

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

**FORM 10-Q**

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

for the quarterly period ended **September 30, 2019**

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)

Securities registered to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	ISIG	The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 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.:

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 November 11, 2019 was 12,074,218.

# Insignia Systems, Inc.

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

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

	<b>September 30,</b>	<b>December 31,</b>
	<b>2019</b>	<b>2018</b>
	<u>(Unaudited)</u>	<u></u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 7,780,000	\$ 10,160,000
Accounts receivable, net	6,438,000	8,763,000
Inventories	343,000	353,000
Income tax receivable	129,000	127,000
Prepaid expenses and other	<u>323,000</u>	<u>306,000</u>
Total Current Assets	15,013,000	19,709,000
<b>Other Assets:</b>		
Property and equipment, net	2,829,000	3,268,000
Operating lease right-of-use assets, net	210,000	—
Other, net	<u>524,000</u>	<u>976,000</u>
<b>Total Assets</b>	<u>\$ 18,576,000</u>	<u>\$ 23,953,000</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable:	2,221,000	3,334,000
Accrued liabilities:		
Compensation	329,000	2,021,000
Other	413,000	701,000
Current portion of operating lease liabilities	207,000	—
Deferred revenue	<u>390,000</u>	<u>302,000</u>
Total Current Liabilities	3,560,000	6,358,000
<b>Long-Term Liabilities:</b>		
Deferred tax liabilities	61,000	504,000
Accrued income taxes	636,000	613,000
Deferred rent	—	158,000
Operating lease liabilities	<u>110,000</u>	<u>—</u>
Total Long-Term Liabilities	807,000	1,275,000
<b>Commitments and Contingencies</b>	—	—
<b>Shareholders' Equity:</b>		
Common stock, par value \$.01:		
Authorized shares - 40,000,000		
Issued and outstanding shares - 12,074,000 at September 30, 2019 and 11,840,000 at December 31, 2018	121,000	118,000
Additional paid-in capital	15,890,000	15,442,000
Retained earnings (Accumulated deficit)	<u>(1,802,000)</u>	<u>760,000</u>
Total Shareholders' Equity	14,209,000	16,320,000
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$ 18,576,000</u>	<u>\$ 23,953,000</u>

*See accompanying notes to financial statements.*

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Services revenues	\$ 4,400,000	\$ 9,069,000	\$ 14,474,000	\$ 23,963,000
Products revenues	254,000	386,000	1,162,000	1,156,000
Total Net Sales	4,654,000	9,455,000	15,636,000	25,119,000
Cost of services	3,514,000	5,569,000	11,532,000	14,937,000
Cost of goods sold	214,000	323,000	939,000	868,000
Total Cost of Sales	3,728,000	5,892,000	12,471,000	15,805,000
Gross Profit	926,000	3,563,000	3,165,000	9,314,000
<b>Operating Expenses:</b>				
Selling	573,000	908,000	2,004,000	2,530,000
Marketing	559,000	703,000	1,809,000	1,873,000
General and administrative	865,000	1,106,000	2,443,000	3,580,000
Total Operating Expenses	1,997,000	2,717,000	6,256,000	7,983,000
Operating Income (Loss)	(1,071,000)	846,000	(3,091,000)	1,331,000
Other income	46,000	15,000	113,000	27,000
Income (Loss) Before Taxes	(1,025,000)	861,000	(2,978,000)	1,358,000
Income tax expense (benefit)	(47,000)	216,000	(416,000)	365,000
Net Income (Loss)	\$ (978,000)	\$ 645,000	\$ (2,562,000)	\$ 993,000
Net income (loss) per share:				
Basic	\$ (0.08)	\$ 0.05	\$ (0.22)	\$ 0.08
Diluted	\$ (0.08)	\$ 0.05	\$ (0.22)	\$ 0.08
Shares used in calculation of net income (loss) per share:				
Basic	11,986,000	11,729,000	11,911,000	11,784,000
Diluted	11,986,000	12,012,000	11,911,000	12,026,000

*See accompanying notes to financial statements.*

**Insignia Systems, Inc.**  
**CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Unaudited)

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Retained Earnings (Accumulated Deficit)</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>			
<b>Balance at December 31, 2018</b>	11,840,000	\$ 118,000	\$ 15,442,000	\$ 760,000	\$ 16,320,000
Issuance of common stock, net	107,000	1,000	107,000	—	108,000
Value of stock-based compensation	—	—	138,000	—	138,000
Net loss	—	—	—	(1,096,000)	(1,096,000)
<b>Balance at March 31, 2019</b>	11,947,000	\$ 119,000	\$ 15,687,000	\$ (336,000)	\$ 15,470,000
Value of stock-based compensation	—	—	139,000	—	139,000
Repurchase of common stock upon vesting of restricted stock units	98,000	1,000	(10,000)	—	(9,000)
Net loss	—	—	—	(488,000)	(488,000)
<b>Balance at June 30, 2019</b>	12,045,000	\$ 120,000	\$ 15,816,000	\$ (824,000)	\$ 15,112,000
Value of stock-based compensation	—	—	101,000	—	101,000
Repurchase of common stock upon vesting of restricted stock units	29,000	1,000	(27,000)	—	(26,000)
Net loss	—	—	—	(978,000)	(978,000)
<b>Balance at September 30, 2019</b>	<u>12,074,000</u>	<u>\$ 121,000</u>	<u>\$ 15,890,000</u>	<u>\$ (1,802,000)</u>	<u>\$ 14,209,000</u>

  

