 30, 2009. Increased expenses in the 2010 periods were primarily the result of increased staffing levels, employee benefit costs and data acquisition costs.

Marketing expenses as a percentage of total net sales decreased to 5.0% for the three months ended June 30, 2010, compared to 6.0% for the three months ended June 30, 2009. Marketing expenses as a percentage of total net sales decreased to 5.7% for the six months ended June 30, 2010, compared to 6.1% for the six months ended June 30, 2009. The decreases in marketing expenses as a percentage of total net sales in the 2010 periods were primarily due to the effect of the increased costs discussed above in combination with the effect of increased sales.

General and administrative. General and administrative expenses for the three months ended June 30, 2010, increased 44.4% to \$1,508,000 compared to \$1,044,000 for the three months ended June 30, 2009. General and administrative expenses for the six months ended June 30, 2010, increased 15.6% to \$2,855,000 compared to \$2,469,000 for the six months ended June 30, 2009. The increase in the second quarter 2010 period was primarily due to increased legal expense, staffing levels and travel related expenses. The increased legal expenses were related to the News America litigation. The increase in the six month 2010 period was primarily due to increased staffing levels and travel related expenses.

General and administrative expenses as a percentage of total net sales was 18.1% for both the three months ended June 30, 2010 and June 30, 2009. General and administrative expenses as percentage of total net sales decreased to 20.1% for the six months ended June 30, 2010, compared to 20.7% for the six months ended June 30, 2009. The lack of change in the second quarter 2010 period and the decrease in the six month 2010 period were primarily due to the increased costs discussed above in relation to increased sales.

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Legal fees and expenses were \$566,000 for the three months ended June 30, 2010, compared to \$317,000 for the three months ended June 30, 2009. Legal fees and expenses were \$1,089,000 for the six months ended June 30, 2010, compared to \$1,059,000 for the six months ended June 30, 2009. The legal fees in each quarter were incurred primarily in connection with the News America lawsuit described in Note 2 to the financial statements. We currently expect the amount of additional legal fees that will be incurred in connection with the ongoing lawsuit to be significant throughout the remainder of 2010 and into 2011 as trial preparation continues and as the trial is conducted. A negative outcome of this litigation could affect long-term competitive aspects of the Company's business.

Insurance settlement proceeds. The Company received a payment of \$1,387,000 in the first quarter of 2009 from an insurer as part of a settlement of the Company's claim that the insurer owed the Company defense costs for claims asserted against the Company and one of its officers in the News America litigation.

Other Income. Other income for the three months ended June 30, 2010, was \$3,000 compared to \$21,000 for the three months ended June 30, 2009. Other income for the six months ended June 30, 2010, was \$16,000 compared to \$49,000 for the six months ended June 30, 2009. Lower other income in the 2010 periods was primarily due to decreased interest income in the 2010 periods as a result of lower interest rates which more than offset the higher cash, cash equivalents and short-term investment balances in the 2010 periods.

Income Taxes. The Company carried a full valuation allowance against its net deferred tax asset at both June 30, 2010, and June 30, 2009. The Company did not record income tax expense for the three and six months ended June 30, 2010, due to the combination of the full valuation allowance and the lack of taxable income for the period. The Company recorded income tax expense of \$36,000 for the three and six months ended June 30, 2009, related to alternative minimum tax liability. The valuation allowance has been established due to uncertainties regarding the realization of deferred tax assets. The Company updates its deferred tax asset and valuation allowance analysis quarterly to confirm the appropriateness of its valuation allowance.

Net Income. Net income for the three months ended June 30, 2010, was \$654,000 compared to \$110,000 for the three months ended June 30, 2009. Net income for the six months ended June 30, 2010, was \$219,000 compared to \$1,427,000 for the six months ended June 30, 2009.

