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

FORM 10-Q

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

for the quarterly period ended June 30, 2014

or

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

for the transition period from _____ to _____

Commission File Number: 1-13471

INSIGNIA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-1656308

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

8799 Brooklyn Blvd.

Minneapolis, MN 55445

(Address of principal executive offices; zip code)

(763) 392-6200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares outstanding of Common Stock, \$.01 par value, as of August 1, 2014 was 12,700,470.

Insignia Systems, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Insignia Systems, Inc.
CONDENSED BALANCE SHEETS

	June 30,	December 31,
	2014	2013
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 19,486,000	\$ 21,763,000
Accounts receivable, net	5,895,000	4,287,000
Inventories	340,000	307,000
Deferred tax assets	171,000	171,000
Income tax receivable	49,000	11,000
Prepaid expenses and other	357,000	324,000
Total Current Assets	26,298,000	26,863,000
Other Assets:		
Property and equipment, net	1,604,000	1,753,000
Other, net	3,271,000	2,956,000
Total Assets	\$ 31,173,000	\$ 31,572,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,857,000	\$ 2,636,000
Accrued liabilities	1,348,000	1,741,000
Income tax payable	—	22,000
Deferred revenue	931,000	261,000
Total Current Liabilities	4,136,000	4,660,000
Long-Term Liabilities:		
Deferred tax liabilities	284,000	284,000
Accrued income taxes	458,000	458,000
Total Long-Term Liabilities	742,000	742,000
Commitments and Contingencies	—	—
Shareholders' Equity:		
Common stock, par value \$.01:		
Authorized shares - 40,000,000		
Issued and outstanding shares - 12,781,000 at June 30, 2014		
and 12,782,000 at December 31, 2013	128,000	128,000
Additional paid-in capital	20,922,000	20,982,000
Retained earnings	5,245,000	5,060,000
Total Shareholders' Equity	26,295,000	26,170,000
Total Liabilities and Shareholders' Equity	\$ 31,173,000	\$ 31,572,000

See accompanying notes to financial statements.

Insignia Systems, Inc.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2014	2013	2014	2013
Services revenues	\$ 5,847,000	\$ 5,748,000	\$ 11,798,000	\$ 12,715,000
Products revenues	497,000	385,000	949,000	814,000
Total Net Sales	6,344,000	6,133,000	12,747,000	13,529,000
Cost of services	3,139,000	3,317,000	6,554,000	6,888,000
Cost of goods sold	302,000	275,000	607,000	564,000
Total Cost of Sales	3,441,000	3,592,000	7,161,000	7,452,000
Gross Profit	2,903,000	2,541,000	5,586,000	6,077,000
Operating Expenses:				
Selling	1,376,000	1,157,000	2,727,000	2,552,000
Marketing	327,000	220,000	562,000	429,000
General and administrative	1,088,000	995,000	2,018,000	1,951,000
Total Operating Expenses	2,791,000	2,372,000	5,307,000	4,932,000
Operating Income	112,000	169,000	279,000	1,145,000
Other income	6,000	7,000	12,000	14,000
Income Before Taxes	118,000	176,000	291,000	1,159,000
Income tax expense	48,000	12,000	106,000	575,000
Net Income	\$ 70,000	\$ 164,000	\$ 185,000	\$ 584,000
Net income per share:				
Basic	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.04
Diluted	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.04
Shares used in calculation of net income per share:				
Basic	12,854,000	13,660,000	12,854,000	13,657,000
Diluted	13,093,000	13,687,000	13,092,000	13,686,000

See accompanying notes to financial statements.

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

Six Months Ended June 30	2014	2013
Operating Activities:		
Net income	\$ 185,000	\$ 584,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	539,000	548,000
Stock-based compensation	217,000	216,000
Gain on sale of property and equipment	(14,000)	(12,000)
Changes in operating assets and liabilities:		
Accounts receivable	(1,608,000)	(357,000)
Inventories	(33,000)	(55,000)
Income tax receivable	(38,000)	765,000
Prepaid expenses and other	(33,000)	166,000
Accounts payable	(779,000)	780,000
Accrued liabilities	(393,000)	(582,000)
Income tax payable	(22,000)	434,000
Deferred revenue	670,000	216,000
Net cash provided by (used in) operating activities	(1,309,000)	2,703,000
Investing Activities:		
Purchases of property and equipment	(163,000)	(138,000)
Acquisition of selling rights and other	(542,000)	—
Proceeds received from sale of property and equipment	14,000	15,000
Net cash used in investing activities	(691,000)	(123,000)
Financing Activities:		
Proceeds from issuance of common stock, net	178,000	79,000
Repurchase of common stock, net	(455,000)	—
Net cash provided by (used in) financing activities	(277,000)	79,000
Increase (decrease) in cash and cash equivalents	(2,277,000)	2,659,000
Cash and cash equivalents at beginning of period	21,763,000	20,271,000
Cash and cash equivalents at end of period	\$ 19,486,000	\$ 22,930,000
Supplemental disclosures for cash flow information:		
Cash paid during the period for income taxes	\$ 247,000	\$ 177,000

See accompanying notes to financial statements.

Insignia Systems, Inc.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

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

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

Basis of Presentation. Financial statements for the interim periods included herein are unaudited; however, they contain all adjustments, including normal recurring accruals, which in the opinion of management, are necessary to present fairly the financial position of the Company at June 30, 2014, its results of operations for the three and six months ended June 30, 2014 and 2013, and its cash flows for the six months ended June 30, 2014 and 2013. Results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

The financial statements do not include certain footnote disclosures and financial information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America and, therefore, should be read in conjunction with the financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

The Summary of Significant Accounting Policies in the Company’s 2013 Annual Report on Form 10-K describes the Company’s accounting policies.

Inventories. Inventories are primarily comprised of parts and supplies for Impulse Retail systems, 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:

	June 30, 2014	December 31, 2013
Raw materials	\$ 69,000	\$ 71,000
Work-in-process	11,000	12,000
Finished goods	260,000	224,000
	<u>\$ 340,000</u>	<u>\$ 307,000</u>

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

	June 30, 2014	December 31, 2013
Property and Equipment:		
Production tooling, machinery and equipment	\$ 3,847,000	\$ 3,826,000
Office furniture and fixtures	260,000	260,000
Computer equipment and software	916,000	896,000
Web site	65,000	65,000
Leasehold improvements	616,000	616,000
Construction in-progress	82,000	34,000
	5,786,000	5,697,000
Accumulated depreciation and amortization	(4,182,000)	(3,944,000)
Net Property and Equipment	\$ 1,604,000	\$ 1,753,000

Depreciation expense was approximately \$157,000 and \$312,000 in the three and six months ended June 30, 2014, respectively, and \$174,000 and \$348,000 in the three and six months ended June 30, 2013, respectively.

Stock-Based Compensation. The Company measures and recognizes compensation expense for all stock-based awards at fair value using the Black-Scholes option pricing model to determine the weighted average fair value of options and employee stock purchase plan rights. The Company recognizes stock-based compensation expense on a straight-line method over the requisite service period of the award.

There were 366,000 stock option awards, with a weighted average exercise price of \$3.02, granted during the six months ended June 30, 2014, and the Company estimated the fair value of these awards using the following weighted average assumptions: expected life of 3.7 years, expected volatility of 50%, dividend yield of 0% and risk-free interest rate of 1.04%.

The Company estimated the fair value of stock-based rights granted during the six months ended June 30, 2014, under the Company's employee stock purchase plan using the following weighted average assumptions: expected life of 1.0 years, expected volatility of 50%, dividend yield of 0% and risk-free interest rate of 0.13%.

There were 25,000 restricted stock units granted during the six months ended June 30, 2014. The shares were granted at \$3.03 per share, based on the stock price on the date of the grant and vest over three years. Stock-based compensation expense for the restricted stock units during the three and six months ended June 30, 2014 was \$5,000, which is included in stock-based compensation expense.

In May 2014, equity grants were made by the Company to the Board of Directors, pursuant to the 2013 Omnibus Stock and Incentive Plan, as amended, in the form of fully vested shares of common stock. The total number of shares granted to the Board of Directors was 29,701. The shares were issued at \$3.03 per share, based on the stock price on the date of grant, for a total value of \$90,000, which is included in stock-based compensation expense.

Total stock-based compensation expense recorded for the three and six months ended June 30, 2014 was \$181,000 and \$217,000, respectively, and for the three and six months ended June 30, 2013 was \$139,000 and \$216,000, respectively.

Total options exercised in the three and six months ended June 30, 2014 were for approximately 15,000 shares and 69,000 shares, for which the Company received proceeds of \$29,000 and \$100,000, respectively. During the three and six months ended June 30, 2013, there were approximately 7,000 and 13,000 stock options exercised, for which the Company received proceeds of \$0 and \$13,000, respectively. Stock option exercises in the three months ended June 30, 2013 were done on a cashless basis.

Net Income per Share. Basic net income per share is computed by dividing net income by the weighted average shares outstanding and excludes any potential dilutive effects of stock options. Diluted net income per share gives effect to all diluted potential common shares outstanding during the period.

Options to purchase approximately 579,000 and 519,000 shares of common stock with a weighted average exercise price of \$4.28 and \$4.32, respectively, were outstanding at June 30, 2014 and were not included in the computation of common stock equivalents for the three and six months ended June 30, 2014 because their exercise prices were higher than the average fair market value of the common shares during the reporting period. Options to purchase approximately 1,155,000 and 1,239,000 shares of common stock with a weighted average exercise price of \$3.19 and \$3.33, respectively, were outstanding at June 30, 2013 and were not included in the computation of common stock equivalents for the three and six months ended June 30, 2013 because their exercise prices were higher than the average fair market value of the common shares during the reporting period.

Weighted average common shares outstanding for the three and six months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2014	2013	2014	2013
Denominator for basic net income per share - weighted average shares	12,854,000	13,660,000	12,854,000	13,657,000
Effect of dilutive securities:				
Stock options and restricted stock units	239,000	27,000	238,000	29,000
Denominator for diluted net income per share - weighted average shares	13,093,000	13,687,000	13,092,000	13,686,000

- Selling Arrangement.** In February 2011, the Company paid News America Marketing In-Store, LLC (“News America”) \$4,000,000 in exchange for a 10-year arrangement to sell signs with price into News America’s network of retailers as News America’s exclusive agent. The \$4,000,000 is being amortized on a straight-line basis over the 10-year term of the arrangement. Amortization expense, which was \$100,000 and \$200,000 in both the three and six months ended June 30, 2014 and 2013, respectively, and is expected to be \$400,000 per year over the next five years, is recorded within cost of services in the Company’s statements of operations. The net carrying amount of the selling arrangement is recorded within other assets on the Company’s condensed balance sheets.
- Retail Access and Distribution Agreement.** On February 21, 2014, the Company and Valassis Sales and Marketing Services, Inc. (“Valassis”) signed the Retail Access and Distribution Agreement (the “New Valassis Agreement”) that replaced all prior agreements. As a result of this new agreement, Valassis is no longer a reseller of the Company’s POPSign and the Company regained access to all consumer packaged goods manufacturers for the sale of POPSigns. On March 24, 2014, the Company received notice of termination from Valassis of the New Valassis Agreement. The termination of all material portions of this agreement will be effective on August 11, 2014. Additionally, as a result of the termination of this agreement, the amount owed to Valassis by the Company was reduced from \$500,000 to \$250,000, which is being amortized over the original term of the New Valassis Agreement, which is approximately four years.
- Income Taxes.** For the three and six months ended June 30, 2014, the Company recorded income tax expense of \$48,000 and \$106,000, or 40.7% and 36.4% of income before taxes, respectively. For the three and six months ended June 30, 2013, the Company recorded income tax expense of \$12,000 and \$575,000, or 6.8% and 49.6% of income before taxes, respectively. The decrease in the effective tax rate during the six months ended June 30, 2014 is primarily the result of the tax benefit of disqualifying dispositions of stock options, which decreased the effective tax rate for the six months ended June 30, 2014 by 6.3%. The income tax provision for the three and six months ended June 30, 2014 and 2013 is comprised of federal

and state taxes. The primary differences between the Company's June 30, 2014 and 2013 effective tax rates and the statutory federal rate are expenses related to stock-based compensation and nondeductible meals and entertainment.

