INSIGNIA SYSTEMS INC/MN
Form 10-Q
May 07, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

for the quarterly period ended March 31, 2013
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 x 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 o Non-accelerated filer o Smaller Reporting Company x

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 May 6, 2013 was 13,659,749.

Insignia Systems, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Insignia Systems, Inc.
CONDENSED BALANCE SHEETS

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 19,461,000	$ 20,271,000
Accounts receivable, net	6,122,000	3,784,000
Inventories	325,000	310,000
Deferred tax assets	478,000	478,000
Income tax receivable	828,000	800,000
Prepaid expenses and other	443,000	516,000
Total Current Assets	27,657,000	26,159,000
Other Assets:		
Property and equipment, net	1,990,000	2,149,000
Other, net	3,279,000	3,398,000
Total Assets	$ 32,926,000	$ 31,706,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 2,618,000	$ 2,122,000
Accrued liabilities	1,074,000	1,844,000
Income tax payable	563,000	
Deferred revenue	749,000	402,000
Total Current Liabilities	5,004,000	4,368,000
Long-Term Liabilities:		
Deferred tax liabilities	413,000	413,000
Accrued income taxes	430,000	430,000
Total Long-Term Liabilities	843,000	843,000
Commitments and Contingencies		
Shareholders Equity:		
Common stock, par value $.01:		
Authorized shares - 40,000,000		
Issued and outstanding shares - 13,660,000 at March 31, 2013 and 13,602,000 at December 31, 2012	137,000	136,000
Additional paid-in capital	22,841,000	22,678,000
Retained earnings	4,101,000	3,681,000
Total Shareholders Equity	27,079,000	26,495,000
Total Liabilities and Shareholders Equity	$ 32,926,000	$ 31,706,000

See accompanying notes to financial statements.

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Insignia Systems, Inc.
STATEMENTS OF OPERATIONS
(Unaudited)

Three Months Ended March 31	**2013**	**2012**
Services revenues	$ 6,967,000	$ 3,468,000
Products revenues	429,000	529,000
Total Net Sales	7,396,000	3,997,000
Cost of services	3,571,000	2,687,000
Cost of goods sold	289,000	410,000
Total Cost of Sales	3,860,000	3,097,000
Gross Profit	3,536,000	900,000
Operating Expenses:		
Selling	1,395,000	1,646,000
Marketing	209,000	434,000
General and administrative	956,000	1,074,000
Total Operating Expenses	2,560,000	3,154,000
Operating Income (Loss)	976,000	(2,254,000)
Other income	7,000	7,000
Income (Loss) Before Taxes	983,000	(2,247,000)
Income tax (expense) benefit	(563,000)	670,000
Net Income (Loss)	$ 420,000	$ (1,577,000)
Net income (loss) per share:		
Basic	$ 0.03	$ (0.12)
Diluted	$ 0.03	$ (0.12)
Shares used in calculation of net income (loss) per share:		
Basic	13,654,000	13,611,000
Diluted	13,684,000	13,611,000

See accompanying notes to financial statements.

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

Three Months Ended March 31	**2013**	**2012**
Operating Activities:		
Net income (loss)	$ 420,000	$ (1,577,000)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	274,000	283,000
Stock-based compensation	77,000	185,000
Gain on sale of property and equipment	(12,000)	
Changes in operating assets and liabilities:		
Accounts receivable	(2,338,000)	665,000
Inventories	(15,000)	(38,000)
Income tax receivable	(28,000)	
Prepaid expenses and other	92,000	(570,000)
Accounts payable	496,000	(242,000)
Accrued liabilities	(770,000)	(927,000)
Income tax payable	563,000	(748,000)
Deferred revenue	347,000	164,000
Net cash used in operating activities	(894,000)	(2,805,000)
Investing Activities:		
Purchases of property and equipment	(16,000)	(40,000)
Proceeds received from sale of property and equipment	13,000	
Net cash used in investing activities	(3,000)	(40,000)
Financing Activities:		
Proceeds from issuance of common stock	87,000	131,000
Repurchase of common stock, net		(213,000)
Net cash provided by (used in) financing activities	87,000	(82,000)
Decrease in cash and cash equivalents	(810,000)	(2,927,000)
Cash and cash equivalents at beginning of period	20,271,000	23,202,000
Cash and cash equivalents at end of period	$ 19,461,000	$ 20,275,000
Supplemental disclosures for cash flow information:		
Cash paid during the year for income taxes	$ 30,000	$ 790,000

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 retailers and consumer packaged goods manufacturers. The Company s products include the Insignia Point-of-Purchase Services (POPS) in-store advertising program, thermal sign card supplies for the Company s Impulse Retail 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 March 31, 2013, its results of operations for the three months ended March 31, 2013 and 2012, and its cash flows for the three months ended March 31, 2013 and 2012. 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, 2012.