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Retained Earnings (Accumulated Deficit)</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>			
<b>Balance at December 31, 2017</b>	11,914,000	\$ 119,000	\$ 15,361,000	\$ (639,000)	\$ 14,841,000
Issuance of common stock, net	49,000	—	49,000	—	49,000
Value of stock-based compensation	—	—	67,000	—	67,000
Net income	—	—	—	164,000	164,000
<b>Balance at March 31, 2018</b>	11,963,000	\$ 119,000	\$ 15,477,000	\$ (475,000)	\$ 15,121,000
Value of stock-based compensation	—	—	82,000	—	82,000
Repurchase of common stock upon vesting of restricted stock units	(9,000)	—	(14,000)	—	(14,000)
Repurchase of common stock, net	(103,000)	—	(187,000)	—	(187,000)
Net income	—	—	—	184,000	184,000
<b>Balance at June 30, 2018</b>	11,851,000	\$ 119,000	\$ 15,358,000	\$ (291,000)	\$ 15,186,000
Value of stock-based compensation	—	—	128,000	—	128,000
Repurchase of common stock upon vesting of restricted stock units	42,000	—	(60,000)	—	(60,000)
Repurchase of common stock, net	(45,000)	(1,000)	(81,000)	—	(82,000)
Net income	—	—	—	645,000	645,000
<b>Balance at September 30, 2018</b>	<u>11,848,000</u>	<u>\$ 118,000</u>	<u>\$ 15,345,000</u>	<u>\$ 354,000</u>	<u>\$ 15,817,000</u>

*See accompanying notes to financial statements.*

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

<b>Nine Months Ended September 30</b>	<b>2019</b>	<b>2018</b>
<b>Operating Activities:</b>		
Net income (loss)	\$ (2,562,000)	\$ 993,000
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,192,000	860,000
Changes in allowance for doubtful accounts	1,000	(16,000)
Deferred income tax expense	(443,000)	(9,000)
Stock-based compensation expense	378,000	277,000
Changes in operating assets and liabilities:		
Accounts receivable	2,324,000	586,000
Inventories	10,000	(22,000)
Income tax receivable	(2,000)	266,000
Prepaid expenses and other	(17,000)	80,000
Accounts payable	(1,039,000)	408,000
Accrued liabilities	(2,031,000)	253,000
Accrued income taxes	23,000	23,000
Deferred revenue	88,000	381,000
Net cash provided by (used in) operating activities	(2,078,000)	4,080,000
<b>Investing Activities:</b>		
Purchases of property and equipment	(361,000)	(877,000)
Purchase of investments	(4,981,000)	—
Proceeds from sale of held to maturity investments	4,981,000	—
Net cash used in investing activities	(361,000)	(877,000)
<b>Financing Activities:</b>		
Cash dividends paid (\$0.70 per share)	(14,000)	(14,000)
Proceeds from issuance of common stock, net	108,000	49,000
Repurchase of common stock upon vesting of restricted stock awards	(35,000)	(74,000)
Repurchase of common stock, net	—	(269,000)
Net cash provided by (used in) financing activities	59,000	(308,000)
Increase (decrease) in cash and cash equivalents	(2,380,000)	2,895,000
Cash and cash equivalents at beginning of period	10,160,000	4,695,000
Cash and cash equivalents at end of period	\$ 7,780,000	\$ 7,590,000
<b>Supplemental disclosures for cash flow information:</b>		
Cash paid during the period for income taxes	\$ 6,000	\$ 84,000
<b>Non-cash investing and financing activities:</b>		
Purchases of property and equipment included in accounts payable	\$ —	\$ 96,000

*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®) in-store signage solution, and other retailer approved promotional services, in-store marketing solutions, and custom adhesive and non-adhesive signage materials directly to our retail customers.

**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 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, 2018 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, 2019, the Company adopted Financial Accounting Standards Board Accounting Standards Update (“ASU”) 2016-02, “Leases” (“Topic 842”) under which lessees will recognize most leases on the balance sheet. At the date of adoption of the standard the Company recorded a right of use asset with a value of \$305,000, reduced deferred rent by \$158,000 and recorded a lease liability of \$463,000. The Company elected the option under Topic 842 not to restate comparative periods in the transition. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard which allowed it to carry forward the historical lease classification. Additional required disclosures for Topic 842 are contained in Note 5.

**Inventories.** Inventories are primarily comprised of sign cards, hardware 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:

	September 30, 2019	December 31, 2018
Raw materials	\$ 56,000	\$ 80,000
Work-in-process	25,000	12,000
Finished goods	262,000	261,000
	<u>\$ 343,000</u>	<u>\$ 353,000</u>

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

	September 30, 2019	December 31, 2018
<b>Property and Equipment:</b>		
Production tooling, machinery and equipment	\$ 3,728,000	\$ 3,694,000
Office furniture and fixtures	385,000	385,000
Computer equipment and software	4,190,000	2,743,000
Leasehold improvements	577,000	577,000
Construction in-progress	—	1,179,000
	<u>8,880,000</u>	<u>8,578,000</u>
Accumulated depreciation and amortization	<u>(6,051,000)</u>	<u>(5,310,000)</u>
Net Property and Equipment	<u>\$ 2,829,000</u>	<u>\$ 3,268,000</u>

Depreciation expense was approximately \$300,000 and \$740,000 in the three and nine months ended September 30, 2019, respectively, and was \$188,000 and \$555,000 in the three and nine months ended September 30, 2018, 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 as of the 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.

During the nine months ended September 30, 2019 and 2018, no stock awards were granted by the Company.

