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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2022

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: **0-26056**

Autoscope Technologies Corporation

(Exact Name of Registrant as Specified in its Charter)

Minnesota	**86-3685595**
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
1115 Hennepin Avenue **Minneapolis, MN**	**55403**
Address of Principal Executive Offices	Zip Code

(612) 438-2363
Registrant's Telephone Number, Including Area Code

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	AATC	The Nasdaq Capital Market
Preferred Stock Purchase Rights	AATC	The Nasdaq Capital Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging growth company ☐

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding at August 11, 2022
Common Stock, $0.01 par value per share	5,398,887 shares

AUTOSCOPE TECHNOLOGIES CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Autoscope Technologies Corporation
Condensed Consolidated Balance Sheets
(in thousands)

	June 30, 2022 (Unaudited)	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,933	$ 8,229
Accounts receivable, net of allowance for doubtful accounts of $6 and $18 respectively	2,762	2,369
Inventories	1,475	1,429
Investments in available-for-sale debt securities	425	—
Investments in equity securities	247	—
Due from broker	481	—
Prepaid expenses and other current assets	913	355
Total current assets	8,236	12,382
Property and equipment:		
Furniture and fixtures	136	136
Leasehold improvements	6	6
Equipment	972	994
Real property	2,059	2,059
	3,173	3,195
Accumulated depreciation	997	958
	2,176	2,237
Operating lease assets, net	9	58
Intangible assets, net	2,996	2,866
Deferred income taxes	4,811	4,824
Long-term investments in available-for-sale debt securities	3,011	—
TOTAL ASSETS	$ 21,239	$ 22,367
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 479	$ 236
Deferred revenue	112	107
Warranty	119	128
Accrued compensation	59	132
Operating lease obligations	10	59
Current maturities of long-term debt	57	56
Other current liabilities	133	181
Total current liabilities	969	899
Long-term debt	1,645	1,674
TOTAL LIABILITIES	2,614	2,573
Shareholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $0.01 par value; 20,000,000 shares authorized, 5,398,887 and 5,378,857 issued and outstanding at June 30, 2022 and December 31, 2021, respectively	54	54
Additional paid-in capital	25,452	25,167
Accumulated other comprehensive loss	(543)	(288)
Accumulated deficit	(6,338)	(5,139)
Total shareholders' equity	18,625	19,794
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 21,239	$ 22,367

See accompanying notes to the condensed consolidated financial statements.

Autoscope Technologies Corporation
Condensed Consolidated Statements of Operations
(Unaudited)
(in thousands, except per share data)

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2022	2021	2022	2021
Revenue:				
Product sales	$ 1,432	$ 1,305	$ 2,366	$ 2,468
Royalties	1,387	2,483	3,205	4,299
	2,819	3,788	5,571	6,767
Cost of revenue:				
Product sales	719	730	1,230	1,343
Royalties	105	97	210	190
	824	827	1,440	1,533
Gross profit	1,995	2,961	4,131	5,234
Operating expenses:				
Selling, general and administrative	1,324	1,516	3,009	2,882
Research and development	526	541	954	1,037
	1,850	2,057	3,963	3,919
Income from operations	145	904	168	1,315
Other income	10	—	21	925
Investment loss	(30)	—	(25)	—
Interest expense	(18)	—	(36)	—
Income from operations before income taxes	107	904	128	2,240
Income tax expense	33	152	36	357
Net income	$ 74	$ 752	$ 92	$ 1,883
Net income per share:				
Basic	$ 0.01	$ 0.14	$ 0.02	$ 0.35
Diluted	$ 0.01	$ 0.14	$ 0.02	$ 0.35
Weighted average number of common shares outstanding:				
Basic	5,381	5,341	5,371	5,332
Diluted	5,387	5,350	5,373	5,343

See accompanying notes to the condensed consolidated financial statements.

Autoscope Technologies Corporation
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)
(in thousands)

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2022	**2021**	**2022**	**2021**
Net income	$ 74	$ 752	$ 92	$ 1,883
Other comprehensive income:				
Foreign currency translation adjustment	(131)	18	(193)	(35)
Comprehensive income (loss)	$ (57)	$ 770	$ (101)	$ 1,848

See accompanying notes to the condensed consolidated financial statements.

Autoscope Technologies Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Six-Month Periods Ended June 30,	
	2022	2021
Operating activities:		
Net income	$ 92	$ 1,883
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	95	80
Software amortization	404	382
Amortization of deferred finance fees	1	—
Stock-based compensation	268	107
Deferred income tax expense	30	348
Forgiveness income from PPP Loan (Note N)	—	(931)
Loss on disposal of assets	5	1
Realized loss on equity investments	53	—
Unrealized loss on equity investments	3	—
Investment loss	6	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(393)	(1,237)
Inventories	(46)	47
Prepaid expenses and other current assets	(557)	50
Accounts payable	244	(212)
Accrued expenses and other current liabilities	(126)	191
Net cash provided by (used) for operating activities	79	709
Investing activities:		
Capitalized software development costs	(534)	(178)
Purchases of property and equipment	(41)	(8)
Purchase of equity securities	(795)	—
Sale of equity securities	10	—
Purchase of debt securities	(3,521)	—
Net cash used for investing activities	(4,881)	(186)
Financing activities:		
Stock for tax withholding	(15)	(35)
Dividends paid	(1,291)	(644)
Proceeds from exercised options	32	8
Principal payments on long-term debt	(29)	—
Net cash used for financing activities	(1,303)	(671)
Effect of exchange rate changes on cash	(191)	(30)
Change in cash and cash equivalents	(6,296)	(178)
Cash and cash equivalents at beginning of period	8,229	8,605
Cash and cash equivalents at end of period	$ 1,933	$ 8,427
Non-Cash investing and financing activities:		
Sale of equity securities included in due from broker	481	—

See accompanying notes to the condensed consolidated financial statements.

