

INSIGNIA SYSTEMS INC/MN
Form DEF 14A
April 06, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

Insignia Systems, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

6470 Sycamore Court North, Maple Grove, MN 55369

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

May 18, 2005

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TO THE SHAREHOLDERS OF INSIGNIA SYSTEMS, INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Insignia Systems, Inc. (the Company), a Minnesota corporation, will be held on Wednesday, May 18, 2005 at 9:00 a.m., Central Daylight Savings Time, at the Radisson Hotel & Conference Center, 3131 Campus Drive, Plymouth, Minnesota, for the following purposes:

1. To elect five directors to serve for one year, and until their successors are elected;
2. To approve an amendment to the Company's 2003 Incentive Stock Option Plan to increase the number of shares reserved for issuance under the Plan from 1,000,000 to 1,625,000 shares;
3. To approve an amendment to the Company's Employee Stock Purchase Plan to increase the number of shares reserved for issuance under the Plan from 600,000 to 700,000 shares;
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on March 21, 2005 as the record date for the determination of shareholders entitled to notice of and to vote at the meeting.

By Order of the Board of Directors

Scott F. Drill
Secretary

Maple Grove, Minnesota
April 6, 2005

ALL SHAREHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. HOWEVER, TO ENSURE YOUR REPRESENTATION AT THE MEETING, YOU ARE URGED TO VOTE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN THE POSTAGE-PAID ENVELOPE ENCLOSED FOR THAT PURPOSE.

PROXY STATEMENT

This Proxy Statement is furnished to the shareholders of Insignia Systems, Inc. in connection with the Board of Directors' solicitation of proxies to be voted at the annual meeting of shareholders to be held on May 18, 2005 or any adjournment thereof (the Meeting). The mailing of this Proxy Statement to shareholders commenced on or about April 6, 2005.

All expenses in connection with solicitation of proxies will be borne by the Company. The Company will pay brokers, nominees, fiduciaries, or other custodians their reasonable expenses for sending proxy material to, and obtaining instructions from, persons for whom they hold stock of the Company. The Company expects to solicit proxies by mail, but directors, officers, and other employees of the Company may

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also solicit in person, by telephone, by telegraph or by mail. The Company's principal offices are located at 6470 Sycamore Court North, Maple Grove, Minnesota 55369.

Any proxy may be revoked at any time before it is voted by written notice, mailed or delivered to the Secretary of the Company, or by revocation in person at the Meeting; but if not so revoked, the shares represented by such proxy will be voted in the manner directed by the shareholder. If no direction is made, proxies received from shareholders will be noted for the proposals set forth in the Notice of Meeting.

The Company has 15,001,856 shares of Common Stock, par value \$.01 per share (the Common Stock) outstanding and entitled to vote at the Meeting. Each share of Common Stock is entitled to one vote. Only shareholders of record at the close of business on March 21, 2005 are entitled to vote at the meeting and at any continuation or adjournment thereof. The presence, in person or by proxy, of the holders of a majority of the shares of Common Stock entitled to vote at the meeting will constitute a quorum for the transaction of business.

Under Minnesota law, each item of business properly presented at a meeting of shareholders generally must be approved by the affirmative vote of the greater of: (1) the holders of a majority of the voting power of the shares present, in person or by proxy, and entitled to vote on that item of business; or (2) a majority of the voting power of the minimum number of the shares entitled to vote that would constitute a quorum for the transaction of business at the meeting. Votes cast by proxy or in person at the Meeting will be tabulated at the Meeting to determine whether or not a quorum is present. Abstentions will be treated as unvoted for purposes of determining the approval of the matter submitted to the shareholders for a vote. If a broker indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter, those shares will not be considered as present and entitled to vote with respect to that matter.

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SECURITY OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT

The following table presents information provided to the Company as to the beneficial ownership of Common Stock as of January 31, 2005 (i) by persons known to the Company to hold 5% or more of such stock, (ii) each of the directors of the Company, (iii) each of the executive officers named in the Summary Compensation Table on page 7; and (iv) by all current officers and directors as a group. Beneficial ownership includes shares available for purchase under warrants or options which are either currently exercisable or exercisable within 60 days after January 31, 2005.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Shares
<u>5% Shareholders</u>		
Perkins Capital Management, Inc. 730 East Lake Street Wayzata, MN 55391	1,749,492 ⁽¹⁾	11.7%
Potomac Capital Management, Inc. 153 East 53rd Street, 26th Floor New York, NY 10022	1,017,300 ⁽²⁾	6.8%
W. Robert Ramsdell 6470 Sycamore Court North Maple Grove, MN 55369	946,550 ⁽³⁾	6.3%

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Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Shares
<u>Directors and Executive Officers</u>		
Scott F. Drill	455,021 ⁽⁴⁾	3.0%
Gary L. Vars	282,121 ⁽⁵⁾	1.9%
Thomas N. Wilkolak	77,667 ⁽⁶⁾	*
Donald J. Kramer	65,000 ⁽⁷⁾	*
Gordon F. Stofer	28,162 ⁽⁸⁾	*
All current Directors and Officers as a Group (6 persons)	1,854,521 ⁽⁹⁾	11.9%

* Indicates less than one percent.

- (1) Includes 1,024,492 shares held by Perkins Capital Management, Inc. and 725,000 shares held by Perkins Opportunity Fund, which is affiliated with Perkins Capital Management, Inc.
- (2) Includes shares held by Potomac Capital Partners, LP, Potomac Capital International Ltd. and Pleiades Investment Partners-R, LP.
- (3) Includes 25,000 shares subject to options. Mr. Ramsdell is also a director.
- (4) Includes 120,001 shares subject to options, and 80,000 shares held in a Family Limited Partnership.
- (5) Includes 220,001 shares subject to options, and 4,650 shares owned by Mr. Vars spouse, as to which he disclaims beneficial ownership.
- (6) Includes 76,667 shares subject to options.
- (7) Consists of 65,000 shares subject to options.
- (8) Includes 25,000 shares subject to options.
- (9) Includes 531,669 shares subject to options, 80,000 shares held in a family limited partnership of an officer and 4,650 shares held by the spouse of another director.

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**ITEM I
ELECTION OF DIRECTORS**

Pursuant to the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors has fixed the size of the Board of Directors to be elected at the Annual Meeting at five. The Nominating and Corporate Governance Committee has nominated all five of the current members of the Board for re-election. All of the nominees have consented to serve if elected. If any nominee should be unable to serve, or becomes unavailable for any reason (which is not anticipated), the persons named in the proxies may vote for such other persons as determined by them in their discretion.

The names and ages of the nominees, their current positions with the Company, and the year each first became a director, are as follows:

Name and Age	Position	Director Since
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Name and Age	Position	Director Since
Donald J. Kramer (72)	Chairman of the Board of Directors	2002
Scott F. Drill (52)	President and Chief Executive Officer	1998
Gary L. Vars (64)	President of POPS Division	1999
W. Robert Ramsdell (64)	Director	1999
Gordon F. Stofer (58)	Director	1990

Business Experience

Donald J. Kramer was elected Chairman of the Board of Directors in March 2004 and has been a director since December 2002. Until 1996, he was a principal of TA Associates, a private equity capital firm located in Boston, Massachusetts. He is also a director of Micro Component Technology, Inc., a manufacturer of semiconductor handling and testing equipment based in St. Paul, Minnesota.

Scott F. Drill has been President and Chief Executive Officer of the Company since February 24, 1998. From May 1996 to December 2002, he was also a partner in Minnesota Management Partners (MMP), a venture capital firm located in Minneapolis, Minnesota. Mr. Drill co-founded Varitronic Systems, Inc. in 1983, and was its President and CEO until it was sold in 1996. Prior to starting Varitronics, Mr. Drill held senior management positions in sales and marketing at Conklin Company and Kroy, Inc.

Gary L. Vars has been President of the POPS Division since December 2002, and was Chairman of the Board of Directors from March 2001 to March 2004. From September 1998 to December 2002, he held the position of Executive Vice President and General Manager of the POPS Division. Prior to joining the Company in 1998, Mr. Vars spent 22 years as a marketing and business development consultant to Fortune 500 companies. From 1966 to 1976, Mr. Vars held various management positions at The Pillsbury Co., including Director of Marketing and New Product Development, Grocery Products Division.