During the nine months ended September 30, 2019, no stock option awards were granted. During the nine months ended September 30, 2018, options to purchase up to 119,515 shares of common stock were granted to employees by the Company under the 2018 Equity Incentive Plan (the "2018 Plan"). The Company estimated the fair value of these awards using the following weighted average assumptions: expected life of 6.5 years, expected volatility of 51.21%, dividend yield of 0% and a risk-free rate interest rate of 2.80%.

During the nine months ended September 30, 2019, no restricted stock units were granted. During the nine months ended September 30, 2018, the Company issued a total of 297,515 restricted stock units to employees under the 2013 Omnibus Stock and Incentive Plan and the 2018 Plan, with each unit representing the right to receive one share of common stock. The shares underlying the awards were assigned values of \$1.77 and \$1.95 per share, which represent the closing prices of our common stock on the dates of grant. These awards are scheduled to vest over three years or four years with the first vesting scheduled to occur in year two.

In June 2019, non-employee directors received a total of 70,755 restricted stock units pursuant to the 2018 Plan, with each unit representing the right to receive one share of common stock. The shares underlying the awards were assigned a value of \$1.06 per share, which was the closing price of our common stock on the date of grant, for a total value of \$75,000, and are scheduled to vest the day immediately preceding the date of the 2020 annual meeting of shareholders. In July 2018, non-employee directors received a total of 46,152 restricted stock units pursuant to the 2018 Plan. The shares underlying the awards were assigned a value of \$1.95 per share, which was the closing price of our common stock on the date of grant, for a total value of \$90,000. The restricted stock units granted to directors in 2018 vested and settled into an equivalent number of shares of common stock on June 5, 2019, the day immediately preceding the date of our 2019 annual meeting of shareholders.

The Company estimated the fair value of stock-based awards granted during the nine months ended September 30, 2019 under the Company's employee stock purchase plan using the following weighted average assumptions: expected life of 1.0 year, expected volatility of 57%, dividend yield of 0% and risk-free interest rate of 2.60%.

Our non-employee directors are eligible to participate in our director deferred compensation plan, which allows a director to make voluntary deferrals of up to 100% of their annual cash retainers relating to board or committee chair service. During the nine months ended September 30, 2019, elected to defer a total of \$46,000 in fees pursuant to the director referred compensation plan. During June 2019, the Company issued 8,370 shares of common stock in settlement of \$9,000 of total deferred fees due to a non-employee director's departure from the board.

Total stock-based compensation expense recorded for the three and nine months ended September 30, 2019 was \$101,000 and \$378,000, respectively, and for the three and nine months ended September 30, 2018 was \$128,000 and \$277,000, respectively.

**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 dilutive potential common shares outstanding during the period.

Due to the net loss incurred during the three and nine months ended September 30, 2019 all outstanding stock options were anti-dilutive for that period. Options to purchase approximately 305,000 and 265,000 shares of common stock with a weighted average exercise price of \$2.66 and \$3.22, respectively, were outstanding at September 30, 2018 and were not included in the computation of common stock equivalents for the three and nine months ended September 30, 2018 because their exercise prices were higher than the average fair market value of the common stock during the reporting period.

Weighted average common shares outstanding for the three and nine months ended September 30, 2019 and 2018 were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Denominator for basic net income (loss) per share - weighted average shares	11,986,000	11,729,000	11,911,000	11,784,000
Effect of dilutive securities:				
Stock options and restricted stock units	—	283,000	—	242,000
Denominator for diluted net income (loss) per share - weighted average shares	<u>11,986,000</u>	<u>12,012,000</u>	<u>11,911,000</u>	<u>12,026,000</u>

2. **Investments.** As of September 30, 2019 the Company no longer carries any investments. Prior to September 30, 2019, the Company had invested its excess cash in debt securities, with an average maturity of approximately six months, and were classified as held to maturity within current assets in accordance with Accounting Standards Codification (“ASC”) 320-10, “Investments – Debt and Equity Securities.”
3. **Revenue Recognition.** Under ASU 2014-09 *Revenue from Contracts with Customers* (“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 revenue. 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 (“CPG”) 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:

***In-Store Signage Solution Services.*** Our primary source of revenue is from executing in-store advertising solutions and services primarily to 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.

Each of the individual activities under our services, including production activities, are inputs to an integrated sign display service. 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 POPS solution 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 POPS service solution.

***Other Service Revenues.*** The Company also supplies CPG manufacturers with other retailer approved promotional services and sign solutions. These services are more customized than the POPS solution 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 September 30, 2019			Nine months ended September 30, 2019		
	Services Revenues	Products Revenue	Total Revenue	Services Revenues	Products Revenue	Total Revenue
<b>Timing of revenue recognition:</b>						
Products and services transferred over time	\$ 3,401,000	\$ -	\$ 3,401,000	\$ 11,099,000	\$ -	\$ 11,099,000
Products and services transferred at a point in time	999,000	\$ 254,000	1,253,000	3,375,000	\$ 1,162,000	4,537,000
Total	<u>\$ 4,400,000</u>	<u>\$ 254,000</u>	<u>\$ 4,654,000</u>	<u>\$ 14,474,000</u>	<u>\$ 1,162,000</u>	<u>\$ 15,636,000</u>
	Three months ended September 30, 2018			Nine months ended September 30, 2018		
	Services Revenues	Products Revenue	Total Revenue	Services Revenues	Products Revenue	Total Revenue
<b>Timing of revenue recognition:</b>						
Products and services transferred over time	\$ 8,016,000	\$ -	\$ 8,016,000	\$ 21,883,000	\$ -	\$ 21,883,000
Products and services transferred at a point in time	1,053,000	\$ 386,000	1,439,000	2,080,000	\$ 1,156,000	3,236,000
Total	<u>\$ 9,069,000</u>	<u>\$ 386,000</u>	<u>\$ 9,455,000</u>	<u>\$ 23,963,000</u>	<u>\$ 1,156,000</u>	<u>\$ 25,119,000</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 ASC 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.