AUTOSCOPE TECHNOLOGIES CORPORATION

Condensed Consolidated Statements of Shareholders' Equity

(in thousands, except share data)

	Three-Month Period Ended June 30, 2021					
	Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance, March 31, 2021 (unaudited)	5,354,337	$ 54	$ 24,997	$ (203)	$ (4,371)	$ 20,477
Stock-based compensation	12,527	—	54	—	—	54
Stock options exercised	2,000	—	8	—	—	8
Stock for tax withholding	(1,678)	—	(11)	—	—	(11)
Dividends declared	—	—	—	—	(644)	(644)
Comprehensive income:						
Foreign currency translation adjustment	—	—	—	18	—	18
Net income	—	—	—	—	752	752
Balance, June 30, 2021 (unaudited)	5,367,186	$ 54	$ 25,048	$ (185)	$ (4,263)	$ 20,654

	Three-Month Period Ended June 30, 2022					
	Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance, March 31, 2022 (unaudited)	5,391,488	$ 54	$ 25,396	$ (350)	$ (5,767)	$ 19,333
Stock-based compensation	8,304	—	62	—	—	62
Stock for tax withholding	(905)	—	(6)	—	—	(6)
Dividends declared	—	—	—	—	(645)	(645)
Transfers of investments from held-to-maturity to available-for-sale classification	—	—	—	(62)	—	(62)
Comprehensive income:						
Foreign currency translation adjustment	—	—	—	(131)	—	(131)
Net income	—	—	—	—	74	74
Balance, June 30, 2022 (unaudited)	5,398,887	$ 54	$ 25,452	$ (543)	$ (6,338)	$ 18,625

See accompanying notes to the condensed consolidated financial statements

	Six-Month Period Ended June 30, 2021					
	Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance, December 31, 2020	5,352,626	$ 54	$ 24,968	$ (150)	$ (5,502)	$ 19,370
Stock-based compensation	19,562	—	107	—	—	107
Stock options exercised	2,000	—	8	—	—	8
Stock for tax withholding	(7,002)	—	(35)	—	—	(35)
Dividends declared	—	—	—	—	(644)	(644)
Comprehensive income:						
Foreign currency translation adjustment	—	—	—	(35)	—	(35)
Net income	—	—	—	—	1,883	1,883
Balance, June 30, 2021 (unaudited)	5,367,186	$ 54	$ 25,048	$ (185)	$ (4,263)	$ 20,654

	Six-Month Period Ended June 30, 2022					
	Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance, December 31, 2021	5,378,857	$ 54	$ 25,167	$ (288)	$ (5,139)	$ 19,794
Stock-based compensation	15,300	—	268	—	—	268
Stock options exercised	7,000	—	32	—	—	32
Stock for tax withholding	(2,270)	—	(15)	—	—	(15)
Dividends declared	—	—	—	—	(1,291)	(1,291)
Transfers of investments from held-to-maturity to available-for-sale classification	—	—	—	(62)	—	(62)
Comprehensive income:						
Foreign currency translation adjustment	—	—	—	(193)	—	(193)
Net income	—	—	—	—	92	92
Balance, June 30, 2022 (unaudited)	5,398,887	$ 54	$ 25,452	$ (543)	$ (6,338)	$ 18,625

See accompanying notes to the condensed consolidated financial statements

Note A: Basis of Presentation

On July 21, 2021, a holding company reorganization was completed (the "Reorganization") in which Image Sensing Systems, Inc. ("ISNS") became a wholly-owned subsidiary of the new parent company named "Autoscope Technologies Corporation" ("Autoscope"), which became the successor issuer to ISNS. As a result of the Reorganization, Autoscope replaced ISNS as the public company trading on the Nasdaq Stock Market under the ticker symbol "AATC," and outstanding shares of ISNS's common stock automatically converted into shares of common stock of Autoscope. As used in this Quarterly Report on Form 10-Q, the "Company", "we", "us" and "our" or its management or business at any time before the effective date of the Reorganization refer to those of ISNS as the predecessor company and its wholly-owned subsidiaries and thereafter to Autoscope and its wholly-owned subsidiaries, except as otherwise specified or to the extent the context otherwise indicates. The Reorganization is intended to be a tax-free transaction for U.S. federal income tax purposes for the Company's shareholders. Autoscope was incorporated on April 23, 2021 under the laws of the State of Minnesota, and ISNS was incorporated in Minnesota on December 20, 1984. The Company develops and markets video and radar processing products for use in applications such as intersection control, highway, bridge and tunnel traffic management and traffic data collection. We sell our products primarily to distributors and also receive royalties under a license agreement with a manufacturer/distributor for certain of our products. Our products are used primarily by governmental entities.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to the Quarterly Report on Form 10-Q, which require the Company to make estimates and assumptions that affect amounts reported. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. It is the opinion of management that the unaudited condensed consolidated financial statements include all adjustments consisting of normal recurring accruals considered necessary for a fair presentation. All significant intercompany balances and transactions have been eliminated.

Operating results for the three and six-month periods ended June 30, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022. The accompanying condensed consolidated financial statements of the Company should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021 as filed with the SEC.

Cash Dividend

On February 2, 2022, the Board of Directors of the Company approved a cash dividend of $0.12 per share to shareholders of record on the close of business on February 21, 2022, which was paid to shareholders on February 28, 2022.

On May 10, 2022, the Board of Directors of the Company approved a cash dividend of $0.12 per share to shareholders of record on the close of business May 23, 2022, which was paid to shareholders on May 30, 2022.

On August 9, 2022, the Board of Directors of the Company approved a cash dividend of $0.12 per share to shareholders of record on the close of business August 25, 2022, which is payable to shareholders on August 31, 2022.

Summary of Significant Accounting Policies

The Company believes that of its significant accounting policies, the following are particularly important to the portrayal of the Company's results of operations and financial position and may require the application of a higher level of judgment by the Company's management and, as a result, are subject to an inherent degree of uncertainty.

