INSIGNIA SYSTEMS INC/MN
Form 10-K
March 18, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015	**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)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class:	**Name of each exchange on which registered:**
Common Stock, $.01 par value	The NASDAQ Stock Market

Securities Registered Pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company 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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the last business day of the registrant s most recently completed second fiscal quarter (June 30, 2015) was approximately $26,395,000 based upon the price of the registrant s Common Stock on such date.

Number of shares outstanding of Common Stock, $.01 par value, as of March 14, 2016 was 11,611,303.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s definitive proxy for its 2016 Annual Meeting of Shareholders are incorporated into Part III.

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SIGNATURES

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PART I.

Item 1. Business

General

Insignia Systems, Inc. (referred to in this Annual Report on Form 10-K as Insignia, we, us, our and the Company) is a developer and market innovative in-store products, programs, and services that help consumer goods manufacturers and retail partners drive sales at the point of purchase. The Company was incorporated in 1990. Since 1998, the Company has focused on managing a retail network, made up of over 22,000 store locations, for the primary purpose of providing turn-key at-shelf market access for consumer packaged goods (CPG) manufacturers marketing programs. Insignia provides participating retailers with benefits including incremental revenue, incremental sales opportunities, increased shopper engagement in-store, and custom creative development and other in-kind services.

Insignia s primary product is the Point-Of-Purchase Services (POPS®) in-store marketing program. Insignia POPS® program is a national, account-specific, shelf-edge advertising and promotion tactic. Internal testing has indicated the program delivers incremental sales for the featured brand. The program allows manufacturers to deliver vital product information to consumers at the point-of-purchase, and to leverage the local retailer brand and store-specific prices to provide a unique call to action that draws attention to the featured brand and triggers a purchase decision. CPG customers benefit from Insignia s nimble operational capabilities, which include short lead times, in-house graphic design capabilities, post-program analytics, and micro-marketing capabilities such as variable or bilingual messaging.

In October 2014, the Company announced the introduction of a new product, The Like MachineTM, which is an innovative new media that harnesses the power of social media, consumer engagement, and word-of-mouth recommendation at the point of purchase. The Company licenses this product from TLM Holdings, LLC (TLMH), a company in which Insignia s Chief Sales and Marketing Officer, Tim Halfmann, is the majority owner and serves as a principal. In March 2016, the Company and TLMH signed a new distribution agreement for the sale of The Like Machine to Insignia s customers. This new agreement replaces the Company s prior license agreement with TLMH. Mr. Halfmann has resigned from Insignia, effective April 30, 2016 in order to focus his efforts more fully on The Like Machine product and its evolution going forward.

The Company s internet address is www.insigniasystems.com. The Company has made all of the reports it files with the SEC available free of charge on its Web site. The Company s Web site is not incorporated by reference into this Report on Form 10-K. Copies of reports can also be obtained free of charge by requesting them from Insignia Systems, Inc., 8799 Brooklyn Boulevard, Minneapolis, Minnesota 55445; Attention: CFO; telephone 763-392-6200.

Industry and Market Background

In 2013, Point-Of-Purchase Advertising International (POPAI), an industry non-profit trade association, conducted a Shopper Engagement Study that showed more than 76% of brand purchase decisions are made in-store. As a result, product manufacturers seek access to in-store vehicles that prompt consumers to consider, and remind them to buy, their brand. Insignia is usually engaged as part of an overall, mixed-media, brand marketing campaign. Our programs offer manufacturers the unique benefit of helping to close the sale at the point of purchase, within the brick-and-mortar retail environment.

Company Products

Insignia s POPSign Program and Brand-Equity Signage

Insignia s POPSign program is an in-store, shelf-edge, point-of-purchase advertising and promotion tactic designed to assist CPG manufacturers in achieving marketing objectives. Depending on the design and format, Insignia POPSigns can deliver information from manufacturers such as product uses and features, nutritional information, advertising taglines, product images, or usage photos. The differentiating feature of Insignia POPSigns is that store-specific prices from the retailer, and each retailer s unique logo, are combined on the sign. Signs are installed in close proximity to the manufacturer s product in participating stores, and are maintained in two-week cycle increments. The Company s POPSign program offers special features and enhancements, such as ShapePOPS®, which is an enhancement to its Color POPSigns that were developed in 2011.

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In addition to POPSigns, Insignia offers a brand-equity signage program (without featured price or retailer logo) in a subset of managed retailers. This program offers CPG customers expanded market access for their advertising objectives.