As of June 30, 2014 and December 31, 2013, the Company has unrecognized tax benefits totaling \$458,000, including interest, which relates to state nexus issues. The amount of the unrecognized tax benefits, if recognized, that would affect the effective income tax rates of future periods is \$458,000. Due to the current statute of limitations regarding the unrecognized tax benefits, the unrecognized tax benefits and associated interest is not expected to change significantly in 2014.

5. **Concentrations.** During the six months ended June 30, 2014, two customers accounted for 33% and 11% of the Company's total net sales. During the six months ended June 30, 2013, two customers accounted for 26% and 11% of the Company's total net sales. At June 30, 2014, one customer accounted for 44% of the Company's total accounts receivable. At December 31, 2013, two customers accounted for 47% and 14% of the Company's total accounts receivable.

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

6. **Shareholders' Equity.** On December 3, 2013, the Board of Directors authorized the repurchase of up to \$5,000,000 of the Company's common stock on or before December 3, 2015. The plan allows the repurchases to be made in open market or privately negotiated transactions. For the three and six months ended June 30, 2014, the Company repurchased approximately 147,000 shares at a total cost of \$455,000.
7. **Recently Issued Accounting Pronouncements.** In May 2014, the Financial Accounting Standards Board (FASB) issued guidance creating Accounting Standards Codification ("ASC") Section 606, "Revenue from Contracts with Customers". The new section will replace Section 605, "Revenue Recognition" and creates modifications to various other revenue accounting standards for specialized transactions and industries. The section is intended to conform revenue accounting principles with a concurrently issued International Financial Reporting Standards with previously differing treatment between United States practice and those of much of the rest of the world, as well as, to enhance disclosures related to disaggregated revenue information. The updated guidance is effective for annual reporting periods beginning on or after December 15, 2016, and interim periods within those annual periods. The Company will adopt the new provisions of this accounting standard at the beginning of fiscal year 2017, given that early adoption is not an option. The Company will further study the implications of this statement in order to evaluate the expected impact on the financial statements.

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

The following discussion should be read in conjunction with the Company's financial statements and related notes. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated due to various factors discussed under "Cautionary Statement Regarding Forward-Looking Statements" and elsewhere in this Quarterly Report on Form 10-Q and the "Risk Factors" described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, our Current Reports on Form 8-K and our other SEC filings.

Company Overview

Insignia Systems, Inc. (referred to in this Quarterly Report on Form 10-Q as “Insignia,” “we,” “us,” “our” and the “Company”) markets in-store advertising products, programs and services to consumer packaged goods manufacturers (customers) and retailers. The Company was incorporated in 1990. Since 1998, the Company has been focusing on providing in-store advertising 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 we believe delivers 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. We believe that combining manufacturer and retailer information provides 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 an in-store advertising program that delivers a complete “call to action” on a product-specific and store-specific basis. For consumer packaged goods manufacturers, Insignia’s POPSign program provides access to what we believe is the optimum retail advertising site for their products – the retail shelf-edge. In addition, we believe 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 all of the reports it files with the SEC available free of charge on its web site. The Company’s web site is not incorporated by reference into this Report on Form 10-Q. Copies of reports can also be obtained free of charge by requesting them from Insignia Systems, Inc., Attention: CFO, 8799 Brooklyn Boulevard, Minneapolis, Minnesota 55445; telephone 763-392-6200.

Business Overview

Summary of Financial Results

For the quarter ended June 30, 2014, the Company generated total net sales of \$6,344,000, as compared with total net sales of \$6,133,000 for the quarter ended June 30, 2013. For the six months ended June 30, 2014, we generated total net sales of \$12,747,000, as compared with total net sales of \$13,529,000 in the six months ended June 30, 2013. Net income for the quarter ended June 30, 2014 was \$70,000, as compared to \$164,000 for the quarter ended June 30, 2013. The net income for the six months ended June 30, 2014 was \$185,000, compared to \$584,000 for the six months ended June 30, 2013.

At June 30, 2014, our cash and cash equivalents balance was \$19,486,000, as compared to \$21,763,000 at December 31, 2013. We have no debt and believe we have adequate liquidity to fund operations for at least the next twelve months.

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.

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2014	2013	2014	2013
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	54.3	58.6	56.2	55.1
Gross profit	45.7	41.4	43.8	44.9
Operating expenses:				
Selling	21.7	18.8	21.4	18.8
Marketing	5.2	3.6	4.4	3.2
General and administrative	17.1	16.2	15.8	14.4
Total operating expenses	44.0	38.6	41.6	36.4
Operating income	1.7	2.8	2.2	8.5
Other income	0.1	0.1	0.1	0.1
Income before taxes	1.8	2.9	2.3	8.6
Income tax expense	0.7	0.2	0.8	4.3
Net income	1.1 %	2.7 %	1.5 %	4.3 %

Three Months and Six Months Ended June 30, 2014 Compared to Three Months and Six Months Ended June 30, 2013

Total Net Sales. Total net sales for the three months ended June 30, 2014 increased 3.4% to \$6,344,000 compared to \$6,133,000 for the three months ended June 30, 2013. Total net sales for the six months ended June 30, 2014 decreased 5.8% to \$12,747,000 compared to \$13,529,000 for the six months ended June 30, 2013.

Services revenues from our POPSign programs for the three months ended June 30, 2014 increased 1.7% to \$5,847,000 compared to \$5,748,000 for the three months ended June 30, 2013. The increase was primarily due to an increase of 3% in average price per sign, which was a result of program and customer mix, partially offset by a 2% decrease in the number of signs placed, which we believe was due to the timing and composition of our programs. Services revenues from our POPSign programs for the six months ended June 30, 2014 decreased 7.2% to \$11,798,000 compared to \$12,715,000 for the six months ended June 30, 2013. The decrease was primarily due to a decrease of 8% in the number of signs placed, which we believe was due to the timing and composition of our programs.

Product revenues for the three months ended June 30, 2014 increased 29.1% to \$497,000 compared to \$385,000 for the three months ended June 30, 2013. Product revenues for the six months ended June 30, 2014 increased 16.6% to \$949,000 compared to \$814,000 for the six months ended June 30, 2013. The increase was primarily due to higher sales of laser sign card supplies.

Gross Profit. Gross profit for the three months ended June 30, 2014 increased 14.2% to \$2,903,000 compared to \$2,541,000 for the three months ended June 30, 2013. Gross profit for the six months ended June 30, 2014 decreased 8.1% to \$5,586,000 compared to \$6,077,000 for the six months ended June 30, 2013. Gross profit as a percentage of total net sales increased to 45.7% for the three months ended June 30, 2014, compared to 41.4% for the three months ended June 30, 2013. Gross profit as a percentage of total net sales decreased to 43.8% for the six months ended June 30, 2014, compared to 44.9% for the six months ended June 30, 2013.

POPSign program: Gross profit from our POPSign program revenues for the three months ended June 30, 2014 increased 11.4% to \$2,708,000 compared to \$2,431,000 for the three months ended June 30, 2013. The increase was primarily due to decreased retailer costs. Gross profit from our POPSign program revenues for the six months ended June 30, 2014 decreased 10.0% to \$5,244,000 compared to \$5,827,000 for the six

months ended June 30, 2013. The decrease was primarily due to an overall decrease in sales, as our gross profit percentage is highly dependent on sales volume, partially offset by decreased retailer costs.

Gross profit as a percentage of POPSign program revenues for the three months ended June 30, 2014 increased to 46.3% compared to 42.3% for the three months ended June 30, 2013. The increase was primarily due to the factors described above. Gross profit as a percentage of POPS program revenues for the six months ended June 30, 2014 decreased to 44.4% compared to 45.8% for the six months ended June 30, 2013. The decrease was primarily due to the factors described above.

Product sales: Gross profit from our product sales for the three months ended June 30, 2014 increased 77.3% to \$195,000 compared to \$110,000 for the three months ended June 30, 2013. The increase was primarily due to increased sales and decreased labor costs. Gross profit from our product sales for the six months ended June 30, 2014 increased 36.8% to \$342,000 compared to \$250,000 for the six months ended June 30, 2013. The increase was primarily due to the factors described above.

Gross profit as a percentage of product sales was 39.2% for the three months ended June 30, 2014 compared to 28.6% for the three months ended June 30, 2013. Gross profit as a percentage of product sales was 36.0% for the six months ended June 30, 2014 compared to 30.7% for the six months ended June 30, 2013. The increase was primarily due to the factors described above.

Operating Expenses

Selling. Selling expenses for the three months ended June 30, 2014 increased 18.9% to \$1,376,000 compared to \$1,157,000 for the three months ended June 30, 2013. The increase was primarily due to increased staffing and staffing-related expenses. Selling expenses for the six months ended June 30, 2014 increased 6.9% to \$2,727,000 compared to \$2,552,000 for the six months ended June 30, 2013. The increase was primarily due to the factors described above.

Selling expenses as a percentage of total net sales increased to 21.7% for the three months ended June 30, 2014 compared to 18.8% for the three months ended June 30, 2013. The increase was primarily due to increased staffing and staffing-related expenses. Selling expenses as a percentage of total net sales increased to 21.4% for the six months ended June 30, 2014 compared to 18.8% for the six months ended June 30, 2013. The increases in selling expenses as a percentage of total net sales in the 2014 period was primarily due to increased staffing expenses combined with decreased sales.

Marketing. Marketing expenses for the three months ended June 30, 2014 increased 48.6% to \$327,000 compared to \$220,000 for the three months ended June 30, 2013. Increased marketing expense was primarily the result of increased staffing, corporate growth spend and other marketing initiatives. Marketing expenses for the six months ended June 30, 2014 increased 31.0% to \$562,000 compared to \$429,000 for the six months ended June 30, 2013. The increase was primarily due to the factors described above.

Marketing expenses as a percentage of total net sales increased to 5.2% for the three months ended June 30, 2014 compared to 3.6% for the three months ended June 30, 2013. The increase was primarily due to the factors described above. Marketing expenses as a percentage of total net sales increased to 4.4% for the six months ended June 30, 2014 compared to 3.2% for the six months ended June 30, 2013. The increases in selling expenses as a percentage of total net sales in the 2014 period was primarily due to the factors described above, combined with decreased sales.

General and administrative. General and administrative expenses for the three months ended June 30, 2014 increased 9.3% to \$1,088,000 compared to \$995,000 for the three months ended June 30, 2013. The increase was primarily due to the timing of stock-based compensation expense. General and administrative expenses for the six months ended June 30, 2014 increased 3.4% to \$2,018,000 compared to \$1,951,000 for the six months ended June 30, 2013. The increase was primarily due to the factors described above.

General and administrative expenses as a percentage of total net sales increased to 17.1% for the three months ended June 30, 2014 compared to 16.2% for the three months ended June 30, 2013. The increase was primarily due to the timing of stock-based compensation expense. General and administrative expenses as a percentage of total net sales increased to 15.8% for the six months ended June 30, 2014 compared to 14.4% for the six months ended June 30, 2013. Increased expense as a percentage of total net sales in the 2014 period was primarily due to the timing of stock-based compensation expense, combined with decreased sales.

Other Income. Other income for the three months ended June 30, 2014 was \$6,000 compared to \$7,000 for the three months ended June 30, 2013. Other income for the six months ended June 30, 2014 was \$12,000 compared to \$14,000 for the six months ended June 30, 2013. Other income is comprised of interest earned on cash and cash equivalents balances.

