INSIGNIA SYSTEMS INC/MN
Form 10-Q/A
September 09, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q/A

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

for the quarterly period ended March 31, 2011

or

o 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	**41-1656308**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

8799 Brooklyn Blvd.
Minneapolis, MN 55445
(Address of principal executive offices)

(763) 392-6200
(Registrant s telephone number, including area code)

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 x No o

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

Yes o No o

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 o Accelerated filer x Non-accelerated filer o Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Number of shares outstanding of Common Stock, $.01 par value, as of September 6, 2011, was 15,025,904.

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EXPLANATORY NOTE

This Form 10-Q/A is being filed to amend the registrant s Form 10-Q for the quarter ended March 31, 2011, to: (1) correct for a miscalculation made related to deferred income taxes, as announced by the Company on August 3, 2011, and (2) modify the portions of Exhibit 10.1 for which confidential treatment is requested, in response to comments received from the Commission on the registrant s request for confidential treatment.

Insignia Systems, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Insignia Systems, Inc.
CONDENSED BALANCE SHEETS

	(Restated) March 31, 2011 (unaudited)	(Restated) December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 90,240,000	$ 13,196,000
Short-term investments		500,000
Accounts receivable, net	2,822,000	3,227,000
Inventories	433,000	414,000
Deferred tax assets, net	151,000	151,000
Prepaid expenses and other	658,000	360,000
Total Current Assets	94,304,000	17,848,000
Other Assets:		
Property and equipment, net	928,000	975,000
Non-current deferred tax assets, net	166,000	5,551,000
Other	3,875,000	227,000
Total Assets	$ 99,273,000	$ 24,601,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	2,152,000	2,335,000
Dividend payable	31,335,000	
Income tax payable	25,922,000	
Accrued liabilities		
Compensation	1,407,000	809,000
Legal	167,000	376,000
Employee stock purchase plan	49,000	170,000
Retailer payments	37,000	1,119,000
Other	284,000	400,000
Deferred revenue	159,000	134,000
Total Current Liabilities	61,512,000	5,343,000
Long-Term Liabilities:		
Accrued income taxes	400,000	
Accrued compensation	800,000	
Total Liabilities	62,712,000	5,343,000
Commitments and Contingencies		
Shareholders Equity	36,561,000	19,258,000
Total Liabilities and Shareholders Equity	$ 99,273,000	$ 24,601,000

See accompanying notes to financial statements.

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Insignia Systems, Inc.
STATEMENTS OF OPERATIONS
(Unaudited)

Three Months Ended March 31	**2011**	**2010**
Services revenues	$ 4,374,000	$ 5,137,000
Products revenues	573,000	746,000
Total Net Sales	4,947,000	5,883,000
Cost of services	2,543,000	2,436,000
Cost of goods sold	368,000	517,000
Total Cost of Sales	2,911,000	2,953,000
Gross Profit	2,036,000	2,930,000
Operating Expenses:		
Selling	1,555,000	1,636,000
Marketing	414,000	395,000
General and administrative	2,026,000	1,347,000
Gain from litigation settlement, net	(89,762,000)	
Total Operating Expenses	(85,767,000)	3,378,000
Operating Income (Loss)	87,803,000	(448,000)
Other Income (Expense):		
Interest income	21,000	18,000
Interest expense		(5,000)
Total Other Income	21,000	13,000
Income (Loss) Before Taxes	87,824,000	(435,000)
Income tax expense	(33,951,000)	
Net Income (Loss)	$ 53,873,000	$ (435,000)
Net income (loss) per share:		
Basic	$ 3.37	$ (0.03)
Diluted	$ 3.17	$ (0.03)
Shares used in calculation of net income (loss) per share:		
Basic	15,990,000	15,381,000
Diluted	16,986,000	15,381,000

See accompanying notes to financial statements.