### ***Deferred Revenue***

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

Balance at December 31, 2018	\$ 302,000
Reclassification of beginning deferred revenue to revenue, as a result of performance obligations satisfied	(302,000)
Cash received in advance and not recognized as revenue	390,000
Balance at September 30, 2019	<u>\$ 390,000</u>

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

The Company applies the practical expedient in paragraph ASC 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 incomplete services and unshipped custom signage materials. Of those contracts with an expected duration of greater than one year, we estimate that revenue of \$631,000 and \$2,000,000 related to performance obligations that are unsatisfied (or partially unsatisfied) as of September 30, 2019 will be recognized during the remainder of 2019 and in 2020, respectively.

- Selling Arrangement.** In 2011, the Company paid to News America Marketing In-Store, L.L.C. (“News America Marketing”) \$4,000,000 in exchange for a 10-year arrangement to sell signs with price into News America Marketing’s network of retailers as its exclusive agent. The \$4,000,000 is being amortized over the 10-year term of the arrangement. Amortization expense was \$150,000 and \$450,000 in the three and nine months ended September 30, 2019. Amortization expense was \$100,000 and \$300,000 in the three and nine months ended September 30, 2018. Amortization expense is expected to be \$600,000 in 2019, \$262,000 in 2020 and \$55,000 in the year ending December 31, 2021. The acceleration of amortization in 2019 is based on the anticipated recovery period over the remaining term of the contract due to the loss of a significant retailer which exited the Company’s retailer network in the first half of 2019 as a result of competitive pressures. The net carrying amount of the selling arrangement is recorded within other assets on the Company’s balance sheet.
- Leases.** The Company leases space under a non-cancelable operating lease for our corporate headquarters. This lease has escalating lease terms and also includes a tenant incentive that was recorded at the time the lease was originally entered into. The lease does not contain contingent rent provisions. The Company also has a lease for additional office space under an operating lease. The lease for our corporate headquarters includes both lease (e.g., fixed payments including rent, taxes, and insurance costs) and non-lease components (e.g., common-area or other maintenance costs) which are accounted for as a single lease component as we have elected the practical expedient to group lease and non-lease components for all leases. The lease for our additional office space is non-cancelable with a lease term of less than one year and therefore, we have elected the practical expedient to exclude this short-term lease from our right-of-use assets and lease liabilities.

Our leases include options to renew. The exercise of lease renewal options is at our sole discretion. Therefore, the renewals to extend the lease terms are not included in our right of use assets and lease liabilities as they are not reasonably certain of exercise. We regularly evaluate the renewal options and when they are reasonably certain of exercise, we include the renewal period in our lease term.

We used our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments.

The cost components of our operating leases were as follows for the periods ended September 30, 2019:

	Three months ended September 30, 2019			Nine months ended September 30, 2019		
	Corporate Headquarters	Additional Office Space	Operating Leases	Corporate Headquarters	Additional Office Space	Operating Leases
Operating lease cost	\$ 38,000	\$ -	\$ 38,000	\$ 113,000	\$ -	\$ 113,000
Variable lease cost	26,000	-	26,000	80,000	-	80,000
Short-term lease cost	-	9,000	9,000	-	28,000	28,000
Total	<u>\$ 64,000</u>	<u>\$ 9,000</u>	<u>\$ 73,000</u>	<u>\$ 193,000</u>	<u>\$ 28,000</u>	<u>\$ 221,000</u>

Variable lease costs consist primarily of taxes, insurance, and common area or other maintenance costs for our leased corporate headquarters which are paid based on actual costs incurred by the lessor.

Maturities of our lease liabilities for our corporate headquarters operating lease were as follows as of September 30, 2019:

<u>Maturity of Lease Liabilities</u>	<u>Leases</u>
2019	\$ 54,000
2020	222,000
2021	57,000
Total lease payments	<u>\$ 333,000</u>
Less: Interest	16,000
Present value of lease liabilities	<u>\$ 317,000</u>

The remaining lease term as of September 30, 2019 was 1.5 years and the discount rate was 6%. The cash outflow for operating leases for the three and nine months ended September 30, 2019 was \$55,000 and \$163,000, respectively.

The following table presents future minimum lease payments for our operating leases at December 31, 2018 under ASC 840 and is being presented for comparative purposes:

2019	\$ 217,000
2020	222,000
2021	57,000

Rent expense under these leases was approximately \$70,000 and \$205,000 for the three and nine months ended September 30, 2018, respectively.

6. **Income Taxes.** For the three and nine months ended September 30, 2019, the Company recorded income tax benefit of \$47,000 and \$416,000, or 4.6% and 14.0% of loss before taxes, respectively. For the three and nine months ended September 30, 2018, the Company recorded income tax expense of \$216,000 and \$365,000, or 25.1% and 26.9% of income before taxes, respectively. The income tax benefit or expense for the three and nine months ended September 30, 2019 and 2018 is comprised of federal and state taxes. The primary differences between the Company's September 30, 2019 and 2018 effective tax rates and the statutory federal rate are expenses related to stock-based compensation and nondeductible meals and entertainment as well as for the three and nine months ended September 30, 2019 an increase in the Company's valuation allowance against its deferred tax assets. The Company reassesses its effective rate each reporting period and adjusts the annual effective rate if deemed necessary, based on projected annual taxable income or 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 September 30, 2019 and December 31, 2018, the Company had a valuation allowance of approximately \$287,000 and \$79,000, respectively, as a result of certain capital losses, credits and net operating losses carried forward which the Company does not believe are more likely than not to be realized.