Income Taxes. For the three and six months ended June 30, 2014, the Company recorded income tax expense of \$48,000 and \$106,000, or 40.7% and 36.4% of income before taxes, respectively. For the three and six months ended June 30, 2013, the Company recorded income tax expense of \$12,000 and \$575,000, or 6.8% and 49.6% of income before taxes, respectively. The decrease in the effective tax rate during the six months ended June 30, 2014 is primarily the result of the tax benefit of disqualifying dispositions of stock options. The income tax provision for the three and six months ended June 30, 2014 and 2013 is comprised of federal and state taxes. The primary differences between the Company's June 30, 2014 and 2013 effective tax rates and the statutory federal rate are expenses related to stock-based compensation and nondeductible meals and entertainment.

Net Income. For the reasons stated above, net income for the three months ended June 30, 2014 was \$70,000 compared to \$164,000 for the three months ended June 30, 2013. For the reasons stated above, net income for the six months ended June 30, 2014 was \$185,000 compared to \$584,000 for the six months ended June 30, 2013.

Liquidity and Capital Resources

The Company has financed its operations with proceeds from public and private stock sales, sales of its services and products and legal settlement proceeds. At June 30, 2014, working capital was \$22,162,000 compared to \$22,203,000 at December 31, 2013. During the six months ended June 30, 2014, cash and cash equivalents decreased \$2,277,000 from \$21,763,000 at December 31, 2013, to \$19,486,000 at June 30, 2014.

Operating Activities: Net cash used in operating activities during the six months ended June 30, 2014, was \$1,309,000. Net income of \$185,000, plus non-cash adjustments of \$742,000 and less changes in operating assets and liabilities of \$2,236,000 resulted in the \$1,309,000 of cash used in operating activities. The largest component of the change in operating assets and liabilities was accounts receivable, which increased as a result of the timing of collections on these accounts. The non-cash adjustments consisted of depreciation and amortization expense, stock-based compensation expense, and gain of property and equipment. In the normal course of business, our accounts receivable, accounts payable, accrued liabilities and deferred revenue will fluctuate depending on the level of revenues and related business activity, as well as billing arrangements with customers and payment terms with retailers.

Investing Activities: Net cash used in investing activities during the six months ended June 30, 2014 was \$691,000. This was primarily related to the acquisition of selling rights under the New Valassis Agreement, acquisition of other business arrangements, purchases of property and equipment, and proceeds from the sale of property and equipment. The Company expects a similar level of capital expenditures in the future periods in 2014.

Financing Activities: Net cash used in financing activities during the six months ended June 30, 2014 was \$277,000, which related to proceeds received from the issuance of common stock under our employee stock purchase plan and stock option exercises, offset by the repurchase of common stock under the December 3, 2013 share repurchase plan.

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

However, there can be no assurances that this will occur or that the Company will be able to secure financing from public or private stock sales or from other financing agreements if needed.

Critical Accounting Policies

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

Our significant accounting policies are described in Note 1 to the annual financial statements as of and for the year ended December 31, 2013, included in our Form 10-K filed with the Securities and Exchange Commission on March 5, 2014. We believe our most critical accounting policies and estimates, which are described in more detail in such Note to the annual financial statements, include the following:

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

Cautionary Statement Regarding Forward-Looking Statements

Certain statements made in this Quarterly Report on Form 10-Q, in the Company's other SEC filings, in press releases and in oral statements to shareholders and securities analysts that are not statements of historical or current facts, are "forward-looking statements." Such forward-looking statements involve known and unknown risks, uncertainties and other factors 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. These statements are often identified by the words "believes," "expects," "anticipates," "seeks," "will," "estimate," "may," "would," "could," "trend," and similar expressions identifying forward-looking statements. Forward-looking statements include statements expressing the intent, belief or current expectations of the Company and members of our management team regarding, for instance: (i) our belief that our cash balance and cash generated by operations will provide adequate liquidity and capital resources for at least the next twelve months; (ii) that we are currently focused on maximizing opportunities available to us as a result of the termination of the New Valassis Agreement to minimize whatever financial impact may result from it, and potentially have a positive impact on the Company; (iii) that we expect fluctuations in accounts receivable and payable, accrued liabilities, and deferred revenue; and (iv) plans to repurchase Company stock. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of the statement was made. These forward-looking statements are based on current information, which we have assessed and which by its nature is dynamic and subject to rapid and even abrupt changes.

The factors that could cause our estimates and assumptions as to future performance, and our actual results, to differ materially include the following: (i) the risk that management may be unable to fully or successfully implement its business plan to achieve and maintain increased sales and resultant profitability in the future; (ii) the risk that the Company will not be able to develop and implement new product offerings, including mobile, digital or other new offerings, in a successful manner; (iii) prevailing market conditions, including pricing and other competitive pressures, in the in-store advertising industry and, intense competition for agreements with retailers and consumer packaged goods manufacturers; (iv) potentially incorrect assumptions by management with respect to the financial effect of current strategic decisions, the effect of current sales trends on fiscal year 2014 results and the benefit of our relationship with News America; (v) termination of all or a major portion of, or a significant change in terms and conditions of, a material agreement with a retailer, consumer packaged goods manufacturer, or News America; and (vi) other economic, business, market, financial, competitive and/or regulatory factors affecting the Company's business generally. Our risks and uncertainties also include, but are not limited to, the risks presented in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2013, any additional risks presented in our Quarterly Reports on Form 10-

Q and our Current Reports on Form 8-K. We undertake no obligation (and expressly disclaim any such obligation) to update forward-looking statements made in this Form 10-Q to reflect events or circumstances after the date of this Form 10-Q or to update reasons why actual results would differ from those anticipated in any such forward-looking statements, other than as required by law.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

We described the most significant risk factors applicable to the Company in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2013. We believe there have been no material changes from the risk factors disclosed on such Form 10-K.

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

On December 3, 2013, the Board of Directors authorized the repurchase of up to \$5,000,000 of the Company’s common stock on or before December 3, 2015. The plan allows the repurchases to be made in open market or privately negotiated transactions. The plan does not obligate the Company to repurchase any particular number of shares, and may be suspended at any time at the Company’s discretion.

Our share repurchase program activity for the three months ended June 30, 2014, under the plan 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
April 1-30, 2014	—	—	—	—
May 1-31, 2014	84,640	\$ 2.98	84,640	\$ 4,745,000
June 1-30, 2014	62,380	\$ 3.16	147,020	\$ 4,545,000

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

<u>Exhibit Number</u>	<u>Description</u>
10.1	Employment Agreement with Tim Halfmann dated April 28, 2014
10.2	Change In Control Severance Agreement with Tim Halfmann dated April 28, 2014
10.3	Form of Restricted Stock Unit Agreement for Employees under Insignia Systems, Inc. 2013 Omnibus Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 21, 2014)
10.4	2013 Omnibus Stock and Incentive Plan, as amended
31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32	Section 1350 Certification
101	The following materials from Insignia Systems, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Balance Sheets; (ii) Statements of Operations; (iii) Statements of Cash Flows; and (iv) Notes to Financial Statements.

SIGNATURES

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

Dated: August 6, 2014

Insignia Systems, Inc.
(Registrant)

/s/ Glen P. Dall
Glen P. Dall
President and Chief Executive Officer
(principal executive officer)

/s/ John C. Gonsior
John C. Gonsior
Vice President, Finance and
Chief Financial Officer
(principal financial officer)

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>	<u>Reference</u>
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10.2	Change In Control Severance Agreement with Tim Halfmann dated April 28, 2014	Filed Electronically
10.3	Form of Restricted Stock Unit Agreement for Employees under Insignia Systems, Inc. 2013 Omnibus Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 21, 2014)	Incorporated by Reference
10.4	2013 Omnibus Stock and Incentive Plan, as amended	Filed Electronically
31.1	Certification of Principal Executive Officer	Filed Electronically
31.2	Certification of Principal Financial Officer	Filed Electronically
32	Section 1350 Certification	Furnished Electronically
101	The following materials from Insignia Systems, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Balance Sheets; (ii) Statements of Operations; (iii) Statements of Cash Flows; and (iv) Notes to Financial Statements.	Filed Electronically

AGREEMENT

This Agreement (“Agreement”) is made by and between Insignia Systems, Inc. (“Company” or “Insignia”) with headquarters at 8799 Brooklyn Blvd., Minneapolis, Minnesota 55445 and Tim Halfmann (“Employee”).

RECITALS

WHEREAS, Employee is the sole member of TLM Holdings LLC (“TLM”).

WHEREAS, Employee has been providing certain services to the Company by and through TLM.

WHEREAS, the Company desires to retain Employee as an employee of the Company, and Employee desires to be so employed.

NOW, THEREFORE, in consideration of the mutual promises and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Employee (the “Parties”), intending to be legally bound, hereby agree as follows:

1. Commencement Date; Nature of Employment Relationship.

1.1 Commencement Date. This Agreement shall become effective on the date it is signed by the last of the Parties (the “Commencement Date”).

1.2 Nature of Employment Relationship. The Parties hereby acknowledge and agree that the nature of Employee’s employment relationship with the Company is at-will, meaning that either Employee or the Company may terminate the employment relationship, with or without cause, at any time for any reason or no reason, except for those reasons prohibited by applicable federal, state or local law or regulation. While Employee is employed by the Company, Employee’s title will be Chief Sales and Marketing Officer and will report to the Company’s Chief Executive Officer and perform such duties and responsibilities for the Company as the Company’s Chief Executive Officer may assign to Employee from time to time consistent with Employee’s position.

1.3 Performance of Duties and Responsibilities. Employee shall serve the Company faithfully and to the best of Employee’s ability and shall at all times act in accordance with the law. Employee shall devote Employee’s full working time, attention and efforts to performing Employee’s duties and responsibilities under this Agreement and advancing the Company’s business interests. Employee shall not, without the Company’s prior written consent, accept other employment or engage in other business activities during Employee’s employment with the Company that would prevent Employee from fulfilling the duties or responsibilities as set forth in or contemplated by this Agreement; provided, however, that Employee may continue to be involved in TLM’s business and may participate in civic, religious and charitable activities and personal investment activities so long as any such involvement with TLM or the other permitted activities do not interfere with Employee’s performance of Employee’s duties and responsibilities hereunder, including Employee’s compliance with Sections 5-8 of this Agreement. Employee hereby represents and confirms that Employee is under no contractual or legal commitments that would prevent Employee from fulfilling Employee’s duties and responsibilities as set forth in this Agreement.

2. Termination of Employment by the Company.

2.1 Payment upon Termination of Employment for Reasons Other Than Cause. Subject to

Section 3 of this Agreement, the Parties hereby agree that, in the event of the Company's termination of Employee's employment other than for Cause (as defined herein), and provided after Employee's termination date Employee signs and does not rescind a release of claims agreement in a form approved by the Company, Employee shall receive a payment equal to Employee's gross base annual salary in effect at the time of termination, plus an amount equal to the bonus earned in the twelve (12) months prior to termination (represented by an amount equal to the sum of a pro rata portion of the current fiscal year's bonus earned and, as necessary, a remaining proportion of the previous year's earned bonus). By way of example, if Employee were terminated at the end of the first quarter of a given fiscal year, the amount of bonus earned in the first quarter would be added to three-quarters of the bonus earned the previous year. The total amount due pursuant to this Agreement shall not exceed \$500,000.

Any amount payable hereunder shall be paid in a lump sum, less applicable withholdings, on the Company's first regular payroll date that is more than 45 days after Employee's termination date (but in no event no later than 75 days after Employee's termination date), subject to Section 409A of the Internal Revenue Code as further set forth in Section 4 and all required tax withholdings.

2.2 Cause. For purposes of this Agreement, "Cause" shall mean:

2.2.1 Employee's conviction of a felony;

2.2.2 The willful and continued failure of Employee to perform Employee's essential duties; or

2.2.3 Gross misconduct which is materially injurious to the Company.

For purposes of this Section 2.2, an act or failure to act by Employee shall not be "willful" unless it is done, or omitted to be done, in bad faith and without any reasonable belief that Employee's action or omission was in the best interests of the Company.

