AFFILIATED COMPUTER SERVICES INC
Form 425
October 22, 2009

Filed by Xerox Corporation

Pursuant to Rule 425 under the Securities Act of 1933

and deemed filed pursuant to Rule 14a-12 under the

Securities Exchange Act of 1934

Subject Company: Affiliated Computer Services, Inc.

Commission File No.: 1-12665

The proposed merger transaction involving Xerox and ACS will be submitted to the respective stockholders of Xerox and ACS for their consideration. In connection with the proposed merger, Xerox will file with the SEC a registration statement on Form S-4 that will include a joint proxy statement of Xerox and ACS that also constitutes a prospectus of Xerox. Xerox will mail the joint proxy statement/prospectus to its stockholders. **Xerox and ACS urge investors and security holders to read the joint proxy statement/prospectus regarding the proposed transaction when it becomes available because it will contain important information.** You may obtain a free copy of the joint proxy statement/prospectus, as well as other filings containing information about Xerox and ACS, without charge, at the SEC s Internet site (http://www.sec.gov). Copies of the joint proxy statement/prospectus and the filings with the SEC that will be incorporated by reference in the joint proxy statement/prospectus can also be obtained, when available, without charge, from Xerox s website, www.xerox.com, under the heading Investor Relations and then under the heading SEC Filings . You may also obtain these documents, without charge, from ACS s website, www.acs-inc.com, under the tab Investor Relations and then under the heading SEC Filings .

Xerox, ACS and their respective directors, executive officers and certain other members of management and employees may be deemed to be participants in the solicitation of proxies from the respective stockholders of Xerox and ACS in favor of the merger. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of the respective stockholders of Xerox and ACS in connection with the proposed merger will be set forth in the joint proxy statement/prospectus when it is filed with the SEC. You can find information about Xerox s executive officers and directors in its definitive proxy statement filed with the SEC on April 6, 2009. You can find information about ACS s executive officers and directors in its definitive proxy statement filed with the SEC on April 14, 2009. You can obtain free copies of these documents from Xerox and ACS websites using the contact information above.

This release contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The words anticipate, believe, estimate, expect, intend, will, should and similar expressions, as they relate to us, are intended to identify forward-looking statem These statements reflect management s current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. These factors include but are not limited to: the unprecedented volatility in the global economy; the risk that the future business operations of ACS will not be successful; the risk that we will not realize all of the anticipated benefits from our acquisition of ACS; the risk that customer retention and revenue expansion goals for the ACS transaction will not be met and that disruptions from the ACS transaction will harm relationships with customers, employees and suppliers; the risk that unexpected costs will be incurred; the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; changes and developments affecting our industry; quarterly or cyclical variations in financial results; development of new products and services; interest rates and cost of borrowing; our ability to protect our intellectual property rights; our ability to maintain and improve cost efficiency of operations, including savings from restructuring actions; changes in foreign currency exchange rates; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the foreign countries in which we do business; reliance on third parties for manufacturing of products and provision of services; and other factors that are set forth in the Risk Factors section, the Legal Proceedings section, the Management s Discussion and Analysis of Financial Condition and Results of Operations section and other sections of our Quarterly Report on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009 and our 2008 Annual Report on Form 10-K and ACS s 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Xerox assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

The following slides were included in Xerox's third-quarter 2009 earnings presentation made on October 22, 2009.

2
This presentation contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Th
anticipate,
believe,
estimate,
expect,
intend,
will,
should
and similar expressions, as they relate to us, are intended to identify
forward-looking statements. These statements reflect management s current beliefs, assumptions and expectations and are sub
number of factors that may cause actual results to differ materially. These factors include but are not limited to the unpreceden
volatility
in
the
global
economy;
the
risk
that
unexpected
costs
will
be
incurred;
the
outcome
of
litigation
and
regulatory
proceedings
to
which we may be a party; actions of competitors; changes and developments affecting our industry; quarterly or cyclical variat
financial results; development of new products and services; interest rates and cost of borrowing; our ability to protect our inte
property rights; our ability to maintain and improve cost efficiency of operations, including savings from restructuring actions;
foreign
currency
exchange
rates;
changes
in
economic
conditions,
political
conditions,

trade protection measures, licensing requirements and tax matters in the foreign countries in which we do business; reliance on third parties for manufacturing of products and pr services; the risk that the future business operations of Affiliated Computer Services, Inc. (ACS) will not be successful; the customer retention and revenue expansion goals for the ACS transaction will not be met; the risk that disruptions from the ACS transaction will harm relationships with customers, employees and suppliers; and other factors that are set forth in the Risk Fa section, the Legal Proceedings section, the Management s Discussion and Analysis of Financial Condition and Results of Operations section and other sections of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 and June 30, 2009 and our