As of September 30, 2019, and December 31, 2018, the Company had unrecognized tax benefits totaling \$636,000 and \$613,000, 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 \$636,000. Due to the current statute of limitations regarding the unrecognized tax benefits, the unrecognized tax benefits and associated interest are not expected to change significantly in 2019.

7. **Concentrations.** During the nine months ended September 30, 2019, two customers accounted for 15% and 12% respectively, of the Company’s total net sales. During the nine months ended September 30, 2018, two customers accounted for 24% and 22%, respectively, of the Company’s total net sales. At September 30, 2019, one customer represented 20% respectively, of the Company’s total accounts receivable. At December 31, 2018, two customers represented 31% and 16% of the Company’s total accounts receivable.

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

8. **Share Repurchases.** 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 nine months ended September 30, 2019, there was no share repurchase activity under the plan. During the nine months ended September 30, 2018 the Company repurchased and retired approximately 148,000 shares, at a total cost of \$269,000.

9. **Legal Proceedings.** On July 11, 2019, the Company brought suit against News Corporation, News America Marketing FSI L.L.C., and News America Marketing In-Store Services L.L.C. (collectively, “News America”) in the U.S. District Court in Minnesota, alleging violations of federal and state antitrust and tortious interference laws by News America. The complaint alleges that News America has monopolized the relevant market through various wrongful acts designed to harm the Company, its last significant competitor, in the third-party in-store advertising and promotion products and services market. The suit seeks, among other relief, an injunction sufficient to prevent further antitrust injury and an award of treble damages to be determined at trial for the harm caused to the Company.

In August 2019, News America filed an answer, which included a counterclaim against the Company alleging breach of the existing Settlement Agreement between the Company and News America and seeking recovery of amounts paid to the Company under that Agreement or enforcement of the agreement in a manner that could prevent certain of the Company’s initial claims. In October 2019, News America moved for a judgment on the pleadings and to dismiss Insignia’s complaint based on the Company’s alleged breach of the existing Settlement Agreement. Management believes that the counterclaim is without merit and the Company filed its response brief on November 11, 2019. The Company also moved to dismiss News’s counterclaim.

The Court has denied News America’s request to stay discovery and discovery has begun. A hearing on the parties’ motions is scheduled for December 17, 2019. Due to the early nature of these proceedings, we are unable to determine the likelihood of an unfavorable outcome or estimate any potential resulting liability at this time.

## **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, 2018, 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 “we,” “us,” “our” or the “Company”) is a leading provider of in-store marketing and digital solutions to our partners and clients which consist of CPG manufacturers, retailers and marketing agencies. We believe our products and services are attractive to CPG manufacturers because of our speed to market, ability to customize advertising programs at store level and our deep industry knowledge. We have leaders and employees with extensive industry knowledge and direct experience working with CPG manufacturers and retailers. The Company provides advertising solutions to CPG manufacturers spanning from some of the largest multinationals to new and emerging brands.

Our relationships with retailers are forged through executional excellence, flexible processes and our ability to connect retailer messaging with our CPG manufacturer’s message. The Company runs in-store advertising programs at national and regional US retailers who are leaders in their respective channels.

Our relationships with marketing agencies continue to grow through our agility, responsiveness, custom production and execution capabilities, and our ability to respond to their client’s needs with precision and efficiency.

The Company’s primary solution has been the Point-Of-Purchase Services (POPS<sup>®</sup>) in-store signage solution. The Company’s POPS solution is a national, account-specific, shelf-edge advertising and promotion tactic. Internal testing has indicated the solution is capable of delivering incremental sales for the featured brand. Participation in the POPS solution allows CPG 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 manufacturers benefit from the Company’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.

Over the past several years, we have developed and now offer promotional, merchandising and digital solutions in addition to our core business of in-store signage solutions. Our expanded portfolio of solutions allows us to more completely meet the needs of CPG manufacturers, retailers and their agents as their business strategies evolve behind an ever-changing retail landscape.

### **Business Overview**

#### **Summary of Financial Results**

For the quarter ended September 30, 2019, the Company generated revenues of \$4,654,000, as compared with revenues of \$9,455,000 for the quarter ended September 30, 2018. For the nine months ended September 30, 2019, the Company generated revenues of \$15,636,000, as compared with revenues of \$25,119,000 in the nine months ended September 30, 2018. Net loss for the quarter ended September 30, 2019 was \$978,000, as compared to net income of \$645,000 for the quarter ended September 30, 2018. Net loss for the nine months ended September 30, 2019 was \$2,562,000, as compared to net income of \$993,000 for the nine months ended September 30, 2018. Competitive pressure caused changes in our retail and CPG networks during 2019, including the exit of a significant retailer during the first half of 2019, and has adversely impacted our results compared to prior periods. We continue to expect ongoing competitive pressure to challenge our business results for the remainder of the year. However, we are pursuing a variety of efforts designed to drive innovation, client acquisitions and retailer expansions.

During the nine months ended September 30, 2019, cash and cash equivalents decreased \$2,380,000 from \$10,160,000 at December 31, 2018, to \$7,780,000 at September 30, 2019. The Company had no long-term debt other than its lease obligations as of September 30, 2019.