2.3 No Right to Payment upon Termination for Cause or Employee's Resignation for Any Reason. Employee hereby acknowledges and agrees, and hereby waives and releases the Company from any formal or informal obligation, whether written or verbal, for payment of any amount if the Company terminates Employee's employment for Cause or if Employee resigns from employment with the Company for any reason.

3. Change in Control Obligations. In the event of a Change in Control (as defined in the Change in Control Severance Agreement attached hereto as Exhibit A), the Company's obligations as they pertain to payment of any amount to Employee upon termination Employee's employment with the Company, including but not limited to those set forth in Section 2.1 of this Agreement, shall be governed by the Change in Control Severance Agreement attached hereto as Exhibit A, which shall supersede and replace the terms of Section 2.1 of this Agreement.

4. Delay of Payment. Notwithstanding anything to the contrary, to the extent that Employee is a "key employee" pursuant to the provisions of Section 409A of the Internal Revenue Code as of the date that any change in control benefits or other deferred compensation becomes payable to the Employee hereunder, and such payments are required to be delayed until the date six months following Employee's termination of employment in order to avoid additional tax under Section 409A of the Code, payment and provision of such amounts or other deferred compensation shall be delayed until the date six months after Employee's termination of employment.

5. Confidentiality.

5.1 Confidential Nature of Relationship. Employee acknowledges that his or her

employment by the Company creates a relationship of confidence and trust with respect to Confidential Information (as hereinafter defined). During his or her employment with the Company, the Company agrees to provide Employee with access to Confidential Information. Employee expressly undertakes to retain in strict confidence all Confidential Information transmitted or disclosed to Employee by the Company or the Company's clients, and will never make any use of such information except as (and then, only to the extent) required to perform Employee's duties for the Company. Employee will take such protective measures as may be reasonably necessary to preserve the secrecy and interest of the Company in the Confidential Information. If Employee becomes aware of any unauthorized use or disclosure of Confidential Information by any person or entity, Employee will promptly and fully advise the Company of all facts known to Employee concerning such unauthorized use or disclosure.

5.2 Definition. "Confidential Information" means all commercially sensitive information and data of a confidential nature, in their broadest context, originated by, on behalf of or within the knowledge or possession of the Company or its clients (including any subsidiary, division or legal affiliate thereof). Without in any way limiting the foregoing, Confidential Information includes, but is not limited to: information that has been designated as proprietary and/or confidential; information constituting trade secrets; information of a confidential nature that, by the nature of the circumstances surrounding the disclosure, should in good faith be treated as proprietary and/or confidential; and information and data conceived, discovered or developed in whole or in part by Employee while employed by the Company. Confidential Information also includes (but is not limited to) identity, contact and other information relating to the Company's clients and customers, prospective clients and customers, strategic business relationships, business opportunities, products, services, suppliers, personnel, pricing, recruiting strategies, job candidate information, employee information, sales strategies, technology, methods, processes, research, development (including new products or services in concept, planning or development), systems, techniques, finances, accounting, purchasing and business plans or as further provided in any separate non-disclosure or confidentiality agreement with the Company.

5.3 Exclusions. Confidential Information does not include information which: (a) is generic; (b) is or becomes part of the public domain through no act or omission of Employee; (c) was in Employee's lawful possession prior to the disclosure and was not obtained by Employee in breach, either directly or indirectly, of any obligation to the Company or any client of the Company's; (d) is lawfully disclosed to Employee by a third party without restriction on disclosure; or (e) is independently developed by Employee using Employee's own resources, entirely on Employee's own time, and without the use of any Confidential Information.

5.4 Additional Confidentiality Agreements. Employee agrees to execute, or as the case may be, comply with previously executed non-disclosure and confidentiality agreements as the Company or its clients may request from time to time.

6. Use of Confidential or Material Non-Public Information; Code of Ethics and Company Policies.

6.1 Confidential or Material, Non-Public Information. Employee acknowledges that during and following Employee's employment with the Company Employee is prohibited from using or sharing any Confidential Information for personal gain or advantage (in securities transactions or otherwise), or for the personal gain or advantage of anyone with whom Employee improperly shares such information. Specifically as to material, non-public information of the Company, Employee agrees to comply with the Company's insider trading policy in effect at the commencement of employment and as amended from time to time.

6.2 Code of Ethics and Company Policies. Employee agrees to fully comply with any Code of Ethics (or similar policy) of the Company either having general applicability to its employees or specifically to Employee and to comply with all other policies adopted by the Company from time to

time, including without limitation policies relating to conflict of interest, non-discrimination, and confidentiality and protection of trade secrets.

7. Return of Property. Upon any termination of employment with the Company for any reason, Employee agrees to promptly return to the Company: (a) all materials of any kind in Employee's possession (or under Employee's control) incorporating Confidential Information or otherwise relating to the Company's business (including but not limited to all such materials and/or information stored on any computer or other electronic or other storage device owned or used by Employee); and (b) all Company property in Employee's possession, including (but not limited to) computers, cellular telephones, pagers, credit cards, keys, records, files, manuals, books, forms, documents, letters, memoranda, data, tables, photographs, video tapes, audio tapes, computer disks and other computer storage media, all materials that include trade secrets, and all copies, summaries or notes of any of the foregoing.

8. Non-solicitation; Non-interference. Employee agrees that Employee shall not, at any time during the period beginning on the Commencement Date and for one year following termination of Employee's employment with the Company for any reason, whether such termination is at the initiative of the Company or Employee, engage in any of the following activities:

8.1 Directly or indirectly (except on behalf of the Company), solicit or attempt to solicit, accept business from, divert or attempt to divert, handle or attempt to handle or service or attempt to service, the account or business of any customer or client which as of the date of termination or during the two years preceding termination (i) was a customer/client of the Company with which Employee dealt or (ii) had been directly solicited by the Company with Employee's knowledge or involvement with a view toward establishing a customer/client relationship, or assist (either directly or indirectly) any other person engaged in any of the foregoing; or

8.2 Directly or indirectly recruit, solicit or hire any employee or independent contractor of the Company, or induce or attempt to induce any such person to terminate his or her employment, or other to limit or cease his or her relationship with the Company, or assist (either directly or indirectly) any other person engaged in any of the foregoing;

8.3 Directly or indirectly interfere or attempt to interfere in any way with the Company's relationship with any of its customers, clients, sales representatives, strategic business partners or suppliers, including but not limited to inducing or attempting to induce any customers, clients, sales representatives, strategic business partners, suppliers, key advisors or consultants to terminate or change the terms of their dealings with the Company, or assist any person engaged in any of the foregoing;

8.4 Directly or indirectly engage in designing, developing, manufacturing, engineering, distributing, marketing, or selling any product that is substantially similar to and that directly competes with any product designed, developed, manufactured, engineered, distributed, marketed, under development, or sold by the Company at the time of the termination of Employee's employment that is not a Licensed Product (as defined in the License Agreement between the Company and TLM of even date herewith (the "License Agreement")); or

8.5 Directly or indirectly engage in designing, developing, manufacturing, engineering, distributing, marketing, or selling any product that is substantially similar to and that directly competes with any Licensed Product; provided, however, that the post-employment restricted period with respect to this Section 8.5 shall terminate immediately upon termination of the License Agreement for any reason other than termination of the License Agreement due to TLM's breach of the License Agreement.

Employee represents and warrants that Employee has not engaged in any of the activities set forth in Sections 8.1-8.3 prior to and including the Commencement Date.

9. Assignment. This Agreement sets forth personal obligations of Employee, which may not be transferred, delegated or assigned by Employee. The Company may assign this Agreement to any successor or affiliate.

10. Survival. The rights and obligations set forth in Sections 5-8 and 13-14 shall survive the termination of Employee's employment with the Company for any reason, whether such termination is at the initiative of the Company or Employee. Such provisions of this Agreement shall survive termination of Employee's employment regardless of whether Employee resigns or is involuntarily discharged.

11. Miscellaneous.

11.1 Headings; Construction. The headings of Sections and paragraphs herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement. This Agreement shall be construed without regard to any presumption or other rule requiring construction hereof against the party causing this Agreement to be drafted.

11.2 Benefit. Subject to Section 9, nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties hereto, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

11.3 Waiver. Any delay by either party in asserting a right under this Agreement or any failure by either party to assert a right under this Agreement will not constitute a waiver by the asserting party of any right hereunder, and the asserting party may subsequently assert any or all of its rights hereunder as if the delay or failure to assert rights had not occurred.

11.4 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

11.5 Severability. If the final determination of a court of competent jurisdiction declares, after the expiration of the time within which judicial review (if permitted) of such determination may be perfected, that any term or provision hereof is invalid or unenforceable, (a) the remaining terms and provisions hereof shall be unimpaired, and (b) the invalid or unenforceable term or provision shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision.

12. Entire Agreement; Amendment.

12.1 Entire Agreement. Both Employee and the Company agree that this Agreement and the exhibits, if any, to this Agreement constitute the entire agreement between them with respect to the subject matter hereof. There were no inducements or representations leading to the execution of this Agreement except as stated in this Agreement. Accordingly, this Agreement (together with the exhibits to this Agreement) expressly supersedes any and all prior oral and written agreements, representations and promises between the Parties relating to termination of the Employee's employment with the Company. For avoidance of doubt, this Agreement does not supersede, replace or modify any agreements between TLM and the Company or the TLM Holdings LLC Equity Holders Agreement, each of which remains in full force and effect in accordance with its terms.

12.2 Amendment. This Agreement may be amended or modified only with the written consent of both Employee and the Company. No oral waiver, amendment or modification will be effective under any circumstances whatsoever.

13. Notices. Any notice hereunder by either party to the other shall be given in writing by personal delivery (by express courier or otherwise) or certified U.S. mail, return receipt requested. If addressed to

Employee, the notice shall be delivered or mailed to Employee at the address most recently communicated in writing by Employee to the Company, or if addressed to the Company, the notice shall be delivered or mailed to the Company at its executive offices to the attention of the Company's Chief Executive Officer. A notice shall be deemed given, if by personal delivery, on the date of such delivery or, if by certified mail, on the date shown on the applicable return receipt.

14. Governing Law and Disputes; Arbitration.

14.1 Governing Law and Disputes. The Company is headquartered in Minneapolis, Minnesota and the Parties expect that many of Employee's contacts with the Company will occur through or in connection with its Minneapolis office. Therefore, the Parties agree that this Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Minnesota, as such laws are applied to agreements entered into and to be performed entirely within Minnesota between Minnesota residents, without reference to principles of conflicts or choice of law under which the law of any other jurisdiction would apply. Except (and only) as set forth in Section 14.2 below, the undersigned each irrevocably consent to the jurisdiction of the United States District Court for the District of Minnesota and the courts of the State of Minnesota in any suit, action or proceeding brought under, based on or related to or in connection with this Agreement, and each of the undersigned agrees that either of the aforesaid courts will be the exclusive original forum for any such action.

14.2 Arbitration. Any dispute arising out of this Agreement, shall be discussed between the disputing parties in a good faith effort to arrive at a mutual settlement of any such controversy. If, notwithstanding, such dispute cannot be resolved, such dispute shall be settled by binding arbitration. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitrator shall be a retired state or federal judge or an attorney who has practiced business or employment law or business or employment litigation for at least 10 years. If the Parties cannot agree on an arbitrator within 20 days, any party may request that the chief judge of the District Court for Hennepin County, Minnesota, select an arbitrator. Arbitration will be conducted pursuant to the provisions of this Agreement, and the Commercial Arbitration Rules of the American Arbitration Association, unless such rules are inconsistent with the provisions of this Agreement. Limited civil discovery shall be permitted for the production of documents and taking of depositions. Unresolved discovery disputes may be brought to the attention of the arbitrator who may dispose of such dispute. The arbitrator shall have the authority to award any remedy or relief that a court of this state could order or grant; provided, however, that punitive or exemplary damages shall not be awarded. The Company shall pay the fees and expenses of the arbitrator. Unless otherwise agreed by the Parties, the exclusive location of any arbitration proceedings shall be Hennepin County, Minnesota.

