

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## INSIGNIA SYSTEMS INC/MN

**Form: 10-Q**

**Date Filed: 2018-05-08**

Corporate Issuer CIK: 875355

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, 2018

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**

(State or other jurisdiction of incorporation or organization)

**41-1656308**

(I.R.S. Employer Identification No.)

**8799 Brooklyn Blvd., Minneapolis, MN 55445**

(Address of principal executive offices; zip code)

**(763) 392-6200**

(Registrant's telephone number, including area code)

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 reports), 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, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 7, 2018 was 11,962,996.

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**PART I. FINANCIAL INFORMATION**  
**Item 1. Financial Statements**

**Insignia Systems, Inc.**  
**CONDENSED BALANCE SHEETS**

	<b>March 31,</b> <b>2018</b> <b>(Unaudited)</b>	<b>December 31,</b> <b>2017</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 7,259,000	\$ 4,695,000
Accounts receivable, net	8,900,000	11,864,000
Inventories	485,000	301,000
Income tax receivable	295,000	360,000
Prepaid expenses and other	376,000	415,000
Total Current Assets	<u>17,315,000</u>	<u>17,635,000</u>
<b>Other Assets:</b>		
Property and equipment, net	2,733,000	2,670,000
Other, net	1,281,000	1,383,000
Total Assets	<u>\$ 21,329,000</u>	<u>\$ 21,688,000</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	2,928,000	3,232,000
<b>Accrued liabilities:</b>		
Compensation	796,000	1,531,000
Other	776,000	667,000
Deferred revenue	671,000	372,000
Total Current Liabilities	<u>5,171,000</u>	<u>5,802,000</u>
<b>Long-Term Liabilities:</b>		
Deferred tax liabilities	245,000	245,000
Accrued income taxes	589,000	581,000
Deferred rent	203,000	219,000
Total Long-Term Liabilities	<u>1,037,000</u>	<u>1,045,000</u>
<b>Commitments and Contingencies</b>		
	—	—
<b>Shareholders' Equity:</b>		
Common stock, par value \$.01:		
Authorized shares - 40,000,000		
Issued and outstanding shares - 11,963,000 at March 31, 2018 and 11,914,000 at December 31, 2017	119,000	119,000
Additional paid-in capital	15,477,000	15,361,000
Accumulated deficit	(475,000)	(639,000)
Total Shareholders' Equity	<u>15,121,000</u>	<u>14,841,000</u>
Total Liabilities and Shareholders' Equity	<u>\$ 21,329,000</u>	<u>\$ 21,688,000</u>

See accompanying notes to financial statements.

**Insignia Systems, Inc.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
(Unaudited)

<b>Three Months Ended March 31</b>	<b>2018</b>	<b>2017</b>
Services revenues	\$ 7,026,000	\$ 4,304,000
Products revenues	393,000	463,000
Total Net Sales	<u>7,419,000</u>	<u>4,767,000</u>
Cost of services	4,404,000	3,819,000
Cost of goods sold	269,000	319,000
Total Cost of Sales	<u>4,673,000</u>	<u>4,138,000</u>
Gross Profit	2,746,000	629,000
<b>Operating Expenses:</b>		
Selling	903,000	888,000
Marketing	604,000	426,000
General and administrative	1,007,000	1,053,000
Total Operating Expenses	<u>2,514,000</u>	<u>2,367,000</u>
Operating Income (Loss)	232,000	(1,738,000)
Other income	5,000	3,000
Income (Loss) Before Taxes	<u>237,000</u>	<u>(1,735,000)</u>
Income tax expense (benefit)	73,000	(544,000)
Net Income (Loss)	<u>\$ 164,000</u>	<u>\$ (1,191,000)</u>
Net income (loss) per share:		
Basic	\$ 0.01	\$ (0.10)
Diluted	<u>\$ 0.01</u>	<u>\$ (0.10)</u>
Shares used in calculation of net income (loss) per share:		
Basic	11,819,000	11,661,000
Diluted	<u>11,982,000</u>	<u>11,661,000</u>

See accompanying notes to financial statements.

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

Three Months Ended March 31	2018	2017
<b>Operating Activities:</b>		
Net income (loss)	\$ 164,000	\$ (1,191,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	287,000	335,000
Changes in allowance for doubtful accounts	4,000	48,000
Deferred income tax benefit	—	(153,000)
Stock-based compensation expense	67,000	147,000
Changes in operating assets and liabilities:		
Accounts receivable	2,960,000	1,657,000
Inventories	(184,000)	(7,000)
Income tax receivable	65,000	(377,000)
Prepaid expenses and other	39,000	49,000
Accounts payable	(358,000)	(384,000)
Accrued liabilities	(642,000)	(180,000)
Accrued income taxes	8,000	—
Deferred revenue	299,000	630,000
Net cash provided by operating activities	<u>2,709,000</u>	<u>574,000</u>
<b>Investing Activities:</b>		
Purchases of property and equipment	(194,000)	(285,000)
Net cash used in investing activities	<u>(194,000)</u>	<u>(285,000)</u>
<b>Financing Activities:</b>		
Cash dividends paid (\$0.70 per share)	—	(8,163,000)
Proceeds from issuance of common stock	49,000	—
Net cash provided by (used in) financing activities	<u>49,000</u>	<u>(8,163,000)</u>
Increase (decrease) in cash and cash equivalents	2,564,000	(7,874,000)
Cash and cash equivalents at beginning of period	4,695,000	12,267,000
Cash and cash equivalents at end of period	<u>\$ 7,259,000</u>	<u>\$ 4,393,000</u>
<b>Supplemental disclosures for cash flow information:</b>		
Cash paid during the year for income taxes	\$ —	\$ 2,000
<b>Non-cash investing and financing activities:</b>		
Purchases of property and equipment included in accounts payable	\$ 93,000	\$ 67,000

See accompanying notes to financial statements.

**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 operates in a single reportable segment. The Company's primary products include the Insignia Point-of-Purchase Services (POPS<sup>®</sup>) and freshADS<sup>SM</sup>, in-store marketing programs, and laser printable cardstock and label supplies.