## Results of Operations

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2019	2018	2019	2018
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	80.1	62.3	79.8	63.0
Gross profit	19.9	37.7	20.2	37.0
Operating expenses:				
Selling	12.3	9.6	12.8	10.1
Marketing	12.0	7.4	11.6	7.5
General and administrative	18.6	11.7	15.6	14.2
Total operating expenses	42.9	28.7	40.0	31.8
Operating income (loss)	(23.0)	9.0	(19.8)	5.2
Other income	1.0	0.1	0.8	0.2
Income (loss) before taxes	(22.0)	9.1	(19.0)	5.4
Income tax expense (benefit)	(1.0)	2.3	(2.6)	1.4
Net income (loss)	(21.0) %	6.8 %	(16.4) %	4.0 %

### Three and Nine months Ended September 30, 2019 Compared to Three and Nine months Ended September 30, 2018

**Net Sales.** Net sales for the three months ended September 30, 2019 decreased 50.8% to \$4,654,000 compared to \$9,455,000 for the three months ended September 30, 2018. Net sales for the nine months ended September 30, 2019 decreased 37.8% to \$15,636,000 compared to \$25,119,000 for the nine months ended September 30, 2018.

Service revenues for the three months ended September 30, 2019 decreased 51.5% to \$4,400,000 compared to \$9,069,000 for the three months ended September 30, 2018. Service revenues for the nine months ended September 30, 2019 decreased 39.6% to \$14,474,000 compared to \$23,963,000 for the nine months ended September 30, 2018. The decreases were primarily due to 68.8% and 57.3% decreases in POPS solution revenue for the three and nine months ended September 30, 2019, respectively, partially offset by 12.6% and 44.7% increases in innovation solutions revenue for the three and nine months ended September 30, 2019, respectively. The decrease in POPS solution revenue was primarily due to decreases in the number of signs placed and average price per sign, which were due to the loss of a significant retailer and a significant CPG manufacturer both as a result of competitive pressures, and the completion of a non-recurring favorable CPG contract.

Product revenues for the three months ended September 30, 2019 decreased 34.2% to \$254,000 compared to \$386,000 for the three months ended September 30, 2018. The decrease was primarily due to lower sales of sign card supplies due to lower customer demand. Product revenues for the nine months ended September 30, 2019 increased 0.5% to \$1,162,000 compared to \$1,156,000 for the nine months ended September 30, 2018.

**Gross Profit.** Gross profit for the three months ended September 30, 2019 decreased 74.0% to \$926,000 compared to \$3,563,000 for the three months ended September 30, 2018. Gross profit as a percentage of total net sales decreased to 19.9% for the three months ended September 30, 2019 compared to 37.7% for the three months ended September 30, 2018. Gross profit for the nine months ended September 30, 2019 decreased 66.0% to \$3,165,000 compared to \$9,314,000 for the nine months ended September 30, 2018. Gross profit as a percentage of total net sales decreased to 20.2% for the nine months ended September 30, 2019 compared to 37.0% for the nine months ended September 30, 2018.

**Service revenues.** Gross profit from our service revenues for the three months ended September 30, 2019 decreased 74.7% to \$886,000 compared to \$3,500,000 for the three months ended September 30, 2018. The decrease in gross profit was primarily due to a decrease in POPS solution 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, combined with the decrease in average price per sign due to the completion of a non-recurring favorable contract, partially offset by an increase in revenue and gross profit from innovation solutions. Gross profit from our service revenues for the nine months ended September 30, 2019 decreased 67.4% to \$2,942,000 compared to \$9,026,000 for the nine months ended September 30, 2018. The decrease was primarily due to the factors described above.

The Company put into service the new IT operating infrastructure system in the second quarter of 2019, as a result, no additional development costs were incurred during the three months ended September 30, 2019 compared to approximately \$166,000 for the three months ended September 30, 2018. For the nine months ended September 30, 2019, the Company incurred costs of approximately \$193,000 associated with the development of its new IT operating infrastructure compared to approximately \$436,000 for the nine months ended September 30, 2018. Additional technology investments may be needed to support the Company's new solution initiatives.

Gross profit as a percentage of service revenues for the three months ended September 30, 2019 decreased to 20.1% compared to 38.6% for the three months ended September 30, 2018. Gross profit as a percentage of service revenues for the nine months ended September 30, 2019 decreased to 20.3% compared to 37.7% for the nine months ended September 30, 2018. The decreases for both periods were primarily due to the factors described above.

**Product revenues.** Gross profit from our product revenues for the three months ended September 30, 2019 decreased 36.5% to \$40,000 compared to \$63,000 for the three months ended September 30, 2018. The decrease was primarily due to increased production related costs and product mix. Gross profit from our product revenues for the nine months ended September 30, 2019 decreased 22.6% to \$223,000 compared to \$288,000 for the nine months ended September 30, 2018. The decrease was primarily due to the factors described above.

Gross profit as a percentage of product revenues decreased to 15.7% for the three months ended September 30, 2019 compared to 16.3% for the three months ended September 30, 2018. Gross profit as a percentage of product revenues was 19.2% for the nine months ended September 30, 2019 compared to 24.9% for the nine months ended September 30, 2018.

### ***Operating Expenses***

**Selling.** Selling expenses for the three months ended September 30, 2019 decreased 36.9% to \$573,000 compared to \$908,000 for the three months ended September 30, 2018. Selling expenses for the nine months ended September 30, 2019 decreased 20.8% to \$2,004,000 compared to \$2,530,000 for the nine months ended September 30, 2018. The decreases for both periods were primarily due to reduced variable staff related expenses.

Selling expenses as a percentage of total net sales increased to 12.3% for the three months ended September 30, 2019 compared to 9.6% for the three months ended September 30, 2018. Selling expenses as a percentage of net sales increased to 12.8% for the nine months ended September 30, 2019 compared to 10.1% for the nine months ended September 30, 2018. The increases for both periods were primarily due to decreased sales, partially offset by the reduced variable staff related expenses.