14.3 Incorporation by Reference. The following exhibit is hereby incorporated by reference and is an integral part of this Agreement:

Exhibit A – Change in Control Severance Agreement of even date herewith.

IN WITNESS WHEREOF, the Parties have executed this Agreement by their signatures below, to become effective on the Commencement Date noted above:

Insignia Systems, Inc.

_____/s/ Tim J. Halfmann

By: _____/s/ Glen Dall

Tim Halfmann

Its: _____President and CEO

Dated: _____4/28/2014

Dated: _____4/28/2014

CHANGE IN CONTROL SEVERANCE AGREEMENT

This CHANGE IN CONTROL SEVERANCE AGREEMENT (“Agreement”) is made as of this 28th day of April, 2014 by and between Insignia Systems, Inc., a Minnesota corporation (the “Company”), and Tim Halfmann (the “Executive”).

WHEREAS, Employee is the sole member of TLM Holdings LLC (“TLM”);

WHEREAS, Employee has been providing certain services to the Company by and through TLM;

WHEREAS, the Company has agreed to retain Employee as an employee of the Company pursuant to the terms of an employment agreement entered into by and between the Company and Executive as of the same date as this Agreement;

WHEREAS, the Company, as a publicly held corporation, recognizes the possibility of a change in control of the Company, and that such possibility and the uncertainty and questions which it may raise could result in Executive leaving the Company or in distraction of Executive in the performance of Executive's duties to the detriment of the Company and its shareholders;

WHEREAS, it is in the best interests of the Company and its shareholders to encourage the availability of Executive's services to parties who may in the future acquire control of the Company and to provide an incentive for Executive to remain with the Company during any period of uncertainty leading up to a change in control; and

WHEREAS, based on the foregoing, the Company wishes to provide that, in the event of a change in control of the Company, Executive will receive certain benefits if Executive's employment by the Company ceases for certain reasons within a specified period following the change in control;

NOW, THEREFORE, in consideration of the foregoing and the provisions of this Agreement, the parties hereto agree as follows:

1. General Provisions. This Company shall pay Executive a lump sum severance payment if Executive ceases to be employed by the Company within two years following a Change in Control (as defined below) for certain reasons specified in this Agreement. Nothing in this Agreement alters the “at will” nature of Executive's employment by the Company. This means that either before or after a Change in Control, either the Company or the Executive may terminate Executive's employment by the Company, either with or without cause, for any reason or no reason. This Agreement relates only to whether Executive shall be entitled to certain severance payments following cessation of employment. No right to severance payments shall arise under this Agreement unless and until there occurs a Change in Control followed by a qualifying termination under this Agreement.

2. Definition of Change in Control. For purposes of this Agreement, a “Change in Control” shall be considered to occur if any of the following occurs after the date of this Agreement:

- (a) the closing of the sale of all or substantially all of the assets of the Company;
- (b) the closing of a merger, consolidation or corporate reorganization of the Company which results in the stockholders of the Company immediately prior to such event owning less than 50% of the combined voting power of the Company's capital stock immediately following such event;
- (c) the acquisition by any person (or persons who would be considered a group under the federal securities laws) who as of the date of this Agreement own less than 25% of the

voting power of the Company's outstanding voting securities, of beneficial ownership of securities representing 40% or more of the combined voting power or the Company's then outstanding securities; or

- (d) the election to the Company's board of directors of persons who constitute a majority of the board of directors and who were not nominated for election by the board of directors as part of a management slate.

3. Amount of Severance Payment. If a Change in Control occurs after the date of this Agreement and Executive subsequently ceases to be employed by the Company prior to the second anniversary of the Change in Control, then the Company shall pay Executive a lump sum severance payment equal to twenty-four (24) months of Executive's base salary which was in effect immediately prior to the Change in Control. The Company shall be entitled to deduct from the lump sum severance payment any amounts which the Company is required by law to withhold from such a payment.

Payment due under this Agreement shall be made on the 60th day after Executive's termination of employment, except that if Executive is then a "key employee" of the Company, as defined in Section 409A of the Internal Revenue Code, payment shall be made on the date which is six months after termination of employment, or to his heirs upon his death if earlier; provided, however, that no payment shall be made unless Executive has first delivered to the Company the Release described in Section 11, and the Release has not been rescinded during any applicable rescission period.

4. Circumstances in Which Severance Shall Not Be Paid. Notwithstanding the provisions of Section 3 above, the Company shall not be obligated to make any lump sum severance payment under this Agreement if, following a Change in Control, Executive ceased to be employed by the Company due to:

- (a) Executive's death or disability;
- (b) termination of Executive by the Company for Cause (as defined below); or
- (c) resignation by Executive for any reason other than a Good Reason (as defined below), including retirement.

For purposes of this Section 4, the following defined terms have the meanings indicated:

"Cause" means termination by the Company of Executive's employment due to:

- (1) conviction of a felony;
- (2) the willful and continued failure of Executive to perform his essential duties; or
- (3) gross misconduct which is materially injurious to the Company;

provided, however, that the matters referred to in clause (2) or (3) shall not be deemed to constitute "Cause" unless the Company has first given Executive written notice specifying the conduct by Executive that constitutes such failure or gross misconduct and Executive has failed to remedy the same to the reasonable satisfaction of the Company's Board of Directors.

"Good Reason" shall mean any of the following, unless Executive gives his or her prior written consent:

- (1) the assignment to Executive of any duties inconsistent with Executive's status or position with the Company, or a substantial reduction in the nature or status of

Executive's responsibilities from those in effect immediately prior to the Change in Control;

- (2) a reduction by the Company in Executive's annual base salary in effect immediately prior to the Change in Control;
- (3) the relocation of the Company's principal executive offices to a location more than fifty miles from Minneapolis, Minnesota or the Company requiring Executive to be based anywhere other than the Company's principal executive offices, except for required travel on the Company's business to an extent substantially consistent with Executive's prior business travel obligations;
- (4) the failure by the Company to continue to provide Executive with benefits at least as favorable to those enjoyed by Executive under any of the Company's pension, life insurance, medical, health and accident, disability, deferred compensation, incentive awards, incentive stock options, or savings plans in which Executive was participating at the time of the Change in Control, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive Executive of any material fringe benefit enjoyed at the time of the Change in Control, or the failure by the Company to provide Executive with the number of paid vacation days to which Executive is entitled at the time of the Change in Control, provided, however, that the Company may amend any such plan or programs as long as such amendments do not reduce any benefits to which Executive would be entitled upon termination; or
- (5) any termination of Executive's employment which is not made pursuant to a Notice of Termination satisfying the requirements in Section 5 below.

5. Notice of Termination. Any termination of Executive's employment by the Company or by Executive shall be communicated by written Notice of Termination to the other party hereto in accordance with the notice provisions of Section 6. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which indicates the specific facts and circumstances claimed to provide the basis for termination.

6. Method of Giving Notice. All notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered or certified mail, return receipt requested, postage pre-paid, addressed to the last known residence address of the Executive, or in the case of the Company, to its principal office to the attention of each of the then directors of the Company with a copy to its Secretary, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

7. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the parties. No waiver by either party thereto at any time of any breach by the other party to this Agreement, or of compliance with any condition or provision of this Agreement to be performed by such other party, shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or similar time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. This Agreement shall be governed by the laws of the State of Minnesota. This Agreement supersedes all prior agreements on this subject matter.

8. Arbitration of Disputes. Any and all disputes between the parties relating to this Agreement or any alleged breach of this Agreement shall be resolved by binding arbitration held in the City of Minneapolis pursuant to the Commercial Arbitration Rules of the American Arbitration Association before a single arbitrator. In the event that Executive is determined by the arbitrator to be the prevailing party in such an arbitration, the arbitrator shall award Executive, as an additional element of damages, his or her attorneys' fees and legal expenses actually incurred in the enforcement of this Agreement and in the arbitration proceeding. Judgment on the arbitration award may be entered by any court having jurisdiction.

9. Successors. This Agreement shall be binding upon and inure to the benefit of the respective heirs, personal representatives, successors and assigns of the parties hereto.

10. Exclusive Benefits. The benefits provided by this Agreement are in lieu of all other severance, change in control, or similar benefits payable to Executive due to termination following a Change in Control.

11. Release. As a condition to receiving any benefits under this Agreement, Executive shall be required to deliver a standard release to the Company releasing the Company and its shareholder, directors, officers, employees, agents and affiliates from any and all claims relating to Executive's employment and termination of employment.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

EXECUTIVE:

INSIGNIA SYSTEMS, INC.

/s/ Tim J. Halfmann

By /s/ Glen Dall

Its /s/ President and CEO

**INSIGNIA SYSTEMS, INC.
2013 OMNIBUS STOCK AND INCENTIVE PLAN**

*Adopted by Board of Directors on February 26, 2013; Approved by Shareholder approval on May 22, 2013
(As amended by Board of Directors on February 25, 2014; Approved by Shareholders on May 21, 2014)*

Section 1. Purpose

The purpose of the Plan is to attract, retain and motivate capable and loyal employees, officers, consultants, advisors and directors by offering such persons incentives to strive for the success of the Company's business through various stock-based compensation arrangements, thereby aligning the interests of such persons with the Company's shareholders.

Section 2. Definitions

As used in the Plan, the following terms shall have the meanings set forth below:

(a) "Affiliate" shall mean (i) any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, in each case as determined by the Committee.

(b) "Award" shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Award or Other Stock Grant granted under the Plan.

(c) "Award Agreement" shall mean any written agreement, contract or other instrument or document evidencing an Award granted under the Plan. Each Award Agreement shall be subject to the applicable terms and conditions of the Plan and any other terms and conditions (not inconsistent with the Plan) determined by the Committee.

(d) "Board" shall mean the Board of Directors of the Company.

(e) "Change in Control" means a transaction involving any of the following:

(i) the occurrence of (1) any sale, lease, exchange or other transfer of all or substantially all of the assets of the Company (in one transaction or in a series of related transactions) to a corporation that is not controlled by the Company, or (2) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which Shares would be converted into cash, securities or other property, other than a merger of the Company in which shareholders immediately prior to the merger have the same proportionate ownership of stock of the surviving corporation immediately after the merger;

(ii) the public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of the Exchange Act) by the Company or any Person that such Person has become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities;

(iii) the election to the Company's board of directors of persons who constitute a majority of the board of directors and who were not nominated for election by the then-current board of directors, including, but not limited to, the occurrence of any transaction whereby individuals who constitute the board of directors of the Company prior to the transaction cease for any reason to constitute at least a majority thereof following the transaction; or

(iv) the approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(f) “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(g) “Committee” shall mean the Compensation Committee of the Board or any other committee of the Board designated by the Board to administer the Plan. The Committee shall be comprised of not less than such number of Directors as shall be required to permit Awards granted under the Plan to qualify under Rule 16b-3 and Section 162(m), and each member of the Committee shall be a “Non-Employee Director.”

(h) “Company” shall mean Insignia Systems, Inc., a Minnesota corporation, including any subsidiaries, and any successor corporation.

(i) “Director” shall mean a member of the Board, including any Non-Employee Director.

(j) “Eligible Person” shall mean any employee, officer, consultant, advisor or director providing services to the Company or any Affiliate who the Committee determines to be an Eligible Person. An Eligible Person must be a natural person.