The Summary of Significant Accounting Policies in the Company s 2012 Annual Report on Form 10-K describes the Company s accounting policies.

Inventories. Inventories are primarily comprised of parts and supplies for Impulse 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:

	March 31, 2013	December 31, 2012
Raw materials	$ 85,000	$ 72,000
Work-in-process	7,000	3,000
Finished goods	233,000	235,000
	$ 325,000	$ 310,000

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

	March 31, 2013	December 31, 2012
Property and Equipment:		
Production tooling, machinery and equipment	$ 3,895,000	$ 3,923,000
Office furniture and fixtures	260,000	260,000
Computer equipment and software	1,089,000	1,085,000
Web site	38,000	38,000
Leasehold improvements	616,000	616,000
Construction in-progress	35,000	25,000
	5,933,000	5,947,000
Accumulated depreciation and amortization	(3,943,000)	(3,798,000)
Net Property and Equipment	$ 1,990,000	$ 2,149,000

Depreciation expense was approximately $174,000 and $183,000 in the three months ended March 31, 2013 and 2012, respectively.

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

During the three months ended March 31, 2013 and 2012, no stock option awards were granted by the Company. The Company estimated the fair value of stock-based rights granted during the three months ended March 31, 2013 under the employee stock purchase plan using the following weighted average assumptions: expected life of 1.0 years, expected volatility of 51%, dividend yield of 0% and risk-free interest rate of 0.16%. The total fair value of stock-based rights granted under the employee stock purchase plan during the three months ended March 31, 2013 and 2012 was approximately $11,000 and $16,000, respectively. Total stock-based compensation expense recorded for the three months ended March 31, 2013 and 2012, was $77,000 and $185,000, respectively.

During the three months ended March 31, 2013, there were 6,666 stock options exercised, for which the Company received proceeds of $13,000. There were no stock options exercised during the three months ended March 31, 2012.

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

Options to purchase approximately 1,322,000 shares of common stock with a weighted average exercise price of $3.45 were outstanding at March 31, 2013 and were not included in the computation of common stock equivalents for the three months ended March 31, 2013 because their exercise prices were higher than the average fair market value of the common shares during the reporting period. Due to the net loss incurred during the three months ended March 31, 2012, all stock options were anti-dilutive.

Weighted average common shares outstanding for the three months ended March 31, 2013 and 2012 were as follows:

Three months ended March 31	**2013**	**2012**
Denominator for basic net income (loss) per share - weighted average shares	13,654,000	13,611,000
Effect of dilutive securities:		
Stock options	30,000	
Denominator for diluted net income (loss) per share - weighted average shares	13,684,000	13,611,000

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2. **Selling Arrangement.** Pursuant to a 2011 settlement agreement, the Company paid News America Marketing In-Store, LLC (News America) $4,000,000 in exchange for a 10-year arrangement to sell signs with price into News America s network of retailers as News America s exclusive agent. The $4,000,000 is being amortized on a straight-line basis over the 10-year term of the arrangement. Amortization expense, which was $100,000 in each of the three months ended March 31, 2013 and 2012 and is expected to be $400,000 per year over the next five years, is recorded within Cost of Services in the Company s Statements of Operations. The net carrying amount of the selling arrangement is recorded within Other Assets on the Company s Condensed Balance Sheets.

3. **Income Taxes.** For the three months ended March 31, 2013, the Company recorded income tax expense of $563,000, or 57.3% of income before taxes. For the three months ended March 31, 2012, the Company recorded an income tax benefit of $670,000, or 29.8% of loss before taxes. The income tax provision (benefit) for the three months ended March 31, 2013 and 2012, is comprised of federal and state taxes. The primary differences between the Company s March 31, 2013 and 2012 effective tax rates and the statutory federal rate are expenses related to equity compensation and nondeductible meals and entertainment.

   As of March 31, 2013 and December 31, 2012, the Company has unrecognized tax benefits totaling $430,000, including interest, which relates to state nexus issues. The amount of the unrecognized tax benefits, if re