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

Three Months Ended March 31	(Restated) 2011	2010
Operating Activities:		
Net income (loss)	$ 53,873,000	$ (435,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	88,000	79,000
Deferred income tax expense	5,385,000	
Stock-based compensation	145,000	113,000
Changes in operating assets and liabilities:		
Accounts receivable	405,000	(229,000)
Inventories	(19,000)	(93,000)
Prepaid expenses and other	54,000	125,000
Accounts payable	(183,000)	(382,000)
Accrued liabilities	(130,000)	(1,223,000)
Income tax payable	28,145,000	
Accrued income taxes	400,000	
Excess tax benefits from stock-based payments	(2,222,000)	
Deferred revenue	25,000	(247,000)
Net cash provided by (used in) operating activities	85,966,000	(2,292,000)
Investing Activities:		
Purchases of property and equipment	(41,000)	(198,000)
Acquisition of selling arrangement	(4,000,000)	
Purchases of investments		(1,300,000)
Proceeds from sale of investments	500,000	1,400,000
Net cash provided by (used in) investing activities	(3,541,000)	(98,000)
Financing Activities:		
Proceeds from issuance of common stock, net	3,069,000	638,000
Excess tax benefits from stock-based payments	2,222,000	
Repurchase of common stock, net	(10,672,000)	(412,000)
Net cash provided by (used in) financing activities	(5,381,000)	226,000
Increase (decrease) in cash and cash equivalents	77,044,000	(2,164,000)
Cash and cash equivalents at beginning of period	13,196,000	8,797,000
Cash and cash equivalents at end of period	$ 90,240,000	$ 6,633,000
Supplemental disclosures for cash flow information:		
Cash paid during period for income taxes	$ 12,000	$ 40,000
Non-cash investing and financing activities:		
Dividend payable	$ 31,335,000	$
Cashless exercise of options	$ 800,000	$

See accompanying notes to financial statements.

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Insignia Systems, Inc.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

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

Description of Business. Insignia Systems, Inc. (the Company) markets in-store advertising products, programs and services to consumer packaged goods manufacturers (customers) and retailers. The Company has been in business since 1990. The Company s products and services includes the Insignia POPSign® program, thermal sign card supplies for the Company s SIGNright and Impulse systems, Stylus software and laser printable cardstock and label supplies. Since 1998, the Company has been focusing on providing in-store services through the Insignia Point-of- Purchase Services (Insignia POPS®) in-store advertising program.

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 March 31, 2011, and its results of operations and cash flows for the three months ended March 31, 2011 and 2010. 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/A for the year ended December 31, 2010.

The Summary of Significant Accounting Policies in the Company s 2010 Annual Report on Form 10-K/A describes the Company s accounting policies.

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

	March 31, 2011	December 31, 2010
Raw materials	$ 93,000	$ 132,000
Work-in-process	31,000	25,000
Finished goods	309,000	257,000
	$ 433,000	$ 414,000

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

	March 31, 2011	December 31, 2010
Property and Equipment:		
Production tooling, machinery and equipment	$ 2,346,000	$ 2,344,000
Office furniture and fixtures	258,000	258,000
Computer equipment and software	975,000	936,000
Web site	38,000	38,000
Leasehold improvements	351,000	351,000
	3,968,000	3,927,000
Accumulated depreciation and amortization	(3,040,000)	(2,952,000)
Net Property and Equipment	$ 928,000	$ 975,000

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 no stock option awards granted during the three months ended March 31, 2011. The Company used the Black-Scholes option pricing model to estimate the fair value of stock-based rights granted during the three months ended March 31, 2011, under the employee stock purchase plan using the following weighted average assumptions: expected life of 1 year, expected volatility of 30%, dividend yield of 0% and risk-free interest rate of 0.30%. Total stock-based compensation expense recorded for the three months ended March 31, 2011 and 2010, was $145,000 and $113,000, respectively.

Dividend Payable. On February 22, 2011, the Board of Directors approved a special $2.00 per common share dividend totaling $31,335,000. The dividend was accrued at March 31, 2011, and paid on May 2, 2011.

Net Income (Loss) Per Share. Basic net income (loss) 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 (loss) per share gives effect to all diluted potential common shares outstanding during the period. Options and warrants to purchase approximately 315,000 and 438,000 shares of common stock with weighted average exercise prices of $8.80 and $8.01 were outstanding at March 31, 2011 and 2010 and were not included in the computation of common stock equivalents for the three months ended March 31, 2011 and 2010 because their exercise prices were higher than the average fair market value of the common shares during the reporting period. During the three months ended March 31, 2010, the effect of options and warrants outstanding was anti-dilutive due to the net loss incurred during the period. Had net income been achieved, approximately 1,324,000 of common stock equivalents would have been included in the computation of diluted net income per share.

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Weighted average common shares outstanding for the three months ended March 31, 2011 and 2010 were as follows:

Three Months Ended March 31	2011	2010
Denominator for basic net income (loss) per share - weighted average shares	15,990,000	15,381,000
Effect of dilutive securities:		
Stock options and warrants	996,000	
Denominator for diluted net income (loss) per share - weighted average shares	16,986,000	15,381,000

2. **Restatement.** The Company has determined that there was an error made in connection with state income taxes payable as of March 31, 2011 as a result of disqualifying dispositions of incentive stock options and other exercises of nonqualified stock options. The amount of the restatement was to decrease income taxes payable by $58,000 and increase shareholders equity by $58,000.

3. **Commitments and Contingencies.**
Legal. On September 23, 2004, the Company brought suit against 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 sought injunctive relief sufficient to prevent further antitrust injury and an award of treble damages 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 i