**Marketing.** Marketing expenses for the three months ended September 30, 2019 decreased 20.5% to \$559,000 compared to \$703,000 for the three months ended September 30, 2018. Marketing expense for the nine months ended September 30, 2019 decreased 3.4% to \$1,809,000 compared to \$1,873,000 for the nine months ended September 30, 2018. The decreases for both periods were primarily the result of decreased staffing and variable staff related expenses, partially offset by increased consulting expenses.

Marketing expenses as a percentage of total net sales increased to 12.0% for the three months ended September 30, 2019 compared to 7.4% for the three months ended September 30, 2018. Marketing expenses as a percentage of net sales increased to 11.6% for the nine months ended September 30, 2019 compared to 7.5% for the nine months ended September 30, 2018. The increases for both periods were primarily due to decreased sales and consulting expenses, partially offset by the decreased staffing and variable staff related expenses.

**General and administrative.** General and administrative expenses for the three months ended September 30, 2019 decreased 21.8% to \$865,000 compared to \$1,106,000 for the three months ended September 30, 2018. The decrease was primarily due to reduced variable staff related expenses. General and administrative expenses for the nine months ended September 30, 2019 decreased 31.8% to \$2,443,000 compared to \$3,580,000 for the nine months ended September 30, 2018. The decrease of \$1,137,000 includes \$460,000 of expense during the nine months ended September 30, 2018 related to the negotiation and satisfaction of obligations under the May 2018 Cooperation Agreement. The remainder of the decrease was primarily due to variable staff related expenses.

General and administrative expenses as a percentage of total net sales increased to 18.6% for the three months ended September 30, 2019 compared to 11.7% for the three months ended September 30, 2018. The increase was primarily due to decreased sales, partially offset by the reduced variable staff related expenses. General and administrative expenses as a percentage of net sales increased to 15.6% for the nine months ended September 30, 2019 compared to 14.2% for the nine months ended September 30, 2018. The increase was primarily due to decreased sales, partially offset by the May 2018 Cooperation Agreement, as described above and also due to the reduced variable staff related expenses.

**Other Income.** Other income for the three months ended September 30, 2019 increased to \$46,000 compared to \$15,000 for the three months ended September 30, 2018. Other income for the nine months ended September 30, 2019 was \$113,000 compared to \$27,000 for the nine months ended September 30, 2018. The increase is due to interest generated from held to maturity investments.

**Income Taxes.** For the three and nine months ended September 30, 2019, the Company recorded income tax benefit of \$47,000 and \$416,000, or 4.6% and 14.0% of loss before taxes, respectively. For the three and nine months ended September 30, 2018, the Company recorded income tax expense of \$216,000 and \$365,000, or 25.1% and 26.9% of income before taxes, respectively. The income tax benefit or expense for the three and nine months ended September 30, 2019 and 2018 is comprised of federal and state taxes. The primary differences between the Company's September 30, 2019 and 2018 effective tax rates and the statutory federal rate are expenses related to stock-based compensation and nondeductible meals and entertainment as well as for the three and nine months ended September 30, 2019, an increase in the Company's valuation allowance against its deferred tax assets. The Company reassesses its effective rate each reporting period and adjusts the annual effective rate if deemed necessary, based on projected annual taxable income or 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.

As a result of the Company's future outlook, management has reviewed its deferred tax assets and concluded that the uncertainties related to the realization of its deferred tax assets have become unfavorable. Management has considered positive and negative evidence for the potential utilization of the deferred tax assets and has concluded that it is more likely than not that the Company will not realize the full amount of its net deferred tax assets. At September 30, 2019 and December 31, 2018, the Company had a valuation allowance of approximately \$287,000 and \$79,000, respectively, as a result of certain capital losses, credits carried forward and net operating losses carried forward which the Company does not believe are more likely than not to be realized. During the three months ended September 30, 2019, the Company recorded an increase of approximately \$188,000 in its valuation allowance against its deferred tax assets.

**Net Income (Loss).** For the reasons stated above, net loss for the three and nine months ended September 30, 2019 was \$978,000 and \$2,562,000, respectively, compared to net income of \$645,000 and \$993,000, respectively, for the three and nine months ending September 30, 2018.

### **Liquidity and Capital Resources**

The Company has financed its operations with proceeds from stock sales and sales of its services and products. At September 30, 2019, working capital was \$11,453,000 (defined as current assets less current liabilities) compared to \$13,351,000 at December 31, 2018. During the nine months ended September 30, 2019, cash and cash equivalents decreased \$2,380,000 from \$10,160,000 at December 31, 2018, to \$7,780,000 at September 30, 2019.

**Operating Activities.** Net cash used by operating activities during the nine months ended September 30, 2019, was \$2,078,000. Net loss of \$2,562,000, plus non-cash adjustments of \$1,128,000, less changes in operating assets and liabilities of \$644,000 resulted in the \$2,078,000 of cash used by operating activities. The largest component of the change in operating assets and liabilities was accounts receivable which decreased \$2,324,000 from December 31, 2018, which is expected to fluctuate based on normal business conditions, and partially reflects lower sales in the quarter. The non-cash adjustments consisted of depreciation and amortization expense, changes in allowance for doubtful accounts, deferred income tax benefit, 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 nine months ended September 30, 2019 was \$361,000. This was primarily related to investing in the IT operating infrastructure project, which consisted of hardware, purchased software and capitalization of costs for internally developed software.

