INSIGNIA SYSTEMS INC/MN
Form 10-K
March 30, 2009
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the year ended December 31, 2008 Commission File Number 1-13471

INSIGNIA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Minnesota	**41-1656308**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

8799 Brooklyn Blvd.
Minneapolis, MN 55445
(Address of principal executive offices)

(763) 392-6200
(Registrant s telephone number, including area code)

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s), and (2)

has been subject to such filing requirements for the past 90 days.
Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer x Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the last business day of the second quarter (June 30, 2008) was approximately $23,726,000 based upon the last sale price of the registrant s Common Stock on such date.

Number of shares outstanding of Common Stock, $.01 par value, as of March 23, 2009, was 15,129,098.

DOCUMENTS INCORPORATED BY REFERENCE:
Insignia Systems, Inc. Proxy Statement to be filed for the Annual Meeting of Shareholders to be held on May 20, 2009 (Part III Items 10, 11, 12, 13 and 14)

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Cautionary Statement Regarding Forward-Looking Information

Statements made in this Annual Report on Form 10-K, in the Company s other SEC filings, in press releases and in oral statements to shareholders and securities analysts, which 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 believes, expects, anticipates, seeks and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. These statements are subject to the risks and uncertainties that could cause actual results to differ materially and adversely from the forward-looking statements. These risks and uncertainties include, but are not limited to, the risks described in Part I, Item 1A.

PART I.

Item 1. Business

General

Insignia Systems, Inc., (the Company) markets in-store advertising products, programs and services to retailers and consumer packaged goods manufacturers. The Company has been in business since 1990. Since 1998, the Company has been focusing on providing in-store services through the Insignia Point-Of-Purchase Services (POPS) in-store advertising program. Insignia POPS® includes the Insignia POPSign® program.

Insignia s POPSign is a national, account-specific, in-store, shelf-edge advertising program that has been shown to deliver significant sales increases. Funded by consumer packaged goods manufacturers, the program allows manufacturers to deliver vital product information to consumers at the point-of-purchase. The brand information is combined with each retailer s store-specific prices and is displayed on the retailer s unique sign format. The combining of manufacturer and retailer information produces a complete call to action that gets consumers the information they want and need to make purchasing decisions, while building store and brand equity.

For retailers, Insignia s POPSign program is a source of incremental revenue and is the first in-store advertising program that delivers a complete call to action on a product-specific and store-specific basis, with all participating retail stores updated weekly. For consumer goods manufacturers, Insignia s POPSign program provides access to the optimum retail advertising site for their products the retail shelf-edge. In addition, manufacturers benefit from significant sales increases, short lead times, micro-marketing capabilities, such as store-specific and multiple language options, and a wide variety of program features and enhancements that provide unique advertising advantages.

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

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Industry and Market Background

According to Point-Of-Purchase Advertising International (POPAI), an industry non-profit trade association, more than 70% of brand purchase decisions are being made in-store. As a result, product manufacturers are constantly seeking in-store vehicles to motivate consumers to buy their branded products. The Company s market studies indicate that the shelf-edge sign represents the final and best opportunity for manufacturers to convince the consumer to buy. In fact, a 2005 industry study concluded that shelf signs are the most effective type of in-store advertising vehicle after end-aisle displays and in-store leaflets.

Many consumers seek product information beyond price in order to make educated buying decisions. The Company s marketing studies indicate the most effective sign contains information supplied by the product manufacturer in combination with the retailer s price and design look.

Company Products

Insignia s POPSign Program

Insignia s POPSign program is an in-store, shelf-edge, point-of-purchase advertising program that enables manufacturers to deliver product-specific messages quickly and accurately in designs and formats that have been pre-approved and supported by participating retailers. Insignia POPSigns deliver vital product selling information from manufacturers, such as product uses and features, nutritional information, advertising tag lines and product images. The brand information is combined with the retailer s store-specific prices and is displayed on the retailer s unique sign format that includes its logo, headline and store colors. Each sign is displayed directly in front of the manufacturer s product in the participating retailer s stores. Insignia s POPSign program offers special features and enhancements, such as Advantage and Custom Advantage headers that allow manufacturers to add visibility and highlight their brand message at-shelf. Insignia offers Color POPSigns with customizable, image-building full-color graphics. Insignia UltraColor® POPSigns offer 75% more area for the full-color creative than Color POPSigns.

Utilizing proprietary technology, the Company collects and organizes the data from both manufacturers and retailers, then formats, prints and delivers the signs to retailers for distribution and display. Store personnel place the signs at the shelf for two-week display cycles. The Company charges manufacturers for the signs placed in stores for each cycle. Retailers are paid a fee to display the signs and for product movement data provided to Insignia.

The Impulse Retail System and SIGNright Sign System

Prior to 1996, the Company s primary product offering was the Impulse Retail System, a system developed by an independent product design and development firm (the Developer). In 1996, the Company replaced the Impulse Retail System with the SIGNright Sign System. In 1998, the Company ceased the active domestic sales of the SIGNright Sign System.

Cardstock for the two systems is sold by the Company in a variety of sizes and colors that can be customized to include pre-printed custom artwork, such as a retailer s logo. Approximately 3% of 2008 revenues came from the sale of cardstock. The Company expects this percentage to be comparable in the future.

Stylus Software

In late 1993, the Company introduced Stylus, a PC-based software application used by retailers to produce signs, labels, and posters. The Stylus software allows retailers to create signs, labels and posters by manually entering the information or by importing information from a database. Approximately 1% of 2008 revenues came from the sale of Stylus products and maintenance. The Company expects this percentage to be comparable in the future.

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Marketing and Sales

The Company directly markets the Insignia POPSign program to food and drug manufacturers and retailers. By utilizing the Insignia POPSign program, these manufacturers and retailers can easily accomplish what had previously been either impossible or extremely difficult: tailoring national in-store advertising programs to regional and local needs with minimal effort. In addition to the benefits provided to manufacturers and retailers, Insignia s POPSign program provides consumers more information and clearer messages to aid in purchasing decisions. The Company believes its POPSign program is the most complete in-store advertising sign program available, benefiting consumer, retailer, and manufacturer.

On June 12, 2006, the Company entered into an Exclusive Reseller Agreement with Valassis Sales and Marketing Services, Inc. (Valassis). The agreement had an initial term of one year with the objective of increasing the Company s sales of Insignia POPSigns. On December 6, 2006, the Company and Valassis executed Amendment No. 1 to the agreement which finalized certain appendices, made certain other modifications to the agreement and extended the initial term through December 31, 2007. On July 2, 2007 the Company and Valassis executed Amendment No. 2 to the agreement which extended the term of the agreement to December 31, 2017 and expanded the strategic alliance to increase the role of Valassis to include developing and expanding the Company s participating retailer network. In conjunction with Amendment No. 2 Valassis received a five-year warrant to acquire 800,000 shares of Insignia s common stock at a price of $4.04 and will be paid cash commissions by the Company on the revenue the Company realizes from POPS programs the consumer packaged goods manufacturers conduct in the new retail chains. The Company recorded $1,521,000 of expense during the year ended December 31, 2007 related to the fair value of the warrant.

Prior to April 1998, the Company marketed the Impulse Retail System and the SIGNright Sign System through telemarketing by in-house sales personnel and independent sales representatives. In May 1998, the Company discontinued the active marketing of the systems. The Company sells cardstock and supplies related to these systems to U.S. and international customers.

The Company markets its Stylus software in the United States and internationally primarily through resellers that integrate Stylus as an Open Database Connectivity design and publishing component into their retail data and information management software applications.

During 2008, 2007 and 2006, foreign sales accounted for less than 1% of total net sales each year. The Company expects sales to foreign distributors will be less than 1% of total net sales in 2009.

Competition

Insignia s POPSign Program

The Insignia POPSign program is competing for the marketing expenditures of branded product manufacturers for at-shelf advertising-related signage. The Insignia POPSign program has one major competitor in its market, which is News America Marketing In-Store®, Inc. (News America).

News America offers a network for in-store advertising, promotion and sales merchandising services. News America has branded its in-store shelf signage products as SmartSource Shelftalk℠, SmartSource Shelfvision℠ and SmartSource Price Pop®.