2008
Annual Report on Form 10-K filed with the Securities and Exchange Commission. The Company assumes no obligation to up
forward-looking statements as a result of new information or future events or developments, except as required by law.
Xerox and ACS urge investors and security holders to read the joint proxy statement/prospectus regarding the proposed transac
when it becomes available because it will contain important information. You may obtain a free copy of the joint proxy statement/prospectus, as well as other filings containing information about Xerox and ACS, without charge, at the Securities ar
Exchange Commission's (SEC) Internet site (http://www.sec.gov).
Copies of the joint proxy statement/prospectus and the filings with the SEC that will be incorporated by reference in the joint proxy statement/prospectus can also be obtained, when available, without charge, from Xerox s website, www.xerox.com, under the heading Investor Relations and then under the heading SEC Filings . You may also obtain these documents,

without charge, from ACS s website, www.acs-inc.com, under the tab Investor Relations and then under the heading SEC Filings . Information regarding participants or persons who may be deemed to be participants in the solicitatio
in respect of the proposed transaction is contained in Xerox's proxy statement for its most recent annual meeting and ACS's pro
statement for its most recent annual meeting, both as filed with the SEC.

Forward-Looking Statements

3
ACS Acquisition Update
Discussion points:

Why we re taking action now

How we planned for this transformative deal

Revenue and profit synergies

Strategic and financial profile

4
4

A Strategic and Compelling Transaction

The acquisition of ACS is designed to deliver increased and sustainable shareholder and customer value

Builds on Xerox s strong financial base and drives value creation

Provides immediate scale and leadership in BPO

Increases already strong free cash flow

Strengthens annuity based business model

Leverages brand strength, global reach and technology expertise

Expands market opportunity

Enhances our growth prospects

Growth catalyst that secures Xerox a strong, competitive future

5

5

A Global, Diversified Leader

Acquisition leverages the strengths of two best-in-class companies to create a new class of solutions provider

$22 billion in revenue

$17 billion of recurring revenue

Greatly expanded service capabilities

$10 billion revenues from services

Nearly 50% of total revenue

Strong free cash flow will exceed $2 billion a year or 8%+ of annual revenue

Double digit operating margins

Expands Xerox s addressable market four times to over $500 billion, with an annual 5% growth rate

Xerox will now have a critical mass of services, accounts, and sales to be a major player in the lucrative BPO market. The company has also fundamentally repositioned itself in the office document technology and services industry.

InfoTrends, October 8, 2009

6
Emerging Market Dynamics
Customers are seeking service providers that offer a full range of solutions

Large enterprises demand global capabilities and global account management

Lines are blurring between the document infrastructure and business processes
Industry is already consolidating

Traditional competitors are focusing more on services

Services competitors are leveraging scale
Mature market has made growth challenging in our traditional business
Future growth opportunity is driven more by services than core technology business
"*With ACS, Xerox becomes a formidable player in the business process segment of outsourcing* services. The combination establishes a very strong player in transactional or operational BPO. Xerox is propelled into the big leagues with a robust network of offshore facilities, which should strengthen its services value proposition measurably.
Everest Research Institute, September 28, 2009

7

Why Business Processing Outsourcing

BPO largely driven by document-driven work.

Value is in:

Automating labor intensive tasks through technology

More efficient manual work processes

A combination of both

Many industries still very dependent on documents

Health care, insurance, financial services, etc.