(k) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

(l) “Fair Market Value” means the closing price for the common stock on the NASDAQ Stock Market (including the NASDAQ National Market System) during a regular session trading for a single trading day as reported for such day on www.nasdaq.com or such other source the Committee deems reliable. The applicable trading day for determining Fair Market Value (1) in connection with the grant of Awards shall be the date of grant and (2) otherwise shall be as determined by the Committee in its sole discretion. If no reported price for the common stock exists on the NASDAQ Stock Market for the applicable trading day, then such price shall be determined by the Committee as follows:

(i) If the common stock is listed for trading on one of more national securities exchanges, or is traded on the NASDAQ Stock Market, then the price shall be the last reported sales price on such national securities exchange or the NASDAQ Stock Market, or if such common stock shall not have been traded on such principal exchange on such date, the last reported sales price on such principal exchange on the first day prior thereto on which such common stock was so traded; or

(ii) If the common stock is not listed for trading on a national securities exchange or the NASDAQ Stock Market, but is traded in the over-the-counter market, including the NASDAQ OTC Bulletin Board, then the price shall be the closing bid price for such common stock, or if there is no closing bid price for such common stock on such date, the closing bid price on the first day prior thereto on which such price existed; or

(iii) If neither (i) nor (ii) is applicable, by any means fair and reasonable by the Committee in good faith in the exercise of its reasonable discretion based upon a reasonable application of a reasonable valuation method within the meaning of Code Section 409A and treasury regulations or other authority promulgated thereunder, which determination shall be final and binding on all parties.

(m) “Incentive Stock Option” shall mean an option granted under Section 6(a) of the Plan that is intended to qualify as an “incentive stock option” in accordance with the terms of Section 422 of the Code or any successor provision.

(n) “Non-Employee Director” shall mean any Director who is a “non-employee director” as defined under subparagraph (b)(3) of Rule 16b-3 and is an “outside director” within the meaning of Section 162(m).

(o) “Non-Qualified Stock Option” shall mean an option granted under Section 6(a) of the Plan that is not an Incentive Stock Option.

(p) “Option” shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

(q) “Other Stock Grant” shall mean any right granted under Section 6(e) of the Plan.

(r) “Participant” shall mean an Eligible Person designated to be granted an Award under the Plan.

(s) “Performance Award” shall mean any right granted under Section 6(d) of the Plan.

(t) “Performance Goal” shall mean one or more of the following performance goals, either individually, alternatively or in any combination, applied on a corporate, subsidiary or business unit basis: revenue, cash flow, gross profit, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization, and net earnings, earnings per share, margins (including one or more of gross, operating and net income margins), returns (including one or more of return on assets, equity, investment, capital and revenue and total shareholder return), stock price, working capital, market share, cost reductions, customer satisfaction, completion of key projects, and strategic plan development and implementation. Such goals may reflect an absolute standard of entity or business unit performance or a relative comparison to the performance of a peer group of entities or other external measure of the selected performance criteria. Pursuant to rules and conditions adopted by the Committee on or before the 90th day of the applicable performance period for which Performance Goals are established, the Committee may appropriately adjust any evaluation of performance under such goals to exclude the effect of certain events, including any of the following events: asset write-downs; litigation or claim judgments or settlements; changes in tax law, accounting principles or other such laws or provisions affecting reported results; severance, contract termination and other costs related to exiting certain business activities; and gains or losses from the disposition of businesses or assets or from the early extinguishment of debt.

(u) “Person” shall mean any individual or entity, including a corporation, partnership, limited liability company, association, joint venture or trust.

(v) “Plan” shall mean the Insignia Systems, Inc. 2013 Omnibus Stock and Incentive Plan, as amended from time to time, the provisions of which are set forth herein.

(w) “Restricted Stock” shall mean any Share granted under Section 6(c) of the Plan.

(x) “Restricted Stock Unit” shall mean any unit granted under Section 6(c) of the Plan evidencing the right to receive a Share (or a cash payment equal to the Fair Market Value of a Share) at some future date.

(y) “Rule 16b-3” shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Exchange Act, or any successor rule or regulation.

(z) “Section 162(m)” shall mean Section 162(m) of the Code and the applicable Treasury Regulations promulgated thereunder.

(aa) “Share” or “Shares” shall mean a share or shares of common stock, \$.01 par value per share, of the Company or such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 4(c) of the Plan.

(bb) “Specified Employee” shall mean a specified employee as defined in Section 409A(a)(2)(B) of the Code.

(cc) “Stock Appreciation Right” shall mean any right granted under Section 6(b) of the Plan.

Section 3. Administration

(a) Power and Authority of the Committee. The Plan shall be administered by the Committee. Subject to the express provisions of the Plan and to applicable law, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by (or the method by which payments or other rights are to be determined in connection with) each Award; (iv) determine the terms and conditions of any Award or Award Agreement; (v) amend the terms and conditions of any Award or Award Agreement and accelerate the exercisability of any Option or waive any restrictions relating to any Award; (vi) determine whether, to what extent and under what circumstances Awards may be exercised in cash, Shares, other securities or other Awards, or canceled, forfeited or suspended; (vii) determine whether, to what extent and under what circumstances cash, Shares, other securities or other Awards and other amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder thereof or the Committee; (viii) interpret and administer the Plan and any instrument or agreement, including any Award Agreement, relating to the Plan; (ix) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (x) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award or Award Agreement shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon any Eligible Person and any holder or beneficiary of any Award.

(b) Delegation of Authority. The Committee may delegate all or any part of its authority under this Plan to: (i) one or more subcommittees which may consist solely of Non-Employee Directors and (ii) persons who are not non-employee directors for purposes of determining and administering Awards solely to Employees who are not then subject to the reporting requirements of Section 16 of the Exchange Act, *provided, however*, that the Committee shall not delegate its authority to amend or modify the Plan pursuant to the provisions of Section 7.

(c) Indemnification. To the full extent permitted by law, each member and former member of the Committee and each person to whom the Committee delegates or has delegated authority under this Plan shall be entitled to indemnification by the Company against and from any loss, liability, judgment, damages, cost and reasonable expense incurred by such member, former member or other person by reason of any action taken, failure to act or determination made in good faith under or with respect to this Plan.

(d) Evidence of Awards. Awards granted under the Plan shall be evidenced by a written instrument, an Award Agreement, that shall contain such terms, conditions, limitations and restrictions as the Committee shall deem advisable and are not inconsistent with the Plan.

Section 4. Shares Available for Awards

(a) Shares Available. Subject to adjustment as provided in Section 4(c) of the Plan, the aggregate number of Shares that may be issued under the Plan shall be 900,000.

(b) Accounting for Awards. For purposes of this Section 4, if an Award entitles the holder thereof to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan. If an Award terminates or is forfeited or cancelled without the issuance of any Shares, or if any Shares covered by an Award or to which an Award relates are not issued for any other reason, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such termination, forfeiture, cancellation or other event, shall again be available for granting Awards under the Plan. If Shares of Restricted Stock are forfeited or otherwise reacquired by the Company prior to vesting, whether or not dividends have been paid on such Shares, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award of Restricted Stock, to the extent of any such forfeiture or reacquisition by the Company, shall again be available for granting Awards under the Plan. Shares that are withheld in full or partial payment to the Company of the purchase or exercise price relating to an Award or in connection with the satisfaction of tax obligations relating to an Award (other than an Incentive Stock Option) shall again be available for granting Awards under the Plan. Any previously issued Shares that are used by a Participant as full or partial payment to the Company of the purchase or exercise price relating to an Award or in connection with the satisfaction of tax obligations relating to an Award shall again be available for granting Awards under the Plan.

(c) Adjustments. If a Participant exercises or receives all or any portion of an Award subsequent to any change in the number of outstanding common stock of the Company occurring by reason of any stock dividend, split, reverse split, reclassification, combination, exchange of common stock or other similar recapitalization of the Company, there shall be an appropriate adjustment to the number of shares of common stock underlying the Award and, where applicable, to the per unit exercise price of the Award so that the Participant shall then receive for the aggregate price paid by him or her on such exercise of an Option or termination of restrictions for any Restricted Stock or Restricted Stock Unit all shares of common stock subject to the Award to the same extent prior to such stock dividend, split, reverse split or other similar recapitalization. No adjustment shall be made under this Section upon the issuance by the Company of any warrants, rights or options to acquire additional common stock or of securities convertible into common stock unless such warrants, rights, options or convertible securities are issued to all shareholders of the Company on a proportionate basis.

(d) Award Limitations Under the Plan.

(i) *Section 162(m) Limitation for Certain Types of Awards.* No Eligible Person may be granted Options, Stock Appreciation Rights or any other Award or Awards under the Plan, the value of which Award or Awards is based solely on an increase in the value of the Shares after the date of grant of such Award or Awards, for more than 500,000 Shares (subject to adjustment as provided in Section 4(c) of the Plan) in the aggregate in any taxable year.

(ii) *Section 162(m) Limitation for Performance Awards.* If a Participant is a “covered employee” as defined under Section 162(m) (a “Covered Employee”) for any taxable year of the Participant in which a Performance Award (or portion thereof) is payable to the Participant, the maximum amount payable in the aggregate to the Participant during that year pursuant to all Performance Awards, shall be \$1,000,000 in value, whether payable in cash, Shares or other property; and such amount shall be increased annually (as of each January 1st after the effective date of the Plan) at a fixed percentage rate of 5% (the “Annual Performance Award Limit”). The Annual Performance Award Limit does not apply to any Award subject to

the limitation contained in Section 4(d)(i) of the Plan. Further, the Annual Performance Award Limit applies only to Performance Awards granted under this Plan. Any limitations on awards granted to the Participant under any other executive incentive plan maintained by the Company (a “Non-Plan Award”) will be governed solely by the terms of such other plan; provided, however, that, if any amount is payable to the Participant during a given year under a Non-Plan Award that is subject to Code Section 409A, and the terms of the Non-Plan Award permit or require the Company or any Affiliate (or its delegate) to delay beyond that year the payment of any portion of such Non-Plan Award to comply with Section 162(m), the Company shall cause payment of such portion to be delayed for that purpose.

If the Committee reasonably anticipates, on or before any date on which a Performance Award (or portion thereof) is payable to a Participant, that the Participant will be a Covered Employee for the taxable year in which that amount is payable, the Committee will apply the Annual Performance Award Limit to that amount and any other Performance Award amount otherwise payable to the Participant during that year; provided, however, that if the Committee determines at any later time during the year that the Participant is not a Covered Employee for that year, due to a termination of employment or for any other reason, the Committee will direct payment to the Participant of any portion of a Performance Award or Performance Awards that would have been payable during that year or any prior year, but was deferred to comply with the Annual Performance Award Limit, as set forth in this Section 4(d)(ii); and such payment of deferred Performance Award amounts shall be made no later than the last day of the Participant’s first taxable year for which the Participant is not a Covered Employee, unless that payment is delayed beyond that year under Section 7(b) of this Plan, to the extent permitted by or as required to comply with Code Section 409A.

(iii) *Plan Limitation on Restricted Stock, Restricted Stock Units and Other Stock Grants.* No more than 500,000 Shares, subject to adjustment as provided in Section 4(c) of the Plan, shall be available under the Plan for issuance pursuant to grants of Restricted Stock, Restricted Stock Units and Other Stock Grants; provided, however, that if any Awards of Restricted Stock Units terminate or are forfeited or cancelled without the issuance of any Shares or if Shares of Restricted Stock are forfeited or otherwise reacquired by the Company prior to vesting, whether or not dividends have been paid on such Shares, then the Shares subject to such termination, forfeiture, cancellation or reacquisition by the Company shall again be available for grants of Restricted Stock, Restricted Stock Units and Other Stock Grants for purposes of this limitation on grants of such Awards.

(iv) *Limitation on Awards Granted to Non-Employee Directors.* Directors who are not also employees of the Company or an Affiliate may not be granted Awards in the aggregate for more than 25% of the Shares available for Awards under the Plan, subject to adjustment as provided in Section 4(c) of the Plan.