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We believe the main strengths of the Insignia POPSign program in relation to its competitors are:

- the linking of manufacturers to retailers at a central coordination point
- providing a complete call to action
- supplying product-specific and store-specific messages at the retail shelf
- delivering vital product information and store-specific prices
- short lead times
- significant sales increases

Patents and Trademarks

The Company has developed and is using a number of trademarks, service marks, slogans, logos and other commercial symbols to advertise and sell its products. The Company owns U.S. registered trademarks for Insignia Systems, Inc.® (and Design), Insignia POPS®, POPS Select®, Insignia Color POPS®, Insignia POPSign®, UltraColor®, Stylus®, Stylus Work Center ®, SIGNright®, Impulse®, DuraSign®, I-Care®, and Check This Out.®

The Company is in the process of obtaining trademark registrations in the United States for the trademarks Insignia E-POPS and Insignia ShelfPOPS.

The barcode which the Company uses on the sign cards for the Impulse and SIGNright Sign Systems was also developed by the Developer, which has granted the Company an exclusive worldwide license of its rights to the barcode. The license requires the Company to pay a royalty of 1% of the net sales price received by the Company on cardstock or other supply items that bear the barcode used by the Impulse and SIGNright Sign Systems. Although a patent has been issued to the Developer, which covers the use of the barcode, there is no assurance that the Company will be able to prevent other suppliers of cardstock from copying the barcode used by the Company. However, the Company believes that the number, relatively small size and geographic dispersal of Impulse and SIGNright users, their relationship with the Company and the Company s retention of its customer list as a trade secret will discourage other sign card suppliers from offering bar-coded sign cards for use on the Impulse and SIGNright machines.

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

Product Development

Product development for Insignia s POPSign program has been conducted internally and includes the proprietary data management and operations system, as well as the current offering of point-of-purchase and other advertising products. Ongoing internal systems enhancements, as well as the development of point-of-purchase and other advertising or promotional products, will be conducted utilizing both internal and external resources as appropriate.

Product development on the SIGNright Sign System was primarily conducted by the Developer on a contract basis.

The Stylus software product line remains a viable application for the Company s retailer customers. The Company performs development to keep Stylus current and updated to meet industry requirements.

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Customers

Two customers accounted for 19% and 10% of the Company s total net sales for the year ended December 31, 2008. Two other customers accounted for 13% and 11%, 15% and 11%, and 26% and 10% of the Company s total net sales for the years ended December 31, 2008, 2007 and 2006.

Backlog

Sales backlog at March 2, 2009 was approximately $11.7 million, of which $11.3 million is for delivery during 2009 and $400,000 is for delivery during 2010. The orders are believed to be firm but there is no assurance that all of the backlog will actually result in revenues. Sales backlog at February 29, 2008 was approximately $16.9 million.

Seasonality

The Company s results of operations have fluctuated from quarter to quarter due to variations in net sales and operating expenses. There is no seasonal pattern to these fluctuations.

The results of operations fluctuate from quarter to quarter as a result of the following:

- The timing of seasonal events for customers;
- Variations in the specific products which customers choose to advertise;
- Fluctuations in advertising budgets of customers and the amounts they commit to in-store advertising;
- Variations in the number of retailers in the Company s network;
- Sales incentives to sales staff and strategic partners;
- Minimum program level commitments to retailers; and
- Professional fees related to litigation.

Employees

As of February 27, 2009, the Company had 114 employees, including all full-time and part-time employees.

Segment Reporting

The Company operates in a single reportable segment.

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Item 1A. Risk Factors

Our business faces significant risks, including the risks described below. Additional risks that we do not yet know of or that we currently believe are immaterial may also impair our business operations. If any of the events or circumstances described in the following risks occurs, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline.

Our Customers And Retailers May Be Susceptible To Changes In General Economic Conditions

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

We Have Had Significant Losses In Prior Periods

Although we had net income of $2,343,000 and $2,396,000 for the years ended December 31, 2007 and 2006 respectively, we have had significant net losses for all of the other years since the year ended December 31, 2003. There can be no assurance that we will be profitable on a quarterly or annual basis. If we are unable to generate net income from operations our business will be adversely affected and our stock price will likely decline.

We Are Involved In Major Litigation

In August 2000, News America Marketing In-Store, Inc. (News America), brought suit against the Company in U.S. District Court in New York, New York. The case was settled in November 2002. The terms of the settlement agreement are confidential. The settlement did not impact the Company s operating results.

In October 2003, News America brought suit against the Company in U.S. District Court in New York, New York, alleging that the Company has engaged in deceptive acts and practices, has interfered with existing business relationships with retailers and prospective economic advantage, and has engaged in unfair competition. The suit sought unspecified damages and injunctive relief. In February 2007 the U.S. District Court in New York transferred this action to Minnesota where the claims became part of the lawsuit the Company filed against News America and Albertson s Inc. in 2004 (described below), and the New York action was subsequently dismissed.

On September 23, 2004, the Company brought suit against News America and Albertson s Inc. (Albertson s) in Federal District Court in Minneapolis, Minnesota, for violations of federal and state antitrust and false advertising laws, alleging that News America has acquired and maintained monopoly power through various wrongful acts designed to harm the Company in the in-store advertising and promotion products and services market. The suit seeks injunctive relief sufficient to prevent further antitrust injury and an award of treble damages to be determined at trial for the harm caused to the Company. On June 30, 2006 the Court denied the motions of News America and Albertson s to dismiss the suit. On September 20, 2006, the State of Minnesota through its Attorney General intervened as a co-plaintiff in the business disparagement portion of the Minnesota case. In December 2006, News America filed counterclaims in the Minnesota case that included claims similar to those in its New York action against Insignia and one of its officers, plus claims for damages for two alleged incidents of libel and slander. Motions to dismiss the counterclaims were argued in June 2007, and on September 28, 2007 the Court denied the motions to dismiss the counterclaims. The parties are now engaged in pre-trial discovery.

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Pursuant to Court order, all discovery and pre-trial matters must be completed by May 1, 2009. On February 4, 2008, the Court approved a Consent Decree entered into by News America and the State of Minnesota under which News America agreed to not violate Minnesota s statutes prohibiting commercial disparagement. On July 29, 2008, the Company and Albertson s entered into a Settlement Agreement and Mutual Release, in which they each agreed to release all claims against the other, and the Company agreed to dismiss its lawsuit against Albertson s.

The Company filed claims in December 2006 and January 2007 with its director s and officer s liability and general liability insurers related to the defense costs and insurance coverage for claims asserted against the Company and one of its officers in News America s counterclaims. On August 9, 2007, the Company filed a complaint against the insurers in Hennepin County District Court, State of Minnesota requesting a declaratory judgment that the insurers owe the Company and its officer such defense costs and insurance coverage. In December 2007, the Company settled its claim against one of the insurers, and in March 2009, the Company settled with the other insurer and received a payment of $1,387,000 as part of the settlement.

Although management believes that News America s counterclaims are without merit, an evaluation of the likelihood of an unfavorable outcome and an estimate of the potential liability cannot be rendered at this time. If the Company is required to pay a significant amount in settlement or damages, it will have a material adverse effect on its operations and financial condition. In addition, a negative outcome of this litigation could affect long-term competitive aspects of the Company s business.

Management currently expects the amount of legal fees and expenses that will be incurred in connection with the ongoing lawsuits to be significant throughout 2009. During the years ended December 31, 2008, 2007 and 2006, the Company incurred legal fees and expenses of $4,086,000, $1,758,000 and $935,000 related to the ongoing lawsuits. Legal fees and expenses are expensed as incurred and are included in general and administrative expenses in the statements of operations.

The Company is subject to various other legal proceedings in the normal course of business. Management believes the outcome of these proceedings will not have a material adverse effect on the Company s financial position or results of operations.

We Are Dependent On Our Contracts With Retailers And Our Ability To Renew Those Contracts When Their Terms Expire

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

Our POPS business and results of operations could be adversely affected if the number of retailer partners decreases significantly or if the retailer partners fail to continue to provide good service including performing their duties in placing and maintaining POPSigns at the shelf in their stores and providing product movement data to us.

Our contract with Safeway Stores expired on December 31, 2008, which could have a material adverse effect on our business.

Our Results Of Operations May Be Subject To Significant Fluctuations Which May Result In A Decrease In Our Stock Price

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

- the loss of contracts with retailers;
- the continued impact of significant litigation on our business;
- the timing of seasonal events for customers or the loss of customers;
- the timing of new retail stores being added;
- the timing of additional selling, marketing and general and administrative expenses; and
- competitive conditions in our industry.

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

We Have Significant Competitors

We face significant competition from other providers of at-shelf advertising or promotional signage. Some of these competitors have significantly greater financial resources that can be used to market their products. Should our competitors succeed in obtaining more of the at-shelf advertising business from our current customers, our revenues and related operations would be adversely affected.

