INSIGNIA SYSTEMS INC/MN
Form 10-Q
November 03, 2011
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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 September 30, 2011

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	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 No

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

Yes No

Indicate by check mark 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 October 26, 2011, was 14,575,906.

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Insignia Systems, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Insignia Systems, Inc.

BALANCE SHEETS

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$31,930,000	$13,196,000
Short-term investments	—	500,000
Accounts receivable, net	2,423,000	3,227,000
Inventories	433,000	414,000
Deferred tax assets, net	151,000	151,000
Prepaid expenses and other	787,000	360,000
Total Current Assets	35,724,000	17,848,000
Other Assets:		
Property and equipment, net	1,934,000	975,000
Non-current deferred tax assets, net	166,000	5,551,000
Other	4,186,000	227,000
Total Assets	$42,010,000	$24,601,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$1,778,000	$2,335,000
Income tax payable	6,619,000	—
Accrued liabilities		
Compensation	1,315,000	809,000
Legal	—	376,000
Employee stock purchase plan	138,000	170,000
Retailer payments	64,000	1,119,000
Other	254,000	400,000
Deferred revenue	240,000	134,000
Total Current Liabilities	10,408,000	5,343,000

Long-Term Liabilities:		
Accrued compensation	800,000	—
Accrued income taxes	353,000	—
Total Liabilities	11,561,000	5,343,000
Commitments and Contingencies	—	—
Shareholders' Equity:		
Common stock, par value $0.01:		
Authorized shares - 40,000,000		
Issued and outstanding shares - 14,743,000 at September 30, 2011 and 15,847,000 at December 31, 2010	147,000	159,000
Additional paid-in capital	24,609,000	33,548,000
Retained earnings (accumulated deficit)	5,693,000	(14,449,000)
Total Shareholders' Equity	30,449,000	19,258,000
Total Liabilities and Shareholders' Equity	$42,010,000	$24,601,000

See accompanying notes to financial statements.

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Insignia Systems, Inc.

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Services revenues	$2,563,000	$7,858,000	$11,383,000	$20,557,000
Products revenues	497,000	659,000	1,650,000	2,169,000
Total Net Sales	3,060,000	8,517,000	13,033,000	22,726,000
Cost of services	2,532,000	3,600,000	7,780,000	9,518,000
Cost of goods sold	358,000	442,000	1,109,000	1,458,000
Total Cost of Sales	2,890,000	4,042,000	8,889,000	10,976,000
Gross Profit	170,000	4,475,000	4,144,000	11,750,000
Operating Expenses:				
Selling	1,332,000	1,968,000	4,295,000	5,379,000
Marketing	426,000	429,000	1,273,000	1,235,000
General and administrative	1,242,000	1,146,000	4,505,000	4,001,000
Gain from litigation settlement, net	—	—	(89,762,000)	—
Total Operating Expenses, net	3,000,000	3,543,000	(79,689,000)	10,615,000
Operating Income (Loss)	(2,830,000)	932,000	83,833,000	1,135,000
Other Income (Expense):				
Interest income	13,000	6,000	55,000	32,000
Interest expense	—	(6,000)	—	(16,000)
Total Other Income	13,000	—	55,000	16,000
Income (Loss) Before Taxes	(2,817,000)	932,000	83,888,000	1,151,000
Income tax benefit (expense)	1,096,000	—	(32,411,000)	—
Net Income (Loss)	$(1,721,000)	$932,000	$51,477,000	$1,151,000
Net income (loss) per share:				
Basic	$(0.11)	$0.06	$3.31	$0.07
Diluted	$(0.11)	$0.05	$3.23	$0.07
Shares used in calculation of net income (loss) per share:				
Basic	15,121,000	15,642,000	15,551,000	15,503,000
Diluted	15,121,000	16,977,000	15,951,000	16,869,000
Cash dividends declared per common share:	$0.00	$0.00	$2.00	$0.00

See accompanying notes to financial statements.

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Insignia Systems, Inc.