Manufacturers pay program rates based upon the directed number of cycles and retailer/store count. The Company collects and organizes data from the manufacturer as well as the participating retailers, designs and prints the signage, and delivers signage. Depending on the agreement with the retailer, either a third-party professional installer or store personnel use placement instructions to install the correct signage at the shelf during the correct timeframe.

Legacy Products

Insignia offers custom design, printing and store signage programs directly to retailers that seek effective ways to communicate with their shoppers in store. Products include adhesive and non-adhesive supplies in a variety of colors, sizes and weights. Prior to 1996, the Company s primary product offering was the Impulse Retail System, a system developed by an independent product design and development firm. The Company continues to sell cardstock, maintenance agreements and supplies related to the Impulse Retail System to U.S. and international customers. Cardstock for the Impulse Retail System is sold by the Company in a variety of sizes and colors that can be customized to include pre-printed custom artwork, such as a retailer s logo. Approximately 7% of 2015 revenues came from the sale of these legacy products. The Company expects this percentage to be comparable in 2016.

Marketing and Sales

The Company primarily markets and sells its programs to CPG manufacturers through a direct sales force. Insignia has direct relationships with many of the top 100 CPG manufacturers. Marketing support includes customized sales pitches, selling tools such as rich media presentations, and online marketing efforts. The Company also maintains direct relationships with retailers in its retail distribution network, through a direct field force as well as an in-house support team that helps enable our program at retail.

The participating retailer network is managed and maintained through direct relationships, and also through contracts with Valassis Sales and Marketing Services, Inc. (Valassis) and News America Marketing In-Store, LLC (News America).

In February 2014, the Company and Valassis entered into a new Retail Access and Distribution Agreement that replaced all prior agreements. Under this new agreement, Valassis is a non-exclusive reseller of the Company s POPSigns and the Company has access to all CPG manufacturers for the sale of POPSigns for total consideration of $250,000, which was paid in 2014.

During 2015 and 2014, foreign sales accounted for less than 1% of total net sales each year. The Company expects sales to foreign distributors will remain less than 1% of total net sales in 2016.

Competition

The Insignia POPSign program provided approximately 93% of the Company s total net sales for 2015. The POPSign program faces intense competition for the marketing expenditures of branded product manufacturers for at-shelf advertising-related signage. In particular, the Company faces significant competition from News America, which also provides at-shelf advertising and promotional signage. Although settlement of prior litigation with News America resulted in a 10-year agreement through 2021 that provides the Company with additional opportunities to compete by offering signs with price in specific parts of News America s retail network, the Company will continue to compete for advertising dollars with News America s other at-shelf advertising and other promotional signage offerings, as well as with other companies that offer digital advertising alternatives.

The Company believes the main strengths of the Insignia POPSign program in relation to its competitors are:

- Depending on manufacturer s objectives, benefits to the brand that range from sales lift, awareness building, program ROI, new tier generation, or support of retailer programs

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- Managing and providing turn-key access to a national network of retailers in support of objectives listed above; including smaller regional or independent retailers, which tend to be under-served by our competitors and difficult to aggregate at the national level
- Variable messaging capabilities including bi-lingual targeting
- Shorter lead times on program execution

Intellectual Property: Patents and Trademarks

The Company has developed and uses a number of trademarks, service marks, slogans, logos and other commercial symbols to advertise and sell its products. The Company owns U.S. registered trademarks for Insignia Systems, Inc.® (and Design), Insignia POPS®, Insignia POPSign®, Insignia ShelfPOPS®, Stylus®, SIGNright®, Impulse®, DuraSign®, I-Care®, Color POPSign®, BannerPOPS®, BrandPOPS®, EquityPOPS®, CategoryPOPS®, and ShapePOPS®.

The Company licenses the right to use a patented barcode on the sign cards for the Company s Impulse Retail System. Revenues from this product line and royalties paid under the license agreement are not material in the aggregate.

Certain employees are required to enter into nondisclosure and invention assignment agreements. Customers, vendors and other third parties also must agree to nondisclosure restrictions to prevent unauthorized disclosure of our trade secrets or other confidential or proprietary information.

Product Development

Product and services enhancements are developed internally and externally and include proprietary data management, operations systems, and design guidance.