Largely annuity-based business

Long-term contracts provide recurring revenue

Strong, sustainable relevance and value proposition

BPO is always about improving productivity, reducing costs

Serves diverse markets, across verticals

8
8
Taking Action Now
Xerox is the industry leader in key growth markets of our existing business
ACS is a best-in-class BPO enterprise

Diversified offerings with market leadership

Delivering strong profitable growth: 6 percent growth in fiscal 2009

New business signings of $1 billion in annual recurring revenue

92% of revenue is U.S based; need to scale globally

Solid services expertise; need innovation to differentiate offerings
Scaling services differentiates Xerox in marketplace; adds value to our technology
Regardless of the strength of our existing business, without a company like ACS, we will miss the opportunity to exploit the growth potential in this market as a leading provider of integrated solutions.
"*Our* net assessment is this is another bold and visionary

move
by
Xerox
that
holds
much
promise
for
the
expanded
company
and
its
combined
customers.
Xerox's
much
larger
size
brings
great
resources for leverage in back-office management, global expansion and R&D.
IDC, September 28, 2009

9
9
The Planning Process
Began evaluating acquisition targets several years ago
ACS was considered from the outset
Initial focus was on small   bolt-on
acquisitions in vertical markets
Rigorous review and analysis led us to believe the timing was right to pursue ACS

Best option to enhance the key pillars of Xerox   s business

Prioritized objectives to include:

Expanding market and growth opportunities

Strong financial profile

Experienced management team to lead effective execution

10
10
Complementary portfolio of offerings; compelling tangible, achievable synergies

Strong revenue growth potential

Scale
ACS
internationally
through
Xerox
brand
and
global
account
relationships

Account-by-account analysis of meaningful new business potential

Conservative assumptions on deal opportunities and closure rates

Cost synergies provide a solid financial return

Line-by-line review to identify specific cost reductions

Focus on corporate governance, services delivery, and infrastructure

Significant combined cash flow with additional cash benefits over first three years
Tangible and Achievable Synergies
Xerox has had BPO aspirations for years With this deal, ACS will bring savvy BPO marketing, packaging, pricing, deal pursuit and execution to the table, while Xerox's brand and global client reach should bring strength in the Asia/Pacific region and Europe, where ACS has not established inroads.
Gartner Research, October 1, 2009

11
11
Annual Revenue
Annual Pre-tax Profit
Teams
Synergies
Year 1
Year 3
Year 5
Year 1
Year 3
Year 5
Services
Sales

Leverage Xerox brand & combined
relationships for N. America growth
--
250
530
--
15
60
Leverage Xerox global presence for ACS
expansion
--
115
300
--
5
35
Leverage cash flow for continued BPO
expansion
--
325
930
--
40
115
Innovation
Use Xerox technology to automate &
differentiate
--
75
150
5
30
40
Corporate
Governance
Consolidate public co. & governance
structures
--
--
--
55
55
55
Delivery &
Infrastructure
Reduce labor & shared BPO platform costs
--
--
--
25

195
205
Leverage Xerox hardware & ACS services
internally
--
--
--
15
60
90
Total Base Case
--
750+
1,900
100
375+
575+
Total Base Case + Upside
--
1,200
2,900
150
500+
800+
Revenue Synergies
Cost & Expense Synergies

$250M+ in additional cash benefits over first 3 years

Breakout opportunities not included in Xerox s synergy cases
Note: Synergy savings exclude restructuring investments
Estimated Annual Synergies
Estimates assume a 12/31/09 close of the ACS transaction

12
ACS + Xerox: Strong financial profile
1.4
3.7
$2.8
$3.9
$6.6
$10.5
2009
2.0
2.3
2.7

Total Debt / EBITDA
$4.0
$3.5
$3.2
EBITDA
0.8
$5.5
$5.9
$6.2
Finance Debt
0.6
$2.4
$7.9
2012
$2.1
Core Debt
$2.5
$8.7
2010
0.6
Core Debt / EBITDA
$8.0
Total Debt
(in billions)
2011
9%
11%
10
15%
10
12%
6
8%
Cash Flow from Ops /
Revenue
EPS Growth
Free Cash Flow / Revenue
Operating Margin
Revenue Growth
Capitalization
$(0.3)
$(0.3)
$(0.3)
Dividend Payments
$2.0
$1.0
-
Available Cash
$(0.1)
$(0.8)