Our Results Are Dependent On The Success Of Our Insignia POPS Program Which Represents A Very Significant Part Of Our Business

We are largely dependent on our POPS program, which represented approximately 92%, 88% and 88% of total net sales for fiscal 2008, 2007 and 2006, respectively. We expect the POPS program to represent a higher percentage in fiscal 2009 and future periods. Should brand manufacturers no longer perceive value in the POPS program, our business and results of operations would be adversely affected due to our heavy dependence on this program.

Our Results Are Dependent On The Level Of Spending By Branded Product Manufacturers For Advertising And Promotional Expenditures

We are largely dependent on the net sales from our POPSigns, which are purchased by branded product manufacturers. Changes in economic conditions could result in reductions in advertising and promotional expenditures by branded product manufacturers. Should these reductions occur, our revenues and related results of operations would be adversely affected.

Our Results Are Dependent On Our Manufacturer Partners Continuing To Achieve Sales Increases

Our product manufacturer customers use our POPS program to motivate consumers to buy their branded products. Use of our POPS program has historically resulted in sales increases for that particular product. If our POPS program does not continue to result in these product sales increases, our marketing success and sales levels could be adversely affected.

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Our Stock Price Has Been And May Continue To Be Volatile

During 2008 our common stock has traded between $2.95 and $0.75 per share. The market price of our common stock may continue to be volatile and may be significantly affected by:

- the loss or addition of contracts with major retailers;
- the continued impact of significant litigation on our business;
- actual or anticipated fluctuations in our operating results;
- announcements of new services by us or our competitors;
- developments with respect to conditions and trends in our industry or in the industries we serve;
- general market conditions; and
- other factors, many of which are beyond our control.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Company currently leases approximately 41,000 square feet of office and warehouse space in suburban Minneapolis, Minnesota, through February 29, 2016. The Company believes that the 41,000 square feet of space will meet the Company s foreseeable needs.

Item 3. Legal Proceedings

In August 2000, News America Marketing In-Store, Inc. (News America), brought suit against the Company in U.S. District Court in New York, New York. The case was settled in November 2002. The terms of the settlement agreement are confidential. The settlement did not impact the Company s operating results.

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Although management believes that News America s counterclaims are without merit, an evaluation of the likelihood of an unfavorable outcome and an estimate of the potential liability cannot be rendered at this time. If the Company is required to pay a significant amount in settlement or damages, it will have a material adverse effect on its operations and financial condition. In addition, a negative outcome of this litigation could affect long-term competitive aspects of the Company s business.

Management currently expects the amount of legal fees and expenses that will be incurred in connection with the ongoing lawsuits to be significant throughout 2009. During the year ended December 31, 2008, the Company incurred legal fees and expenses of $4,086,000 related to the ongoing lawsuits. Legal fees and expenses are expensed as incurred and are included in general and administrative expenses in the statements of operations.

The Company is subject to various other legal proceedings in the normal course of business. Management believes the outcome of these proceedings will not have a material adverse effect on the Company s financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2008.

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PART II.

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

Market Information

The Company s common stock trades on the NASDAQ Capital Market® under the symbol ISIG. The following table sets forth the range of high and low bid prices reported on the Nasdaq System. These quotations represent prices between dealers and do not reflect retail mark-ups, mark-downs or commissions.

2008	High	Low	2007	High	Low
First Quarter	$ 2.95	$ 1.71	First Quarter	$ 3.64	$ 2.69
Second Quarter	2.50	1.64	Second Quarter	4.27	3.00
Third Quarter	2.24	1.50	Third Quarter	5.08	4.00
Fourth Quarter	1.94	0.75	Fourth Quarter	4.74	2.25

Approximate Number of Holders of Common Stock

As of February 27, 2009, the Company had one class of Common Stock beneficially held by approximately 1,700 owners.

Dividends

The Company has never paid cash dividends on its common stock. The Board of Directors presently intends to retain all earnings for use in the Company s business and does not anticipate paying cash dividends in the foreseeable future.

Stock Repurchase Plan

On August 19, 2008, the Board of Directors authorized the repurchase of up to $2,000,000 of the Company s common stock on or before July 31, 2009. 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.

Our share repurchase program activity for the three months ended December 31, 2008 was:

	Total Number Of Shares Repurchased	Average Price Paid Per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under The Plans Or Programs
October 1-31, 2008		$		$ 1,541,000
November 1-30, 2008	300,000	$ 0.90	300,000	$ 1,271,000
December 1-31, 2008		$		$ 1,271,000

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Stock Performance Graph

The following graph compares the cumulative total shareholder return on the Company s Common Stock for the five fiscal years beginning December 31, 2003 and ending December 31, 2008, with the cumulative total return on the NASDAQ Stock Market U.S. Index and the Russell 2000 Index over the same period (assuming the investment of $100 in the Company s Stock, the NASDAQ Stock Market U. S. Index and the Russell 2000 Index on December 31, 2003 and the reinvestment of all dividends).

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Item 6. Selected Financial Data

(In thousands, except per share amounts.)

For the Years Ended December 31	2008	2007	2006	2005	2004
Net sales	$ 31,406	$ 24,431	$ 21,894	$ 19,598	$ 20,992
Operating income (loss)	(299)	81[2]	2,314	(3,331)	(4,875)[4]
Net income (loss)	(2,257)[1]	2,343[3]	2,396	(3,308)	(4,858)
Net income (loss) per share:					
Basic	$ (0.15)	$ 0.15	$ 0.16	$ (0.22)	$ (0.38)
Diluted	$ (0.15)	$ 0.14	$ 0.15	$ (0.22)	$ (0.38)
Shares used in calculation of net income (loss) per share:					
Basic	15,484	15,411	15,093	15,002	12,687
Diluted	15,484	16,186	15,556	15,002	12,687
Working capital	$ 6,396	$ 7,751	$ 5,017	$ 2,592	$ 4,813
Total assets	15,593	13,340	8,583	6,673	9,921
Total shareholders equity	7,271	9,677	4,862	2,072	5,333

(1) Includes tax expense of $2,131 related to the increase of the valuation allowance against deferred tax assets more fully described in Note 7 to the financial statements.

(2) Includes a one-time non-cash charge of $1,521 for the warrant granted to Valassis more fully described in Note 6 to the financial statements.

(3) Includes a tax benefit of $2,131 related to the reduction of the valuation allowance against deferred tax assets more fully described in Note 7 to the financial statements.

(4) Includes a $960 impairment of goodwill in 2004 and a $2,133 impairment of goodwill in 2003 related to the acquisition of VALUStix. During 2006 the Company ceased all business activities related to VALUStix.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the financial statements and the related notes included in this Report. This Report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those in such forward-looking statements as a result of many factors, including those discussed in Cautionary Statements Regarding Forward-Looking Information and elsewhere in this Report.

Impact Of The Current Economic Environment

The Company does not believe that the recession which began in 2008 had a significant effect on its results of operations for the year ended December 31, 2008. POPSign service revenues for the year ended December 31, 2008, increased 34% over the year ended December 31, 2007. Products sales for the year ended December 31, 2008, decreased 12.9% from the year ended December 31, 2007, which reflects a historical trend of decreases due to decreased demand for thermal sign card supplies and laser supplies. The Company may be adversely affected by the economic environment in the future if spending levels of its customers are reduced or it is unable to renew contracts with existing retailers or contract with new retailers on terms which are acceptable.

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Results of Operations

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

Year ended December 31	2008	2007	2006
Net sales	100.0%	100.0%	100.0%
Cost of sales	46.2	44.6	45.9
Gross profit	53.8	55.4	54.1
Operating expenses:			
Selling	27.1	23.2	22.1
Marketing	5.1	5.8	4.8
Warrant expense		6.2	
General and administrative	22.6	19.9	16.6
Total operating expenses	54.8	55.1	43.5
Operating income (loss)	(1.0)	0.3	10.6
Other income	0.6	0.6	0.3
Income (loss) before taxes	(0.4)	0.9	10.9
Income tax (expense) benefit	(6.8)	8.7	
Net income (loss)	(7.2)%	9.6%	10.9%

Critical Accounting Policies

Our discussion of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. During the preparation of these financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, net revenues, costs and expenses and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts, income taxes, and stock-based compensation expense. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our consolidated financial statements.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements:

Revenue Recognition. The Company recognizes revenue from Insignia POPSigns ratably over the period of service, which is either a two-week or four-week display cycle. We recognize revenue related to equipment, software and sign card sales at the time the products are shipped to customers. Revenue associated with maintenance agreements is recognized ratably over the life of the contract. Revenue that has been billed and not yet recognized is reflected as deferred revenue on our balance sheet.