W. Robert Ramsdell has been a director of the Company since October 1999. Mr. Ramsdell has been engaged in private investments in micro cap companies since 1990. From 1973 until his retirement in 1990, Mr. Ramsdell was senior partner, director of research and office manager of Cantor Fitzgerald & Co. in Los Angeles, engaged in the institutional equity business. He has been a financial advisor to many companies including Occupational Urgent Care Systems (OUCH) and Preferred Voice.

Gordon F. Stofer has been a director of the Company since February 1990. Since 1980, Mr. Stofer has been the managing general partner of Cherry Tree Investments, Inc., a venture capital and investment banking firm located in Minneapolis, Minnesota. Mr. Stofer has been a director of numerous public and private companies over the past 25 years.

Compensation of Directors

Prior to 2003, the Company's directors did not receive any fees for their service on the Board of Directors, other than reimbursement of reasonable out-of-pocket expenses incurred on behalf of the Company. During 2004 outside directors received a fee of \$10,000 per year and \$1,000 for each Board meeting (\$500 for each conference call meeting) that they attended. In addition, the Chair of each committee received \$1,000 for each meeting of the committee, and members of the committee received \$500 for each meeting of the committee that they attended. Beginning January 2005, the fee for all Board and committee conference call meetings they attend has been lowered to \$250. The 2003 Incentive Stock Option Plan provides for the grant to each non-employee director of a non-qualified option to purchase 10,000 shares of common stock at the time the director is first elected or appointed to the Board, and grants of non-qualified options for 5,000 shares each year that the director is

re-elected. All grants have an exercise price equal to the closing market price on the date of grant.

Meetings and Committees of the Board of Directors

The Board of Directors met 14 times during 2004. Each director attended at least 75% of all meetings of the Board and committees of the Board on which he served. Directors are expected to attend substantially all of the meetings of the Board and the Committees on which they serve, except for good cause. Each director also attended the 2004 Annual Meeting of Shareholders. Directors who have excessive absences without good cause will not be nominated for re-election or, in extreme cases, will be asked to resign or be removed. The Board of Directors has three standing committees, the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee.

Audit Committee. The current members of the Audit Committee are Mr. Kramer, Mr. Ramsdell and Mr. Stofer, each of whom is independent as that term is defined in the Nasdaq Listing Standards. Mr. Kramer has been designated by the Board as the Audit Committee's financial expert, as that term is defined by rules of the Securities and Exchange Commission (SEC). The Audit Committee provides independent objective oversight of the Company's financial reporting system, reviews and evaluates significant matters relating to the audit and the internal controls of the Company, reviews the scope and results of audits by, and the recommendations of, the Company's independent auditors and approves additional services to be provided by the auditors. The Audit Committee operates pursuant to a written Charter, that was most recently amended on February 19, 2004, and was included as an Appendix to the 2004 Proxy Statement. The Committee met seven times during 2004. These meetings were designed to facilitate and encourage private communication between the Audit Committee and the Company's independent auditors. See the Report of the Audit Committee in this Proxy Statement.

Compensation Committee. The Compensation Committee consists of Mr. Stofer, Mr. Kramer and Mr. Ramsdell, all of whom are independent as that term is defined by the Nasdaq Listing Standards. Among other duties, the Compensation Committee reviews and approves the compensation of the Company's officers, benefits policies, strategies and pay levels necessary to support corporate objectives. The Compensation Committee also approves option grants to employees. The Compensation Committee met five times during 2004. See the Report of the Compensation Committee in this Proxy Statement.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee was formed in December 2002. The current members of the Committee are Mr. Stofer, Mr. Kramer and Mr. Ramsdell, each of whom is independent as that term is defined in the Nasdaq Listing Standards. The Committee operates pursuant to a written Charter, that was most recently amended on February 19, 2004, and was included as an Appendix to the 2004 Proxy Statement. Among other duties, the Committee is responsible for nominating the slate of directors to be considered for election at the Company's annual meeting of shareholders. The Committee met one time in 2004.

The Nominating and Corporate Governance Committee Charter states that the Committee will evaluate candidates for election as directors using the following criteria: education, reputation, experience, industry knowledge, independence, leadership qualities, personal integrity, and such other criteria as the Committee deems relevant. The Committee will consider candidates recommended by the Board, management, shareholders, and others. The Charter authorizes the Committee to retain and pay advisors to assist it in identifying and evaluating candidates.

Shareholders who wish to recommend candidates to the Nominating and Corporate Governance Committee should submit the names and qualifications of the candidates to the Committee at least 120 days before the date of the Company's proxy statement for the previous year's Annual Meeting. Submittals should be in writing, addressed to the Committee at the Company's headquarters.

Shareholder Communications with the Board

Shareholders may send written communications to the Board or to any individual director at any time. Communications should be addressed to the Board or the individual director at the address of the Company's headquarters. The Board may direct that all of such communications be screened by an employee of the Company for relevance. The Board will respond to shareholder communications when it deems a response to be appropriate.

Code of Ethics

The Board of Directors has adopted a Code of Ethics to promote the highest honest and ethical conduct and compliance with laws, regulations and Company policies by the Company's directors, officers, employees and contractors.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR ELECTION OF THE MANAGEMENT SLATE OF NOMINEES.

ITEM II AMENDMENT TO 2003 INCENTIVE STOCK OPTION PLAN

The Board of Directors has adopted, subject to shareholder approval, an amendment to the Company's 2003 Incentive Stock Option Plan (the "2003 Plan"). The amendment provides for an increase in the total number of shares available under the 2003 Plan from 1,000,000 shares to a total of 1,625,000 shares. On May 20, 2003, the shareholders approved the 2003 Plan to replace the 1990 Stock Plan (the "1990 Plan") and on May 20, 2004, the shareholders approved an increase in the total number of shares available under the 2003 Plan from 350,000 shares to a total of 1,000,000 shares. As of March 21, 2005, there were options outstanding to purchase 642,100 shares under the 2003 Plan.

During 2003 and 2004, the Company's stock price declined approximately 80%, due to a series of lawsuits between the Company and one of its major competitors and other factors. The Company has incurred significant legal expenses in the litigation, and expects to incur significant additional legal expenses until the litigation is concluded. This has had an adverse effect on the Company's operating results and stock price. As a result, approximately 75% of the outstanding employee stock options have exercise prices in excess of the current market price for the stock. These "underwater" options are perceived by the employees to have lost much of their value, and the options thus no longer serve their intended purpose of increasing the employees' motivation to use their best efforts to achieve the Company's goals and objectives. The Company's Board of Directors believes that the number of shares reserved for issuance under the Plan should be increased to 1,625,000 shares, so there are sufficient shares to grant additional options to current and new employees. The Board believes that this will assist the Company in attracting, retaining and motivating employees, for the benefit of the Company and all of the shareholders.

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Summary of the Plan

The 2003 Plan provides for the granting of stock options to employees, non-employee directors, consultants and advisors. There are currently 86 employees and three non-employee directors who are eligible to receive options under the 2003 Plan. Prior to the increase which the shareholders are being asked to approve at the Annual Meeting, an aggregate of 1,000,000 shares of Common Stock had been issued or reserved for issuance under the 2003 Plan. Shares covered by expired or terminated stock options may be used for subsequent awards under the 2003 Plan.

The 2003 Plan is administered by the Compensation Committee, whose members are appointed by the Board. The Committee has the power to select recipients, make grants of stock options, and adopt regulations and procedures for the 2003 Plan. Non-employee directors receive automatic option grants for 10,000 shares in the year in which they are first appointed or elected to the Board, and option grants for 5,000 shares each year they are re-elected.

The 2003 Plan permits the grant of both stock options that qualify as "incentive stock options" under the Internal Revenue Code and options that do not so qualify ("non-qualified options"). Incentive stock options differ as to their tax treatment and are subject to a number of limitations under the Internal Revenue Code. Incentive stock options may only be granted to employees, and may not be granted with an exercise price less than 100% of the fair market value of the Common Stock on the date of the grant (or, for an option granted to a person holding more than 10% of the Company's voting stock, at less than 110% of fair market value). On March 21, 2005, the closing sale price of the Common Stock was \$1.38 per share. The 2003 Plan states that the maximum number of shares for which any person may be granted options in any year shall not exceed 100,000 shares.