$(1.8)
Debt Payments
$(0.7)
$(0.7)
$(0.6)
CAPEX
$3.1
$2.8
$2.6
Cash from Operations
2012
2011
2010
(in billions)
Cash Flow
Steady State Business Model
$0.90 -
$1.00
$0.75 -
$0.85
$0.55 -
$0.65
GAAP EPS
$0.75 -
$0.85
$1.10 -
$1.20
12%
$25B
2012
$24B
$22B
Revenue
10%
2010
$0.95 -
$1.05
Adj. EPS
11%
Operating
Margin
2011
Income Statement
Adjustments include estimates for amortization of intangibles, restructuring
and asset impairment costs and acquisition related costs
Above assumes a $1B cash balance in all periods
Estimates assume a 12/31/09 close of the ACS transaction

13

Table of Contents

Results of Operations

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

For the Years Ended December 31
Net sales
Cost of sales
Gross profit
Operating expenses:
Selling
Marketing
General and administrative
Total operating expenses
Operating income
Other income
Income before taxes
Income tax expense
Net income

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Net Sales. Net sales for the year ended December 31, 2015 increased 7.2% to $28,211,000, compared to $26,305,000 for the yea

Service revenues for the year ended December 31, 2015 increased 7.8% to $26,391,000, compared to $24,473,000 for the year ended December 31, 2014.

Product sales for the year ended December 31, 2015 decreased 0.7% to $1,820,000, compared to $1,832,000 for the year ended December 31, 2014. The d

Gross Profit. Gross profit for the year ended December 31, 2015 increased 7.5% to $12,671,000, compared to $11,782,000 for th

Gross profit from our service revenues for the year ended December 31, 2015 increased 8.4% to $12,154,000, compared to $11,212,000 for the year ended

Gross profit from our product sales for the year ended December 31, 2015 decreased 9.3% to $517,000, compared to $570,000 for the year ended Decembe

Table of Contents

Operating Expenses

Selling. Selling expenses for the year ended December 31, 2015 decreased 22.7% to $4,498,000, compared to $5,822,000 for th

Marketing. Marketing expenses for the year ended December 31, 2015 increased 6.3% to $1,623,000, compared to $1,527,000 f

General and Administrative. General and administrative expenses for the year ended December 31, 2015 increased 3.0% to $4,086

During 2015, the Company recorded a net charge of $265,000 to general and administrative expenses relating to the resignation of the Company s Chief E

Other Income. Other income for the year ended December 31, 2015 was $76,000, compared to $42,000 for the year ended Decer

Income Taxes. During the year ended December 31, 2015, the Company recorded an income tax expense of $1,006,000, compar

Net Income. For the reasons stated above, the net income for the year ended December 31, 2015 was $1,534,000, compared to $

Other Comprehensive Income. Other comprehensive income is comprised of unrealized gains and losses, net of tax, from available-

Liquidity and Capital Resources

During the year ended December 31, 2015, cash and cash equivalents increased $1,286,000 from $7,237,000 at December 31, 2014 to $8,523,000 at Decer

Operating Activities: Net cash provided by operating activities during the year ended December 31, 2015 was $3,218,000. Net inc

Table of Contents

Investing Activities: Net cash used in investing activities during the year ended December 31, 2015 was $206,000. This was prim

Financing Activities: Net cash used in financing activities during the year ended December 31, 2015 was $1,726,000, which relate

The Company believes that based upon current business conditions and plans, its existing cash balance and future cash generated from operations will be s

Critical Accounting Policies and Estimates

Our discussion of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with ac

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

Revenue Recognition. The Company recognizes revenue from Insignia POPSigns ratably over the period of service, which is typic

Allowance for Doubtful Accounts. An allowance is established for estimated uncollectible accounts receivable. The Company deter

Impairment of Long-Lived Assets. The Company periodically evaluates the carrying value of its long-lived assets for impairment inc

Income Taxes. Deferred income taxes are determined based on the estimated future tax effects of differences between the financi

Table of Contents

available tax planning strategies. If tax regulations, operating results or the ability to implement tax-planning strategies vary, adjustments to the carrying va

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the p

Stock-Based Compensation. We measure and recognize compensation expense for all stock-based payments at fair value. We use t

The expected terms of the options and employee stock purchase plan rights are based on evaluations of historical and expected fu

If factors change and we employ different assumptions in the valuation of grants in future periods, the compensation expense that we record may differ sig

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance creating Accounting Standards Codification (ASC) Section 606,

In July 2015, FASB issued Accounting Standards Update (ASU) 2015-11, *Inventory (Topic 330) Related to Simplifying the Measurement of Inventory* a

In November 2015, FASB issued ASU 2015-17, *Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes* which requires that deferred ta

Table of Contents

available. The Company adopted this guidance for year ended December 31, 2015 and reclassified comparative periods for consistency.