**Financing Activities.** Net cash provided by financing activities during the nine months ended September 30, 2019 was \$59,000, which primarily 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, 2018, included in our Form 10-K filed with the Securities and Exchange Commission on March 7, 2019. Our policy related to the adoption on January 1, 2019 of Topic 842, leases, is included in Note 1 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, 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 "alleges," "anticipates," "believes," "estimates," "expects," "future," "intends," "likely," "may," "seeks," "will" 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; and (ii) that we expect fluctuations in accounts receivable and payable, accrued liabilities, and revenue deferrals. 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 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 2019 results and the benefit of our relationship with News America Marketing; (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 Marketing; (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; (viii) our ability to attract and retain highly qualified managerial, operational and sales personnel; and (ix) the outcome of the legal proceedings involving News America. 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, 2018, 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, as appropriate to allow timely decisions regarding disclosures.

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

No changes in the Company's internal control over financial reporting occurred during the third quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

On July 11, 2019, the Company brought suit against News Corporation, News America Marketing FSI L.L.C., and News America Marketing In-Store Services L.L.C. (collectively, “News America”) in the U.S. District Court in Minnesota, alleging violations of federal and state antitrust and tortious interference laws by News America. The complaint alleges that News America has monopolized the relevant market through various wrongful acts designed to harm the Company, its last significant competitor, in the third-party in-store advertising and promotion products and services market. The suit seeks, among other relief, an injunction sufficient to prevent further antitrust injury and an award of treble damages to be determined at trial for the harm caused to the Company.

In August 2019, News America filed an answer, which included a counterclaim against the Company alleging breach of the existing Settlement Agreement between the Company and News America and seeking recovery of amounts paid to the Company under that Agreement or enforcement of the agreement in a manner that could prevent certain of the Company’s initial claims. In October 2019, News America moved for a judgment on the pleadings and to dismiss Insignia’s complaint based on the Company’s alleged breach of the existing Settlement Agreement. Management believes that the counterclaim is without merit and the Company filed its response brief on November 11, 2019. The Company also moved to dismiss News’s counterclaim.

The Court has denied News America’s request to stay discovery and discovery has begun. A hearing on the parties’ motions is scheduled for December 17, 2019. Due to the early nature of these proceedings, we are unable to determine the likelihood of an unfavorable outcome or estimate any potential resulting liability at this time.

Such litigation may be costly and the amount of legal expense that will be incurred in connection with the foregoing legal proceedings may be significant through the remainder of 2019 and beyond. During the quarter ended September 30, 2019, the Company incurred nominal legal expense related to the litigation.

### **Item 1A. Risk Factors**

#### **We Are Party to Significant Litigation**

On July 11, 2019, the Company brought suit against News America alleging violations of federal and state antitrust and tortious interference laws by News America. All litigation is subject to inherent risks and uncertainties that may cause actual results to differ materially from our expectations. While we cannot assure you that we will prevail in any lawsuit, we intend to vigorously seek judicial enforcement of our rights to freely operate our business.

Factors that could cause litigation results to differ include, but are not limited to, the discovery of previously unknown facts, changes in the law or in the interpretation of laws, and uncertainties associated with the judicial decision-making process. Litigation, including antitrust litigation, can be complex, can extend for a protracted period of time, and can be very expensive even if we are successful in asserting our claims. Litigation initiated by us can also result in counter-claims against us, which could increase the associated costs and result in our payment of damages or other judgments against us.

Such litigation may be costly, may divert the attention of key personnel, may affect our business relationships with third-parties, including CPG manufacturers and retailers, and could result in adverse outcomes, any of which could adversely affect our ability to compete, our business, and our results of operations and financial condition.

Other than the above there have been no material changes to the Company’s risk factors as disclosed in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2018.

**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 June 30, 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 September 30, 2019, there was no share repurchase activity under the plan.

Our share repurchase activity for the three months ended September 30, 2019, was as follows:

**Issuer Purchases of Equity Securities**

<u>Period</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs</u>
July 1–31, 2019	—	—	—	\$2,702,000
August 1–31, 2019	—	—	—	\$2,702,000
September 1–30, 2019	11,859 <sup>(a)</sup>	\$1.04	—	\$2,702,000
Total	<u>11,859</u>	<u>\$1.04</u>		

(a) The shares surrendered to the Company were to satisfy minimum statutory federal, state, and local tax withholding obligations arising from the vesting of a restricted stock award. The shares were forfeited pursuant to the participant's instructions in accordance with the terms of the applicable award agreement and the 2013 Plan and are not part of any publicly announced stock repurchase program.

**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	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)	Incorporated by Reference
3.2	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)	Incorporated by Reference
31.1	Certification of Principal Executive Officer	Filed Electronically
31.2	Certification of Principal Financial and Accounting Officer	Filed Electronically
32	Section 1350 Certification	Furnished Electronically
101	The following materials from Insignia Systems, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in XBRL (extensible Business Reporting Language): (i) Condensed Balance Sheets; (ii) Condensed Statements of Operations; (iii) Condensed Statements of Shareholders' Equity; (iv) Condensed Statements of Cash Flows; and (v) 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: November 13, 2019

/s/ Kristine A. Glancy

Kristine A. Glancy

President and Chief Executive Officer

(on behalf of registrant)

Dated: November 13, 2019

/s/ Jeffrey A. Jagerson

Jeffrey A. Jagerson

Chief Financial Officer and Treasurer

(principal financial and accounting officer)

**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: November 13, 2019

/s/ Kristine A. Glancy  
Kristine A. Glancy  
President and Chief Executive Officer  
(principal executive officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

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: November 13, 2019

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

**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 September 30, 2019, 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: November 13, 2019

/s/ Kristine A. Glancy  
Kristine A. Glancy  
President and Chief Executive Officer  
(principal executive officer)

Date: November 13, 2019

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