Allowance for Doubtful Accounts. An allowance is established for estimated uncollectible accounts receivable. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company s previous loss history, the customer s current ability to pay its obligation to the Company, the condition of the general economy and the industry as a whole and other relevant facts and circumstances. Unexpected changes in the aforementioned factors could result in materially different amounts.

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Income Taxes. We account for income taxes in accordance with Statement of Financial Accounting Standard No. 109, or FAS 109, *Accounting for Income Taxes,* as clarified by FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). Under this method, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. 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, adjustments 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 of FAS No. 109.

FIN 48 requires that we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

At December 31, 2008, all of the Company s net deferred tax assets were offset with a valuation allowance, which amounted to approximately $8.6 million. The Company does not believe it is more likely than not that these deferred tax assets will be realized in future years.

Stock-Based Compensation. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. 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 highly 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.

The expected terms of the options and employee stock purchase plan rights are based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at grant date. Volatility is based on historical and expected future volatility of the Company s stock. The Company has not historically issued any dividends and does not expect to in the future. SFAS 123R requires forfeitures to be estimated at the time of the grant and revised, if necessary, in subsequent periods if actual forfeitures differ from estimates.

If factors change and we employ different assumptions in the application of SFAS 123R to grants in future periods, the compensation expense that we record under SFAS 123R may differ significantly from what we have recorded in the current periods.

Fiscal 2008 Compared to Fiscal 2007

Net Sales. Net sales for the year ended December 31, 2008 increased 28.6% to $31,406,000 compared to $24,431,000 for the year ended December 31, 2007.

Service revenues from our POPSign programs for the year ended December 31, 2008 increased 34% to $28,931,000 compared to $21,589,000 for the year ended December 31, 2007. The increase was primarily due to an increase in the number of POPSign programs executed for customers (consumer packaged goods manufacturers) during the 2008 period which more than offset a reduction in the average sign price during the 2008 period. The Company expects that service revenues from POPSign programs for the year ending December 31, 2009 will be lower than for the year ended December 31, 2008 as a result of the loss of Safeway, Inc. from its network of retailers at December 31, 2008 when the contract with Safeway Inc. expired. Additionally, current economic conditions may have an adverse effect on spending levels by our customers, which could negatively impact service revenues for the year ending December 31, 2009.

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Product sales for the year ended December 31, 2008 decreased 12.9% to $2,475,000 compared to $2,842,000 for the year ended December 31, 2007. The decrease was primarily due to decreased sales of both thermal sign card supplies and laser supplies based upon decreased demand for these products from our customers. The Company expects further declines in sales of thermal and laser sign card supplies for the year ending December 31, 2009.

Gross Profit. Gross profit for the year ended December 31, 2008 increased 24.7% to $16,884,000 compared to $13,542,000 for the year ended December 31, 2007. Gross profit as a percentage of total net sales decreased to 53.8% for 2008 compared to 55.4% for 2007.

Gross profit from our POPSign program revenues for the year ended December 31, 2008 increased 28.9% to $16,002,000 compared to $12,419,000 for the year ended December 31, 2007. The increase in gross profit of $3,583,000 resulted from $7,342,000 of increased revenues offset by an increase in retailer expenses of $2,652,000 and an increase in all other costs of services (labor, overhead and material) of $1,107,000. Gross profit as a percentage of POPSign program revenues decreased to 55.3% for 2008 compared to 57.5% for 2007, due primarily to lower average revenue per sign combined with higher average cost per sign (primarily retailer expenses) in the 2008 period.

Gross profit from our product sales for the year ended December 31, 2008 decreased 21.5% to $882,000 compared to $1,123,000 for the year ended December 31, 2007. Gross profit as a percentage of product sales decreased to 35.6% for 2008 compared to 39.5% for 2007. The decreases were primarily due to decreased sales and the effect of fixed costs.

Operating Expenses

Selling. Selling expenses (exclusive of selling related warrant expense) for the year ended December 31, 2008 increased 50.4% to $8,521,000 compared to $5,664,000 for the year ended December 31, 2007, primarily due to increased sales commissions, staffing levels and meals/entertainment/travel costs. The increased sales commissions were due to increased POPSign program sales and the effect of increased incentives for our strategic partner (Valassis Sales & Marketing Services, Inc. (Valassis)) and our employed sales force. Selling expenses as a percentage of total net sales increased to 27.1% in 2008 compared to 23.2% in 2007, primarily due to the factors described above offset partially by the effect of increased sales in 2008.

Marketing. Marketing expenses (exclusive of marketing related warrant expense) for the year ended December 31, 2008 increased 13.5% to $1,602,000 compared to $1,412,000 for the year ended December 31, 2007, primarily due to increased labor and benefit costs (as a result of increased staffing levels) partially offset by decreased data acquisition and analysis costs. Marketing expenses as a percentage of total net sales decreased to 5.1% in 2008 compared to 5.8% in 2007, primarily due to the factors described which were more than offset by the effect of increased sales in 2008.

Warrant expense (selling and marketing). On July 2, 2007, the Company and Valassis entered into Amendment No. 2 (the Amendment) to the Exclusive Reseller Agreement between the parties. The Amendment extends the term of the strategic alliance between the parties to December 31, 2017. The Amendment also expands the strategic alliance to increase the role of Valassis in the selling and marketing efforts of developing and expanding the Company s participating retailer network. Valassis received a five-year warrant to acquire 800,000 shares of the Company s common stock at a price of $4.04 and will be paid a cash commission by the Company on the revenue the Company realizes from POPS programs the consumer packaged goods manufacturers conduct in the new retail chains. For the year ended December 31, 2007, the Company recorded $1,521,000 of expense related to the fair value of the warrant.

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General and Administrative. General and administrative expenses for the year ended December 31, 2008 increased 45.1% to $7,060,000 compared to $4,864,000 for the year ended December 31, 2007, primarily due to increased legal costs related to the News America litigation and increased staffing levels which were partially offset by the receipt of a lease termination payment. The Company received a payment of $400,000 of early termination of its previous facility lease on July 31, 2008. The payment, net of $115,000 of moving expense, is recorded as part of general and administrative expenses. General and administrative expenses as a percentage of total net sales increased to 22.6% in 2008 compared to 19.9% in 2007, primarily due to the factors described above offset partially by the effect of increased sales in 2008. Legal fees were $4,234,000 for the year ended December 31, 2008 compared to $1,883,000 for the year ended December 31, 2007. The legal fees in each year were incurred primarily in connection with two News America lawsuits described elsewhere herein. Legal fees increased in 2008 primarily due to the increased in activity in the News America litigation as the parties prepare to be trial-ready by May 1, 2009. We currently expect the amount of legal fees that will be incurred in connection with the ongoing lawsuit to be significant in 2009 as trial preparation continues and as the trial is conducted. Also, if the Company is required to pay a significant amount in settlement or damages, it will have a material adverse effect on its operations and financial condition. In addition, a negative outcome of this litigation could affect long-term competitive aspects of the Company s business.

Other Income (Expense). Other income (net) for the year ended December 31, 2008 was $180,000 compared to other income (net) of $153,000 for the year ended December 31, 2007. Included in other income (net) was interest income of $234,000 for the year ended December 31, 2008 versus interest income of $247,000 for the year ended December 31, 2007. Interest income for the 2008 year was lower due to lower interest rates which more than offset the effect of higher average cash balances in 2008. Lower interest expense of $57,000 for the year ended December 31, 2008 versus $95,000 for the year ended December 31, 2007 was primarily due to the expiration of the line of credit on April 30, 2007.

Income Taxes. The Company recorded income tax expense for the year ended December 31, 2008 of $2,138,000 as a result of increasing the valuation allowance against the deferred tax assets by $1,930,000, recording expense of $201,000 from changes in the deferred tax assets and recognizing $7,000 of current income tax expense related to state tax liabilities. The Company recorded an income tax benefit for the year ended December 31, 2007 of $2,109,000 as a result of the reversal of $2,337,000 of the valuation allowance against the deferred tax asset which offset expense from a change in deferred tax assets of $206,000 and $22,000 of current income tax expense related to Federal alternative minimum tax liability and other state tax liabilities.

Net Income (Loss). The net loss for the year ended December 31, 2008 was $(2,257,000) compared to net income of $2,343,000 for the year ended December 31, 2007.