In February 2016, the FASB issued ASU 2016-2, *Leases,* under which lessees will recognize most leases on the balance sheet, This will generally increase

Off-Balance Sheet Transactions

None.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Smaller reporting companies are not required to provide disclosure pursuant to this Item.

Table of Contents

Item 8. Financial Statements and Supplementary Data

The following are included on the pages indicated:

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors, Audit Committee and Shareholders

Insignia Systems, Inc.

We have audited the accompanying balance sheets of Insignia Systems, Inc. (the Company) as of December 31, 2015 and 2014, and the related statements

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require th

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Insignia Systems, Inc. as of Decem

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
March 18, 2016

Table of Contents

As of December 31
ASSETS
Current Assets:
Cash and cash equivalents
Accounts receivable, net
Available for sale investments
Inventories
Income tax receivable
Prepaid expenses and other
Total Current Assets
Other Assets:
Property and equipment, net
Other, net
Total Assets
LIABILITIES AND SHAREHOLDERS EQUITY
Current Liabilities:
Accounts payable
Accrued liabilities:
Compensation
Other
Income tax payable
Deferred revenue
Total Current Liabilities
Long-Term Liabilities:
Deferred tax liabilities
Accrued income taxes
Deferred rent
Total Long-Term Liabilities
Commitments and Contingencies
Shareholders Equity:
Common stock, par value $.01:
Authorized shares - 40,000,000
Issued shares - 11,721,000 in 2015 and 12,216,000 in 2014
Outstanding shares - 11,633,000 in 2015 and 12,191,000 in 2014
Additional paid-in capital
Retained earnings
Accumulated other comprehensive loss
Total Shareholders Equity
Total Liabilities and Shareholders Equity

See accompanying notes to financial statements.

Table of Contents

Year Ended December 31
Services revenues
Products revenues
Total Net Sales
Cost of services
Cost of goods sold
Total Cost of Sales
Gross Profit
Operating Expenses:
Selling
Marketing
General and administrative
Total Operating Expenses
Operating Income
Other income
Income Before Taxes
Income tax expense
Net Income
Other comprehensive income, net of tax:
Unrealized loss on available for sale securities
Comprehensive Income
Net income per share:
Basic
Diluted
Shares used in calculation of net income per share:
Basic
Diluted

See accompanying notes to financial statements.

Table of Contents

Balance at January 1, 2014
Issuance of common stock, net
Repurchase of common stock, net
Value of stock-based compensation
Excess tax benefit from stock options
Net income
Other comprehensive loss, net of tax
Balance at December 31, 2014
Issuance of common stock, net
Repurchase of common stock, net
Value of stock-based compensation
Tax deficiency from stock-based awards
Net income
Balance at December 31, 2015

Table of Contents

Year Ended December 31
Operating Activities:
Net income
Adjustments to reconcile net income to net cash provided by (used in) operating activities:
Depreciation and amortization
Changes in allowance for doubtful accounts
Deferred income tax expense
Stock-based compensation
Gain on sale of property and equipment
Changes in operating assets and liabilities:
Accounts receivable
Inventories
Income tax receivable
Prepaid expenses and other
Accounts payable
Accrued liabilities
Income tax payable
Accrued income taxes
Excess tax deficiency (benefit) from stock-based awards
Deferred revenue
Net cash provided by (used in) operating activities
Investing Activities:
Purchases of property and equipment
Acquisition of selling rights and other
Purchase of investments
Proceeds received from sale or maturity of investments
Proceeds received from sale of property and equipment
Net cash used in investing activities
Financing Activities:
Proceeds from issuance of common stock, net
Excess tax (deficiency) benefit from stock-based awards
Repurchase of common stock, net
Net cash used in financing activities
Increase (decrease) in cash and cash equivalents
Cash and cash equivalents at beginning of year
Cash and cash equivalents at end of year
Supplemental disclosures for cash flow information:
Cash paid during the year for income taxes
Non-cash financing activities:
Purchases of property and equipment included in accounts payable
Tenant allowance in other assets and deferred rent

See accompanying notes to financial statements.

Table of Contents

1. **Summary of Significant Accounting Policies**.