Revenue Recognition

We recognize revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

We determine revenue recognition through the following steps:

- Identification of a contract, or contracts, with a customer;
- Identification of performance obligations in the contract or contracts;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, we satisfy a performance obligation.

Revenue disaggregated by revenue source for the three and six months ended June 30, 2022 and 2021 consists of the following (in thousands); revenue excludes sales and usage-based taxes when or if it has been determined that we are acting as a pass-through agent:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Product sales	$ 1,432	$ 1,305	$ 2,366	$ 2,468
Royalties	1,387	2,483	3,205	4,299
Total revenue	$ 2,819	$ 3,788	$ 5,571	$ 6,767

Product Sales:

Product revenue is generated primarily from the direct sales of our RTMS radar systems worldwide and our Autoscope video systems in Europe and Asia. Revenue is recognized when control of the promised goods or services is transferred to our customers in an amount that reflects the amount we expect to receive in exchange for those goods or services.

Certain product sales may contain multiple performance obligations for revenue recognition purposes. Multiple performance obligations may include hardware, software, installation services, training, support, and extended warranties. In arrangements where we have multiple performance obligations, the transaction price is allocated to each performance obligation using the relative stand-alone selling price. We generally determine stand-alone selling prices based on the observable stand-alone prices charged to customers. For performance obligations without observable stand-alone prices charged to customers, we evaluate the adjusted market assessment approach, the expected cost plus margin approach, and stand-alone sales to estimate the stand-alone selling prices.

Revenue for services such as maintenance, repair, and technical support is recognized either as the service is performed or ratably over the defined contractual period for service maintenance contracts. From time to time, our payment terms may vary by the type and location of our customer and the products or services offered. Revenue for extended warranties are deferred until the coverage period and then recognized ratably over the extended warranty term.

We record deferred revenues when cash payments are received or due in advance of our performance, including amounts which are refundable. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, we require payment before the products or services are delivered to the customer.

We record provisions against sales revenue for estimated returns and allowances in the period when the related revenue is recorded based on historical sales returns and changes in end user demand.

Royalties:

Econolite Control Products, Inc. (“Econolite”) is our licensee that sells our Autoscope video system products in the United States, Mexico, Canada and the Caribbean. The royalty of approximately 50% of the gross profit on licensed products is recognized when the products are shipped or delivered by Econolite to its customers.

Practical Expedients and Exemptions:

We generally expense sales commissions when incurred because the amortization periods would have been one year or less. These costs are recorded within sales and marketing expense.

We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

Inventories
Inventories are primarily electronic components and finished goods and are valued at the lower of cost or net realizable value determined under the first-in, first-out accounting method.

Income Taxes
We record a tax provision for the anticipated tax consequences of our reported results of operations. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those deferred tax assets and liabilities are expected to be realized or settled. We record a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized. We believe it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining net realizable value of our deferred tax assets. If all or part of the net deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with management’s expectations could have a material impact on our financial condition and operating results. We recognize penalties and interest expense related to unrecognized tax benefits in income tax expense.

Intangible Assets
We capitalize certain software development costs related to software to be sold, leased, or otherwise marketed. Capitalized software development costs include purchased materials, services, internal labor and other costs associated with the development of new products and services. Software development costs are expensed as incurred until technological feasibility has been established, at which time future costs incurred are capitalized until the product is available for general release to the public. Based on our product development process, technological feasibility is generally established once product and detailed program designs have been completed, uncertainties related to high-risk development issues have been resolved through coding and testing, and we have established that the necessary skills, hardware, and software technology are available for production of the product. Once a software product is available for general release to the public, capitalized development costs associated with that product will begin to be amortized to cost of sales over the product's estimated economic selling life, using the greater of straight-line or a method that results in cost recognition in future periods that is consistent with the anticipated timing of product revenue recognition.

Capitalized software development costs are subject to an ongoing assessment of recoverability, which is impacted by estimates and assumptions of future revenues and expenses for these software products, as well as other factors such as changes in product technologies. Any portion of unamortized capitalized software development costs that are determined to be in excess of net realizable value have been expensed in the period in which such a determination is made. Subsequent to reaching technological feasibility for certain software products, we capitalized approximately $221,000 and $55,000 in the quarters ended June 30, 2022 and 2021, respectively, and $534,000 and $178,000 during the six-month periods ended June 30, 2022 and 2021, respectively.

Intangible assets with finite lives are amortized on a straight-line basis over the expected period to be benefited by future cash flows and reviewed for impairment. At both June 30, 2022 and 2021, we determined there was no impairment of intangible assets. At both June 30, 2022 and 2021, there were no indefinite-lived intangible assets.

Investments in Debt Securities
We classify investments in debt securities on the acquisition date and at each balance sheet date. At March 31, 2022, all of our investments in debt securities were classified as held-to-maturity. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold until maturity. Securities classified as held-to-maturity are carried at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity security using the straight-line method.

During the quarter ended June 30, 2022, we changed the classification of $3.4 million in fair value of our held-to-maturity debt securities to available-for-sale debt securities due to our sales of some of the held-to-maturity securities and that sale being inconsistent with our former intent to hold the securities to maturity. Thus, as of June 30, 2022, all investments in debt securities were classified as available-for-sale. The difference between the reclassified securities' amortized cost and fair value at the date of transfer of $62,000 was recognized as an unrealized loss recorded as a component of accumulated other comprehensive income.

Investments in Equity Securities
We carry all investments in equity securities at fair value and record the subsequent changes in values in the Consolidated Statement of Operations as a component of investment gains or losses.

Note B: Recent Accounting Pronouncements

Accounting pronouncements net yet adopted

In June 2016, the FASB issued *ASU No. 2016-13*, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13")." The amendments in ASU 2016-13 , among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, including ASU's 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. These ASU's have provided for various minor technical corrections and improvements to the codification as well as other transition matters. Smaller reporting companies who file with the U.S. Securities and Exchange Commission (the "SEC") and all other entities who do not file with the SEC are required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. The Company is currently evaluating the potential impact of ASU 2016-13 on our consolidated financial statements.