STATEMENTS OF CASH FLOWS

(Unaudited)

Nine Months Ended September 30	2011	2010
Operating Activities:		
Net income	$51,477,000	$1,151,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	444,000	249,000
Deferred income tax expense	5,385,000	—
Stock-based compensation	545,000	557,000
Changes in operating assets and liabilities:		
Accounts receivable	804,000	(2,541,000)
Inventories	(19,000)	(140,000)
Prepaid expenses and other	(569,000)	(174,000)
Accounts payable	(557,000)	778,000
Accrued liabilities	(303,000)	105,000
Income tax payable	8,919,000	—
Accrued income taxes	353,000	—
Excess tax benefit from stock options	(2,300,000)	—
Deferred revenue	106,000	(501,000)
Net cash provided by (used in) operating activities	64,285,000	(516,000)
Investing Activities:		
Purchases of property and equipment	(1,220,000)	(368,000)
Acquisition of selling arrangement	(4,000,000)	—
Purchases of investments	—	(3,800,000)
Proceeds from sale of investments	500,000	5,700,000
Net cash provided by (used in) investing activities	(4,720,000)	1,532,000
Financing Activities:		
Proceeds from issuance of common stock, net	3,125,000	713,000
Excess tax benefit from stock options	2,300,000	—
Dividends paid	(31,335,000)	—
Repurchase of common stock, net	(14,921,000)	(469,000)
Net cash provided by (used in) financing activities	(40,831,000)	244,000
Increase in cash and cash equivalents	18,734,000	1,260,000
Cash and cash equivalents at beginning of period	13,196,000	8,797,000
Cash and cash equivalents at end of period	$31,930,000	$10,057,000

Supplemental disclosures for cash flow information:		
Cash paid during periods for income taxes	$17,746,000	$62,000
Non-cash financing activities:		
Cashless exercise of stock options and warrants	$800,000	$3,363,000

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 September 30, 2011, its results of operations for the three and nine months ended September 30, 2011 and 2010, and its cash flows for the nine months ended September 30, 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, 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:

	September 30, 2011	December 31, 2010
Raw materials	$ 62,000	$ 132,000
Work-in-process	30,000	25,000
Finished goods	341,000	257,000
	$ 433,000	$ 414,000

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

	September 30, 2011	December 31, 2010
Property and Equipment:		
Production tooling, machinery and equipment	$2,350,000	$2,344,000
Office furniture and fixtures	260,000	258,000
Computer equipment and software	1,056,000	936,000
Web site	38,000	38,000
Leasehold improvements	361,000	351,000
Construction in progress	1,082,000	—
	5,147,000	3,927,000
Accumulated depreciation and amortization	(3,213,000)	(2,952,000)
Net Property and Equipment	$1,934,000	$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 367,000 stock option awards granted during the nine months ended September 30, 2011, and the Company estimated the fair value of these awards using the following weighted average assumptions: expected life of 4.3 years, expected volatility of 70%, dividend yield of 0% and risk-free interest rate of 1.81%. The total fair value of stock option awards granted during the nine months ended September 30, 2011 and 2010 was approximately $814,000 and $745,000, respectively. The Company estimated the fair value of stock-based rights granted during the nine months ended September 30, 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%. The total fair value of stock-based rights granted under the employee stock purchase plan during the nine months ended September 30, 2011 and 2010 was approximately $58,000 and $80,000, respectively. Total stock-based compensation expense recorded for the three and nine months ended September 30, 2011, was $172,000 and $545,000, respectively, and for the three and nine months ended September 30, 2010 was $156,000 and $557,000, respectively. The total option exercises in the three and nine months ended September 30, 2011 were 18,000 and 1,635,000, respectively, for which the Company received proceeds of $40,000 and $2,976,000, respectively. Total option exercises in the three and nine months ended September 30, 2010 were 16,000 and 344,000, for which the Company received proceeds of $34,000 and $648,000.

Dividends Paid. On February 22, 2011, the Board of Directors approved a special $2.00 per common share dividend totaling $31,335,000, which was paid on May 2, 2011.

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 dilutive effects of stock options and warrants. Diluted net income (loss) per share gives effect to all diluted potential common shares outstanding during the period. Due to the net loss incurred during the three months ended September 30, 2011, all stock options were anti-dilutive. Options and warrants to purchase approximately 656,000 shares of common stock with weighted average exercise prices of $7.12 were outstanding at September 30, 2010 and were not included in the computation of common stock equivalents for the three months ended September 30, 2010 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 646,000 and 525,000 shares of common stock with weighted average exercise prices of $6.54 and $7.55 were outstanding at September 30, 2011 and 2010 and were not included in the computation of common stock equivalents for the nine months ended September 30, 2011 and 2010 because their exercise prices were higher than the average fair market value of the common shares during the reporting period.

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Weighted average common shares outstanding for the three and nine months ended September 30, 2011 and 2010 were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Denominator for basic net income per share - weighted average shares	15,121,000	15,642,000	15,551,000	15,503,000
Effect of dilutive securities:				
Stock options and warrants	—	1,335,000	400,000	1,366,000
Denominator for diluted net income per share - weighted average shares	15,121,000	16,977,000	15,951,000	16,869,000

2. 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 h