Customers

During the year ended December 31, 2015, one customer accounted for 37% of the Company s total net sales. At December 31, 2015, one customer represented 62% of the Company s total accounts receivable. During the year ended December 31, 2014, two customers accounted for 33% and 10% of the Company s total net sales. At December 31, 2014, one customer represented 48% of the Company s total accounts receivable.

The Company s results of operations fluctuate from quarter to quarter as a result of:

- Promotional timing chosen by CPG customers;
- Underlying performance and quality of featured product chosen by CPG customers;
- CPG customer budget fluctuations and amount allocated to in-store tactics vs. other tactics;
- Quantity and quality of retailers maintained through the Company s retail distribution network;
- Incentives offered to sales staff; and
- Minimum program level commitments to retailers.

Environmental Matters

We believe our operations are in compliance with all applicable environmental regulations within the jurisdictions in which we operate. The costs of compliance with these regulations have not been, and are not expected to become, material.

Employees

As of March 14, 2016, the Company had 63 employees, including 61 full-time employees. We believe relations with our employees are good.

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Segment Reporting

The Company operates in a single reportable segment.

Item 1A. Risk Factors

Forward-Looking Statements

Statements made in this Annual Report on Form 10-K, in the Company s other SEC filings, in press releases and in oral statements to shareholders and securities analysts that 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 that 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 anticipates , believes, expects, intends, 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 described below.

Our business faces significant risks, including the risks described below. If any of the events or circumstances described in the following risks occurs, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline.

Our Results Are Dependent on Our Manufacturing Partners Continued Use of Our POPS Program

We are largely dependent on our POPS program, which represented approximately 93% of the total net sales in both 2015 and 2014. The POPS program is sold primarily to CPG manufacturers. During 2015, one customer accounted for approximately 37% of our total net sales and during 2014, two customers accounted for approximately 33% and 10% of our total net sales. Additionally, changes in economic conditions could result in reductions in advertising and promotional expenditures by branded product manufacturers, which may result in decreased spending for the in-store advertising services we offer. Should these manufacturers no longer perceive sufficient value in the POPS program, or if our POPS program does not continue to result in product sales increases, our business and results of operations would be adversely affected due to our heavy dependence on this program.

We Are Dependent on Our Contracts with Retailers and Our Ability to Renew Those Contracts When They Expire

On an ongoing basis, we negotiate renewals of various retailer contracts that allow us access to place signs at shelf in their stores. Some of our retailer contracts require us to guarantee minimum payments. If we are unable to offer guarantees at the required levels in the new contracts, and the contracts are not renewed because of that reason or because of other reasons, it will have an adverse effect on our operations and financial condition.

Our POPS business and results of operations could be adversely affected if the number of retailer partners decreases significantly, the quality of our retail distribution network decreases, or if the retailer partners fail to continue to maintain POPSigns at the shelf in their stores.

Our Results Are Dependent on the Success of Our Business Relationship with News America

Our results depend, in part, on the success of our sales and marketing efforts as News America s exclusive agent for signs with price into the News America network of retailers and upon our ability to successfully sell programs into this network. Additionally, if disputes with News America arise in the future regarding the operational aspects of our agreement, it could have an adverse effect on the Company.

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We Face Significant Competition

We face significant competition from News America, who also provides at-shelf advertising and promotional signage. Although the settlement with News America resulted in a 10-year agreement through 2021 that provides us additional opportunities to compete by offering signs with price in News America s network, as News America s exclusive agent, we will continue to compete for advertising dollars with News America s other at-shelf advertising and promotional signage offerings. News America has significantly greater financial resources that can be used to develop and market their products. Should our competition succeed in obtaining more of the at-shelf advertising business from our current customers, our revenues and related operations would be adversely affected.

Our Results Are Dependent on Our Ability to Successfully Introduce New Product Offerings that Meet Customer Demands

Our ability to retain, increase and engage our customers and to increase our revenues will depend partially on our ability to create successful new products. We may modify our existing products or develop and introduce new and unproven products, including acquired products. If new or enhanced products fail to engage consumers, we may fail to attract or retain customers or to generate sufficient revenues, margins, or other value to justify our investments and our business may be adversely affected. In the future, we may invest in new products and initiatives to generate revenue, but there is no guarantee these approaches will be successful. If we are not successful with these new approaches, we may not be able to maintain or grow our revenues or recover any associated product development costs, and our financial results could be adversely affected.