The adoption of ASU 2016-13 could result in an increase in the allowance for bad debt on the Company's account receivables as a result of changing from an "incurred loss" model, which encompasses allowances for current known losses, to an "expected loss" model, which encompasses allowances for losses expected to be incurred on the Company's receivables. While we are currently evaluating the potential impact of adopting ASU 2016-13, we expect the impact of adoption to be immaterial.

Note C: Fair Value Measurements

The guidance for fair value measurements establishes the authoritative definition of fair value, sets out a framework for measuring fair value and outlines the required disclosures regarding fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. We use a three-tier fair value hierarchy based upon observable and non-observable inputs as follows:

Level 1: observable inputs such as quoted prices in active markets;

Level 2: inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Financial Instruments not Measured at Fair Value

Certain of our financial instruments are not measured at fair value and are recorded at carrying amounts approximating fair value, based on their short-term nature or variable interest rate. These financial instruments include cash and cash equivalents, accounts receivable, accounts payable and other current financial assets and liabilities.

Note D: Investments in available-for-sale debt securities

Investments in available-for-sale debt securities as of June 30, 2022 are summarized by type below (in thousands).

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value[1]
U.S. government	$ 609	$ —	$ (6)	$ 603
Corporate and other taxable bonds	2271	1	(31)	2,241
Other	635	—	(43)	592
	$ 3,515	$ 1	$ (80)	$ 3,436

The amortized cost and estimated fair value of available-for-sale debt securities at June 30, 2022 are summarized below by contractual maturity dates (in thousands).

	Due in one year or less	Due after one year through five years	Mortgage-backed securities	Total
Amortized cost	$ 428	$ 2,677	$ 410	$ 3,515
Fair value[1]	425	2,607	404	3,436

The following table shows the gross unrealized holding losses and fair value of our available-for-sale securities with unrealized holding losses, summarized by type of securities and length of time that individual securities had been in a continuous loss position deemed to be temporary as of June 30, 2022 (in thousands).

	Less than 12 months		12 months or more		Total	
	Fair value[1]	Gross unrealized losses	Fair value[1]	Gross unrealized losses	Fair value[1]	Gross unrealized losses
U.S. government	$ 603	$ (6)	$ —	$ —	$ 603	$ (6)
Corporate and other taxable bonds	2,241	(30)	—	—	2,241	(30)
Other	592	(43)	—	—	592	(43)
	$ 3,436	$ (79)	$ —	$ —	$ 3,436	$ (79)

We did not consider any of our available-for-sale securities to be impaired as of June 30, 2022. When evaluating for impairment we assess indicators that include but are not limited to, financial performance, changes in underlying credit ratings, market conditions and offers to purchase or sell.

(1) The fair value of the Company's available-for-sale debt securities are determined based upon inputs, other than the quoted prices in active markets, that are observable either directly or indirectly, and are classified as level 2 fair value measurements.

Note E: Investments in equity securities

Investments in equity securities as of June 30, 2022 are summarized based on the primary industry of the investee in the table below (in thousands).

	Cost Basis	Net Unrealized Gains (Losses)	Fair Value[(2)]
Banks and finance	$ 250	$ (3)	$ 247
	$ 250	$ (3)	$ 247

(2) The fair value of the Company's equity investments are determined based on readily available market data, and are classified as level 1 fair value measurements.

Note F: Inventories

Inventories consisted of the following (in thousands):

	June 30, 2022	December 31, 2021
Finished goods	$ 822	$ 1,205
Components	653	224
Total	$ 1,475	$ 1,429

Note G: Operating Leases

The Company is subject to various non-cancelable operating leases for office space and IT equipment expiring at various dates through March 2023. These leases do not have significant rent escalation, holidays, concessions, leasehold improvement incentives, or other build-out clauses. Further, the leases do not contain contingent rent provisions.

Most of these leases include an option to renew. The exercise of lease renewal options is typically at our sole discretion; therefore, the majority of renewals to extend the lease terms are not included in our right-of-use ("ROU") assets and lease liabilities because they are not reasonably certain of exercise. We regularly evaluate the renewal options and, when they are reasonably certain of exercise, we include the renewal period in our lease term.

Because most of our leases do not provide an implicit rate, we use our incremental borrowing rate in determining the present value of the lease payments. The incremental borrowing rate represents an estimate of the interest rate we would incur at lease commencement to borrow an amount equal to the lease payments on a collateralized basis over the term of a lease. We used incremental borrowing rates as of January 1, 2019 for operating leases that commenced prior to that date. We have a centrally managed treasury function; therefore, based on the applicable lease terms and the current economic environment, we apply a portfolio approach for determining the incremental borrowing rate.

The cost components of our operating leases were as follows (in thousands):

	Three-Month Periods Ended June 30,		Six Months Periods Ended June 30,	
	2022	2021	2022	2021
Operating lease costs	$ 4	$ 53	$ 57	$ 108
Variable lease cost	3	51	54	93
Total	$ 7	$ 104	$ 111	$ 201

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

Maturities for our lease liabilities for all operating leases were as follows (in thousands) as of June 30, 2022:

	Total
2022	$ 7
2023	3
2024 and thereafter	—
Total lease payments	10
Less: Interest	—
Present value of lease liabilities	$ 10

The weighted average remaining lease terms and discount rates for all of our operating leases were as follows as of June 30, 2022:

	June 30, 2022
Remaining lease term and discount rate:	
Weighted average remaining lease term (years)	0.64
Weighted average discount rate	4.75 %

Cash paid for amounts included in the measurement of operating lease liabilities was $57,000 and $107,000 for the six months ended June 30, 2022 and 2021, respectively, and these amounts are included in operating activities in the condensed consolidated statements of cash flows. During the six months ended June 30, 2022, ISNS and Spruce Tree Centre L.L.P. entered into a lease agreement, which increased operating lease assets and operating lease liabilities by $8,400. The Company is using this leased space to hold equipment that supports various traffic cameras in Saint Paul, Minnesota. The lease agreement, effective March 1, 2022, will expire on March 31, 2023. There were no operating lease assets obtained in exchange for new operating lease liabilities for the three months ended June 30, 2022.