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 June 30, 2010, working capital was \$11,463,000 compared to \$10,716,000 at December 31, 2009. During the six months ended June 30, 2010, cash, cash equivalents and short-term investments decreased \$1,548,000 from \$13,197,000 at December 31, 2009, to \$11,649,000 at June 30, 2010.

Net cash used in operating activities during the six months ended June 30, 2010 was \$1,513,000. Net income of \$219,000 and non-cash expenses of \$563,000 (depreciation and stock-based compensation expense) for the six months ended June 30, 2010, were more than offset by changes in operating assets and liabilities, primarily decreases in accrued liabilities and deferred revenue and an increase in accounts receivable. Accounts receivable increased \$1,700,000 during the six months ended June 30, 2010, primarily due to higher revenue in the two months preceding June 30, 2010, as compared to the two months preceding December 31, 2009, and due to variability in customer billing arrangements and terms. The Company expects accounts receivable, accounts payable, accrued liabilities and deferred revenue to fluctuate during 2010 depending on the level of quarterly POPSign revenues and related business activity as well as billing arrangements with customers.

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Net cash of \$725,000 was provided by investing activities during the six months ended June 30, 2010, due to short-term investment activity and expenditures of \$275,000 for property and equipment. Purchases of short-term investments of \$2,600,000 and proceeds of \$3,600,000 during the six months consisted entirely of purchases and redemptions of twenty-six week certificates of deposit. Capital expenditures of \$275,000 during the six months consisted of digital printing related equipment and related leasehold modifications as well as information technology equipment and software. The Company expects capital expenditures of up to \$150,000 for the remainder of 2010.

Net cash of \$240,000 was provided by financing activities during the six months ended June 30, 2010, as a result of \$714,000 of proceeds (net) from the issuance of common stock from the exercise of stock options and the employee stock purchase plan which was partially offset by \$474,000 of stock repurchased by the Company pursuant to a plan adopted on February 23, 2010. The stock repurchase plan allows for the repurchase of up to \$2,000,000 of the Company's common stock on or before January 31, 2011.

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

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

Our significant accounting policies are described in Note 1 to the annual financial statements as of and for the year ended December 31, 2009, included in our Form 10-K filed with the Securities and Exchange Commission on March 31, 2010. We believe our most critical accounting policies and estimates include the following:

revenue recognition;

allowance for doubtful accounts;

accounting for deferred income taxes; and

stock-based compensation.

Cautionary Statement Regarding Forward-Looking Information

Statements made in this quarterly report on Form 10-Q, in the Company's other SEC filings, in press releases and in oral statements to shareholders and securities analysts, which are not statements of historical or current facts, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Company to be materially different from the results or performance expressed or implied by such forward-looking statements. The words believes, expects, anticipates, seeks and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. These statements are subject to the risks and uncertainties that could cause actual results to differ materially and adversely from the forward-looking statements. These risks and uncertainties include, but are not limited to, the risks presented in our Annual Report on Form 10-K for the year ended December 31, 2009, and updated in Part II, Item 1A of this Quarterly Report on Form 10-Q.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Controls Over Financial Reporting

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On September 23, 2004, the Company brought suit against News America Marketing In-Store, Inc. (News America) and Albertson's Inc. (Albertson's) in Federal District Court in Minneapolis, Minnesota, for violations of federal and state antitrust and false advertising laws, alleging that News America has acquired and maintained monopoly power through various wrongful acts designed to harm the Company in the in-store advertising and promotion products and services market. The suit seeks injunctive relief sufficient to prevent further antitrust injury and an award of treble damages to be determined at trial for the harm caused to the Company. On September 20, 2006, the State of Minnesota through its Attorney General intervened as a co-plaintiff in the business disparagement portion of the case. In December 2006, News America filed counterclaims in the case that included claims of alleged interference with contracts and alleged libel and slander against Insignia and one of its officers. On February 4, 2008, the Court approved a consent decree entered into by News America and the State of Minnesota under which News America agreed to not violate Minnesota's statutes prohibiting commercial disparagement. On July 29, 2008, the Company and Albertson's entered into a settlement agreement and mutual release, in which they each agreed to release all claims against the other, and the Company agreed to dismiss its lawsuit against Albertson's.