**Basis of Presentation.** The accompanying unaudited financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. They do not include all information and footnotes required by U.S. GAAP for complete financial statements. However, except as described herein, there has been no material change in the information disclosed in the notes to financial statements included in our financial statements as of and for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

**Recently Adopted Accounting Pronouncements.** Effective January 1, 2018, the Company adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") 2014-09 "Revenue from Contracts with Customers" ("Topic 606"). Topic 606 supersedes the revenue recognition requirements in Topic 605 "Revenue Recognition," and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The adoption of ASU 2014-09, using the modified retrospective approach, had no significant impact on our results of operations, cash flows, or financial position. Revenue continues to be recognized for POPSigns ratably over the period of service, which is typically a two-week display cycle, and for sign card sales, at the time the products are shipped to customers. Additional information and disclosures required by this new standard are contained in Note 2, "Revenue."

**Inventories.** Inventories are primarily comprised of sign cards and roll stock. Inventory is valued at the lower of cost or net realizable value using the first-in, first-out ("FIFO") method, and consisted of the following as of the dates indicated:

	March 31, 2018	December 31, 2017
Raw materials	\$ 146,000	\$ 68,000
Work-in-process	14,000	10,000
Finished goods	325,000	223,000
	<u>\$ 485,000</u>	<u>\$ 301,000</u>

**Property and Equipment.** Property and equipment consisted of the following as of the dates indicated:

	March 31, 2018	December 31, 2017
<b>Property and Equipment:</b>		
Production tooling, machinery and equipment	\$ 4,003,000	\$ 4,003,000
Office furniture and fixtures	325,000	325,000
Computer equipment and software	2,687,000	2,680,000
Leasehold improvements	577,000	577,000
Construction in-progress	448,000	206,000
	<u>8,040,000</u>	<u>7,791,000</u>
Accumulated depreciation and amortization	(5,307,000)	(5,121,000)
Net Property and Equipment	<u>\$ 2,733,000</u>	<u>\$ 2,670,000</u>

Depreciation expense was approximately \$186,000 and \$219,000 in the three months ended March 31, 2018 and 2017, respectively.

**Stock-Based Compensation.** We measure and recognize compensation expense for all stock-based payments at fair value. Restricted stock units and awards are valued at the closing market price of the Company's stock date of the grant. We use the Black-Scholes option pricing model to determine the weighted average fair value of options and employee stock purchase plan rights. The determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as by assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

On November 28, 2016, our Board of Directors amended the 2003 Incentive Stock Option Plan (the "2003 Plan") and the 2013 Omnibus Stock and Incentive Plan (the "2013 Plan") to permit equitable adjustments to outstanding awards in the event of an extraordinary cash dividend. On March 28, 2017, the Board of Directors approved the modification of all outstanding stock option awards to provide option holders with substantially equivalent economic value after the effect of the dividend. The modification resulted in the issuance of options to purchase 150,476 additional shares. Total stock-based compensation expense for the modifications was approximately \$79,000, which was recorded during the three months ended March 31, 2017.

During the three months ended March 31, 2018, no stock option awards were granted by the Company. During the three months ended March 31, 2017, no other stock option awards were granted by the Company beyond the modification discussed above.

No restricted stock units were issued during the three months ended March 31, 2018. During the three months ended March 31, 2017, the Company issued 8,424 restricted stock units under the 2013 Plan. The shares underlying the awards were assigned a value of \$1.51 per share, which was the closing price of our common stock on the date of grant, and are scheduled to vest over a weighted average of 1.5 years following the date of grant.

The Company estimated the fair value of stock-based awards granted during the three months ended March 31, 2018, under the Company's employee stock purchase plan using the following weighted average assumptions: expected life of 1.0 years, expected volatility of 66%, dividend yield of 0% and risk-free interest rate of 1.83%.

Total stock-based compensation expense recorded for the three months ended March 31, 2018 and 2017, was \$67,000 and \$147,000, respectively.

During the three months ended March 31, 2018 and 2017, there were no options exercised.

**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 and

restricted stock units and awards. Diluted net income (loss) per share gives effect to all diluted potential common shares outstanding during the period.

Options to purchase approximately 247,000 shares of common stock with a weighted average exercise price of \$2.74 were outstanding at March 31, 2018 and were not included in the computation of common stock equivalents for the three months ended March 31, 2018 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, 2017 all stock options were anti-dilutive for that period.

Weighted average common shares outstanding for the three months ended March 31, 2018 and 2017 were as follows:

Three months ended March 31	2018	2017
Denominator for basic net income (loss) per share - weighted average shares	11,819,000	11,661,000
Effect of dilutive securities:		
Stock options, restricted stock and restricted stock units	163,000	—
Denominator for diluted net income (loss) per share - weighted average shares	<u>11,982,000</u>	<u>11,661,000</u>

**Dividends.** On November 28, 2016, the Board declared a one-time special dividend of \$0.70 per share to shareholders of record as of December 16, 2016 of \$8,233,000, of which \$8,163,000 was paid on January 6, 2017.

2. **Revenue Recognition.** Under Topic 606, revenue is measured based on consideration specified in the contract with a customer, adjusted for any applicable estimates of variable consideration and other factors affecting the transaction price, including noncash consideration, consideration paid or payable to a customer and significant financing components. Revenue from all customers is recognized when a performance obligation is satisfied by transferring control of a distinct good or service to a customer, as further described below under "Performance Obligations."

Taxes collected from customers and remitted to governmental authorities are excluded from revenue on the net basis of accounting.

The Company includes shipping and handling fees in revenues. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of goods sold.

The majority of the Company's accounts receivable is due from companies in the consumer-packaged goods industry. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are due within 30-150 days and are stated at amounts due from customers, net of an allowance for doubtful accounts.

#### **Performance Obligations**

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account under Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The following is a description of our performance obligations included in our primary revenue streams and the timing or method of revenue recognition for each:

**POPSign services.** Our primary source of revenue is from marketing in-store advertising programs and services primarily to consumer packaged goods ("CPG") manufacturers. We provide a service of displaying promotional signs in close proximity to the manufacturer's product in participating stores, which we maintain in two-to-four week cycle increments. Our in-store marketing programs include POPSigns and freshADS (together referred to herein as "POPSign services").