On July 28, 2021, ISNS and Spruce Tree Centre L.L.P. ("Spruce Tree") entered into an amendment (the "Amendment"), which amended the original Office Lease Agreement dated as of November 24, 1998 by and between ISNS and Spruce Tree (the "Original Lease"), as such Original Lease was subsequently amended (as so amended, the "Lease"). The Lease term was to expire on July 31, 2021. The Amendment, which was effective August 1, 2021, extended the Lease through March 31, 2022. In addition, the Amendment increased the monthly rent from $16,660 to $16,960 for the period from August 1, 2021 through March 31, 2022.

On August 27, 2021 (the "Effective Date"), ISNS and TJ&Z Family Limited Partnership, a Minnesota limited partnership ("TJ&Z"), entered into a Purchase Agreement (the "Original Agreement") under which ISNS purchased certain real and personal property (the "Property") from TJ&Z for a total purchase price of $2,050,000, subject to adjustments if certain conditions were not satisfied (the "Purchase Price"). The Property includes land and a building located at 1115 Hennepin Avenue, Minneapolis, Minnesota (the "Real Property"). The Original Agreement also provided for the sale by TJ&Z to ISNS of all of TJ&Z's interest under a billboard lease for a billboard located on the Real Property, as described in the Original Agreement. The Original Agreement gave ISNS 60 days after the Effective Date (the "Inspection Period") during which to undertake any studies, tests, investigations, and inspections of the Property. Effective as of on October 26, 2021, ISNS and TJ&Z entered into the First Amendment to Purchase Agreement (the “First Amendment”) that, among other things, extended the Inspection Period from October 26, 2021 to November 26, 2021, as to certain conditions only. (The Original Agreement, as amended by the First Amendment, is referred to as the "Purchase Agreement.") The First Amendment effectively extended the closing date to December 13, 2021 and required ISNS to pay $50,000 in earnest money in addition to the $50,000 in earnest money already paid by ISNS under the Original Agreement. On December 10, 2021, ISNS closed (the "Closing") on the purchase of the Property under the terms of the Purchase Agreement and a loan in the original principal amount of $1,742,500 (the "Loan") from Coulee Bank to ISNS to finance the purchase of the Property. In addition to the $100,000 in earnest money paid by ISNS as described above and the $1,742,500 in Loan proceeds, at the Closing, ISNS paid $230,119 to finance the purchase of the Property and the payment of Closing costs. ISNS fully occupied the Property in February 2022.

The foregoing description of the Purchase Agreement and the First Amendment does not purport to be complete and is qualified in its entirety by reference to the full text of the Purchase Agreement filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K dated September 2, 2021 and the First Amendment filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K dated November 4, 2021 and incorporated herein by reference.

The following is a schedule of minimum future rental income (in thousands) on the operating lease related to the billboard located on the Company's Minnesota headquarters as of June 30, 2022.

	Total
2022	$ 19
2023	38
2024	38
2025	38
2026	38
2027 and thereafter	38
Total minimum future rental income	$ 209

The operating lease related to the billboard located on the Real Property is for an initial term of seven years, through December 31, 2027. The lease automatically renews on an annual basis thereafter, cancellable by either party.

Note H: Intangible Assets

Intangible assets consisted of the following (dollars in thousands):

	June 30, 2022			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life (in Years)
Wrong Way development costs	$ 228	$ (228)	$ —	—
Vision development costs	3,107	(2,163)	944	8.0
Echo development costs	1,852	(638)	1,214	7.0
IntellitraffiQ development costs	468	(468)	—	—
Intellisight development costs	841	(3)	838	8.0
Total	$ 6,496	$ (3,500)	$ 2,996	7.6

	December 31, 2021			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life (in Years)
Wrong Way development costs	$ 228	$ (228)	$ —	—
Vision development costs	3,107	(1,953)	1,154	8.0
Echo development costs	1,852	(506)	1,346	7.0
IntellitraffiQ development costs	468	(409)	59	4.0
Intellisight development costs	307	—	307	—
Total	$ 5,962	$ (3,096)	$ 2,866	6.6

Note I: Warranties

We generally provide a two to three year warranty on product sales. Reserves to honor warranty claims are estimated and recorded at the time of sale based on historical claim information and are analyzed and adjusted periodically based on actual claim trends.

Warranty liability and related activity consisted of the following (in thousands):

	Six-Month Periods Ended June 30,	
	2022	2021
Beginning balance	$ 128	$ 141
Warranty provisions	15	24
Warranty claims	(6)	(24)
Adjustments to preexisting warranties	(13)	3
Currency	(5)	(2)
Ending balance	$ 119	$ 142

Note J: Stock-Based Compensation

We compensate officers, directors, key employees and consultants with stock-based compensation under the Image Sensing Systems, Inc. 2014 Stock Option and Incentive Plan (the "2014 Plan"), which was approved by our shareholders and is administered under the supervision of our Board of Directors. The 2014 Plan and awards granted under the 2014 Plan were assumed by Autoscope in the Reorganization. Stock option awards are granted at exercise prices equal to the closing price of our stock on the day before the date of grant. Generally, options vest ratably over periods of three to five years from the dates of the grant, beginning one year from the date of grant, and have a contractual term of nine to 10 years.

Compensation expense, net of estimated forfeitures, is recognized ratably over the vesting period. Stock-based compensation expense included in general and administrative expense for the three-month periods ended June 30, 2022 and 2021 was $62,000 and $54,000, respectively. Stock-based compensation expense included in general and administrative expense for the six-month periods ended June 30, 2022 and 2021 was $114,000 and $107,000, respectively. At June 30, 2022, 612,474 shares were available for grant under the 2014 Plan.