Following an optionee's death or disability, the optionee's options may be exercised by the optionee (or the optionee's legal representative or legatee) for a period of one year or until the expiration of the stated term of the option, whichever is less. If an optionee's employment with the

Company terminates for any other reason, the optionee's options will remain exercisable for 90 days or until the expiration of the stated term, whichever is less, except if such optionee is terminated for conduct which is contrary to the best interest of the Company, or violates any written nondisclosure agreement, the optionee's options will immediately terminate. Options may not be transferred other than by will or the laws of descent and distribution, and during the lifetime of an optionee may be exercised only by the optionee.

The term of each option, which is fixed by the Committee at the time of grant, may not exceed ten years from the date the option is granted (except that an incentive option granted to a person holding more than 10% of the Company's voting stock may be exercisable only for five years). Options may be made exercisable in whole or in installments, as determined by the Committee. The vesting of options will be accelerated upon a change in control of the Company.

Federal Income Tax Treatment

Generally the grant of either an incentive stock option or a non-qualified option under the 2003 Plan will not cause recognition of income by the optionee or entitle the Company to an income tax deduction. Upon exercise of an option, the tax treatment will generally vary depending on whether the option is an incentive stock option or a non-qualified option. The exercise of an incentive stock option will generally not cause recognition of income by the optionee or entitle the Company to a tax deduction. However, the amount by which the fair market value of the shares obtained exceeds the exercise price on the date of exercise is an item of tax preference to the optionee for alternative minimum tax purposes.

The exercise of a non-qualified option will generally cause the optionee to recognize taxable income equal to the difference between the exercise price and the fair market value of the stock obtained on the day of exercise. The Company must then in most cases withhold the tax arising from the transaction. The exercise of a non-qualified option will also generally entitle the Company to an income tax deduction equal to the amount of the income recognized by the exercising option holder.

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The foregoing discussion of the federal income tax treatment of options is necessarily general and any option holder should consult his tax advisor as to his own particular circumstances and applicable laws and regulations.

Registration with the SEC

Upon approval of the amendment to the 2003 Plan, the Company will file a Registration Statement on Form S-8 with the SEC to register the issuance of the additional shares.

Shareholder Approval and Board Recommendation

Approval of the amendment to the 2003 Plan requires the affirmative vote of a majority of the shares present and entitled to vote at the Meeting.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR APPROVAL OF THE AMENDMENT TO THE 2003 PLAN.

ITEM III AMENDMENT TO EMPLOYEE STOCK PURCHASE PLAN

The Company's 1993 Employee Stock Purchase Plan (the Purchase Plan) was adopted by the Board of Directors and was approved by the Company's shareholders on April 27, 1993. The Purchase Plan will continue until terminated by the Board. The purpose of the Purchase Plan is to facilitate purchase of Company Common Stock by employees through payroll deductions to foster a greater community of interest between the Company's employees and its shareholders. There are approximately 86 employees, including three executive officers, who are currently eligible to participate under the Purchase Plan.

In its amended form, the Purchase Plan reserved a total of 600,000 shares of common stock for employee purchases. As of the end of 2004, a total of 532,923 shares have been purchased by employees under the Purchase Plan and 67,077 shares remained. The Company's Board of Directors believes that the remaining 67,077 shares will be insufficient to cover all the shares which employees would like to purchase under the Purchase Plan in the foreseeable future. Therefore, the Board of Directors has approved and is hereby submitting to shareholders for approval an amendment to the Purchase Plan which would increase by 100,000 the total number of shares available under the Purchase Plan so as to allow greater participation by the Company's employees. This will align more closely the interests of the employees with the interests of the Company and its shareholders. The other terms of the Purchase Plan would not change in any material aspect. The terms of the Purchase Plan, with the proposed amendments, are summarized below.

Eligibility

Any employee of the Company who customarily works more than 20 hours per week and more than five months in a calendar year, is eligible to participate in the Purchase Plan. Employees of any future subsidiary of the Company may also participate.

Participation

Eligible employees may voluntarily elect to participate in the Purchase Plan by completing a payroll deduction authorization which is effective on the first day of the plan year. Payroll deductions are limited to 10% of the participating employee's base pay for the plan year.

Purchase Price

The payroll deductions authorized by participating employees are used to purchase newly issued shares of Common Stock from the Company at the end of each plan year. The purchase price is the lower of 85% of the fair market value of the shares on the first day or the last day of the applicable plan year.

Exercise and Withdrawal

Shares are purchased for participating employees automatically on the last day of a plan year, unless the participant elects in writing prior to such date not to complete the purchase. A participant may at any time during a plan year give notice that he or she does not wish to continue to participate, and all amounts withheld are then refunded with interest.

Administration and Amendment

The Purchase Plan is administered by a Committee appointed by the Board of Directors. Each member of such Committee is either a director, officer or employee of the Company. The Board of Directors may at any time amend the Purchase Plan, except that no amendment may make changes in stock purchase rights already granted that would adversely affect the rights of any participant.

Income Tax Consequences

The Purchase Plan is a qualified Purchase Plan under Section 423 of the Internal Revenue Code. Under the Internal Revenue Code, no income will result to a participant upon the purchase of shares, and no deduction will be allowed by the Company. The gain, if any, resulting from a disposition of the share received by a Participant, is reported according to the provisions of Section 423 of the Internal Revenue Code, and will generally be taxed in part as ordinary income and in part as capital gain.

Registration with the SEC

Upon approval of the amendment to the Purchase Plan, the Company will file a Registration Statement on Form S-8 with the SEC to register the issuance of the additional shares.

Shareholder Approval and Board Recommendation

Approval of the amendment to the Purchase Plan requires the affirmative vote of a majority of the shares present and entitled to vote at the Meeting.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR APPROVAL OF THE AMENDMENT TO THE PURCHASE PLAN.

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EXECUTIVE COMPENSATION AND OTHER INFORMATION

The following table shows, for the fiscal years ending December 31, 2002, 2003 and 2004, the compensation paid by the Company to Scott F. Drill, the Company's President, Chief Executive Officer, Secretary and Treasurer, and to each other executive officer of the Company (together with Mr. Drill, the Named Executives) whose total compensation exceeded \$100,000 during 2004 in all capacities in which they served:

SUMMARY COMPENSATION TABLE

Name and Position	Fiscal Year Ended December 31,	Annual Compensation ⁽¹⁾		Long-Term Compensation	All Other Compensation ⁽²⁾
		Salary	Commission	Stock Options and Awards	
Scott F. Drill, President, Chief Executive Officer, Secretary and Treasurer	2004	\$ 275,000		60,000	\$ 12,276
	2003	\$ 275,000		35,000	\$ 15,776
	2002	\$ 275,000	\$ 18,861	50,000	\$ 3,180
Gary L. Vars, President, POPS Division	2004	\$ 260,000		60,000	\$ 792
	2003	\$ 260,000		35,000	\$ 4,292
	2002	\$ 250,000	\$ 37,729	50,000	\$ 792
Thomas N. Wilkolak ⁽³⁾ Exec. Vice President, General Manager, POPS Division	2004	\$ 180,000	\$ 30,897	45,000	\$ 645
	2003	\$ 180,000	\$ 10,838	50,000	\$ 3,213

(1) No bonuses have been paid for the last three fiscal years.

(2) Includes amounts for car allowance, payment of life insurance premiums and Company match on 401(k) contributions.

(3)

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Mr. Wilkolak began his employment with the Company in June 2002 and was appointed an executive officer in May 2003.

Change in Control Agreements

Messrs. Drill, Vars and Wilkolak have Change in Control Agreements with the Company. The agreements provide that, following a change in control of the Company, they will receive severance payments equal to two years' salary if they are terminated without cause, or if they voluntarily terminate for good reason, defined in the agreement to include demotion, reduction in salary or benefits, relocation, and certain other events. In addition, Messrs. Drill's and Vars' agreements provide that they will receive their severance payments if they voluntarily terminate their employment for any reason following a hostile takeover of the Company.