Fiscal 2007 Compared to Fiscal 2006

Net Sales. Net sales for the year ended December 31, 2007 increased 11.6% to $24,431,000 compared to $21,894,000 for the year ended December 31, 2006.

Service revenues from our POPSign programs for the year ended December 31, 2007 increased 12.3% to $21,589,000 compared to $19,219,000 for the year ended December 31, 2006. The increase was primarily due to an increase in the number of POPSign programs sold to consumer packaged goods manufacturers.

Product sales for the year ended December 31, 2007 increased 6.2% to $2,842,000 compared to $2,675,000 for the year ended December 31, 2006. The increase was primarily due to increased sales of laser label supplies which were partially offset by decreased sales of thermal sign card supplies.

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Gross Profit. Gross profit for the year ended December 31, 2007 increased 14.4% to $13,542,000 compared to $11,840,000 for the year ended December 31, 2006. Gross profit as a percentage of total net sales increased to 55.4% for 2007 compared to 54.1% for 2006.

Gross profit from our POPSign program revenues for the year ended December 31, 2007 increased 15.8% to $12,419,000 compared to $10,725,000 for the year ended December 31, 2006. The increase was primarily due to increased sales and the effect of fixed costs. Gross profit as a percentage of POPSign program revenues increased to 57.5% for 2007 compared to 55.8% for 2006, due to the factors discussed above.

Gross profit from our product sales for the year ended December 31, 2007 increased 0.7% to $1,123,000 compared to $1,115,000 for the year ended December 31, 2006. Gross profit as a percentage of product sales decreased to 39.5% for 2007 compared to 41.7% for 2006. The decrease was primarily due to a change in the sales mix toward lower margin products.

Operating Expenses

Selling. Selling expenses (exclusive of selling related warrant expense) for the year ended December 31, 2007 increased 17.1% to $5,664,000 compared to $4,838,000 for the year ended December 31, 2006, primarily due to increased sales commissions as a result of increased sales, increased labor and benefit costs as a result of increased headcount and salary adjustments, and increased travel related costs. Selling expenses as a percentage of total net sales increased to 23.2% in 2007 compared to 22.1% in 2006, primarily due to the factors described above offset partially by the effect of increased sales in 2007.

Marketing. Marketing expenses (exclusive of marketing related warrant expense) for the year ended December 31, 2007 increased 34.3% to $1,412,000 compared to $1,051,000 for the year ended December 31, 2006, primarily due to increased labor and benefit costs (as a result of increased headcount and salary adjustments) and increased data acquisition and analysis costs. Marketing expenses as a percentage of total net sales increased to 5.8% in 2007 compared to 4.8% in 2006, primarily due to the factors described above offset partially by the effect of increased sales in 2007.

Warrant expense (selling and marketing). On July 2, 2007, the Company and Valassis Sales and Marketing Services, Inc. (Valassis), entered into Amendment No. 2 (the Amendment) to the Exclusive Reseller Agreement between the parties. The Amendment extends the term of the strategic alliance between the parties to December 31, 2017. The Amendment also expands the strategic alliance to increase the role of Valassis in the selling and marketing efforts of developing and expanding the Company s participating retailer network. Valassis received a five-year warrant to acquire 800,000 shares of the Company s common stock at a price of $4.04 and will be paid a cash commission by the Company on the revenue the Company realizes from POPS programs the consumer packaged goods manufacturers conduct in the new retail chains. For the year ended December 31, 2007, the Company recorded $1,521,000 of expense related to the fair value of the warrant.

General and Administrative. General and administrative expenses for the year ended December 31, 2007 increased 33.7% to $4,864,000 compared to $3,637,000 for the year ended December 31, 2006, primarily due to increased legal costs and increased labor and benefit costs (resulting from increased headcount, salary adjustments and increased stock-based compensation costs). General and administrative expenses as a percentage of total net sales increased to 19.9% in 2007 compared to 16.6% in 2006, primarily due to the factors described above offset partially by the effect of increased sales in 2007. Legal fees were $1,883,000 for the year ended December 31, 2007 compared to $1,143,000 for the year ended December 31, 2006. The legal fees in each year were incurred primarily in connection with two News America lawsuits described elsewhere herein. Legal fees increased in 2007 primarily due to the increase in activity in the News America litigation as the parties prepared to be trial-ready.

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Other Income (Expense). Other income (net) for the year ended December 31, 2007 was $153,000 compared to other income (net) of $82,000 for the year ended December 31, 2006. Interest income of $247,000 for the year ended December 31, 2007 versus interest income of $123,000 for the year ended December 31, 2006 was the result of higher interest rates and higher cash balances during the 2007 period. Interest expense of $95,000 for the year ended December 31, 2007 versus $146,000 for the year ended December 31, 2006 was primarily due to the expiration of the line of credit on April 30, 2007. Other income for the year ended December 31, 2006 also included $100,000 of income from the sale of certain VALUStix assets. During 2006, the Company ceased all business activities related to VALUStix.

Income Taxes. The Company recorded an income tax benefit for the year ended December 31, 2007 of $2,109,000 as a result of the reversal of $2,337,000 of the valuation allowance against the deferred tax asset, change in deferred tax assets of $206,000 and $22,000 of current income tax expense related to Federal alternative minimum tax liability and other state tax liabilities. The Company recorded no income tax expense for the year ended December 31, 2006 primarily due to the deduction for tax purposes in 2006 of the remaining unamortized goodwill associated with the VALUStix acquisition and the full valuation allowance provided against the net deferred tax asset. For financial statement purposes the goodwill was determined to be impaired in 2003 and 2004 and was written-off during those periods. During 2006, the Company ceased all business activities related to VALUStix and abandoned the VALUSTIX trademark.

Net Income. Net income for the year ended December 31, 2007 was $2,343,000 compared to $2,396,000 for the year ended December 31, 2006.

Liquidity and Capital Resources

The Company has financed its operations with proceeds from public and private stock sales and sales of its services and products. At December 31, 2008, working capital was $6,396,000 compared to $7,751,000 at December 31, 2007. During the same period total cash and cash equivalents increased $3,659,000 to $11,052,000.

Net cash provided by operating activities during 2008 was $5,615,000. The increase in cash and cash equivalents resulted from the net loss $(2,257,000), non-cash expense of $2,992,000 (for depreciation, amortization, deferred income tax expense and stock-based compensation) and $4,880,000 of cash provided by changes in operating assets and liabilities. Accounts receivable increased $612,000 during 2008 primarily due to higher net sales in the last two months of 2008 compared to the last two months of 2007. Prepaid expenses decreased by $611,000 during 2008 primarily due to the absence of prepayments to a retailer at December 31, 2008 which were present at December 31, 2007. Accounts payable and accrued liabilities increased $4,073,000 during 2008 primarily as a result of increased commissions, legal expense and retailer expense payable at December 31, 2008. The Company expects accounts receivable, accounts payable and accrued liabilities to fluctuate during future periods depending on the level of quarterly POPSign revenues and legal activity related to the News America litigation.

Net cash of $1,049,000 was used in investing activities in 2008 due to the purchase of property and equipment, primarily the purchase of digital printing equipment, computer hardware and software and leasehold improvements in the new facility. The Company expects that 2009 capital expenditures will at a minimum be $100,000 and could reach $500,000 if the Company decides to proceed with additional purchases of digital printing equipment for increased product quality and lower cost per sign.

Net cash of $907,000 was used in financing activities for the year ended December 31, 2008. The Company used $738,000 (including fees) of cash to repurchase 525,000 shares of common stock as part of the stock repurchase plan adopted in August 2008. The Company also used $267,000 of cash for the payment of long-term liabilities due to a retailer. The Company received $98,000 of proceeds (net of expenses) from the issuance of common stock related to the employee stock purchase plan and exercises of stock options.

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The Company believes that based upon current business conditions, its existing cash balance and future cash from operations will be sufficient for its cash requirements during 2009. However, there can be no assurances that this will occur or that the Company will be able to secure additional financing from public or private stock sales or from other financing agreements if needed.

New Accounting Pronouncements

Fair Value Measurements
In September 2006, the FASB Statement issued FASB No. 157, *Fair Value Measurements* (SFAS 157) which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value, and expands the related disclosure requirements. However, on December 14, 2007, the FASB issued proposed FSP FAS 157-2 which would delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This proposed FSP partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Furthermore, in October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active,* and was effective upon issuance. Effective for 2008, we adopted SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in proposed FSP FAS 157-2. The partial adoption of SFAS 157, FSP FAS 157-2 or FSP FAS 157-3 did not have a material impact on our consolidated financial position, results of operations or cash flows and we do not believe the adoption of FSP FAS 157-2 will be material to our consolidated financial statements.