(v) *Limitation on Incentive Stock Options.* The number of Shares available for granting Incentive Stock Options under the Plan shall not exceed 5,000,000, subject to adjustment as provided in Section 4(c) of the Plan and subject to the provisions of Section 422 or 424 of the Code or any successor provision.

Section 5. Eligibility

Any Eligible Person shall be eligible to be designated a Participant, so long as: (a) Awards are not made to such Persons in connection with the offer and sale of the Company’s securities in a capital-raising transaction, and (b) such Persons do not directly or indirectly promote or maintain a market for the Company’s securities. In determining which Eligible Persons shall receive an Award and the terms of any Award, the Committee may take into account the nature of the services rendered by the respective

Eligible Persons, their present and potential contributions to the success of the Company or such other factors as the Committee, in its discretion, shall deem relevant. Notwithstanding the foregoing, an Incentive Stock Option may only be granted to full-time or part-time employees (which term as used herein includes, without limitation, officers and Directors who are also employees), and an Incentive Stock Option shall not be granted to an employee of an Affiliate unless such Affiliate is also a “subsidiary corporation” of the Company within the meaning of Section 424(f) of the Code or any successor provision.

Section 6. Awards

(a) Options. The Committee is hereby authorized to grant Options to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) *Exercise Price*. The purchase price per Share purchasable under an Option shall be determined by the Committee; provided, however, that such purchase price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option.

(ii) *Option Term; Vesting*. The term of each Option shall be fixed by the Committee at the time of grant, but shall not be longer than 10 years (except as provided in Section 6(a)(iv)) from the date of grant. In addition, the Committee may adopt a policy regarding standard vesting terms for Option grants, or if one is not adopted or inapplicable, vesting terms shall be fixed by the Committee at the time of grant.

(iii) *Time and Method of Exercise*. The Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms (which may include, without limitation, cash, or cashless exercise, having a Fair Market Value on the exercise date equal to the applicable exercise price) in which, payment of the exercise price with respect thereto may be made or deemed to have been made. Unless otherwise provided in the agreement evidencing the Option, any Non-Qualified Option may be exercised by instructing the Company to withhold from the Shares issuable upon exercise of the Option Shares in payment of all or any part of the exercise price and/or any related withholding obligations consistent with Section 8, which Shares shall be valued for this purpose at their Fair Market Value or in such other manner as may be authorized from time to time by the Committee.

(iv) *Restrictions*. In addition to the foregoing provisions of this Section 6, Options that are intended to constitute Incentive Stock Options shall be subject to the following additional provisions of this Section 6(a)(iv).

A. *Eligible Participants*. Incentive Stock Options may be granted only to persons who are employees of the Company or an Affiliate.

B. *Limit on Exercisability*. The aggregate Fair Market Value (determined at the time the Option is granted) of the shares of Common Stock with respect to which Incentive Stock Options are exercisable by the Participant for the first time during any calendar year, under this Plan or any other plan of the Company or any Affiliate, shall not exceed \$100,000. To the extent an Incentive Stock Option exceeds this \$100,000 limit, the portion of the Incentive Stock Option in excess of such limit shall be deemed a Non-Statutory Option.

C. *Limit on Term*. Subject to the provisions of Section 6(a)(iv)(D), an Incentive Stock Option shall not be exercisable more than ten (10) years after the date on which it is granted.

D. Restrictions for Certain Shareholders. The purchase price of shares of common stock that are subject to an Incentive Stock Option granted to an employee of the Company or any Affiliate who, at the time such Option is granted, owns 10% or more of the total combined voting power of all classes of stock of the Company or of any Affiliate, shall not be less than 110% of the Fair Market Value of such shares on the date such Option is granted, and such Option may not be exercisable more than five (5) years after the date on which it is granted. For the purposes of this subparagraph, the rules of Section 424(d) of the Code shall apply in determining the stock ownership of any employee of the Company or any Affiliate.

(v) Payment of Exercise Price. The exercise price for Shares purchased under an Option shall be paid in full to the Company by delivery of consideration equal to the product of the Option exercise price and the number of Shares purchased. Such consideration must be paid before the Company will issue the Shares being purchased and must be in a form or a combination of forms acceptable to the Committee for that purchase, which forms may include: (a) cash; (b) check or wire transfer; (c) tendering Shares already owned by the Participant, provided that the Shares have been held for the minimum period required by applicable accounting rules to avoid a charge to the Company's earnings for financial reporting purposes or were not acquired from the Company as compensation; (d) to the extent permitted by applicable law, delivery of a properly executed exercise notice, together with irrevocable instructions to a brokerage firm designated by the Company to deliver promptly to the Company the aggregate amount of sale or loan proceeds to pay the Option exercise price and any withholding tax obligations that may arise in connection with the exercise, all in accordance with the regulations of the Federal Reserve Board; or (e) such other consideration as the Committee may permit in its sole discretion.

(vi) Cashless Exercise. The Committee, in its sole discretion, may also permit the "cashless exercise" of an Option. In the event of a cashless exercise, the Participant shall surrender the Option to the Company, and the Company shall issue the Participant the number of Shares determined as follows:

$X = Y (A-B) / A$ where:

X = the number of Shares to be issued to the Participant.

Y = the number of Shares with respect to which the Option is being exercised.

A = the Fair Market Value on the date of exercise.

B = the Option exercise price.

(b) Stock Appreciation Rights. The Committee is hereby authorized to grant Stock Appreciation Rights to Eligible Persons subject to the terms of the Plan and any applicable Award Agreement. A Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive upon exercise thereof the excess of (i) the Fair Market Value of one Share on the date of exercise (or, if the Committee shall so determine, at any time during a specified period before or after the date of exercise) over (ii) the grant price of the Stock Appreciation Right as determined by the Committee, which grant price shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right. Subject to the terms of the Plan, the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions (including conditions or restrictions on the exercise thereof) of any Stock Appreciation Right shall be as determined by the Committee.

(c) Restricted Stock and Restricted Stock Units. The Committee is hereby authorized to grant Restricted Stock and Restricted Stock Units to Eligible Persons with the following terms and

conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) *Restrictions.* Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to vote a Share of Restricted Stock or the right to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the Committee may deem appropriate. The Committee may adopt a policy regarding standard vesting terms for Restricted Stock and Restricted Stock Units grants, or if one is not adopted or inapplicable, vesting terms shall be fixed by the Committee at the time of grant. In addition, the Committee may permit acceleration of vesting of such Awards in the event of the Participant's death, disability or retirement or a Change in Control of the Company.

(ii) *Issuance and Delivery of Shares.* Any Restricted Stock granted under the Plan shall be issued at the time such Awards are granted and may be evidenced in such manner as the Committee may deem appropriate, which shall be, unless otherwise required by law or the Award Agreement by book-entry registration, but may be by issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the restrictions applicable to such Restricted Stock. Shares representing Restricted Stock that is no longer subject to restrictions shall be delivered to the Participant promptly after the applicable restrictions lapse or are waived. In the case of Restricted Stock Units, no Shares shall be issued at the time such Awards are granted. Upon the lapse or waiver of restrictions and the restricted period relating to Restricted Stock Units evidencing the right to receive Shares, such Shares shall be issued and delivered to the holder of the Restricted Stock Units.

(iii) *Forfeiture.* Except as otherwise determined by the Committee, upon a Participant's termination of employment or resignation or removal as a Director (in either case, as determined under criteria established by the Committee) during the applicable restriction period, all Shares of Restricted Stock and Restricted Stock Units held by the Participant at such time subject to restriction shall be forfeited and reacquired by the Company; provided, however, that the Committee may, when it finds that a waiver would be in the best interest of the Company, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock or Restricted Stock Units.

(iv) Except as otherwise provided in Section 6(f)(viii), any Award Agreement granting Restricted Stock Units shall contain provisions that are intended to allow the Restricted Stock Units to satisfy the requirements of (or be exempt from) Code Section 409A and any applicable provisions of Section 6(f)(viii) of this Plan.

(d) Performance Awards. The Committee is hereby authorized to grant to Eligible Persons Performance Awards which are intended to be "qualified performance-based compensation" within the meaning of Section 162(m). A Performance Award granted under the Plan may be payable in cash or in Shares (including, without limitation, Restricted Stock). Performance Awards shall, to the extent required by Section 162(m), be conditioned solely on the achievement of one or more objective Performance Goals, and such Performance Goals shall be established by the Committee within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m). Subject to the terms of the Plan and any applicable Award Agreement, the Performance Goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award granted, the amount of any payment or transfer to be made pursuant to any Performance Award and any other terms and conditions of any Performance Award shall be determined by the Committee. The Committee shall also certify in writing that such Performance Goals have been met prior to payment of

the Performance Awards to the extent required by Section 162(m). Except as otherwise provided in Section 6(f)(viii), any Award Agreement granting a Performance Award shall contain provisions that are intended to allow the Performance Award to satisfy the requirements of (or be exempt from) Code Section 409A and any applicable provisions of Section 6(f)(viii) of this Plan.

(e) Other Stock Grants. The Committee is hereby authorized, subject to the terms of the Plan, to grant to Eligible Persons Shares without restrictions thereon as are deemed by the Committee to be consistent with the purpose of the Plan. Subject to the terms of the Plan and any applicable Award Agreement, such Other Stock Grant may have such terms and conditions as the Committee shall determine.

(f) General.

(i) *Consideration for Awards.* Awards may be granted for no cash consideration, or for any cash or other consideration as determined by the Committee or required by applicable law.

(ii) *Awards May Be Granted Separately or Together.* Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with or in substitution for any other Award or any award granted under any other plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards or in addition to or in tandem with awards granted under any such other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(iii) *Forms of Payment under Awards.* Subject to the terms of the Plan, including Section 6(a)(v), and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award shall be made in such form or forms as the Committee shall determine, including, without limitation: cash, Shares, other securities, other Awards or any combination thereof; and shall be made in a single payment, in each case in accordance with rules and procedures established by the Committee. Except as otherwise provided in Section 6(f)(viii), any change in the timing of payment of an Award shall satisfy the requirements of (or be exempt from) Code Section 409A and any applicable provisions of Section 6(f)(viii) of this Plan.

(iv) *Limits on Transfer of Awards.* Except as otherwise provided by the Committee or the terms of this Plan, no Award (other than Shares that are not Restricted Stock), and no right under any such Award, shall be transferable by a Participant either (A) for any consideration or (B) without consideration other than by will or by the laws of descent and distribution. The Committee may establish procedures as it deems appropriate for a Participant to designate a Person or Persons, as beneficiary or beneficiaries, to exercise the rights of the Participant and receive any property distributable with respect to any Award in the event of the Participant's death. Each Option, Stock Appreciation Right or right under any other Award shall be exercisable during the Participant's lifetime only by the Participant (except as provided herein or in an Award Agreement or amendment thereto relating to a Non-Qualified Stock Option) or, if permissible under applicable law, by the Participant's guardian or legal representative. No Award or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate; provided, however, that this sentence shall apply to an Other Stock Grant only to the extent provided under the terms of the Award Agreement for the Other Stock Grant.

(v) *Term of Awards.* Subject to earlier termination in accordance with the terms of the Plan and the instrument evidencing the Award, the maximum term of an Award shall be as

established for that Award by the Committee, which shall not be more than ten years from the date of grant, or, if not so established, shall be ten (10) years from the date of grant.

(vi) *Restrictions; Securities Exchange Listing.* All Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan, applicable federal or state securities laws and regulatory requirements, and the Committee may direct appropriate stop transfer orders and cause other legends to be placed on the certificates for such Shares or other securities to reflect such restrictions. If the Shares or other securities are traded on a securities exchange, the Company shall not be required to deliver any Shares or other securities covered by an Award unless and until such Shares or other securities have been and continue to be admitted for trading on such securities exchange.