STOCK OPTIONS

The following table contains information concerning the grant of stock options during 2004 to the executive officers named in the Summary Compensation Table:

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OPTION GRANTS IN LAST FISCAL YEAR

Name	Number of Shares Covered by Option Grants	% of Total Options Granted to Employees in Fiscal Year Ended Dec. 31, 2004	Exercise Price Per Share ⁽¹⁾	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Scott F. Drill	60,000 ⁽²⁾	11.9%	\$ 1.31	5/20/2014	\$ 49,423	\$ 125,242
Gary L. Vars	60,000 ⁽²⁾	11.9%	\$ 1.31	5/20/2014	\$ 49,423	\$ 125,242
Thomas N. Wilkolak	10,000 ⁽³⁾	2.0%	\$ 1.95	2/19/2014	\$ 12,266	\$ 31,085
	35,000 ⁽²⁾	6.9%	\$ 1.31	5/20/2014	\$ 28,830	\$ 73,058

- (1) Equal to the market value of the Company's Common Stock on the date of grant.
 (2) Option grants vest at the rate of 33.33% per year over three years.
 (3) Option grant vested at the end of 2004.

AGGREGATED OPTION EXERCISES AND FISCAL YEAR-END OPTION VALUES

Name	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options at December 31, 2004	Value of Unexercised In-the-Money Options at December 31, 2004(1)
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Name	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options at December 31, 2004		Value of Unexercised In-the-Money Options at December 31, 2004 ⁽¹⁾	
			Exercisable	Unexercisable	Exercisable	Unexercisable
			120,001	99,999		\$ 52,200
Gary L. Vars			220,001	99,999	\$ 34,590	\$ 52,200
Thomas D. Wilkolak			60,001	84,999	\$ 2,300	\$ 30,450

(1) Based on the market price of \$2.18 per share for the Company's Common Stock on December 31, 2004.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	1,757,628	\$ 4.91	425,177
Equity compensation plans not approved by security holders			
Total	1,757,628	\$ 4.91	425,177 ⁽¹⁾

(1) Does not include 625,000 additional shares reserved for issuance under the 2003 Incentive Stock Option Plan, nor 100,000 shares reserved for issuance under the 1993 Employee Stock Purchase Plan, which are subject to shareholder approval at the Annual Meeting. See Items II and III.

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative total shareholder return on the Company's Common Stock for the five fiscal years beginning December 31, 1999 and ending December 31, 2004, with the cumulative total return on the Nasdaq Stock Market U.S. Index and the Russell 2000 Index (Russell Index) over the same period (assuming the investment of \$100 in the Company's Stock, the Nasdaq Stock Market U.S. Index and the Russell Index on December 31, 1999 and the reinvestment of all dividends).

REPORT OF COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

Overview and Philosophy

The Compensation Committee of the Board of Directors (the Committee) operates pursuant to a Charter adopted by the Board of Directors on February 24, 2003. The Charter includes a mission statement which states that the Committee's mission is to ensure that the Company's executive officers are compensated consistent with the following philosophy and objectives: (1) to support the Company's overall business strategy and objectives; (2) to attract, retain and motivate the best executives in the Company's industry; (3) to promote the Company's pay-for-performance philosophy; and (4) to ensure that the Company's compensation programs and practices are of the highest quality and designed with full consideration of all accounting, tax, securities law, and other regulatory requirements.

Pursuant to the Charter, the Committee is appointed by the Board and is comprised of between three and five outside directors. The main duties of the Committee, as described in the Charter, are as follows: (1) review and approve annual base salary and incentive compensation levels, employment agreements, and benefits of the Chief Executive Officer and other key executives; (2) review the performance of the Chief Executive Officer; (3) review and assess performance target goals established for bonus plans and determine if goals were achieved at the end of the plan year; (4) act as the administrative committee for the Company's stock plans, and any other incentive plans established by the Company; (5) consider and approve grants of

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incentive stock options, non-qualified stock options, restricted stock or any combination to any employee; and (6) prepare the Report of the Compensation Committee for inclusion in the Annual Proxy Statement.

It is the intention of the Committee to utilize a pay-for-performance compensation strategy that is directly related to achieving the financial objectives of the Company. The primary elements of the executive compensation program are base salary, annual incentives, and long-term incentives.

Base Salary

Base salaries of the Company's executive officers are intended to be competitive with the median base salaries paid by other corporations similar to the Company and to serve as a platform for performance-based (incentive) pay. Base salaries are determined for executive positions using compensation surveys, taking into account variables such as geography, job comparability, size of the company and nature of the business. In addition to base salary, executive officers are eligible to participate in the Company's employee benefit plans on the same terms as other employees.

Annual Incentives

No bonuses were paid to executive officers for the three fiscal years ended December 31, 2002, 2003 and 2004.

Long-term Incentives

The 1990 Stock Plan, and now the 2003 Incentive Stock Option Plan, are the basis of the Company's long-term incentive plans for executive officers and other key employees. The objective of the plans is to align executives' long-term interests with those of the shareholders by creating a direct incentive for executives to increase shareholder value. The stock option grants allow executives to purchase shares of Company stock at a price equal to the fair market value of the stock on the date of grant over a term of five to ten years. The options generally vest and become exercisable over a period of up to four years following the date of grant. The award of option grants is consistent with the Company's objective to include in total compensation a long-term equity interest for executive officers, with greater opportunity for reward if long-term performance is sustained.

The Company also maintains the Employee Stock Purchase Plan, pursuant to which eligible employees can contribute up to ten percent of their base pay per year to purchase shares of Common Stock. The shares are issued by the Company at a price per share equal to 85 percent of market value on the first day of the offering period or the last day of the plan year, whichever is lower.

Chief Executive Officer Compensation

The Committee determines compensation for the Chief Executive Officer on an annual basis. Mr. Drill's current base salary was established by the Compensation Committee, and became effective January 1, 2002. The Committee believes that this base salary is consistent and competitive with salaries paid to Chief Executive Officers of companies of similar size and type. Mr. Drill has not received a bonus for the past five years.

Conclusion

The Committee believes that the executive compensation plan discussed in this Proxy Statement is consistent with the overall corporate strategy for growth in earnings and shareholder value.

Submitted by the Compensation Committee:

Gordon Stofer, Chairman Donald Kramer W. Robert Ramsdell

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AUDIT COMMITTEE REPORT

The Audit Committee reviewed and discussed the 2004 audited financial statements with management and Grant Thornton LLP. Management represented to the Audit Committee that the Company's financial statements were prepared in accordance with generally accepted accounting principles. The discussions with Grant Thornton LLP also included the matters required by Statement on Auditing Standards No. 61 (Communication with Audit Committees).

Grant Thornton LLP provided to the Audit Committee the written disclosures and the letter regarding its independence as required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The Committee discussed with the independent auditors the auditors' independence from management and the Company and considered the compatibility of nonaudit services with the auditors' independence.

Based on the discussions with management and Grant Thornton LLP, the Audit Committee's review of the representations of management and the report of Grant Thornton LLP, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission.

Submitted by the Audit Committee:

Donald Kramer, Chairman W. Robert Ramsdell Gordon Stofer

The preceding report shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933 (the "1933 Act") or the Securities Exchange Act of 1934 (the "1934 Act"), except to the extent the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under the 1933 Act or the 1934 Act.

AUDITORS

As recommended by the Company's Audit Committee, the Board of Directors, on August 28, 2003, dismissed Ernst & Young (E&Y) as independent auditors and engaged Grant Thornton LLP (Grant Thornton) to serve as the Company's independent auditors beginning in 2003. This decision followed the Audit Committee's decision to seek proposals from other independent auditors to audit the Company's financial statements for its fiscal year ending December 31, 2003 and beyond. The Board reappointed Grant Thornton as the Company's independent auditors for 2004 and 2005.

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The audit reports of E&Y on the financial statements of the Company as of and for the fiscal year ended December 31, 2002 neither contained any adverse opinion or disclaimer of opinion, nor were these opinions qualified or modified as to uncertainty, audit scope or accounting principles. During the Company's fiscal year ended December 31, 2002 and during the subsequent interim period preceding the replacement of E&Y, there were no disagreements between the Company and E&Y on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to E&Y's satisfaction, would have caused E&Y to make reference to the subject matter of the disagreement in connection with its reports. During the fiscal year ended December 31, 2002 and the subsequent interim period preceding the replacement of E&Y, there were no reportable events (as described in Regulation S-K Item 304 (a)(1)(v)).