Each of the individual activities under our POPSign services, including production activities, are inputs to an integrated sign display service. As such, each POPSign service represents a single performance obligation. Customers receive and consume the benefits from the promotional displays over the duration of the contracted display cycle. Additionally, the display of the signs does not have an alternative use to us and we have an enforceable right to payment for services performed to date. As a result, we recognize the transaction price for our POPSign service performance obligations as revenue over time. Given the nature of our performance obligations is to provide a display service over the duration of a specified period or periods, we recognize revenue on a straight-line basis over the display service period as it best reflects the timing of transfer of our POPSign services.

**Other Service revenues.** The Company also supplies CPG manufactures with other miscellaneous retailer approved promotional services. These services are more customized than the POPSign program, consisting of variable durations and variable specifications. Due to the variable nature of these services, revenue recognition is a mix of over time and point in time recognition.

**Products.** We also sell custom adhesive and non-adhesive signage materials directly to our customers. Each such product is a distinct performance obligation. Revenue is recognized at a point in time upon shipment, when control of the goods transfers to the customer.

#### **Disaggregation of Revenue**

In the following table, revenue is disaggregated by major revenue stream and timing of revenue recognition.

Three months ended March 31, 2018	Services Revenues	Products Revenue	Total Revenue
<b>Timing of revenue recognition:</b>			
Products and services transferred over time	\$ 7,026,000	—	\$ 7,026,000
Products and services transferred at a point in time	—	393,000	393,000
Total	<u>\$ 7,026,000</u>	<u>\$ 393,000</u>	<u>\$ 7,419,000</u>

#### **Contract Costs**

Sales commissions that are paid to internal or external sales representatives are eligible for capitalization as they are incremental costs that would not have been incurred without entering into a specific sales arrangement and are recoverable through the expected margin on the transaction. The Company is applying the practical expedient in Accounting Standards Codification 340-40-25-4 that allows the incremental costs of obtaining a contract to be recorded as an expense when incurred when the amortization period of the asset that would have otherwise been recognized is one year or less. These costs are included in selling expenses.

Significant changes in deferred revenue during the period are as follows:

Balance at December 31, 2017	\$ 372,000
Reclassification of beginning deferred revenue to revenue, as a result of performance obligations satisfied.	(122,000)
Cash received in advance and not recognized as revenue.	421,000
Cumulative catch-up from a change in the timeframe for recognition of revenue arising from deferred revenue.	—
Balance at March 31, 2018	<u>\$ 671,000</u>

#### **Transaction Price Allocated to Remaining Performance Obligations**

The Company applies the practical expedient in paragraph 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less, which reflect the majority of our performance obligations. This practical expedient is being applied to arrangements for certain uncompleted POPSign services and unshipped custom signage materials.

Of those contracts with an expected duration of greater than one year, we estimate that revenue of \$7,263,000 and \$4,164,000 related to performance obligations that are unsatisfied (or partially unsatisfied) as of March 31, 2018 will be recognized during the remainder of fiscal 2018 and in fiscal 2019, respectively.

3. **Selling Arrangement.** In 2011, 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, 2018 and 2017 and is expected to be \$400,000 per year over the next three years and \$117,000 in the year ending December 31, 2021, is recorded within cost of services in the Company's condensed statements of operations. The net carrying amount of the selling arrangement is recorded within other assets on the Company's condensed balance sheet.
4. **Income Taxes.** For the three months ended March 31, 2018, the Company recorded income tax expense of \$73,000, or 30.8% of income before taxes. For the three months ended March 31, 2017, the Company recorded income tax benefit of \$544,000, or 31.4% of loss before taxes. The income tax expense for the three months ended March 31, 2018 and the income tax benefit for the three month ended March 31, 2017 is comprised of federal and state taxes. The primary differences between the Company's March 31, 2018 and 2017 effective tax rates and the statutory federal rate are expenses related to stock-based compensation and nondeductible meals and entertainment. The Company reassesses its effective rate each reporting period and adjusts the annual effective rate if deemed necessary, based on projected annual taxable income (loss).

Deferred income taxes are determined based on the estimated future tax effects of differences between the financial statements and tax basis of assets and liabilities given the provisions of enacted tax laws. In providing for deferred taxes, we consider tax regulations of the jurisdictions in which we operate, estimates of future taxable income and available tax planning strategies. If tax regulations, operating results or the ability to implement tax-planning strategies vary, adjustment to the carrying value of deferred tax assets and liabilities may be required. Valuation allowances are recorded related to deferred tax assets based on the "more likely than not" criteria. At both December 31, 2017 and March 31, 2018, the Company had a valuation allowance of approximately \$108,000 as a result of certain capital losses and state net operating losses carried forward which the Company does not believe are more likely than not to be realized.

As of March 31, 2018 and December 31, 2017, the Company had unrecognized tax benefits totaling \$589,000 and \$581,000, respectively, including interest, which relates to state nexus issues. The amount of the unrecognized tax benefits, if recognized, that would affect the effective income tax rates of future periods is \$589,000. Due to the current statute of limitations regarding the unrecognized tax benefits, the unrecognized tax benefits and associated interest is not expected to change significantly in 2018.

5. **Concentrations.** During the three months ended March 31, 2018, two customers accounted for 28% and 24%, respectively, of the Company's total net sales. During the three months ended March 31, 2017, two customers accounted for 31% and 12%, respectively, of the Company's total net sales. At March 31, 2018, two customers represented 27% and 17% of the Company's total accounts receivable, respectively. At December 31, 2017, three customers represented 29%, 12% and 11% of the Company's total accounts receivable.

Although there are a number of customers that the Company sells to, the loss of a major customer could adversely affect operating results. Additionally, the loss of a major retailer from the Company's retail network could adversely affect operating results.

6. **Share Repurchase.** On April 5, 2018, the Board of Directors authorized the repurchase of up to \$3,000,000 of the Company's common stock on or before March 31, 2020. 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. During the three months ended March 31, 2018, there was no share repurchase activity.
7. **Recently Issued Accounting Pronouncements .** In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, *Leases*, under which lessees will recognize most leases on the balance sheet. This will generally increase reported assets and liabilities. For public entities, this ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method for all entities. The Company is in the process of determining the impact that the updated accounting guidance will have on our financial statements.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Company's financial statements and related notes. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated due to various factors discussed under "Cautionary Statement Regarding Forward-Looking Statements" and elsewhere in this Quarterly Report on Form 10-Q and the "Risk Factors" described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, our Current Reports on Form 8-K and our other SEC filings.