Description of Business. Insignia Systems, Inc. (the Company) markets in-store advertising products, programs and services to

Revenue Recognition. Revenues are recognized by the Company when persuasive evidence of an arrangement exists, shipment ha

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance creating Accounting Standards Codification (ASC) Section 606,

Cash and Cash Equivalents. The Company considers all highly liquid investments with an original maturity date of three months o

Fair Value of Financial Measurements. Fair value of financial instruments and selected non-financial assets and liabilities is measur

Table of Contents

about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances.

The hierarchy is divided into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs in

Certain of the Company s financial assets and liabilities are recorded at their carrying amounts that approximate fair value, based on their short-term natur

Assets as of December 31, 2015:	
Available-for-sale securities	
Assets as of December 31, 2014:	
Available-for-sale securities	

Available-for-sale securities in the preceding table are carried at fair value with unrealized gains and losses reported as a component of shareholders equit

Accounts Receivable. The majority of the Company s accounts receivable is due from companies in the consumer packaged good

Changes in the Company s allowance for doubtful accounts are as follows:

December 31	
Beginning balance	
Bad debt provision	
Accounts written-off	
Ending balance	

Table of Contents

Inventories. Inventories are primarily comprised of parts and supplies for the Impulse machine, sign cards, and roll stock. Inver

December 31	
Raw materials	
Work-in-process	
Finished goods	

Property and Equipment. Property and equipment is recorded at cost. Significant additions or improvements extending asset lives

Production tooling, machinery and equipment	
Office furniture and fixtures	
Computer equipment and software	
Web development	

Leasehold improvements are amortized over the shorter of the remaining term of the lease or estimated life of the asset.

Impairment of Long-Lived Assets. The Company records impairment losses on long-lived assets used in operations when indicators

Income Taxes. Income taxes are accounted for under the liability method. Deferred income taxes are provided for temporary dif

Stock-Based Compensation. The Company measures and recognizes compensation expense for all stock-based payments at fair val

The expected lives of the options and employee stock purchase plan rights are based on evaluations of historical and expected future employee exercise bel

Table of Contents

Advertising Costs. Advertising costs are charged to operations as incurred. Advertising expenses were approximately $42,000 an

Net Income Per Share. Basic net income per share is computed by dividing net income by the weighted average shares outstand

Weighted average common shares outstanding for the years ended December 31, 2015 and 2014 were as follows:

Year ended December 31
Denominator for basic net income per share - weighted average shares
Effect of dilutive securities:
Stock options and restricted stock units
Denominator for diluted net income per share - weighted average shares

Options to purchase approximately 613,000 shares of common stock with a weighted average exercise price of $3.79 were outstanding at December 31, 20

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the Uni

2. **Investments**. The Company carries certain investments intended to increase the yield on available cash balances. The

These investments are accounted for in accordance with Accounting Standards Codification (ASC) 320-10, Investments Debt and Equity Securities.

3. **Line of Credit**. The Company maintains a line of credit, which is collateralized by its available-for-sales investments.

4. **Selling Arrangement**. In 2011, the Company paid News America Marketing In-Store, LLC (News America) $4,000,

Table of Contents

Gross cost	
Accumulated amortization	
Net carrying amount	

5. **Retail Access and Distribution Agreement.** On February 21, 2014, the Company and Valassis Sales and Marketing

6. **Property and Equipment**. Property and equipment consists of the following at December 31:

Year ended December 31	
Property and Equipment:	
Production tooling, machinery and equipment	
Office furniture and fixtures	
Computer equipment and software	
Web site	
Leasehold improvements	
Construction in-progress	
Accumulated depreciation and amortization	
Net Property and Equipment	

Depreciation expense for the years ended December 31, 2015 and 2014 was $665,000 and $702,000, respectively.