No consultations occurred between the Company and Grant Thornton during the fiscal year ended December 31, 2002 and any subsequent interim period prior to Grant Thornton's appointment regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, the type of audit opinion that might be rendered on the Company's financial statements, or other information provided that was considered by the Company in reaching a decision as to an auditing or financial reporting issue or (ii) any matter that was the subject of disagreement or a reportable event requiring disclosure under Item 304(a)(1)(v) of Regulation S-K.

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The Company reported the change in accountants on Form 8-K on September 4, 2003. The Form 8-K contained a letter from E&Y, addressed to the Securities and Exchange Commission, stating that it agreed with the statements contained in the third paragraph of Item 4 and indicating they did not have a basis to agree or disagree with the other statements contained therein.

A representative of Grant Thornton LLP is expected to be present at the Meeting, and will be given the opportunity to make a statement and will be available to answer appropriate questions.

Audit and Audit Related Fees

The following table shows the fees for services rendered by Grant Thornton LLP and Ernst & Young LLP for the years ended December 31, 2004 and 2003.

	2004			2003		
	Grant Thornton LLP	Ernst & Young LLP	Total	Grant Thornton LLP	Ernst & Young LLP	Total
Audit Fees ⁽¹⁾	\$ 124,700	\$ 8,200	\$ 132,900	\$ 42,400	\$ 56,200	\$ 98,600
Audit-Related Fees ⁽²⁾					11,000	11,000
Tax Fees ⁽³⁾	20,000		20,000	19,100	5,200	24,300
All Other Fees ⁽⁴⁾				1,000	3,300	4,300
Total	\$ 144,700	\$ 8,200	\$ 152,900	\$ 62,500	\$ 75,700	\$ 138,200

- (1) Audit fees represent fees for professional services provided in connection with the audit of the Company's financial statements, reviews of quarterly financial statements, audit of VALUSTIX for acquisition purposes, and filings of registration statements and amendments related to the private placement of the Company's common stock and shares reserved for issuance under stock option plans.
- (2) Audit-related fees represent fees related to responding to comment letters from the SEC.
- (3) Tax fees represent fees for the preparation of tax filings and technical advice regarding various tax issues.
- (4) All other fees represent fees related to advisory services related to Section 404 of the Sarbanes-Oxley Act and miscellaneous financial consulting.

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The Company's Audit Committee Charter states that before the principal accountant is engaged by the Company to render audit or non-audit services in any year, the engagement will be approved by the Company's Audit Committee. All of the services described above were pre-approved by the Company's Audit Committee.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers, directors and 10% shareholders to file reports with the Securities and Exchange Commission concerning their initial beneficial ownership and changes in beneficial ownership of Company securities. To the Company's knowledge, all such reports were filed in a timely manner for 2004.

OTHER BUSINESS

The Management of the Company knows of no matters other than the foregoing to be brought before the Meeting. However, the enclosed proxy gives discretionary authority in the event any additional matters should be presented.

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SHAREHOLDER PROPOSALS

The proxy rules of the Securities and Exchange Commission permit shareholders, after timely notice to issuers, to present proposals for shareholder action in issuer proxy statements where such proposals are consistent with applicable law, pertain to matters appropriate for shareholder action and are not properly omitted by issuer action in accordance with the proxy rules. The Company's next meeting of Shareholders (for the year ending December 31, 2005) is expected to be held on or about May 17, 2006 and proxy materials in connection with that meeting are expected to be mailed on or about April 5, 2006. Any shareholder proposals prepared in accordance with the proxy rules for inclusion in the Company's proxy materials must be received by the Company on or before December 5, 2005.

The Company's Annual Report on Form 10-K for the year ended December 31, 2004 is being mailed to shareholders with this Proxy Statement.

By Order of the Board of Directors

Scott F. Drill
Secretary

APPENDIX A

**INSIGNIA SYSTEMS, INC.
2003 INCENTIVE STOCK OPTION PLAN**
(Adopted by Board of Directors February 24, 2003)
(Approved by Shareholders on May 20, 2003)
(Amended through February 15, 2005)

1. **Purpose.** The purpose of this Plan is to provide a means whereby Insignia Systems, Inc. (the Company), may be able, by granting options to purchase stock in the Company, to attract, retain and motivate capable and loyal employees, directors, consultants and advisors of the Company and its subsidiaries, for the benefit of the Company and its shareholders. Both incentive stock options which qualify for favorable tax treatment under Section 422 of the Internal Revenue Code (the Code), and nonqualified stock options which do not qualify for favorable tax treatment, may be granted under the Plan.

2. **Reservation of Shares.** A total of 1,625,000 shares of the authorized but unissued shares of Common Stock of the Company, par value \$.01 per share, is reserved for issue upon the exercise of options granted under the Plan. If any option expires or terminates for any reason without having been exercised in full, the unpurchased shares covered thereby shall become available for additional options which may be issued to persons eligible under the Plan so long as it remains in effect. Shares reserved for issue as provided herein shall cease to be reserved upon termination of the Plan.

3. **Administration.** The Plan shall be administered by the Compensation Committee of the Board of Directors (the Committee). The Committee shall be appointed by the Board of Directors and shall be comprised solely of two or more non-employee directors within the meaning of SEC Rule 16b-3. Each member of the Committee shall also be an outside director within the meaning of Code Section 162(m). The Committee shall have the full power to construe and interpret the Plan and to establish and amend rules and regulations for its administration. The Committee shall determine which persons shall be granted options hereunder, the number of shares for which each option shall be granted, the types of options to be granted, and any limitations on the exercise of options in addition to those imposed by this Plan. The Committee may also waive any restrictions on the exercise of outstanding options and approve amendments to outstanding options, provided there is no conflict with the terms of the Plan. The Committee shall apply such criteria as it deems appropriate in determining the persons to whom options are granted and the number of shares to be covered by each option.

4. **Eligibility.** An option may be granted to any employee, director, consultant or advisor of the Company or its subsidiaries, except that no consultant or advisor shall be granted options in connection with the offer and sale of securities in a capital raising transaction on behalf of the Company. The maximum number of shares for which any person may be granted options under the Plan in any year is limited to 100,000 shares.

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5. **Option Grants To Outside Directors.** Each outside director of the Company shall automatically be granted an option to purchase 10,000 shares of Common Stock on the date first appointed or elected as a director. Each outside director shall also automatically be granted an option to purchase 5,000 shares of Common Stock on (a) the date of each subsequent annual meeting of the shareholders, provided the outside director is either reelected or continues to serve as an outside director, or (b) the anniversary of the prior year's grant in any year in which there is no meeting of the shareholders. In no event shall a director receive more than one grant in any fiscal year.

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The period within which an option granted to an outside director must be exercised shall be the earlier of (a) ten years from the date of grant, or (b) 90 days after the director ceases to be a director for any reason. Options granted to outside directors shall be immediately exercisable in full when granted.

6. **Exercise Price.** The per share exercise price for each option shall be determined by the Committee at the time of grant, provided that the per share exercise price for any incentive stock option, and any option granted to an outside director, shall be not less than the fair market value of the Common Stock on the date the option is granted. In making such determination, the Committee shall rely on market quotations, if available, but if not available, upon independent appraisals of the stock or such other information deemed appropriate by the Committee.

7. **Changes in Present Stock.** In the event of a recapitalization, merger, consolidation, reorganization, stock dividend, stock split or other change in capitalization affecting the Company's present capital stock, appropriate adjustment may be made by the Committee in the number and kind of shares and the option price of shares which are or may become subject to options granted or to be granted hereunder.

8. **Exercise of Option.** Receipt by the Company of a written notice from an optionee, specifying the number of shares to be purchased, and accompanied by payment of the purchase price for such shares, shall constitute exercise of the option as to such shares. The date of receipt by the Company of such written notice shall be the date of exercise of the option. The Company may accept payment from a broker and, upon receipt of written instructions from the optionee, deliver the purchased shares to the broker.