Stock Options

A summary of the stock option activity for the first six months of 2022 is as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at December 31, 2021	12,000	$ 4.90	1.13	$ 19,860
Granted	120,000	$ 6.87	—	$ —
Exercised	(7,000)	$ 4.55	—	$ —
Expired	—	$ —	—	$ —
Forfeited	(2,000)	$ 7.10	—	$ —
Options outstanding at June 30, 2022	123,000	$ 6.81	9.40	$ 3,720
Options exercisable at June 30, 2022	63,000	$ 6.74	9.22	$ 3,720

Stock options to purchase 7,000 shares were exercised, no stock options expired, and options to purchase 2,000 shares were forfeited during the six-month period ended June 30, 2022, and options to purchase 2,000 were exercised and 1,000 shares were forfeited during the six-month period ended June 30, 2021. During each of the six-month periods ended June 30, 2022 and 2021, we recognized $154,000 and no stock-based compensation expense related to stock options, respectively. As of June 30, 2022, there was $123,000 of unrecognized compensation cost related to non-vested stock options.

The fair value of stock options granted under stock-based compensation programs has been estimated as of the date of each grant using the multiple option form of the Black-Scholes valuation model, based on the grant price and assumptions regarding the expected life, stock price volatility, dividends, and risk-free interest rates. Each vesting period of an option is valued separately, with this value being recognized over the vesting period. The weighted average per share grant date fair value of options to purchase 120,000 shares granted for the quarter ended June 30, 2022 was $2.32. The weighted average assumptions used to determine the fair value of stock options granted during 2022 is as follows:

	2022
Expected life (in years)	3.59
Risk-free interest rate	1.44 %
Expected volatility	70.29 %
Dividend yield	6.95 %

The expected life represents the period that the stock option awards are expected to be outstanding and was determined based on historical and anticipated future exercise and expiration patterns. The risk-free interest rate used is based on the yield of constant maturity U.S. Treasury bonds on the grant date with a remaining term equal to the expected life of the grant. We estimate stock volatility based on a historical daily price observation. The dividend yield assumption is based on the annualized current dividend divided by the share price on the grant date.

Restricted Stock Awards and Stock Awards

Restricted stock awards are granted under the 2014 Plan at the discretion of the Compensation Committee of our Board of Directors. We issue restricted stock awards to executive officers and key consultants. These awards may contain certain performance conditions or time-based vesting criteria. The restricted stock awards granted to executive officers vest if the various performance or time-based metrics are met. Stock-based compensation is recognized for the number of awards expected to vest at the end of the period and is expensed beginning on the grant date through the end of the vesting period. At the time of vesting of the restricted stock awards, the recipients of common stock may request to receive a net of the number of shares required for employee withholding taxes, which can be withheld up to the relevant jurisdiction's maximum statutory rate. Compensation expense related to any stock awards issued to employees is determined on the grant date based on the publicly-quoted fair market value of our common stock and is charged to earnings on the grant date.

We also issue stock awards as a portion of the annual retainer for each director on a quarterly basis. The stock awards are fully vested at the time of issuance.

The following table summarizes restricted stock award activity for the first six months of 2022:

	Number of Shares	Weighted Average Grant Date Fair Value
Awards outstanding December 31, 2021	18,597	$ 5.72
Granted	15,300	5.88
Vested	(24,629)	5.75
Forfeited	—	—
Awards outstanding at June 30, 2022	9,268	$ 5.90

As of June 30, 2022, the total stock-based compensation expense related to non-vested awards not yet recognized was $36,000, which is expected to be recognized over a weighted average period of 1.66 years. During the six-month periods ended June 30, 2022 and June 30, 2021, we recognized $114,000 and $107,000, respectively, of stock-based compensation expense related to restricted stock awards.

Note K: Income per Common Share

Net income per share is computed by dividing net income (loss) by the daily weighted average number of common shares outstanding during the applicable periods. Diluted net income (loss) per share includes the potentially dilutive effect of common shares subject to outstanding stock options and restricted stock awards using the treasury stock method. Under the treasury stock method, shares subject to certain outstanding stock options and restricted stock awards have been excluded from the calculation of the diluted weighted average shares outstanding because the exercise of those options or the vesting of those restricted stock awards would lead to a net reduction in common shares outstanding. As a result, stock options and restricted stock awards to acquire 120,000 and 2,000 weighted common shares have been excluded from the diluted weighted shares outstanding for the three-month periods ended June 30, 2022 and 2021, respectively, and 100,099 and 2,000 weighted common shares have been excluded from the diluted weighted shares outstanding for the six-month periods ended June 30, 2022 and 2021, respectively.

A reconciliation of net income per share is as follows (in thousands, except per share data):

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2022	2021	2022	2021
Numerator:				
Net income	$ 74	$ 752	$ 92	$ 1,883
Denominator:				
Weighted average common shares outstanding	5,381	5,341	5,371	5,332
Dilutive potential common shares	6	9	2	11
Shares used in diluted net income per common share calculations	5,387	5,350	5,373	5,343
Basic net income per common share	$ 0.01	$ 0.14	$ 0.02	$ 0.35
Diluted net income per common share	$ 0.01	$ 0.14	$ 0.02	$ 0.35

Note L: Segment Information

The Company's Chief Executive Officer and management regularly review financial information for the Company's discrete operating segments. Based on similarities in the economic characteristics, nature of products and services, production processes, type or class of customer served, method of distribution and regulatory environments, the operating segments have been aggregated for financial statement purposes and categorized into two reportable segments: Intersection and Highway.

Autoscope video is our machine-vision product line, and revenue consists of royalties (all of which are received from Econolite), as well as a portion of international product sales. Video products are normally sold in the Intersection segment. RTMS is our radar product line, and revenue consists of international and North American product sales. Radar products are normally sold in the Highway segment. All segment revenues are derived from external customers.