### Company Overview

Insignia Systems, Inc. (referred to in this Quarterly Report on Form 10-Q as "Insignia," "we," "us," "our" or the "Company") markets in-store advertising products, programs and services to retailers and consumer packaged goods ("CPG") manufacturers. The Company was incorporated in 1990. Since 1998, the Company has focused on managing a retail network, made up of approximately 21,000 store locations, for the primary purpose of providing turn-key at-shelf market access for 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 has been the Point-Of-Purchase Services (POPS<sup>®</sup>) in-store marketing program. Insignia POPS<sup>®</sup> program is a national, account-specific, shelf-edge advertising and promotional 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 2017, the Company announced the nationwide launch of freshADS<sup>sm</sup>, an exclusive advertising vehicle featured in produce, created to inspire shoppers early in their trip and help navigate them to center store.

### 2018 Business Overview

#### Summary of Financial Results

For the quarter ended March 31, 2018, the Company generated revenues of \$7,419,000, as compared with revenues of \$4,767,000 for the quarter ended March 31, 2017. Net income for the quarter ended March 31, 2018 was \$164,000, as compared to a net loss of \$1,191,000 for the quarter ended March 31, 2017.

During the quarter ended March 31, 2018, cash and cash equivalents increased \$2,564,000 from \$4,695,000 at December 31, 2017, to \$7,259,000 at March 31, 2018. The Company had no debt as of March 31, 2018.

**Results of Operations**

The following table sets forth, for the periods indicated, certain items in the Company's Condensed Statements of Operations as a percentage of total net sales.

For the Three Months Ended March 31	2018	2017
Net sales	100.0%	100.0%
Cost of sales	63.0	86.8
Gross profit	37.0	13.2
Operating expenses:		
Selling	12.2	18.7
Marketing	8.1	8.9
General and administrative	13.6	22.1
Total operating expenses	33.9	49.7
Operating income (loss)	3.1	(36.5)
Other income	0.1	0.1
Income (loss) before taxes	3.2	(36.4)
Income tax expense (benefit)	1.0	(11.4)
Net income (loss)	2.2%	(25.0)%

**Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017**

**Net Sales.** Net sales for the three months ended March 31, 2018 increased 55.6% to \$7,419,000 compared to \$4,767,000 for the three months ended March 31, 2017.

Service revenues for the three months ended March 31, 2018 increased 63.2% to \$7,026,000 compared to \$4,304,000 for the three months ended March 31, 2017. Service revenues were weak during the three months ended March 31, 2017, down 23.4% from the three months ended March 31, 2016. That decrease was primarily due to a decrease in the number of signs placed, mostly due to two customers who experienced significant budget cuts early in their planning cycles and organizational restructuring, and a decrease in average price per sign, which was the result of program and customer mix. Accordingly, we do not expect a similar increase in the percentage of service revenues (or in the gross profit as a percentage of net sales) during the remainder of 2018 as compared to the comparable periods in 2017.

The increase in services revenues for the three months ended March 31, 2018 compared to March 31, 2017 was primarily due to an increase in average price per sign, which was the result of a favorable mix of CPG clients and an increase in the number of signs placed, mostly due to increased signs placed from new and existing CPG customers and also due to business development initiatives.

Product revenues for the three months ended March 31, 2018 decreased 15.1% to \$393,000 compared to \$463,000 for the three months ended March 31, 2017. The decrease was primarily due to lower sales of sign card supplies driven by lower customer demand.

**Gross Profit.** Gross profit for the three months ended March 31, 2018 increased 336.6% to \$2,746,000 compared to \$629,000 for the three months ended March 31, 2017. Gross profit as a percentage of total net sales increased to 37.0% for the three months ended March 31, 2018, compared to 13.2% for the three months ended March 31, 2017.

**Service revenues.** Gross profit from our service revenues for the three months ended March 31, 2018 increased 440.6% to \$2,622,000 compared to \$485,000 for the three months ended March 31, 2017. The increase was primarily due to an increase in sales as our gross profit is highly dependent on sales levels due to the relatively fixed nature of a portion of our payments to retailers, mix of CPG customers combined with the increase in average price per sign. The Company incurred costs of approximately \$115,000 associated with the implementation of its new IT operating infrastructure during the three months ended March 31, 2018 compared to approximately \$100,000 for the three months ended March 31, 2017. The project is expected to be substantially completed in third quarter 2018, with estimated additional expense of \$150,000 in 2018. Gross profit as a percentage of service revenues for the three months ended March 31, 2018 increased to 37.3% compared to 11.3% for the three months ended March 31, 2017. The increase was primarily due to the factors described above.

**Product revenues.** Gross profit from our product revenues for the three months ended March 31, 2018 decreased 13.9% to \$124,000 compared to \$144,000 for the three months ended March 31, 2017. The decrease was primarily due to lower sales of sign card supplies, partially offset by decreased operation costs. Gross profit as a percentage of product revenues was 31.6% for the three months ended March 31, 2018 compared to 31.1% for the three months ended March 31, 2017. The increase was primarily due to decreased operation costs.

**Operating Expenses**

**Selling.** Selling expenses for the three months ended March 31, 2018 increased 1.7% to \$903,000 compared to \$888,000 for the three months ended March 31, 2017. Increased selling expense was primarily the result of increased staffing-related expense. Selling expenses as a percentage of total net sales decreased to 12.2% for the three months ended March 31, 2018 compared to 18.7% for the three months ended March 31, 2017. The decrease was primarily due to increased sales.

**Marketing.** Marketing expenses for the three months ended March 31, 2018 increased 41.8% to \$604,000 compared to \$426,000 for the three months ended March 31, 2017. Increased marketing expense was primarily the result of increased staffing and staffing-related expenses due to an increase in new product development activities and partially due to filling of previously open positions.

Marketing expenses as a percentage of total net sales decreased to 8.1% for the three months ended March 31, 2018 compared to 8.9% for the three months ended March 31, 2017. The decrease was primarily due increased sales, partially offset by the factors described above.

**General and administrative.** General and administrative expenses for the three months ended March 31, 2018 decreased 4.4% to \$1,007,000 compared to \$1,053,000 for the three months ended March 31, 2017. The decrease was primarily due to staffing and staff related expenses.