9. **Option Agreement Provisions.** Each option granted under the Plan shall be evidenced by a Stock Option Agreement executed by the Company and the optionee, and shall be subject to the following terms and conditions, and such other terms and conditions as may be prescribed by the Committee:

- (a) **Payment.** The full purchase price of the shares acquired upon exercise of an option shall be paid in cash, certified or cashier's check, or in the form of Common Stock of the Company with a market value equal to the option exercise price and free and clear of all liens and encumbrances.

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The Committee in its sole discretion may also permit the cashless exercise of an option. In the event of a cashless exercise, the optionee shall surrender the option to the Company, and the Company shall issue the optionee the number of shares determined as follows:

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

X = the number of shares to be issued to the optionee.

Y = the number of shares with respect to which the option is being exercised.

A = the closing sale price of the Common Stock on the date of exercise, or in the absence thereof, the fair market value on the date of exercise.

B = the option exercise price.

- (b) **Exercise Period.** The period within which an option must be exercised shall be fixed by the Committee, and shall not exceed ten years from the date of grant for an incentive stock option. The Committee may provide that an option will vest and become exercisable upon the completion of specified periods of employment, or the attainment of specified performance goals. To the extent exercisable, an option may be exercised in whole or in part. Outstanding unvested options shall become immediately exercisable in full in the event the Company is acquired by merger, purchase of all or substantially all of the Company's assets, or purchase of a majority of the outstanding stock by a single party or a group acting in concert.
- (c) **Rights of Optionee Before Exercise.** The holder of an option shall not have the rights of a shareholder with respect to the shares covered by his or her option until such shares have been issued to him or her upon exercise of the option.

- (d) **No Rights to Continued Employment.** Nothing in the Plan or in any Stock Option Agreement entered into pursuant hereto shall be construed to confer upon any optionee any right to continue in the employ of his or her employer or interfere in any way with the right of his or her employer to terminate his or her employment at any time.
- (e) **Death of Optionee.** Upon the death of an optionee, the option, or any portion thereof, may be exercised to the extent the optionee was entitled to do so at the time of the optionee's death, by his or her executor or administrator or other person entitled by law to the optionee's rights under

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the option, at any time within one year subsequent to the date of death. The option shall automatically expire one year after the optionee's death to the extent not exercised.

- (f) **Disability of Optionee.** If an optionee is an employee of the Company or its subsidiaries, and if the optionee's employment is terminated due to his or her disability, the optionee may, within one year of such termination, exercise any unexercised portion of the option to the extent he or she was entitled to do so at the time of such termination. The option shall automatically expire one year after such termination to the extent not exercised.
- (g) **Other Termination of Employment.** If an optionee is an employee of the Company or its subsidiaries, and if the optionee's employment is terminated other than by death, disability, or conduct which is contrary to the best interests of his or her employer, the optionee may, within 90 days of such termination, exercise any unexercised portion of the option to the extent he or she was entitled to do so at the time of such termination. The option shall automatically expire 90 days after such termination to the extent not exercised. If the optionee'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 optionee violates any written nondisclosure agreement with his or her employer, as determined in either case by the optionee's employer in its sole discretion, the unexercised portion of the optionee's option shall automatically expire at that time. Inter-company transfers and approved leaves of absence for up to 90 days shall not be considered termination of employment.
- (h) **Non-transferability of Option.** No option shall be transferable by the optionee other than by will or by the laws of descent and distribution, and each option shall be exercisable during the optionee's lifetime only by the optionee. No option may be attached or subject to levy by an optionee's creditors.
- (i) **Date of Grant.** The date on which the Committee approves the granting of an option shall be considered the date on which such option is granted.

10. **Additional Provisions for Incentive Stock Options.**

- (a) **Dollar Limit.** Each option granted to an employee shall constitute an incentive stock option, provided that no more than \$100,000 of such options (based upon the fair market value of the underlying shares as of the date of grant) can first become exercisable for any employee in any calendar year. To the extent an option grant exceeds the \$100,000 limitation, it shall constitute a non-qualified stock option. Each Stock

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Option Agreement with an employee shall specify the extent to which it is an incentive and/or non-qualified stock option. For purposes of applying the \$100,000 limitation, options granted under this Plan and all other incentive stock option plans of the Company and any parent or subsidiary corporation shall be included.

- (b) **Ten Percent Shareholders.** No incentive stock option shall be granted to any employee who at the time directly or indirectly owns more than 10 percent of the combined voting power of all classes of stock of the Company or of a parent or subsidiary corporation, unless the exercise price is not less than 110 percent of the fair market value of such stock on the date of grant, and unless the option is not exercisable more than five years after the date of grant.

11. **Restrictions on Transfer.** During any period in which the offering of the shares under the Plan is not registered under federal and state securities laws, an optionee shall agree in his or her option agreement that he or she is acquiring shares under the Plan for investment purposes, and not for resale, and that the shares cannot be resold or otherwise transferred except pursuant to registration or unless, in the opinion of counsel for the Company, registration is not required.

Any restrictions upon shares acquired upon exercise of an option pursuant to the Plan and the Stock Option Agreement shall be binding upon the optionee, and his or her heirs, executors, and administrators. Any stock certificate issued under the Plan which is subject to restrictions shall be endorsed so as to refer to the restrictions on transfer imposed by the Plan, and by applicable securities laws.

12. **Withholding of Taxes.** The Company shall make such provisions and take such steps as it may deem necessary or appropriate for the withholding of any taxes that the Company is required by any law or regulation to withhold in connection with any option including, but not limited to, withholding a portion of the shares issuable on exercise of an option, or requiring the optionee to pay to the Company, in cash, an amount sufficient to cover the Company's withholding obligations.

13. **Duration of Plan.** The Plan shall terminate ten years after the date of its adoption by the Board of Directors, unless sooner terminated by issuance of all shares reserved for issuance hereunder, or by the Board of Directors pursuant to Section 13. No option shall be granted under the Plan after such termination date.

14. **Termination or Amendment of the Plan.** The Board of Directors may at any time terminate the Plan, or make such modifications to the Plan as it shall deem advisable. No termination or amendment of the Plan may, without the consent of the optionee to whom any option shall previously have been granted, adversely affect the rights of such optionee under such option.

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15. **Shareholder Approval.** The Board of Directors shall submit the Plan to the shareholders for their approval within 12 months of the date of its adoption by the Board. Options granted prior to such approval are contingent on receipt of such approval, and shall automatically lapse if such approval is not granted. The Board shall also submit any amendments to the shareholders for approval if required by applicable law or regulation.

16. **Interpretation.** The Plan shall be interpreted in accordance with Minnesota law.

APPENDIX B

**INSIGNIA SYSTEMS, INC.
EMPLOYEE STOCK PURCHASE PLAN
(Amended through February 15, 2005)**

1. **Establishment of Plan.** Insignia Systems, Inc. (hereinafter referred to as the Company) proposes to grant to certain employees of the Company the opportunity to purchase common stock of the Company. Such common stock shall be purchased pursuant to the plan herein set forth which shall be known as the INSIGNIA SYSTEMS, INC. EMPLOYEE STOCK PURCHASE PLAN (hereinafter referred to as the Plan). The Company intends that the Plan shall qualify as an Employee Stock Purchase Plan under Section 423 of the Internal Revenue Code of 1986, as amended, and shall be construed in a manner consistent with the requirements of said Section 423 and the regulations thereunder.

2. **Purpose.** The Plan is intended to encourage stock ownership by employees of the Company, and as an incentive to them to remain in employment, improve operations, increase profits, and contribute more significantly to the Company's success.

3. **Administration.** The Plan shall be administered by a stock purchase committee (hereinafter referred to as the Committee) consisting of not less than three directors or employees of the Company, as designated by the Board of Directors of the Company (hereinafter referred to as the Board of Directors). The Board of Directors shall fill all vacancies in the Committee and may remove any member of the Committee at any time, with or without cause. The Committee shall select its own chairman and hold its meetings at such times and places as it may determine. All determinations of the Committee shall be made by a majority of its members. Any decision which is made in writing and signed by a majority of the members of the Committee shall be effective as fully as though made by a majority vote at a meeting duly called and held. The determinations of the Committee shall be made in accordance with its judgment as to the best interests of the Company, its employees and its shareholders and in accordance with the purposes of the Plan; provided, however, that the provisions of the Plan shall be construed in a manner consistent with the requirements of Section 423 of the Internal Revenue Code, as amended. Such determinations shall be binding upon the Company and the participants in the Plan unless otherwise determined by the Board of Directors. The Company shall pay all expenses of administering the Plan. No member of the Board of Directors or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any option granted under it.