7. **Commitments and Contingencies.**

Operating Leases. On September 14, 2015, the Company amended the lease for its headquarters to extend the term for five years

In connection with the amended lease, the Company incurred costs related to the build-out of its facility and other relocation costs, as well as costs for new

Minimum future lease obligations under the amended lease, excluding operating costs, are approximately as follows for the years ending December 31:

Table of Contents

2016	
2017	
2018	
2019	
2020	
Thereafter	

Retailer Agreements. The Company has contracts in the normal course of business with various retailers, some of which provide

Aggregate commitment amounts under agreements with retailers are approximately as follows for the years ending December 31:

2016	
2017	
2018	

On an ongoing basis the Company negotiates renewals of various retailer agreements. Upon the completion of future contract renewals, the annual commit

Legal. The Company is subject to various legal matters in the normal course of business. The outcome of these matters is not ex

8. Shareholders Equity.

Stock-Based Compensation. The Company s stock-based compensation plans are administered by the Compensation Committee o

The following table summarizes the stock-based compensation expense that was recognized in the Company s statements of comprehensive income for th

Year ended December 31	
Cost of sales	
Selling	
Marketing	
General and administrative	

The Company uses the Black-Scholes option-pricing model to estimate fair value of stock-based awards with the following weighted average assumptions:

Table of Contents

Stock Options:	
Expected life (years)	
Expected volatility	
Dividend yield	
Risk-free interest rate	

Stock Purchase Plan Options:	
Expected life (years)	
Expected volatility	
Dividend yield	
Risk-free interest rate	

The Company uses the graded attribution method to recognize expense for unvested options and restricted stock units. The amount of stock-based compens

As of December 31, 2015, there was approximately $120,000 of total unrecognized compensation costs related to the outstanding stock options, which is e

As of December 31, 2015, there was approximately $149,000 of total unrecognized compensation costs related to restricted stock units, which is expected

Stock Options, Restricted Stock Units, and Other Stock-Based Compensation Awards. The Company maintains the 2003 Incentive Stock Op

In May 2015, the 2013 Plan was amended to increase the total number of shares available to a total of 1,100,000 shares. Under the terms of the 2013 Plan,

Table of Contents

The following table summarizes activity under the 2003 and 2013 Plans:

Balance at December 31, 2013
Shares reserved
Stock awards granted
Restricted stock units granted
Stock options granted
Stock options exercised
Cancelled or forfeited - 2013 Plan
Cancelled of forfeited - 2003 Plan
Balance at December 31, 2014
Shares reserved
Stock awards granted
Restricted stock units granted
Stock options granted
Stock options exercised
Cancelled or forfeited - 2013 Plan
Cancelled or forfeited - 2013 Plan restricted stock units
Cancelled of forfeited - 2003 Plan
Balance at December 31, 2015

The number of options exercisable under the Plans was:

December 31, 2015
December 31, 2014

The following table summarizes information about the stock options outstanding at December 31, 2015:

Ranges of Exercise Prices	
$1.61 - $2.46	
$2.79 - $4.22	
	$5.49

Options outstanding under the Plans expire at various dates during the period from January 2015 through December 2024. Options outstanding at De

In June 2015 and May 2014, equity grants were made by the Company to the Board of Directors, pursuant to the 2013 Plan in the form of shares of commo

The Company issued 99,000 restricted stock units, under the 2013 Plan, during the year ended December 31, 2015. The units were assigned a weighted ave

Table of Contents

year ended December 31, 2014. The units were assigned a value of $3.03 per share, based on the stock price on the date of the grant, and vest over three ye

Restricted stock unit transactions during the years ended December 31, 2015 and 2014 are summarized as follows:

Unvested shares at January 1, 2014
Granted
Vested
Forfeited or surrendered
Unvested shares at December 31, 2014
Granted
Vested
Forfeited or surrendered
Unvested shares at December 31, 2015

Employee Stock Purchase Plan. The Company has an Employee Stock Purchase Plan (the Plan) that enables employees to contri

Stock Repurchase Plans. On December 3, 2013, the Board of Directors authorized the repurchase of up to $5,000,000 of the Comp

On October 30, 2015, the Board authorized the repurchase of up to $5,000,000 of the Company s common stock on or before October 30, 2017. The plan

For the years ended December 31, 2015 and December 31, 2014, the Company repurchased approximately 664,000 and 787,000

9. **Income Taxes**. Income tax expense consists of the following:

Year Ended December 31
Current taxes - Federal
Current taxes - State
Deferred taxes - Federal
Deferred taxes - State
Income tax expense

The actual tax expense attributable to income before taxes differs from the expected tax expense computed by applying the U.S. federal corporate income t

Table of Contents

Year Ended December 31
Federal statutory rate
Stock-based awards
State taxes
Other permanent differences
Impact of uncertain tax positions
Other
Effective federal income tax rate