We May be Subject to Major Litigation

We were involved in major litigation with News America between 2003 and 2011. During 2011, the Company and News America entered into a settlement agreement to resolve the antitrust and false advertising lawsuit that had been outstanding for several years. Although the Company obtained a significant settlement in 2011, if future disputes with News America, or other companies arise, it could have an adverse effect on our Company.

Our Customers and Retailers May Be Susceptible To Changes in Economic Conditions

Our revenues are affected by our customers marketing and advertising spending and our revenues and results of operations may be subject to fluctuations based upon general economic conditions. Another economic downturn may reduce demand for our products and services or depress pricing of those products and services and have an adverse effect on our results of operations. Retailers may be impacted by changes in consumer spending as well, which may adversely impact our ability to renew contracts with our existing retailers as well as contract with new retailers on terms that are acceptable to us. In addition, if we are unable to successfully anticipate changing economic conditions, we may be unable to effectively plan for and respond to those changes, and our business could be negatively affected.

We Have a Limited Number of Key Personnel

Given the unique business we operate and the importance of customer relationships to our business, our future success is dependent, in large part, upon our ability to attract and retain highly qualified managerial, operational and sales personnel. Competition for talented personnel is intense, and we cannot be certain that we can retain our managerial, operational and sales personnel or that we can attract, assimilate or retain such personnel in the future. Our inability to attract and retain such personnel could have an adverse effect on our business, results of operations and financial condition. Further, the Company has one individual currently serving as both principal executive and principal financial officer.

Our Results of Operations May Be Subject To Significant Fluctuations

Our quarterly and annual operating results have fluctuated in the past and may vary in the future due to a wide variety of factors including:

- the addition or loss of contracts with retailers;
- the loss of customers or changes in timing and amount of our customers spending with us;

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- the timing of seasonal events for customers;
- the timing of new retail stores being added or removed;
- costs of evaluating and developing new products;
- the timing of additional selling, marketing and general and administrative expenses; and
- competitive conditions in our industry.

Due to these factors, our quarterly and annual net sales, expenses and results of operations could vary significantly in the future and this could adversely affect the market price of our common stock.

Investment in Our Stock Could Result in Fluctuating Returns

During 2015, the sale prices of our common stock as reported by the NASDAQ Stock Market ranged from a low of $2.04 to a high of $3.68. We believe factors such as the fluctuations in our quarterly and annual operating results described above, the market s acceptance of our services and products, the performance of our business relative to market expectations, as well as limited daily trading volume of our stock, and general volatility in the securities markets, could cause the market price of our common stock to fluctuate substantially. In addition, the stock markets have experienced price and volume fluctuations, resulting in changes in the market prices of the stock of many companies, which may not have been directly related to the operating performance of those companies.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company leased approximately 41,000 square feet of office and warehouse space in suburban Minneapolis, Minnesota. On September 14, 2015, the Company signed a First Amendment to extend its lease expiration from February 29, 2016 to March 31, 2021, effective January 1, 2016. This First Amendment reduced the space occupied within the original premises by approximately 17,000 square feet, bringing the revised square footage of the remaining space to approximately 24,000 square feet. The Company believes that its currently leased space will meet its foreseeable needs.

Item 3. Legal Proceedings

From time to time, the Company is subject to various legal matters in the normal course of business. The Company currently has no material pending legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

PART II.

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company s common stock trades on the NASDAQ Capital Market® under the symbol ISIG. The following table summarizes the high and low sale prices per share of our common stock for the periods indicated as reported by NASDAQ.

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2015		**High**		**Low**
First Quarter	$	3.68	$	2.73
Second Quarter		3.08		2.63
Third Quarter		2.82		2.04
Fourth Quarter		3.03		2.41

2014		**High**		**Low**
First Quarter	$	3.48	$	2.67
Second Quarter		3.34		2.70
Third Quarter		3.33		2.78
Fourth Quarter		4.45		2.75

As of March 14, 2016, the Company had one class of Common Stock held by approximately 93 owners of record.

Dividends

We have not historically paid dividends, other than a one-time dividend in 2011. Our Board of Directors intends to retain all earnings for use in the Company s business and does not anticipate paying cash dividends in the foreseeable future.

Share Repurchase Program

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 allows the repurchases to be made in open market or privately negotiated transactions. 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.

On December 3, 2013, the Board of Directors had authorized the repurchase of up to $5,000,000 of the Company s common stock on or before December 3, 2015. The plan allowed the repurchases to be made in open market or privately negotiated transactions. The plan did not obligate the Company to repurch