On September 30, 2009, the Court ruled on motions by both the Company and News America for Summary Judgment. The Court awarded Summary Judgment to the Company and one of its executive officers on all of News America's counterclaims and third-party claims. The Court also denied News America's Motion for Summary Judgment on the Company's claims against News America other than granting News America's uncontested motion on one claim in the Amended Complaint related to retailers. The Court's rulings set the stage for a trial on the Company's antitrust and unfair-competition claims against News America. At a status conference on May 4, 2010, the Court set December 6, 2010, as the date certain for starting the trial.

The Company filed claims in December 2006 and January 2007 with its director's and officer's liability and general liability insurers related to the defense costs and insurance coverage for claims asserted against the Company and one of its officers in News America's counterclaims. On August 9, 2007, the Company filed a complaint against the insurers in Hennepin County District Court, State of Minnesota requesting a declaratory judgment that the insurers owed the Company and its officer such defense costs and insurance coverage. In December 2007, the Company settled its claim against one of the insurers. In March 2009, the Company settled with the other insurer and received a payment of \$1,387,000 as part of the settlement. The Company recorded the payment in general and administrative expenses for the quarter ended March 31, 2009, and the litigation with the insurers is now concluded.

During the six months ended June 30, 2010, the Company incurred legal fees of \$927,000 related to the News America litigation. Management currently expects the amount of legal fees and expenses that will be incurred in connection with the ongoing lawsuit against News America to be significant throughout the remainder of 2010 and into 2011. Legal fees and expenses are expensed as incurred and are included in general and administrative expenses in the statements of operations.

The Company is subject to various other legal proceedings in the normal course of business. Management believes the outcome of these proceedings will not have a material adverse effect on the Company's financial position or results of operations.

Item 1A. Risk Factors

Not applicable.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On February 23, 2010, the Board of Directors authorized the repurchase of up to \$2,000,000 of the Company's common stock on or before January 31, 2011. 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 program activity for the three months ended June 30, 2010 was:

| | 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, 2010 | | \$ | | \$ 1,591,000 |
| May 1-31, 2010 | 10,000 | \$ 5.60 | 85,000 | \$ 1,535,000 |
| June 1-30, 2010 | | \$ | | \$ 1,535,000 |

Item 3. Defaults upon Senior Securities

None.

Item 4. Removed and Reserved**Item 5. Other Information**

None.

Item 6. Exhibits

The following exhibits are included herewith:

- 10.1 Amended Change in Control Severance Agreement ⁽¹⁾ with Scott F. Drill dated May 26, 2010
- 10.2 Amended Change in Control Severance Agreement ⁽¹⁾ with Justin W. Shireman dated May 26, 2010
- 10.3 Amended Change in Control Severance Agreement ⁽¹⁾ with Scott J. Simcox dated May 26, 2010
- 10.4 Amended Change in Control Severance Agreement ⁽¹⁾ with Alan Jones dated May 26, 2010
- 10.5 Amended Change in Control Severance Agreement ⁽¹⁾ with A. Thomas Lucas dated May 26, 2010
- 31.1 Certification of Principal Executive Officer
- 31.2 Certification of Principal Financial Officer
- 32 Section 1350 Certification

(1) The Amended Change in Control Severance Agreement contains non-substantive technical changes designed to comply with Internal Revenue Service Code Section 409A regulations regarding deferred compensation, and other non-substantive technical changes.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 9, 2010

Insignia Systems, Inc.
(Registrant)

/s/ Scott F. Drill
Scott F. Drill
President and Chief Executive Officer
(principal executive officer)

/s/ Justin W. Shireman
Justin W. Shireman
Vice President, Finance and
Chief Financial Officer
(principal financial officer)

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