General and administrative expenses as a percentage of total net sales decreased to 13.6% for the three months ended March 31, 2018 compared to 22.1% for the three months ended March 31, 2017. The decrease was primarily due to increased sales, in addition to the factors described above.

**Other Income.** Other income of \$5,000 was not significant for the three months ended March 31, 2018 compared to \$3,000 for the three months ended March 31, 2017.

**Income Taxes.** For the three months ended March 31, 2018, the Company recorded income tax expense of \$73,000, or 30.8% of income before taxes. For the three months ended March 31, 2017, the Company recorded income tax benefit of \$544,000, or 31.4% of loss before taxes. The income tax expense for the three months ended March 31, 2018 and the income tax benefit for the three months ended March 31, 2017 is comprised of federal and state taxes. The primary differences between the Company's March 31, 2018 and 2017 effective tax rates and the statutory federal rate are expenses related to stock-based compensation and nondeductible meals and entertainment. The Company reassesses its effective rate each reporting period and adjusts the annual effective rate if deemed necessary, based on projected annual taxable income (loss).

Deferred income taxes are determined based on the estimated future tax effects of differences between the financial statements and tax basis of assets and liabilities given the provisions of enacted tax laws. In providing for deferred taxes, we consider tax regulations of the jurisdictions in which we operate, estimates of future taxable income and available tax planning strategies. If tax regulations, operating results or the ability to implement tax-planning strategies vary, adjustment to the carrying value of deferred tax assets and liabilities may be required. Valuation allowances are recorded related to deferred tax assets based on the "more likely than not" criteria. At both December 31, 2017 and March 31, 2018, the Company had a valuation allowance of approximately \$108,000 as a result of certain capital losses and state net operating losses carried forward which the Company does not believe are more likely than not to be realized.

**Net Income (Loss).** For the reasons stated above, net income for the three months ended March 31, 2018 was \$164,000, compared to a net loss of \$1,191,000 for the three months ending March 31, 2017.

## Liquidity and Capital Resources

The Company has financed its operations with proceeds from stock sales and sales of its services and products. At March 31, 2018, working capital was \$12,144,000 (defined as current assets less current liabilities) compared to \$11,833,000 at December 31, 2017. During the three months ended March 31, 2018, cash and cash equivalents increased \$2,564,000 from \$4,695,000 at December 31, 2017, to \$7,259,000 at March 31, 2018.

**Operating Activities:** Net cash provided by operating activities during the three months ended March 31, 2018, was \$2,709,000. Net income of \$164,000, plus non-cash adjustments of \$358,000 and changes in operating assets and liabilities of \$2,187,000 resulted in the \$2,709,000 of cash provided by operating activities. The largest component of the change in operating assets and liabilities was accounts receivable which decreased \$2,960,000, which will fluctuate based on normal business conditions. The non-cash adjustments consisted of depreciation and amortization expense, changes in allowance for doubtful accounts, and stock-based compensation expense. In the normal course of business, our accounts receivable, accounts payable, accrued liabilities and deferred revenue will fluctuate depending on the level of revenues and related business activity, as well as billing arrangements with customers and payment terms with retailers.

**Investing Activities:** Net cash used in investing activities during the three months ended March 31, 2018 was \$194,000, which was related primarily to the IT operating infrastructure project, and consisted of hardware, purchased software and capitalization of costs for internally developed software.

**Financing Activities:** Net cash provided by financing activities during the three months ended March 31, 2018 was \$49,000, which related to proceeds received from issuance of common stock under the employee stock purchase plan.

The Company believes that based upon current business conditions and plans, its existing cash balance and future cash generated from operations will be sufficient for its cash requirements for at least the next twelve months.

## Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in Note 1 to the annual financial statements as of and for the year ended December 31, 2017, included in our Form 10-K filed with the Securities and Exchange Commission on March 15, 2018. Our policy related to the adoption of Topic 606 on January 1, 2018, the accounting policies for revenue recognition, is included in Note 2 within this Form 10-Q. We believe our most critical accounting policies and estimates include the following:

- revenue recognition;
- allowance for doubtful accounts;
- impairment of long-lived assets;
- income taxes; and
- stock-based compensation.

## Cautionary Statement Regarding Forward-Looking Statements

Certain statements made in this Quarterly Report on Form 10-Q 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 which 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," "seeks" and similar expressions identify forward-looking statements. Forward-looking statements include statements expressing the intent, belief or current expectations of the Company and members of our management team regarding, for instance: (i) our belief that our cash balance and cash generated by operations will provide adequate liquidity and capital resources for at least the next twelve months; (ii) that we expect fluctuations in accounts receivable and payable, accrued liabilities, and deferred revenue; and (iii) plans to

repurchase Company stock. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this statement was made. These forward-looking statements are based on current information, which we have assessed and which by its nature is dynamic and subject to rapid and even abrupt changes.

Factors that could cause our estimates and assumptions as to future performance, and our actual results, to differ materially include the following: (i) the risk that management may be unable to fully or successfully implement its business plan to achieve and maintain increased sales and resultant profitability in the future; (ii) the risk that the Company will not be able to develop and implement new product offerings, including mobile, digital or other new offerings, in a successful manner; (iii) prevailing market conditions, including pricing and other competitive pressures, in the in-store advertising industry and, intense competition for agreements with retailers and consumer packaged goods manufacturers; (iv) potentially incorrect assumptions by management with respect to the financial effect of current strategic decisions, the effect of current sales trends on fiscal year 2018 results and the benefit of our relationship with News America; (v) termination of all or a major portion of, or a significant change in terms and conditions of, a material agreement with a consumer packaged goods manufacturer, retailer, or News America; (vi) other economic, business, market, financial, competitive and/or regulatory factors affecting the Company's business generally; (vii) our ability to successfully implement our new IT operating infrastructure; and (viii) our ability to attract and retain highly qualified managerial, operational and sales personnel. Our risks and uncertainties also include, but are not limited to, the risks presented in our Annual Report on Form 10-K for the year ended December 31, 2017, any additional risks presented in our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K. We undertake no obligation (and expressly disclaim any such obligation) to update forward-looking statements made in this Form 10-Q to reflect events or circumstances after the date of this Form 10-Q or to update reasons why actual results would differ from those anticipated in any such forward-looking statements, other than as required by law.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Not applicable.