Business Combinations
In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141 (R)). SFAS No. 141 (R) requires an acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141 (R) is effective for fiscal years after December 15, 2008. We expect to adopt SFAS No. 141 (R) on January 1, 2009, and we do not expect it to have a material effect on its financial position or results of operations.

Noncontrolling Interests in Consolidated Financial Statements
In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statement-amendments of ARB No. 51* (SFAS No. 160). SFAS No. 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. The SFAS No. 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective as of the beginning of an entity s first fiscal year beginning after December 15, 2008, which corresponds to the Company s year beginning January 1, 2009. The Company currently believes that the adoption of SFAS No. 160 will have no material impact on its financial position or results of operations.

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Contractual Obligations

The following table summarizes the Company s contractual obligations and commercial commitments as of December 31, 2008:

Payments due by Period

	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 years
Contractual Obligations:					
Operating leases, excluding operating costs	$ 3,340,000	$ 441,000	$ 902,000	$ 939,000	$ 1,058,000
Payments to retailers*	6,036,000	2,988,000	3,048,000		
Long-term liabilities	422,000	202,000	220,000		
Purchase commitments	300,000	300,000			
Total contractual obligations	$ 10,098,000	$ 3,931,000	$ 4,170,000	$ 939,000	$ 1,058,000

*On an ongoing basis, the Company negotiates renewals of various retailer agreements, some of which provide for fixed or store-based payments rather than sign placement-based payments. Upon the completion of renewals, the annual commitment amounts could be in excess of the amounts above.

Off-Balance Sheet Transactions

None.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

The following are included on the pages indicated:

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Report of Independent registered Public Accounting firm

To the Board of Directors and Shareholders
Insignia Systems, Inc.

We have audited the accompanying balance sheets of Insignia Systems, Inc. (a Minnesota corporation) (the Company) as of December 31, 2008 and 2007, and the related statements of operations, shareholders equity and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Insignia Systems, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Minneapolis, Minnesota
March 27, 2009

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Insignia Systems, Inc.
Balance Sheets

As of December 31	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 11,052,000	$ 7,393,000
Accounts receivable, net	2,767,000	2,155,000
Inventories	442,000	397,000
Deferred tax assets, net		164,000
Prepaid expenses and other	238,000	883,000
Total Current Assets	14,499,000	10,992,000
Other Assets:		

Property and equipment, net	1,054,000	375,000
Non-current deferred tax assets, net		1,967,000
Other	40,000	6,000
Total Assets	$ 15,593,000	$ 13,340,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Current maturities of long-term liabilities	$ 202,000	$ 266,000
Accounts payable	2,770,000	1,369,000
Accrued liabilities		
Compensation	820,000	622,000
Employee stock purchase plan	65,000	98,000
Legal	365,000	208,000
Other commissions	1,742,000	152,000
Other	981,000	221,000
Deferred revenue	1,158,000	305,000
Total Current Liabilities	8,103,000	3,241,000
Long-Term Liabilities, less current maturities	219,000	422,000
Commitments and Contingencies		
Shareholders Equity:		
Common stock, par value $.01:		
Authorized shares 40,000,000		
Issued and outstanding shares 15,069,000 in 2008 and 15,550,000 in 2007	151,000	156,000
Additional paid-in capital	31,881,000	32,025,000
Accumulated deficit	(24,761,000)	(22,504,000)
Total Shareholders Equity	7,271,000	9,677,000
Total Liabilities and Shareholders Equity	$ 15,593,000	$ 13,340,000

See accompanying notes to financial statements.

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Insignia Systems, Inc.

Statements of Operations

Year Ended December 31	**2008**	**2007**	**2006**
Services revenues	$ 28,931,000	$ 21,589,000	$ 19,219,000
Products sold	2,475,000	2,842,000	2,675,000
Total Net Sales	31,406,000	24,431,000	21,894,000
Cost of services	12,929,000	9,170,000	8,494,000
Cost of goods sold	1,593,000	1,719,000	1,560,000
Total Cost of Sales	14,522,000	10,889,000	10,054,000
Gross Profit	16,884,000	13,542,000	11,840,000
Operating Expenses:			
Selling	8,521,000	5,664,000	4,838,000
Marketing	1,602,000	1,412,000	1,051,000
Warrant expense		1,521,000	
General and administrative	7,060,000	4,864,000	3,637,000
Total Operating Expenses	17,183,000	13,461,000	9,526,000
Operating Income (Loss)	(299,000)	81,000	2,314,000
Other Income (Expense):			
Interest income	234,000	247,000	123,000

Interest expense	(57,000)	(95,000)	(146,000)
Other income	3,000	1,000	105,000
Total Other Income	180,000	153,000	82,000
Income (Loss) Before Taxes	(119,000)	234,000	2,396,000
Income tax (expense) benefit	(2,138,000)	2,109,000	
Net Income (Loss)	$ (2,257,000)	$ 2,343,000	$ 2,396,000
Net income (loss) per share:			
Basic	$ (0.15)	$ 0.15	$ 0.16
Diluted	$ (0.15)	$ 0.14	$ 0.15
Shares used in calculation of net income (loss) per share:			
Basic	15,484,000	15,411,000	15,093,000
Diluted	15,484,000	16,186,000	15,556,000

See accompanying notes to financial statements.

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Insignia Systems, Inc.

STATEMENTS OF SHAREHOLDERS EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total
Balance at December 31, 2005	15,002,000	$ 150,000	$ 29,165,000	$ (27,243,000)	$ 2,072,000
Issuance of common stock, net	150,000	2,000	133,000		135,000
Value of stock-based compensation			259,000		259,000
Net income				2,396,000	2,396,000
Balance at December 31, 2006	15,152,000	152,000	29,557,000	(24,847,000)	4,862,000
Issuance of common stock, net	398,000	4,000	471,000		475,000
Value of stock-based compensation			476,000		476,000
Value of warrants issued for services			1,521,000		1,521,000
Net income				2,343,000	2,343,000
Balance at December 31, 2007	15,550,000	156,000	32,025,000	(22,504,000)	9,677,000
Issuance of common stock, net	44,000		98,000		98,000
Repurchase of common stock, net	(525,000)	(5,000)	(733,000)		(738,000)
Value of stock-based compensation			491,000		491,000
Net loss				(2,257,000)	(2,257,000)
Balance at December 31, 2008	15,069,000	$ 151,000	$ 31,881,000	$ (24,761,000)	$ 7,271,000

See accompanying notes to financial statements.

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Insignia Systems, Inc.

STATEMENTS OF CASH FLOWS

Year Ended December 31	**2008**	**2007**	**2006**
Operating Activities:			
Net income (loss)	$ (2,257,000)	$ 2,343,000	$ 2,396,000

Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	370,000	266,000	207,000
Deferred income tax expense (benefit)	2,131,000	(2,131,000)	
Provision for bad debt expense			(31,000)
Stock-based compensation	491,000	476,000	259,000
Warrant expense		1,521,000	
Changes in operating assets and liabilities:			
Accounts receivable	(612,000)	770,000	(600,000)
Inventories	(45,000)	55,000	(4,000)
Prepaid expenses and other	611,000	55,000	(133,000)
Accounts payable	1,401,000	24,000	(425,000)
Accrued liabilities	2,672,000	476,000	(132,000)
Deferred revenue	853,000	(131,000)	(176,000)
Net cash provided by operating activities	5,615,000	3,724,000	1,361,000
Investing Activities:			
Purchases of property and equipment	(1,049,000)	(164,000)	(275,000)
Net cash used in investing activities	(1,049,000)	(164,000)	(275,000)
Financing Activities:			
Net change in line of credit		(186,000)	54,000
Payment of long-term liabilities	(267,000)	(241,000)	(201,000)
Proceeds from issuance of common stock, net	98,000	475,000	135,000
Repurchase of common stock, net	(738,000)		
Net cash provided by (used in) financing activities	(907,000)	48,000	(12,000)
Increase in cash and cash equivalents	3,659,000	3,608,000	1,074,000
Cash and cash equivalents at beginning of year	7,393,000	3,785,000	2,711,000
Cash and cash equivalents at end of year	$ 11,052,000	$ 7,393,000	$ 3,785,000
Supplemental disclosures for cash flow information:			
Cash paid during the year for interest	$ 17,000	$ 53,000	$ 103,000
Cash paid during the year for income taxes	$ 8,000	$ 60,000	$

See accompanying notes to financial statements.