Operating expenses and total assets are not allocated to the segments for internal reporting purposes. Due to the changes in how we manage our business, we may reevaluate our segment definitions in the future.

The following tables set forth selected unaudited financial information for each of our reportable segments (in thousands):

	Three Months Ended June 30,					
	Intersection		Highway		Total	
	2022	2021	2022	2021	2022	2021
Revenue	$ 1,456	$ 2,637	$ 1,363	$ 1,151	$ 2,819	$ 3,788
Gross profit	1,305	2,437	690	524	1,995	2,961
Amortization of intangible assets	105	97	99	98	204	195
Intangible assets	1,782	1,364	1,214	1,593	2,996	2,957

	Six Months Ended June 30,					
	Intersection		Highway		Total	
	2022	2021	2022	2021	2022	2021
Revenue	$ 3,438	$ 4,529	$ 2,133	$ 2,238	$ 5,571	$ 6,767
Gross profit	3,074	4,161	1,057	1,073	4,131	5,234
Amortization of intangible assets	210	190	194	192	404	382
Intangible assets	1,782	1,364	1,214	1,593	2,996	2,957

Note M: Restructuring and Exit Activities

In the third quarter of 2016, in order to streamline our operating and cost structure, we initiated the closure of our wholly-owned subsidiaries, Image Sensing Systems HK Limited (ISS HK) in Hong Kong and Image Sensing Systems (Shenzhen) Limited (ISS WOFE) in China. During 2020, we initiated the closure of Image Sensing Systems EMEA Limited (ISS UK) and Image Sensing Systems Holdings Limited (ISS Holdings). At September 30, 2021, Image Sensing Systems (Shenzhen) Limited was fully closed. We incurred $1,000 and $23,000 for these entities' closure costs in the six-month periods ended June 30, 2022 and June 30, 2021, respectively.

In the second quarter of 2021, the Company began the process of forming a subsidiary in Chennai, India. Autoscope Technologies India Private Limited ("Autoscope India") was legally formed on October 14, 2021. Autoscope India's operations will solely focus on research and development.

Note N: Long-term Debt

Paycheck Protection Program Loan

Under the Paycheck Protection Program ("PPP"), the United States Small Business Administration ("SBA") approved the Company's application to receive a loan in the amount of $923,700 (the "PPP Loan"). The PPP was established under the congressionally approved Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the SBA. The PPP Loan to the Company was made through BMO Harris Bank N.A. (the "Lender"). On April 21, 2020, the Company's Board of Directors approved the PPP Loan, and the Company signed the promissory note (the "Note") evidencing the PPP Loan, which was dated as of April 17, 2020. The Lender distributed the $923,700 of proceeds of the PPP Loan to the Company on April 22, 2020.

The term of the PPP loan was 24 months after the date of the Note (the "Maturity Date"). The annual interest rate on the PPP Loan was 1.00%. No payments of principal or interest were due during the nine months beginning on the date of the Note (the "Deferred Period"). The Company's obligations under the Note were not secured by a security interest in the Company's assets. The Note required the Lender's consent if the Company wanted to reorganize, merge, consolidate, or otherwise change its ownership or structure. The Note contained customary events of default by the Company relating to, among other things, payment defaults and the breach of representations and warranties or other provisions of the Note. Upon a default by the Company under the Note, the Lender could have accelerated the Company's obligations under the Note and pursued its rights against the Company under applicable law, including by filing suit and obtaining a judgment against the Company.

Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of loans made under the PPP after 24 weeks if the recipients use the PPP loan proceeds for eligible purposes, including payroll costs, mortgage interest, rent or utility costs and meet other requirements regarding, among other things, the maintenance of employment and compensation levels. On February 2, 2021, the Company was notified by the Lender that the Lender had received payment in full of the PPP Loan from the United States government, and the Company's PPP Loan had been forgiven. The Company recognized the amount of the PPP Loan principal and accrued interest forgiven totaling approximately $931,000 as other non-operating income in the first quarter of 2021.

Real Property Bank Loan

On December 10, 2021, ISNS entered into a Business Loan Agreement (the "Loan Agreement") with Coulee Bank (the "Bank") and issued a promissory note to the Bank (the "Note") in the original principal amount of $1,742,500 (the "Loan") to finance the purchase of the Company's Minnesota headquarters located at 1115 Hennepin Avenue, Minneapolis, Minnesota (Real Property).

The Note has a term of five years and bears interest at the fixed annual rate of 3.95% unless ISNS defaults under the terms of the Note, in which case a higher interest rate will go into effect calculated as provided in the Note. The Note is payable in 59 consecutive monthly payments of principal and interest of $10,566, with the first payment due on January 10, 2022 and one final payment consisting of the balance of the entire remaining principal amount together with all accrued and unpaid interest, estimated at $1,438,256, due and payable on December 10, 2026. There is no prepayment penalty unless ISNS finances the Loan with another lender, in which case ISNS would be obligated to pay a prepayment penalty to the Bank equal to 1% of the unpaid principal.

Upon the occurrence of an event of default under the Loan Agreement, all indebtedness of ISNS to the Bank immediately will become due and payable, all without notice of any kind to ISNS, except that in the case of an event of default of the type described in the "Insolvency" subsection of the Loan Agreement, such acceleration will be automatic and not optional. In addition, upon a default, the Bank will have all the rights and remedies provided in the or available at law, in equity, or otherwise.

Under the Mortgage granted by ISNS to the Bank (the "Mortgage") dated as of December 10, 2021, ISNS mortgaged and conveyed to the Bank, with power of sale, all of ISNS's right, title, and interest in and to the Real Property, together with all existing or subsequently erected or affixed buildings and all improvements and fixtures; and all easements, rights of way, and appurtenances. The events of default under the Mortgage are similar to those under the Loan Agreement and the Note and are in addition to those under the Loan Agreement and the Note.