### **Item 4. Controls and Procedures**

#### **(a) Evaluation of Disclosure Controls and Procedures**

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. Disclosure controls and procedures ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and are designed to ensure that information required to be disclosed by us in these reports is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosures.

#### **(b) Changes in Internal Control Over Financial Reporting**

Effective January 1, 2018, we implemented ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)*. Although the adoption of the new revenue standard had no significant impact on our results of operations, cash flows, or financial position, we did implement changes to our controls related to revenue. These included the development of new policies based on the five-step model provided in the new revenue standard, enhanced contract review requirements, and other ongoing monitoring activities. These controls were designed to provide assurance at a reasonable level of the fair presentation of our financial statements and related disclosures. There was no other change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

We described the most significant risk factors applicable to the Company in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2017. We believe there have been no material changes from the risk factors disclosed in that Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On April 5, 2018, the Board of Directors authorized the repurchase of up to \$3,000,000 of the Company's common stock on or before March 31, 2020. 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. During the three months ended March 31, 2018, there was no share repurchase activity.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Unless otherwise indicated, all documents incorporated herein by reference to a document filed with the SEC pursuant to the Exchange Act are located under SEC file number 001-13471.

<u>Exhibit Number</u>	<u>Description</u>	<u>Method of Filing</u>
3.1	<a href="#">Composite Articles of Incorporation of Registrant, as amended through July 31, 2008 (incorporated by reference to Exhibit 3.1 to annual report on Form 10-K for the year ended December 31, 2015)</a>	Incorporated by Reference
3.2	<a href="#">Composite Bylaws of Registrant, as amended through December 5, 2015 (incorporated by reference to Exhibit 3.2 to annual report on Form 10-K for the year ended December 31, 2015)</a>	Incorporated by Reference
10.1	<a href="#">Deferred Compensation Plan for Directors</a>	Filed Electronically
31.1	<a href="#">Certification of Principal Executive Officer</a>	Filed Electronically
31.2	<a href="#">Certification of Principal Financial and Accounting Officer</a>	Filed Electronically
32	<a href="#">Section 1350 Certification</a>	Furnished Electronically
101	The following materials from Insignia Systems, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Balance Sheets; (ii) Condensed Statements of Operations; (iii) Condensed Statements of Cash Flows; and (iv) Notes to Financial Statements.	Filed Electronically

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INSIGNIA SYSTEMS, INC.

(Registrant)

Dated: May 8, 2018

/s/ Kristine A. Glancy

Kristine A. Glancy  
President and Chief Executive Officer  
(on behalf of registrant)

Dated: May 8, 2018

/s/ Jeffrey A. Jagerson

Jeffrey A. Jagerson  
Chief Financial Officer and Treasurer  
(principal financial and accounting officer)

**EXHIBIT INDEX**

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**INSIGNIA SYSTEMS, INC.**  
**DEFERRED COMPENSATION PLAN FOR DIRECTORS**

**SECTION 1. INTRODUCTION**

1.1 **ESTABLISHMENT.** Insignia Systems, Inc. a Minnesota corporation (the "Company"), hereby establishes the Insignia Systems, Inc. Deferred Compensation Plan for Directors (the "Plan") for those Directors of the Company who are neither officers nor employees of the Company. The Plan provides the opportunity for Directors to defer receipt of all or a part of their cash compensation and thereby be credited with Common Stock Equivalents.

1.2 **PURPOSES.** The purposes of the Plan are to align the interests of Directors more closely with the interests of other shareholders of the Company, to encourage the highest level of Director performance by providing the Directors with a direct interest in the Company's attainment of its financial goals, and to provide a financial incentive that will help attract and retain the most qualified Directors.

1.3 **EFFECTIVE DATE.** This Plan was originally effective as of January 1, 2018.

**SECTION 2. DEFINITIONS**

2.1 **DEFINITIONS.** The following terms shall have the meanings set forth below:

(a) "Affiliate" means a corporation or other entity that, directly or through one or more intermediaries, controls, is controlled by or is under common control with, the Company.

(b) "Board" means the Board of Directors of the Company.

(c) "Change in Control" means any of the events set forth below:

(i) any "person" as defined in Section 13(d) and 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act") (or more than one person acting as a group) is or becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly of securities representing fifty percent (50%) or more of the total fair market value of the Company's outstanding securities or thirty percent (30%) or more of the total voting power of the Company's outstanding securities;

(ii) a majority of the members of the Board are replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the Board before the date of appointment or election;

(iii) any person (or more than one person acting as a group) acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition) assets from the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Company immediately before such acquisition(s);

(iv) there is consummated a merger or consolidation of the Company or any subsidiary with any other corporation or other entity, other than (A) a merger or consolidation immediately following which (x) the voting securities of the Company outstanding immediately prior to such merger or consolidation continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary, at least fifty percent (50%) of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation and (y) the individuals who comprise the Board immediately prior thereto constitute a majority of the board of directors of the Company, the entity surviving such merger or consolidation or, if the Company or the entity surviving such merger is then a subsidiary, the ultimate parent thereof, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its affiliates) representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities; or

(v) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (it being conclusively presumed that any sale or disposition is a sale or disposition by the Company of all or substantially all of its assets if the consummation of the sale or disposition is contingent upon approval by the Company's stockholders unless the Board expressly determines in writing that such approval is required solely by reason of any relationship between the Company and any other person or an affiliate of the Company and any other person), other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity (A) at least fifty percent (50%) of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale or disposition and (B) the majority of whose board of directors immediately following such sale or disposition consists of individuals who comprise the Board immediately prior thereto.

Notwithstanding the foregoing, no event will constitute a Change in Control unless such event is a change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the Corporation within the meaning of Section 409A(2)(A)(v) of the Internal Revenue Code and the regulations thereunder.

(d) "Common Stock Equivalent" means a hypothetical share of Stock which shall have a value on any date equal to the Fair Market Value of one share of Stock on that date.

(e) "Deferred Stock Account" means the bookkeeping account established by the Company in respect to each Director pursuant to Section 5.3 hereof and to which shall be credited Common Stock Equivalents pursuant to the Plan.

(f) "Director" means a member of the Board.

(g) "Directors Deferred Compensation Plan Committee" means a committee of the Board of Directors of the Company composed solely of two or more Non-Employee Directors.