(vii) *Prohibition on Repricing.* Except as provided in Section 4(c) of the Plan, no Option or Stock Appreciation Right may be amended to reduce its initial exercise or grant price and no Option or Stock Appreciation Right shall be canceled, exchanged and replaced with Options or Stock Appreciation Rights or other Awards having a lower exercise or grant price, without the prior approval of the shareholders of the Company.

(viii) *Code Section 409A Provisions.* Notwithstanding anything in the Plan or any Award Agreement to the contrary, to the extent that any amount or benefit that constitutes “deferred compensation” to a Participant under Section 409A of the Code and applicable guidance thereunder is otherwise payable or distributable to a Participant under the Plan or any Award Agreement solely by reason of the occurrence of a Change in Control or due to the Participant’s disability or separation from service, such amount or benefit will not be payable or distributable to the Participant by reason of such circumstance unless the Committee determines in good faith that (A) the circumstances giving rise to such Change in Control, disability or separation from service meet the definition of a change in ownership or control, disability or separation from service, as the case may be, in Section 409A(a)(2)(A) of the Code; or (B) the payment or distribution of such amount or benefit would be exempt from the application of Section 409A of the Code by reason of the short-term deferral exemption or otherwise. Any payment or distribution that otherwise would be made to a Participant who is a Specified Employee (as determined by the Committee in good faith) on account of separation from service may not be made before the date which is six (6) months after the date of the Specified Employee’s separation from service unless the payment or distribution is exempt from the application of Section 409A of the Code by reason of the short-term deferral exemption or otherwise. Notwithstanding the foregoing provisions of this Section 6(f)(viii), Award Agreements may be written or amended in a manner that does not satisfy the requirements of Code Section 409A (or any exemption therefrom), but only if and to the extent that the Committee specifically provides in written resolutions that the Award Agreement or amendment is not intended to comply with Code Section 409A.

(ix) *Book-entry registration.* Any Awards granted under the Plan may be evidenced in such manner as the Committee may deem appropriate, but shall, unless otherwise required or specified by the applicable Award Agreement or applicable law, be evidenced through book-entry registration.

(x) *Death of Participant.* Upon the death of a Participant, an Award, or any portion thereof, may be exercised to the extent the Participant was entitled to do so at the time of the Participant’s death, by his or her executor or administrator or other person entitled by law to the Participant’s rights under the Award, at any time within one year subsequent to the date of death. The Award shall automatically expire one (1) year after the Participant’s death to the extent not exercised.

(xi) *Disability of Participant.* If a Participant is an employee of the Company, and if the Participant's employment is terminated due to his or her disability, the Participant may, within one year of such termination, exercise any unexercised portion of an Award to the extent he or she was entitled to do so at the time of such termination. The Award shall automatically expire one (1) year after such termination to the extent not exercised.

(xii) *Other Termination of Employment.* If a Participant is an employee of the Company, and if the Participant's employment is terminated other than by death, disability, or conduct which is contrary to the best interests of his or her employer, the Participant may, within 90 days of such termination, exercise any unexercised portion of an Award to the extent he or she was entitled to do so at the time of such termination. The Award shall automatically expire 90 days after such termination to the extent not exercised. If the Participant's employment is terminated by his or her employer for conduct which is contrary to the best interests of his or her employer, or if the Participant violates any written nondisclosure agreement with his or her employer, as determined in either case by the Participant's employer in its sole discretion, the unexercised portion of the Participant's Award shall automatically expire at the time of termination. Inter-company transfers and approved leaves of absence for up to 90 days shall not be considered termination of employment.

Section 7. Amendment and Termination; Adjustments

(a) Amendments to the Plan. The Board or the Committee may amend, suspend or terminate the Plan or any portion of the Plan at any time and in such respects as it shall deem advisable; *provided, however,* that, to the extent required by applicable law, regulation or rule, including, but not limited to the rules and regulations of the NASDAQ Stock Market, shareholder approval shall be required for any amendment, suspension, or termination to the Plan.

(b) Amendments to Awards. The Committee may waive any conditions of or rights of the Company under any outstanding Award, prospectively or retroactively. Except as otherwise provided by the terms of the Plan, including, without limitation, Section 9(g), or an Award Agreement, the Committee may not amend, alter, suspend, discontinue or terminate any outstanding Award, prospectively or retroactively, if such action would adversely affect the rights of the holder of such Award, without the consent of the Participant or holder or beneficiary thereof. The Company intends that Awards under the Plan shall satisfy the requirements of Section 409A of the Code to avoid any adverse tax results thereunder and the Committee shall administer and interpret the Plan and all Award Agreements in a manner consistent with that intent. In this regard, if any provision of the Plan or an Award Agreement would result in adverse tax consequences under Section 409A of the Code, the Committee may amend that provision (or take any other action reasonably necessary) to avoid any adverse tax results and no action taken to comply with Section 409A of the Code shall be deemed to impair or otherwise adversely affect the rights of any holder of an Award or beneficiary thereof.

(c) Correction of Defects, Omissions and Inconsistencies. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award or Award Agreement in the manner and to the extent it shall deem desirable to implement or maintain the effectiveness of the Plan.

Section 8. Income Tax Withholding

In order to comply with all applicable federal, state, local or foreign income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal, state, local or foreign payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant. In order to assist a Participant in paying all or a portion of applicable taxes to be withheld or collected upon exercise or

receipt of (or the lapse of restrictions relating to) an Award, the Committee, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the Participant to satisfy such tax obligation by (i) electing to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes or (ii) delivering to the Company Shares other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes.

Section 9. General Provisions

(a) No Rights to Awards. No Eligible Person or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Participant or with respect to different Participants.

(b) Award Agreements. No Participant will have rights under an Award granted to such Participant unless and until an Award Agreement shall have been duly executed on behalf of the Company and, if requested by the Company, signed by the Participant.

(c) Plan Provisions Control. In the event that any provision of an Award Agreement conflicts with or is inconsistent in any respect with the terms of the Plan as set forth herein or subsequently amended, the terms of the Plan shall control.

(d) No Rights of Shareholders. Unless otherwise provided by the Committee or in the instrument evidencing the Award or in any other written agreement between a Participant and the Company, no Award shall entitle the Participant to any voting or other right of a shareholder unless and until the date of issuance under the Plan of the Shares that are the subject of such Award.

(e) Issuance of Shares. Notwithstanding any other provision of the Plan, the Company shall have no obligation to issue or deliver any Shares under the Plan or make any other distribution of benefits under the Plan unless, in the opinion of the Company's counsel, such issuance, delivery or distribution would comply with all applicable laws (including, without limitation, the requirements of the Securities Act of 1933, as amended, or the laws of any state or foreign jurisdiction) and the applicable requirements of any securities exchange or similar entity.

The Company shall be under no obligation to any Participant to register for offering or resale or to qualify for exemption under the Securities Act, or to register or qualify under the laws of any state or foreign jurisdiction, any Shares, security or interest in a security paid or issued under, or created by, the Plan, or to continue in effect any such registrations or qualifications if made. The Company may issue certificates for Shares with such legends and subject to such restrictions on transfer and stop-transfer instructions as counsel for the Company deems necessary or desirable for compliance by the Company with federal, state and foreign securities laws. The Company may also require such other action or agreement by the Participants as may from time to time be necessary to comply with applicable securities laws.

As further set forth under Section 6(f)(ix), to the extent the Plan or any instrument evidencing an Award provides for issuance of stock certificates to reflect the issuance of Shares, the issuance shall be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

(f) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional

compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(g) Change in Control. Notwithstanding anything to the contrary set forth in the Plan, upon any Change in Control, the Committee may, in its sole and absolute discretion and without the need for the consent of any Participant, take one or more of the following actions contingent upon the occurrence of that Change in Control:

(i) cause any or all outstanding Awards to become vested and immediately exercisable (as applicable), in whole or in part;

(ii) cause any outstanding Option to become fully vested and immediately exercisable for a reasonable period in advance of the Change in Control and, to the extent not exercised prior to that Change in Control, cancel that Option upon closing of the Change in Control;

(iii) cancel any unvested Award or unvested portion thereof, with or without consideration;

(iv) cancel any Award in exchange for a substitute award;

(v) redeem any Restricted Stock or Restricted Stock Unit for cash and/or other substitute consideration with value equal to Fair Market Value of an unrestricted Share on the date of the Change in Control;

(vi) cancel any Option in exchange for cash and/or other substitute consideration with a value equal to: (A) the number of Shares subject to that Option, multiplied by (B) the difference, if any, between the Fair Market Value per Share on the date of the Change in Control and the exercise price of that Option; *provided*, that if the Fair Market Value per Share on the date of the Change in Control does not exceed the exercise price of any such Option, the Committee may cancel that Option without any payment of consideration therefor;

(vii) take such other action as the Committee shall determine to be reasonable under the circumstances; and/or

(viii) notwithstanding any provision of this Section 9(g), in the case of any Award subject to Section 409A of the Code, such Award shall vest and be distributed only in accordance with the terms of the applicable Award Agreement and the Committee shall only be permitted to use discretion to the extent that such discretion would be permitted under Section 409A of the Code.

In the discretion of the Committee, any cash or substitute consideration payable upon cancellation of an Award may be subjected to (i) vesting terms substantially identical to those that applied to the cancelled Award immediately prior to the Change in Control, or (ii) earn-out, escrow, holdback or similar arrangements, to the extent such arrangements are applicable to any consideration paid to shareholders in connection with the Change in Control.

(h) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained as an employee of the Company or any Affiliate, or a Director to be retained as a Director, nor will it affect in any way the right of the Company or an Affiliate to terminate a Participant's employment at any time, with or without cause. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment free from any liability or any claim under the Plan or any Award, unless otherwise expressly provided in the Plan or in any Award Agreement.

(i) Successors and Assigns. All obligations of the Company under the Plan with respect to Awards shall be binding on any successor to the Company, whether the existence of such successor is the

result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all the business and/or assets of the Company.

(j) Governing Law. The validity, construction and effect of the Plan or any Award, and any rules and regulations relating to the Plan or any Award, shall be determined in accordance with the internal laws, and not the law of conflicts, of the State of Minnesota.

(k) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

(l) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and an Eligible Person or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(m) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

(n) Headings. Headings are given to the Sections and subsections of the Plan or any Award Agreement solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

(o) Code Interpretation. Each reference in the Plan to a section of the Code will be interpreted to include the section itself, any successor provision thereto, the Treasury regulations thereunder (or under a successor provision), and all applicable administrative or judicial guidance relating thereto.

Section 10. Effective Date of the Plan

The Plan became effective on February 26, 2013, upon its adoption by the Board, subject to the approval of the shareholders of the Company at the annual meeting of shareholders of the Company held on May 22, 2013.

Section 11. Term of the Plan

The Plan shall terminate at midnight on February 26, 2023, unless terminated before then by the Board. Awards may be granted under the Plan until the Plan terminates or until all Shares available for Awards under the Plan have been purchased or acquired; provided, however, that Incentive Stock Options may not be granted following the 10-year anniversary of the Board's adoption of the Plan on February 26, 2013. The Plan shall remain in effect as long as any Awards are outstanding.

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Glen P. Dall, certify that:

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

Date: August 6, 2014

/s/ Glen P. Dall
Glen P. Dall
President and Chief Executive Officer
(principal executive officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, John C. Gonsior, certify that:

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

Date: August 6, 2014

/s/ John C. Gonsior
John C. Gonsior
Vice President, Finance and
Chief Financial Officer
(principal financial officer)

SECTION 1350 CERTIFICATION

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

- (1) The accompanying Quarterly Report on Form 10-Q for the period ended June 30, 2014, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the accompanying Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2014

/s/ Glen P. Dall
Glen P. Dall
President and Chief Executive Officer
(principal executive officer)

Date: August 6, 2014

/s/ John C. Gonsior
John C. Gonsior
Vice President, Finance and
Chief Financial Officer
(principal financial officer)