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Insignia Systems, Inc.
NOTES TO FINANCIAL STATEMENTS

1. **Summary of Significant Accounting Policies.**

Description of Business. Insignia Systems, Inc. (the Company) markets in-store advertising products, programs and services to retailers and consumer packaged goods manufacturers. The Company s products include the Insignia Point-of-Purchase Services (POPS) in-store advertising program, thermal sign card supplies for the Company s SIGNright and Impulse systems, Stylus software and laser printable cardstock and label supplies.

Revenue Recognition. The Company recognizes revenue from Insignia POPSigns ratably over the period of service. The Company recognizes revenue related to equipment, software and sign card sales at the time the products are shipped to customers. Revenue associated with maintenance agreements is recognized ratably over the life of the contract. Revenue that has been billed and not yet earned is reflected as deferred revenue on the Balance Sheet. Revenues are recognized by the Company when persuasive evidence of an arrangement exists, shipment has occurred, the price is fixed, and collectability is reasonably assured.

Cash and Cash Equivalents. The Company considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value. At December 31, 2008, $213,000 was invested in an overnight repurchase account, $7,000,000 was invested in certificates of deposit and $3,858,000 was invested in a short-term money market account. At December 31, 2007, $1,345,000 was invested in an overnight repurchase account, $6,000,000 was invested in certificates of deposit and $5,000 was invested in a short-term money market account.

Fair Value of Financial Instruments. The financial statements include the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and long-term liabilities. The fair value of the long-term liabilities is estimated based on the use of discounted cash flow analysis using interest rates for other debt offered to the Company. The Company estimates the carrying value of the long-term liabilities approximates fair value. All other financial instruments approximate fair value because of the short-term nature of these instruments.

Accounts Receivable. 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 30-60 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts receivable outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company s previous loss history, the customer s current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Changes in the Company s allowance for doubtful accounts are as follows:

December 31	**2008**	**2007**
Beginning balance	$ 10,000	$ 10,000
Bad debt provision (recovery)		
Accounts written-off	(3,000)	
Ending balance	$ 7,000	$ 10,000

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Inventories. Inventories are primarily comprised of parts and supplies for Impulse and SIGNright machines, sign cards, and rollstock. Inventory is valued at the lower of cost or market using the first-in, first-out (FIFO) method, and consists of the following:

December 31	**2008**	**2007**
Raw materials	$ 107,000	$ 82,000
Work-in-process	64,000	36,000
Finished goods	271,000	279,000
	$ 442,000	$ 397,000

Property and Equipment. Property and equipment is recorded at cost. Significant additions or improvements extending asset lives are capitalized, while repairs and maintenance are charged to expense when incurred. Depreciation is provided in amounts sufficient to relate the cost of assets to operations over their estimated useful lives. The straight-line method of depreciation is used for financial reporting purposes and accelerated methods are used for tax purposes. Estimated useful lives of the assets are as follows:

Production tooling	1-3 years
Machinery and equipment	5 years
Office furniture and fixtures	3 years
Computer equipment and software	3 years

Leasehold improvements are amortized over the shorter of the remaining term of the lease or estimated life of the asset.

Impairment of Long-Lived Assets. The Company records impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amount. Impaired assets are then recorded at their estimated fair market value. There were no impairments during the years ended December 31, 2008, 2007 and 2006.

Income Taxes. Income taxes are accounted for under the liability method. Deferred income taxes are provided for temporary differences between the financial reporting and tax basis of assets and liabilities. Deferred taxes are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment. It is the Company s policy to provide for uncertain tax positions and the related interest and penalties based upon management s assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities.

Stock-Based Compensation. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. 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 highly 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.

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The expected terms of the options and employee stock purchase plan rights are based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at grant date. Volatility is based on historical and expected future volatility of the Company s stock. The Company has not historically issued any dividends and does not expect to in the future. SFAS 123R requires forfeitures to be estimated at the time of the grant and revised, if necessary, in subsequent periods if actual forfeitures differ from estimates.

If factors change and we employ different assumptions in the application of SFAS 123R to grants in future periods, the related compensation expense that we record under SFAS 123R may differ significantly from what we have recorded in the current periods.

Advertising Costs. Advertising costs are charged to operations as incurred. Advertising expenses were approximately $11,000, $9,000 and $8,000 during the years ended December 31, 2008, 2007 and 2006.

Net Income (Loss) Per Share. Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average shares outstanding and excludes any dilutive effects of options, warrants and convertible securities. Diluted net income per share gives effect to all diluted potential common shares outstanding during the year. Options and warrants to purchase approximately 2,186,000, 1,396,000 and 1,086,000 shares of common stock with weighted average exercise prices of $4.89, $5.81 and $6.29 were outstanding at December 31, 2008, 2007 and 2006 and were not included in the computation of common stock equivalents because their exercise prices were higher than the average fair market value of the common shares during the reporting periods.

For the year ended December 31, 2008, the effect of options and warrants was anti-dilutive due to the net loss incurred during the period. Had net income been achieved, approximately 381,000 of common stock equivalents would have been included in the computation of diluted net income per share for the year ended December 31, 2008.

Weighted average common share outstanding for the years ended December 31, 2008, 2007 and 2006 were as follows:

Year ended December 31	**2008**	**2007**	**2006**
Denominator for basic net income (loss) per share weighted average shares	15,484,000	15,411,000	15,093,000
Effect of dilutive securities:			
Stock options		775,000	460,000
Denominator for diluted net income (loss) per share adjusted weighted average shares	15,484,000	16,186,000	15,556,000

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

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New Accounting Pronouncements.

Fair Value Measurements: In September 2006, the FASB Statement issued FASB No. 157, *Fair Value Measurements* (SFAS 157) which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value, and expands the related disclosure requirements. However, on December 14, 2007, the FASB issued proposed FSP FAS 157-2 which would delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This proposed FSP partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Furthermore, in October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active,* and was effective upon issuance. Effective for 2008, we adopted SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in proposed FSP FAS 157-2. The partial adoption of SFAS 157, FSP FAS 157-2 or FSP FAS 157-3 did not have a material impact on our consolidated financial position, results of operations or cash flows and we do not believe the adoption of FSP FAS 157-2 will be material to our consolidated financial statements.

Business Combinations: In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141 (R)). SFAS No. 141 (R) requires an acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141 (R) is effective for fiscal years after December 15, 2008. We expect to adopt SFAS No. 141 (R) on January 1, 2009, and we do not expect it to have a material effect on its financial position or results of operations.

Noncontrolling Interests in Consolidated Financial Statements: In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statement-amendments of ARB No. 51* (SFAS No. 160). SFAS No. 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. The SFAS No. 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective as of the beginning of an entity s first fiscal year beginning after December 15, 2008, which corresponds to the Company s year beginning January 1, 2009. The Company currently believes that the adoption of SFAS No. 160 will have no material impact on its financial position or results of operations.

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2. **Property and Equipment**. Property and equipment consists of the following at December 31:

	2008	2007
Property and Equipment:		
Production tooling, machinery and equipment	$ 2,115,000	$ 1,725,000
Office furniture and fixtures	250,000	191,000
Computer equipment and software	719,000	698,000
Web site	38,000	
Leasehold improvements	255,000	368,000
	3,377,000	2,982,000
Accumulated depreciation and amortization	(2,323,000)	(2,607,000)
Net Property and Equipment	$ 1,054,000	$ 375,000

3. **Line of Credit**. The Company had a Financing Agreement, Security Agreement and Revolving Note (collectively, the Credit Agreement) with Marquette Business Credit, Inc. which was in effect through April 30, 2007. The Company did not renew the Credit Agreement and all borrowings were repaid as of April 30, 2007.

4. **Long-Term Liabilities**. In prior periods, the Company reached an agreement with a retailer for the deferred payment of certain obligations on an interest-free basis. These obligations are recorded as long-term liabilities with an imputed annual interest rate of 10.0%.