4. **Duration and Phases of the Plan.** (a) The Plan will commence on January 1, 1993, and will continue until terminated by the Board pursuant to Section 15, except that any phase commenced prior to such termination shall, if necessary, be allowed to continue beyond such termination until completion.

(b) The Plan shall be carried out in one or more phases, each phase being for a period of one year. Each phase shall commence immediately after the termination of the preceding

phase. The existence and date of commencement of a phase (the Commencement Date) shall be determined by the Committee, provided that the commencement of the first phase shall be within twelve (12) months before or after the date of approval of the Plan by the shareholders of the Company. In the event all of the stock reserved for grant of options hereunder is issued pursuant to the terms hereof prior to the commencement of one or more phases scheduled by the Committee or the number of shares remaining is so small, in the opinion of the Committee, as to render administration of any succeeding phase impracticable, such phase or phases shall be canceled. Phases shall be numbered successively as Phase

1, Phase 2 and Phase 3.

(c) The Board of Directors may elect to accelerate the termination date of any phase effective on the date specified by the Board of Directors in the event of (i) 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 in the surviving corporation immediately after the merger; (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company, or (iii) any plan or liquidation or dissolution of the Company.

5. Eligibility. All Employees, as defined in Paragraph 19 hereof, who are employed by the Company at least one day prior to the Commencement Date of a phase shall be eligible to participate in such phase.

6. Participation. Participation in the Plan is voluntary. An eligible Employee may elect to participate in any phase of the plan, and thereby become a Participant in the Plan, by completing the Plan payroll deduction form provided by the Company and delivering it to the Company or its designated representative prior to the Commencement Date of that phase. Payroll deductions for a Participant shall commence on the first payday after the Commencement Date of the phase and shall terminate on the last payday immediately prior to or coinciding with the termination date of that phase unless sooner terminated by the Participant as provided in Paragraph 9 hereof.

7. Payroll Deductions. (a) Upon enrollment, a Participant shall elect to make contributions to the Plan by payroll deductions (in full dollar amounts and in amounts calculated to be as uniform as practicable throughout the period of the phase), in the aggregate amount not in excess of 10% of such Participant's Base Pay for the term of the Phase, as determined according to Paragraph 19 hereof.

The minimum authorized payroll deduction must aggregate to not less than \$10 per pay period.

(b) In the event that the Participant's compensation for any pay period is terminated or reduced from the compensation rate for such a period as of the Commencement Date of the phase for any reason so that the amount actually withheld on behalf of the Participant as of the

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termination date of the phase is less than the amount anticipated to be withheld over the phase year as determined on the Commencement Date of the phase, then the extent to which the Participant may exercise his option shall be based on the amount actually withheld on his behalf. In the event of a change in the pay period of any Participant, such as from bi-weekly to monthly, an appropriate adjustment shall be made to the deduction in each new pay period so as to ensure the deduction of the proper amount authorized by the Participant.

(c) All payroll deductions made for Participants shall be credited to their accounts under the Plan. A Participant may not make any separate cash payments into such account.

(d) Except for his right to discontinue participation in the Plan as provided in Paragraph 9, no Participant shall be entitled to increase or decrease the amount to be deducted in a given phase after the Commencement Date.

8. Options.

(a) Grant of Option.

(i) A Participant who is employed by the Company as of the Commencement Date of a phase shall be granted an option as of such date to purchase a number of full shares of Company common stock to be determined by dividing the total amount to be credited to that Participant's account under Paragraph 7 hereof by the option price set forth in Paragraph 8(a)(ii)(A) hereof, subject to the limitations of Paragraph 10 hereof.

(ii) The option price for such shares of common stock shall be the lower of:

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- A. Eighty-five percent (85%) of the fair market value of such shares of common stock on the Commencement Date of the phase; or
 - B. Eighty-five percent (85%) of the fair market value of such shares of common stock on the termination date of the phase.
- (iii) The fair market value of shares of common stock of the Company shall be determined by the Committee for each valuation date in a manner acceptable under Section 423 of the Internal Revenue Code of 1986.
- (iv) Anything herein to the contrary notwithstanding, no Employee shall be granted an option hereunder:
- A. Which permits his rights to purchase stock under all employee stock purchase plans of the Company, its subsidiaries or its parent, if any to accrue at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) of the fair market value of such stock

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(determined at the time such option is granted) for each calendar year in which such option is outstanding at any time;

- B. If immediately after the grant such Employee would own and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company, its parent, if any, or of any subsidiary of the Company. For purposes of determining stock ownership under this Paragraph, the rules of Section 424(d) of the Internal Revenue Code, as amended, shall apply; or
 - C. Which can be exercised after the expiration of 27 months from the date the option is granted.
- (d) Exercise of Option.
- (i) Unless a Participant gives written notice to the Company pursuant to Paragraph 8(b)(ii) or Paragraph 9 prior to the termination date of a phase, his option for the purchase of shares will be exercised automatically for him as of such termination date for the purchase of the number of full shares of Company common stock which the accumulated payroll deductions in his account at that time will purchase at the applicable option price, subject to the limitations set forth in Paragraph 10 hereof.
 - (ii) A Participant may, by written notice to the Company at any time during the thirty (30) day period immediately preceding the termination date of a phase, elect, effective as of the termination date of that phase, to exercise his option for a specified number of full shares less than the maximum number which may be purchased under his option.
 - (iii) As promptly as practicable after the termination date of any phase, the Company will deliver to each Participant herein the common stock purchased upon the exercise of his option, together with a cash payment equal to the balance, if any, of his account which was not used for the purchase of common stock with interest accrued thereon.

9. Withdrawal or Termination of Participation. (a) A Participant may, at any time prior to the termination date of a phase, withdraw all payroll deductions then credited to his account by giving written notice to the Company. Promptly upon receipt of such notice of withdrawal, all payroll deductions credited to the Participant's account will be paid to him with interest accrued thereon and no further payroll deductions will be made during the phase. In such event, the option granted the Participant under that phase of the Plan shall lapse immediately. Partial withdrawals of payroll deductions hereunder may not be made.

(b) In the event of the death of a Participant, the person or persons specified in Paragraph 14 may give notice to the Company within sixty (60) days of the death of the Participant electing to purchase the number of full shares which the accumulated payroll deductions in the account of such deceased Participant will purchase at the option price specified in Paragraph 8(a)(ii) and have the balance in the account distributed in cash with interest accrued thereon. If no such notice is received by the Company within said sixty (60) days, the accumulated payroll deductions will be distributed in full in cash with interest accrued thereon.

(c) Upon termination of Participant's employment for any reason other than death of the Participant, the payroll deductions credited to his account, plus interest, shall be returned to him.

10. Stock Reserved for Options. (a) Seven Hundred Thousand (700,000) shares of the Company's common stock are reserved for issuance upon the exercise of options to be granted under the Plan. Shares subject to the unexercised portion of any lapsed or expired option may again be subject to option under the Plan.

(b) If the total number of shares of the Company common stock for which options are to be granted for a given phase as specified in Paragraph 8 exceeds the number of shares then remaining available under the Plan (after deduction of all shares for which options have been exercised or are then outstanding) and if the Committee does not elect to cancel such phase pursuant to Paragraph 4, the Committee shall make a pro rata allocation of the shares remaining available in as uniform and equitable a manner as it shall consider practicable. In such event, the options to be granted and the payroll deductions to be made pursuant to the Plan which would otherwise be effected may, in the discretion of the Committee, be reduced accordingly. The Committee shall give written notice of such reduction to each Participant affected.

(c) The Participant (or a joint tenant named pursuant to Paragraph 10(d) hereof) shall have no rights as a shareholder with respect to any shares subject to the Participant's option until the date of the issuance of a stock certificate evidencing such shares. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property), distributions or other rights for which the record date is prior to the date such stock certificate is actually issued, except as otherwise provided in Paragraph 12 hereof.