(h) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

(i) "Fair Market Value" means as of any applicable date: (i) if Stock is listed on an established stock exchange or any automated quotation system that provides sale quotations, the closing sale price for a share of Stock on such exchange or quotation system on the applicable date, or if no sale of the Stock shall have been made on that day, on the next preceding day on which there was a sale of the Stock; or (ii) if the Stock is not listed on any exchange or quotation system, but bid and asked prices are quoted and published, the average between the quoted bid and asked prices on the applicable date, and if bid and asked prices are not available on such day, on the next preceding day on which such prices were available. However, if the Stock is not regularly traded or the bid and asked prices reflect trades of a minimal number of shares of Stock and the Directors Deferred Compensation Plan Committee determines that the average of the quoted bid and asked prices does not accurately reflect fair market value, then Fair Market Value shall be equal to the fair market value of a share of Stock as determined by the Board by the reasonable application of a reasonable valuation method and in accordance with Section 409A of the Internal Revenue Code, including, but not limited to (x) an independent valuation no more than 12 months old at the date of determination, (y) a fair market valuation formula also used for business transactions, or (z) a written report prepared by an experienced individual (who need not be independent) that takes into account all relevant factors, including control premiums or discounts for lack of marketability, all in compliance with the requirements of Section 409A of the Internal Revenue Code.

(j) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time.

(k) "Non-Employee Director" means a Director who (x) is not currently an officer (as defined in Rule 16a-1(f) of the United States Securities and Exchange Commission) of the Company or a subsidiary of the Company, or otherwise currently employed by the Company or a subsidiary of the Company; (y) does not receive compensation, either directly or indirectly, from the Company or a subsidiary of the Company, for services rendered as a consultant or in any capacity other than as a Director, except for an amount that does not exceed the dollar amount for which disclosure would be required pursuant to Item 404(a) of Regulation S-K of the United States Securities and Exchange Commission; and (z) does not possess an interest in any other transaction for which disclosure would be required pursuant to Item 404(a) of Regulation S-K.

(l) "Stock" means the \$.01 par value common stock of the Company.

(m) "Quarterly Payment Date" means each of the four dates each year on which the Company pays retainer fees to Directors.

2 . 2 GENDER AND NUMBER. Except when otherwise indicated by the context, the masculine gender shall also include the feminine gender, and the definitions of any term herein in the singular shall also include the plural.

### SECTION 3. PLAN ADMINISTRATION

The Plan shall be administered by the Committee. Subject to the limitations of the Plan, the Directors Deferred Compensation Plan Committee shall have the sole and complete authority: (i) to impose such limitations, restrictions and conditions upon such awards as it shall deem appropriate, (ii) to interpret the Plan and to adopt, amend and rescind administrative guidelines and other rules and regulations relating to the Plan and (iii) to make all other determinations and to take all other actions necessary or advisable for the implementation and administration of the Plan. Notwithstanding the foregoing, the shall have no authority, discretion or power to select the Directors who will receive awards pursuant to the Plan, determine the awards to be granted pursuant to the Plan, the number of shares of Stock to be issued thereunder or the time at which such awards are to be granted, established the duration and nature of awards or alter any other terms or conditions specified in the Plan, except in the sense of administering the Plan subject to the provisions of the Plan. The determinations of the Directors Deferred Compensation Plan Committee on matters within its authority shall be conclusive and binding upon the Company and other persons. The Directors Deferred Compensation Plan Committee may delegate such of its powers and authority under the Plan as it deems appropriate to designated officers or employees of the Company.

### SECTION 4. STOCK SUBJECT TO THE PLAN

4 . 1 NUMBER OF SHARES. There shall be authorized for issuance under the Plan in accordance with the provisions of the Plan 300,000 shares of Stock. This authorization may be increased from time to time by approval of the Board and by the shareholders of the Company if such shareholder approval is required. The Company shall at all times during the term of the Plan retain as authorized and unissued Stock at least the number of shares from time to time required under the provisions of the Plan, or otherwise assure itself of its ability to perform its obligations hereunder. The shares of Stock issuable hereunder shall be authorized and unissued shares or previously issued and outstanding shares of Common Stock reacquired by the Company.

4 . 2 OTHER SHARES OF STOCK. Any shares of Stock that are subject to a Common Stock Equivalent and for any reason are not issued to a Director shall automatically become available again for use under the Plan.

4 . 3 ADJUSTMENTS UPON CHANGES IN STOCK. If there shall be any change in the Stock of the Company, through merger, consolidation, reorganization, recapitalization, stock dividend, stock split, spinoff, split up, dividend in kind or other change in the corporate structure or distribution to the shareholders, appropriate adjustments shall be made by the Committee (or if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) in the aggregate number and kind of shares subject to the Plan, and the number and kind of shares which may be issued under the Plan. Appropriate adjustments may also be made by the Directors Deferred Compensation Plan Committee in the terms of Common Stock Equivalents under the Plan to reflect such changes and to modify any other terms of outstanding awards on an equitable basis as the Directors Deferred Compensation Plan Committee in its discretion determines.

## SECTION 5. COMMON STOCK EQUIVALENT AWARDS

5.1 DEFERRAL ELECTIONS. A Director may elect to defer receipt of all or a specified portion of the annual retainer, chair and/or meeting fees otherwise payable in cash to the Director for serving on the Board or any committee thereof. A Director may make the elections permitted hereunder by giving written notice to the Company in a form approved by the Committee. The notice shall include: (i) the percentage of chair and/or meeting fees or annual retainer to be deferred, and (ii) the time as of which deferral is to commence. Amounts deferred by a Director pursuant to this Section 5.1 shall be converted into Common Stock Equivalents in accordance with Section 5.3.

5.2 TIME FOR ELECTING DEFERRAL. Any election to defer annual retainer, chair and/or meeting fees shall be made prior to the first day of the calendar year in which such fees are earned by the Director. Any subsequent election to (i) alter the portion of such amounts deferred or (ii) revoke an election to defer such amounts will become effective on the first day of the calendar year following the date on which such election is filed. Notwithstanding the foregoing, when a Director first becomes eligible to participate in the Plan, a Director may file an initial election to defer annual retainer, chair and/or meeting fees at any time during the 30-day period beginning on the date of such Director's date of initial participation. Such election shall apply to fees earned after the date such election is filed.