For the year ended December 31, 2015 the Company has adopted Accounting Standard Update (ASU) 2015-17 to present balance sheet classification of de

As of December 31
Deferred tax assets
Accrued expenses
Stock-based awards
Reserve for bad debts
Inventory reserve
Net operating loss carryforwards
Other
Total deferred tax assets
Deferred tax liabilities
Depreciation
Prepaid expenses
Prepaid compensation
Total deferred tax liabilities
Net deferred income tax liabilities

The Company evaluates all significant available positive and negative evidence, including the existence of losses in prior years and its forecast of future ta

The Company has recorded a liability of $528,000 and $486,000 for uncertain tax positions taken in tax returns in previous years as of December 31, 2015

A reconciliation of the beginning and ending amount of the liability for uncertain tax positions is as follows:

Table of Contents

Balance at January 1, 2014
Increases due to current year positions
Increases due to interest
Balance at December 31, 2014
Increases due to current year positions
Increases due to interest
Balance at December 31, 2015

10. **Employee Benefit Plans**. The Company sponsors a Retirement Profit Sharing and Savings Plan under Section 401(k) of

11. **Concentrations.**

***Major Customers*.** During the year ended December 31, 2015, one customer accounted for 37% of the Company s total net sales

Although there are a number of customers that the Company sells to, the loss of a major customer could adversely affect operating results. Additionally, th

***Export Sales*.** Export sales accounted for less than 1% of total net sales during the years ended December 31, 2015 and 2014.

12. **Severance Accrual.** During the year ended December 31, 2015, the Company recorded a net charge of $265,000 to gene

13. **Quarterly Financial Data**. (Unaudited)

Quarterly data for the years ended December 31, 2015 and 2014 was as follows:

Year Ended December 31, 2015
Net sales
Gross profit
Net income
Net income per share:
Basic
Diluted

Year Ended December 31, 2014

Net sales
Gross profit
Net income (loss)
Net income (loss) per share:
Basic
Diluted

Table of Contents

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The Company s management carried out an evaluation, under the supervision and with the participation of the Company s acting President and Chief Fin

Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate control over financial reporting, as such term is defined in Rule 13a-15(f) of the

This Annual Report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial rep

Changes in Internal Control Over Financial Reporting

No changes in the Company s internal control over financial reporting occurred during the fourth quarter of 2015 that have materially affected, or are reas

Item 9B. Other Information

None.

Table of Contents

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 concerning the directors and executive officers of the Company and corporate governance is incorporated herein by re

Item 11. Executive Compensation

The information required by Item 11 is incorporated herein by reference to the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is incorporated herein by reference to the Proxy Statement.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by Item 13 is incorporated herein by reference to the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is incorporated herein by reference to the Proxy Statement.

Table of Contents

Item 15. Exhibits and Financial Statement Schedules

The following financial statements of Insignia Systems, Inc. are included in Item 8:

(a) Exhibits

Unless otherwise indicated, all documents incorporated into this Annual Report on Form 10-K by reference to a document filed with the SEC pursuant to t

Exhibit Number

+3.1

+3.2

*10.1

*10.2

*10.3

*10.4

*10.5

*10.6

*10.7

*10.8

Table of Contents

Exhibit Number
*10.9
*10.10
*10.11
*10.12
*10.13
*10.14
*10.15
10.16
10.17
^10.18
^10.19
^10.20
^10.21
^10.22
*10.23
10.24

14

Table of Contents

Exhibit Number
+23.1
+31.1
++32
+101.1

---

*	Deno
+	Filed
++	Furni
^	Portio

Table of Contents

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its be

Dated: March 18, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the

Signature

/s/ John C. Gonsior
John C. Gonsior

/s/ Sardar Biglari
Sardar Biglari

/s/ F. Peter Zaballos
F. Peter Zaballo

/s/ Jacob J. Berning
Jacob J. Berning

/s/ David L. Boehnen
David L. Boehnen

/s/ Philip L. Cooley
Philip L. Cooley

/s/ Edward A. Corcoran
Edward A. Corcoran

/s/ Michael C. Howe
Michael C. Howe

/s/ Nicholas J. Swenson
Nicholas J. Swenson

/s/ Steven R. Zenz
Steven R. Zenz