(d) The shares of the Company common stock to be delivered to a Participant pursuant to the exercise of an option under the Plan will be registered in the name of the Participant or, if the Participant so directs by written notice to the Committee prior to the termination date of that phase of the Plan, in the names of the Participant and one other person the Participant may designate as his joint tenant with rights of survivorship, to the extent permitted by law.

11. Accounting and Use of Funds. Payroll deductions for each Participant shall be credited to an account established for him under the Plan. A Participant may not make any separate case payments into such account. Such account shall be solely for bookkeeping purposes and no separate fund or trust shall be established hereunder and the Company shall not be obligated to segregate such funds. All funds from payroll deductions received or held by the Company under the Plan may be used, without limitation, for any corporate purpose by the Company.

12. Adjustment Provision. (a) Subject to any required action by the shareholders of the Company, the number of shares covered by each outstanding option, and the price per share thereof in each such option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of the Company common stock resulting from a subdivision or consolidation of shares or the payment of a share dividend (but only on the shares) or any other increase or decrease in the number of such shares effected without receipt of consideration by the Company.

(b) In the event of a change in the shares of the Company as presently constituted, which is limited to a change of all its authorized shares with par value into the same number of shares with a different part value or without par value, the shares resulting from any such change shall be deemed to be the shares within the meaning of this Plan.

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13. Non-Transferability of Options. (a) Options granted under any phase of the Plan shall not be transferable except under the laws of descent and distribution and shall be exercisable only by the Participant during his lifetime and after his death only by his beneficiary of the representative of his estate as provided in Paragraph 9(b) hereof.

(b) Neither payroll deductions credited to a Participant's account, nor any rights with regard to the exercise of an option or to receive common stock under any phase of the Plan may be assigned, transferred, pledged, or otherwise disposed of in any way by the Participant. Any such attempted assignment, transfer, pledge or other disposition shall be null and void and without effect, except that the Company may, at its option, treat such act as an election to withdraw funds in accordance with Paragraph 9.

14. Designation of Beneficiary. A Participant may file a written designation of a beneficiary who is to receive any cash to the Participant's credit plus interest thereon under any phase of the Plan in the event of such Participant's death prior to exercise of his option pursuant to Paragraph 9(b) hereof, or to exercise his option and become entitled to any stock and/or cash upon such exercise in the event of the Participant's death prior to exercise of the option pursuant to Paragraph 9(b) hereof. The beneficiary designation may be changed by the Participant at any time by written notice to the Company.

Upon the death of a Participant and upon receipt by the Company of proof deemed adequate by it of the identity and existence at the Participant's death of a beneficiary validly designated under the Plan, the Company shall in the event of the Participant's death under the circumstances described in Paragraph 9(b) hereof, allow such beneficiary to exercise the Participant's option pursuant to Paragraph 9(b) if such beneficiary is living on the termination date of the phase and deliver to such beneficiary the appropriate stock and/or cash after exercise

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of the option. In the event there is no validly designated beneficiary under the Plan who is living at the time of the Participant's death under the circumstances described in Paragraph 9(b) or in the event the option lapses, the Company shall deliver the cash credited to the account of the Participant with interest to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed to the knowledge of the Company, it may, in its discretion, deliver such cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate. The Company will not be responsible for or be required to give effect to the disposition of any cash or stock or the exercise of any option in accordance with any will or other testamentary disposition made by such Participant or in accordance with the provision of any law concerning intestacy, or otherwise. No designated beneficiary shall, prior to the death of a Participant by whom he has been designated, acquire any interest in any stock or in any option or in the cash credited to the Participant under any phase of the Plan.

15. Amendment and Termination. The Plan may be terminated at any time by the Board of Directors provided that, except as permitted in Paragraph 4(c) with respect to an acceleration of the termination date of any phase, no such termination will take effect with respect to any options then outstanding. Also, the Board may, from time to time, amend the Plan as it may deem proper and in the best interests of the Company or as may be necessary to comply with Section 423 of the Internal Revenue Code of 1986, as amended, or other applicable laws or regulations; provided, however, that no such amendment shall, without prior approval of the shareholders of the Company (1) increase the total number of shares for which options may be granted under the Plan (except as provided in Paragraph 12 herein), (2) permit aggregate payroll deductions in excess of ten percent (10%) of a Participant's compensation as of the Compensation Date of a phase, or (3) impair any outstanding option.

16. Interest. In any situation where the Plan provides for the payment of interest on a Participant's payroll deductions, such interest shall be determined by averaging the month-end balances in the Participant's account for the period of his participation and computing interest thereon at the initial rate of three percent (3%) per annum. This interest rate may be adjusted periodically by the Committee as it deems appropriate.

17. Notices. All notices or other communications in connection with the Plan or any phase thereof shall be in the form specified by the Committee and shall be deemed to have been duly given when received by the Participant or his designated personal representative or beneficiary or by the Company or its designated representative, as the case may be.

18. Participation of Subsidiaries. The Employees of any Subsidiary of the Company shall be entitled to participate in the Plan on the same basis as Employees of the Company, unless the Board of Directors determines otherwise. Effective as of the date of coverage of any Subsidiary, any references herein to the Company shall be interpreted as referring to such Subsidiary as well as to Insignia Systems, Inc.

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In the event that any Subsidiary which is covered under the Plan ceases to be a Subsidiary of Insignia Systems, Inc. the employees of such Subsidiary shall be considered to have terminated their employment for purposes of Paragraph 9 hereof as of the date such Subsidiary ceases to be such a Subsidiary.

19. Definitions. (a) Subsidiary shall include any corporation defined as a subsidiary of the Company in Section 424(f) of the Internal Revenue Code of 1986, as amended.

(b) Employee shall mean any employee, including an officer, of the Company who as of the day immediately preceding the Commencement Date of a phase is customarily employed by the Company for more than twenty (20) hours per week and more than five (5) months in a calendar year.

(c) Base Pay is the regular pay for employment for each employee as annualized for a twelve (12) month period, exclusive of overtime, commissions, bonuses, disability payments, shift differentials, incentives and other similar payments, determined as of the Commencement Date of each phase.

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ANNUAL MEETING OF SHAREHOLDERS

**Wednesday, May 18, 2005
9:00 A.M. Central Time**

**RADISSON HOTEL AND CONFERENCE CENTER
3131 Campus Drive
Plymouth, MN 55441**

6470 Sycamore Court North, Maple Grove, MN 55369

proxy

This proxy is solicited by the Board of Directors for use at the Annual Meeting on May 18, 2005.

The shares of stock you hold in your account will be voted as you specify on the reverse side.

If no choice is specified, the proxy will be voted FOR Items 1, 2 and 3.

By signing the proxy, you revoke all prior proxies and appoint Scott F. Drill, with full power of substitution, to vote your shares on the matters shown on the reverse side and any other matters which may come before the Annual Meeting and all adjournments.

See reverse for voting instructions.

V Please detach here V

The Board of Directors Recommends a Vote FOR Items 1, 2 and 3.

- | | | | | |
|---------------------------|---------------------|-----------------------|--|---|
| 1. Election of Directors: | 01 Donald J. Kramer | 04 W. Robert Ramsdell | <input type="radio"/> Vote FOR all nominees (except as marked) | <input type="radio"/> Vote WITHHELD from all nominees |
| | 02 Scott F. Drill | 05 Gordon F. Stofer | | |
| | 03 Gary L. Vars | | | |

(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)

- | | | | | | | |
|--|-----------------------|-----|-----------------------|---------|-----------------------|---------|
| 2. To approve an amendment to the Company's 2003 Incentive Stock Option Plan to increase the number of shares reserved for issuance under the Plan from 1,000,000 to 1,625,000 shares. | <input type="radio"/> | For | <input type="radio"/> | Against | <input type="radio"/> | Abstain |
| 3. To approve an amendment to the Company's Employee Stock Purchase Plan to increase the number of shares reserved for issuance under the Plan from 600,000 to 700,000 shares. | <input type="radio"/> | For | <input type="radio"/> | Against | <input type="radio"/> | Abstain |
| 4. To vote upon such other business as may properly come before the meeting. | | | | | | |

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR EACH PROPOSAL.

Address Change? Mark Box Indicate changes below:

Date _____

Signature(s) in Box

Please sign exactly as your name(s) appears on Proxy. If held in joint tenancy, all persons should sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the proxy.