5.3 DEFERRED STOCK ACCOUNTS. A Deferred Stock Account shall be established for each Director. Fees deferred by a Director shall be credited to such Account as of the date such amounts would have otherwise been paid in cash to the Director, and shall be converted, based on Fair Market Value as of the date such amounts would have otherwise been paid in cash to the Director, into additional Common Stock Equivalents. A Director's Deferred Stock Account shall also be credited with dividends and other distributions pursuant to Section 5.4.

5.4 HYPOTHETICAL DIVIDENDS ON COMMON STOCK EQUIVALENTS. Dividends and other distributions on Common Stock Equivalents shall be deemed to have been paid as if such Common Stock Equivalents were actual shares of Stock issued and outstanding on the respective record or distribution dates. Common Stock Equivalents shall be credited to the Deferred Stock Account in respect of cash dividends and any other securities or property issued on the Stock in connection with reclassifications, spinoffs and the like on the basis of the value of the dividend or other asset distributed and the Fair Market Value of the Common Stock Equivalents on the date of the announcement of the dividend or asset distribution, all at the same time and in the same amount as dividends or other distributions are paid or issued on the Stock. Fractional shares shall be credited to a Director's Deferred Stock Account cumulatively but the balance of shares of Common Stock Equivalents in a Director's Deferred Stock Account shall be rounded to the next highest whole share for any payment to such Director pursuant to Section 5.6 hereof.

5.5 STATEMENT OF ACCOUNTS. A statement will be sent to each Director as to the balance of his or her Deferred Stock Account at least once each calendar year.

5.6 PAYMENT OF ACCOUNTS. A Director shall receive a distribution of his or her Deferred Stock Account as soon as practicable following his or her separation from service with the Company (as that term is defined in Section 409A of the Internal Revenue Code and the regulations thereunder). Such distribution shall consist of one share of Stock for each Common Stock Equivalent credited to such Director's Deferred Stock Account as of the Quarterly Payment Date immediately preceding the date of distribution.

5.7 PAYMENTS TO A DECEASED DIRECTOR'S ESTATE. In the event of a Director's death before the balance of his or her Deferred Stock Account is fully paid to him, payment of the balance of the Director's Deferred Stock Account shall then be made to his estate in the time and manner selected by the Directors Deferred Compensation Plan Committee in the absence of a designation of a beneficiary pursuant to Section 5.8 hereof. The Directors Deferred Compensation Plan Committee may take into account the application of any duly appointed administrator or executor of a Director's estate and direct that the balance of the Director's Deferred Stock Account be paid to his estate in the manner requested by such application.

5.8 DESIGNATION OF BENEFICIARY. A Director may designate a beneficiary on a form approved by the Committee.

5.9 CHANGE IN CONTROL. Notwithstanding any provision of this Plan to the contrary, in the event a Change in Control of the Company occurs, within ten (10) days after the date of such Change in Control, each Director shall receive a lump sum distribution in cash equal to the value of all Common Stock Equivalents credited to such Director's Deferred Stock Account as of the Quarterly Payment Date immediately preceding the date of distribution (based upon the highest Fair Market Value during the 30 days immediately preceding the Change in Control).

#### **SECTION 6. ASSIGNABILITY**

The right to receive payments or distributions hereunder shall not be transferable or assignable by a Director other than by will or the laws of descent and distribution.

#### **SECTION 7. PLAN TERMINATION AND AMENDMENT**

7.1 PLAN TERMINATION. The Board may, in its sole discretion, terminate this Plan at any time as provided in the Section 7.1, and will determine the effective date of such termination consistent with the requirements of Section 409A of the Internal Revenue Code. However, a termination of the Plan will not be effective to cause a deferral election in place under the Plan for a Plan year to be modified or discontinued prior to the end of such Plan year, unless the Plan is liquidated and terminated. The Board may terminate and liquidate the Plan pursuant to Treasury Regulation §1.409A-3(j)(4)(ix) and provide for the acceleration and liquidation of all benefits remaining due under the Plan. If such a termination and liquidation occurs, all deferrals under the Plan will be discontinued as of the termination date established by the Board, and a complete distribution of each Director's Deferred Stock Account will be made in a lump-sum in such form as is set forth in Section 5.7 at the time specified by the Board as part of the action terminating the Plan and consistent with Treasury Regulation §1.409A-3(j)(4)(ix). The Board may also terminate this Plan other than pursuant to Treasury Regulation §1.409A-3(j)(4)(ix), in which case all deferrals under the Plan will be discontinued as of the end of the then current Plan year, but all benefits remaining payable under the Plan will be paid at the same time and in the same form as provided in Section 5.7 as if the termination had not occurred, that is the termination will not result in any acceleration of any distribution under the Plan.

7 . 2 PLAN AMENDMENT. The Board may, in its sole discretion, amend the Plan, and will determine the effective date of any such amendment to the Plan consistent with the requirements of Section 409A of the Internal Revenue Code. No amendment shall have the effect of reducing the balance of any Director's Deferred Stock Account, unless the Board determines in good faith that either the amendment is required by law or the failure to adopt such amendment would have adverse tax consequences to the Director affected by such amendment,

**SECTION 8. GOVERNING LAW**

The Plan and all agreements hereunder shall be construed in accordance with and governed by the laws of the State of Minnesota.

## CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Kristine A. Glancy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Insignia Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within the registrant, particularly during the period in which this report is being prepared; and
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 8, 2018

/s/ Kristine A. Glancy  
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Kristine A. Glancy  
President and Chief Executive Officer  
(on behalf of registrant)

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## CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER7

I, Jeffrey A. Jagerson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Insignia Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within the registrant, particularly during the period in which this report is being prepared; and
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 8, 2018

/s/ Jeffrey A. Jagerson  
Jeffrey A. Jagerson  
Chief Financial Officer and Treasurer  
(principal financial and accounting officer)

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**SECTION 1350 CERTIFICATION**

The undersigned certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The accompanying Quarterly Report on Form 10-Q for the period ended March 31, 2018, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the accompanying Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2018

/s/ Kristine A. Glancy  
Kristine A. Glancy  
President and Chief Executive Officer  
(on behalf of registrant)

Date: May 8, 2018

/s/ Jeffrey A. Jagerson  
Jeffrey A. Jagerson  
Chief Financial Officer and Treasurer  
(principal financial and accounting officer)

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