December 31	2008	2007
Uncollateralized three year liability, payable in monthly installments	$ 23,000	$ 290,000
Uncollateralized liability, due December 31, 2009	179,000	179,000
Uncollateralized liability, due December 31, 2010	219,000	219,000
Total	421,000	688,000
Less current maturities	(202,000)	(266,000)
	$ 219,000	$ 422,000

5. **Commitments and Contingencies.**

Operating Leases. The Company conducts its operations in a leased facility. In October 2007 the Company entered into agreements to terminate its previous facility lease and sublease effective July 31, 2008. On March 27, 2008, the Company entered into an operating lease for its current facility which is in effect from August 2008 through February 2016. The Company also leases equipment under operating lease agreements effective through September 2009. Rent expense under all of these leases, net of sub-lease rental income, was approximately $546,000, $527,000 and $527,000 for the years ended December 31, 2008, 2007 and 2006.

Minimum future lease obligations under these leases, excluding operating costs, are approximately as follows for the years ending December 31:

2009	$ 441,000
2010	446,000
2011	456,000
2012	465,000
2013	474,000
Thereafter	1,058,000

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Legal. In August 2000, News America Marketing In-Store, Inc. (News America), brought suit against the Company in U.S. District Court in New York, New York. The case was settled in November 2002. The terms of the settlement agreement are confidential. The settlement did not impact the Company s operating results.

In October 2003, News America brought suit against the Company in U.S. District Court in New York, New York, alleging that the Company has engaged in deceptive acts and practices, has interfered with existing business relationships with retailers and prospective economic advantage, and has engaged in unfair competition. The suit sought unspecified damages and injunctive relief. In February 2007 the U.S. District Court in New York transferred this action to Minnesota where the claims became part of the lawsuit the Company filed against News America and Albertson s Inc. in 2004 (described below), and the New York action was subsequently dismissed.

On September 23, 2004, the Company brought suit against News America and Albertson s Inc. (Albertson s) in Federal District Court in Minneapolis, Minnesota, for violations of federal and state antitrust and false advertising laws, alleging that News America has acquired and maintained monopoly power through various wrongful acts designed to harm the Company in the in-store advertising and promotion products and services market. The suit seeks injunctive relief sufficient to prevent further antitrust injury and an award of treble damages to be determined at trial for the harm caused to the Company. On June 30, 2006 the Court denied the motions of News America and Albertson s to dismiss the suit. On September 20, 2006, the State of Minnesota through its Attorney General intervened as a co-plaintiff in the business disparagement portion of the Minnesota case. In December 2006, News America filed counterclaims in the Minnesota case that included claims similar to those in its New York action against Insignia and one of its officers, plus claims for damages for two alleged incidents of libel and slander. Motions to dismiss the counterclaims were argued in June 2007, and on September 28, 2007 the Court denied the motions to dismiss the counterclaims. The parties are now engaged in pre-trial discovery. Pursuant to Court order, all discovery and pre-trial matters must be completed by May 1, 2009. On February 4, 2008, the Court approved a consent decree entered into by News America and the State of Minnesota under which News America agreed to not violate Minnesota s statutes prohibiting commercial disparagement. On July 29, 2008, the Company and Albertson s entered into a settlement agreement and mutual release, in which they each agreed to release all claims against the other, and the Company agreed to dismiss its lawsuit against Albertson s.

The Company filed claims in December 2006 and January 2007 with its director s and officer s liability and general liability insurers related to the defense costs and insurance coverage for claims asserted against the Company and one of its officers in News America s counterclaims. On August 9, 2007, the Company filed a complaint against the insurers in Hennepin County District Court, State of Minnesota requesting a declaratory judgment that the insurers owe the Company and its officer such defense costs and insurance coverage. In December 2007, the Company settled its claim against one of the insurers, and in March 2009, the Company settled with the other insurer and received a payment of $1,387,000 as part of the settlement.

Although management believes that News America s counterclaims are without merit, an evaluation of the likelihood of an unfavorable outcome and an estimate of the potential liability cannot be rendered at this time. If the Company is required to pay a significant amount in settlement or damages, it will have a material adverse effect on its operations and financial condition. In addition, a negative outcome of this litigation could affect long-term competitive aspects of the Company s business.

Management currently expects the amount of legal fees and expenses that will be incurred in connection with the ongoing lawsuits to be significant throughout 2009. During the year ended December 31, 2008, the Company incurred legal fees and expenses of $4,086,000 related to the ongoing lawsuits. Legal fees and expenses are expensed as incurred and are included in general and administrative expenses in the statements of operations.

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The Company is subject to various other legal proceedings in the normal course of business. Management believes the outcome of these proceedings will not have a material adverse effect on the Company s financial position or results of operations.

Retailer Agreements. The Company has contracts in the normal course of business with various retailers, some of which provide for fixed or store-based payments rather than sign placement-based payments. During the years ended December 31, 2008, 2007 and 2006, the Company incurred $4,935,000, $3,730,000 and $3,502,000 of costs related to fixed and store-based payments. The amounts were recorded in Cost of Services in the Statements of Operations.

Aggregate commitment amounts under agreements with retailers are approximately as follows for the years ending December 31:

2009	$ 2,988,000
2010	2,907,000
2011	141,000

On an ongoing basis the Company negotiates renewals of various retailer agreements. Upon the completion of future contract renewals, the annual commitment amounts for 2009 and thereafter could be in excess of the amounts above.

6. **Shareholders Equity**.

Private Placements and Warrants. On December 18, 2002, the Company closed a private placement of $7,500,000 of common stock to a small group of accredited investors at a price of $9.19 per share, pursuant to a Securities Purchase Agreement. The price represented a 15% discount from the average closing bid price of the Company s common stock over the five days prior to the closing. As part of this offering, the Company also issued warrants to the investors entitling them to purchase an additional 244,827 shares of the Company s common stock at an initial exercise price of $12.44 per share for a five-year period. Additionally, a warrant to purchase 40,805 shares with the same terms was issued to the Placement Agent. The warrant agreements were amended, effective December 29, 2003, to adjust the exercise price of the warrants to $2.75 per share in exchange for certain terms of the warrant agreement being deleted in their entirety. During the year ended December 31, 2007, 110,122 of the warrants were exercised and the remaining 175,510 warrants expired on December 18, 2007.

On July 2, 2007, the Company issued a warrant to purchase 800,000 shares of the Company s common stock to Valassis Sales and Marketing Services, Inc. (Valassis) at a price of $4.04 for a term of five years. The warrant was issued for services to develop and expand the Company s participating retailer network in conjunction with Amendment No. 2 to the Exclusive Reseller Agreement which defines the terms of the strategic sales alliance between the Company and Valassis. The Company recorded $1,521,000 of expense related to the fair value of the warrant. The Black-Scholes option-pricing model was used to estimate the fair value of the warrant using an expected life of 5 years, volatility of 40%, a dividend yield of 0% and a risk-free interest rate of 4.9%. At December 31, 2008, the entire warrant was outstanding and exercisable.

Stock-Based Compensation. The Company s stock-based compensation plans are administered by the Compensation Committee of the Board of Directors, which selects persons to receive awards and determines the number of shares subject to each award and the terms, conditions, performance measures and other provisions of the award.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. SFAS 123R is being applied on the modified prospective basis. Under the modified prospective approach, SFAS 123R applies to new awards and to awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased or cancelled.

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Under the modified prospective approach, compensation cost recognized beginning in the first quarter of fiscal 2006 includes compensation cost for all share-based payments granted prior to, but not yet vested on January 1, 2006, and compensation cost for all share-based payments granted subsequent to January 1, 2006 based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Prior periods were not restated to reflect the impact of adopting the new standard.

The following table summarizes the stock-based compensation expense which was recognized in the Statements of Operations for the years ended December 31, 2008, 2007 and 2006:

Year ended December 31	**2008**	**2007**	**2006**
Cost of sales	$ 86,000	$ 91,000	$ 61,000
Selling	95,000	80,000	55,000
Marketing	65,000	58,000	32,000
General and administrative	245,000	247,000	111,000
	$ 491,000	$ 476,000	$ 259,000

The Company uses the Black-Scholes option-pricing model to estimate fair value of stock-based awards with the following weighted average assumptions:

	2008	**2007**	**2006**
Stock Options:			
Expected life (years)	3.38	3.92	2.64
Expected volatility	75%	40%	63%
Dividend yield	0%	0%	0%
Risk-free interest rate	2.67%	4.77%	4.91%

The Company uses the straight-line attribution method to recognize expense for unvested options. The amount of share-based compensation recognized during a period is based on the value of the awards that are ultimately expected to vest. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company will re-evaluate the forfeiture rate annually and adjust it as necessary.

As of December 31, 2008, there was $273,000 of total unrecognized compensation costs related to the outstanding stock options which is expected to be recognized over a weighted average period of 1.0 years.

Stock Options