As provided in the Assignment of Rents between ISNS and the Bank (the "Assignment") dated as of December 10, 2021, ISNS granted to the Bank a continuing security interest in, and conveyed to the Bank, all of ISNS's right, title, and interest in and to the rents from the Real Property. The Assignment provides that unless and until the Bank exercises its right to collect the rents as provided in the Assignment and so long as there is no default under the Assignment, ISNS may remain in possession and control of and operate and manage the Real Property and collect the rents. The events of default under the Assignment are similar to those under the Loan Agreement, the Note, and the Mortgage and are in addition to those under the Loan Agreement, the Note, and the Mortgage. Other than the lease for the billboards on the Real Property, which TJ&Z assigned to ISNS, there are currently no tenants in the Real Property and no leases or other similar agreements with prospective tenants contemplated.

In connection with the Loan, the Company incurred and capitalized approximately $13,000 of debt issuance costs which will be amortized as additional interest expense over the life of the loan and are presented as a reduction to the long-term debt balance.

Long-term Debt Maturities

Maturities of long-term debt, excluding deferred debt issuance costs, for the next five fiscal years are as follows (dollars in thousands):

	Long-term Debt Maturities
2022	$ 29
2023	60
2024	63
2025	66
2026	1,496

Note O: Commitments and Contingencies

Litigation

We are involved from time to time in various legal proceedings arising in the ordinary course of our business, including primarily commercial, product liability, employment and intellectual property claims. In accordance with GAAP, we record a liability in our Consolidated Financial Statements with respect to any of these matters when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. With respect to any currently pending legal proceedings, we have not established an estimated range of reasonably possible additional losses either because we believe that we have valid defenses to claims asserted against us or the proceeding has not advanced to a stage of discovery that would enable us to establish an estimate. We currently do not expect the outcome of these matters to have a material effect on our consolidated results of operations, financial position or cash flows. Litigation, however, is inherently unpredictable, and it is possible that the ultimate outcome of one or more claims asserted against us could adversely impact our results of operations, financial position or cash flows. We expense legal costs as incurred.

Note P: Risks and Uncertainties

In December 2019, the outbreak of a novel strain of coronavirus, called COVID-19, originated in Wuhan, China, and has since spread worldwide, including to the U.S. To date, the COVID-19 pandemic has caused widespread disruptions to the U.S. and global economy and has contributed to significant volatility, negative pressure in financial markets, and disruptions in supply chains. The global impact of the outbreak is continually evolving and, as additional cases and variants of the virus are identified, many countries, including the U.S., have reacted by instituting quarantines, restrictions on travel, and mandatory closures of businesses. Certain states and cities, including where we or the third parties with whom we engage operate, have also reacted by instituting quarantines, restrictions on travel, "stay at home" rules, restrictions on types of business that may continue to operate, and restrictions on the types of construction projects that may be undertaken.

Although the COVID-19 restrictions imposed have been eased in many cases, the extent to which the COVID-19 pandemic impacts our business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted with any confidence, including the scope, severity and duration of the pandemic; the actions taken to contain the pandemic or mitigate its impact, including the adoption, effectiveness, and availability of COVID-19 vaccines; the effect of any relaxation of current restrictions in the community and regions in which we, our customers and end users do business; the direct and indirect economic effects of the pandemic and containment measures; and the emergence of any additional COVID-19 variants. The rapid development and fluidity of this situation precludes any prediction as to the full adverse impact of the COVID-19 pandemic. Nevertheless, the COVID-19 pandemic has affected, and may continue to adversely affect, our business, financial condition and results of operations, and it has had, and probably will continue to have, the effect of exacerbating many of the risks described in this Quarterly Report on Form 10-Q including, but not limited to, the following:

- We currently rely on third parties to, among other things, manufacture, supply and market our products and supply other goods and services to run our business. If any such third party is adversely impacted by restrictions resulting from the COVID-19 pandemic, including staffing shortages, production slowdowns, the closure of facilities, and disruptions in delivery systems, our supply chain may be disrupted, which could limit our ability to manufacture our products and conduct research and development.
- We have established a hybrid work-from-home policy for all employees, other than those who are performing or supporting business-critical operations or other essential activities. Our increased reliance on personnel working from home has not negatively impacted productivity or disrupted, delayed or otherwise adversely impacted our business.
- The trading prices for our common stock have been highly volatile as a result of the COVID-19 pandemic. As a result, we may face difficulties raising capital through any sales of our common stock, or such sales may be on unfavorable terms. In addition, a recession, depression or other sustained adverse market event resulting from the COVID-19 pandemic or other developments and events could materially and adversely affect our business and the value of our common stock.

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

Overview

Reorganization. On July 21, 2021, a holding company reorganization was completed (the "Reorganization") in which Image Sensing Systems, Inc. ("ISNS") became a wholly-owned subsidiary of the new parent company named "Autoscope Technologies Corporation" ("Autoscope"), which became the successor issuer to ISNS. As a result of the Reorganization, Autoscope replaced ISNS as the public company trading on the Nasdaq Stock Market under the ticker symbol "AATC," and outstanding shares of ISNS's common stock automatically converted into shares of common stock of Autoscope. As used in this Quarterly Report Form 10-Q, the "Company", "we", "us" and "our" or its management or business at any time before the effective date of the Reorganization refer to those of ISNS as the predecessor company and its wholly-owned subsidiaries and thereafter to Autoscope and its wholly-owned subsidiaries, except as otherwise specified or to the extent the context otherwise indicates. The Reorganization is intended to be a tax-free transaction for U.S. federal income tax purposes for the Company's shareholders. Autoscope was incorporated on April 23, 2021 under the laws of the State of Minnesota, and ISNS was incorporated in Minnesota on December 20, 1984.

General. We are a leading provider of above-ground detection products and solutions for the intelligent transportation systems ("ITS") industry. Our family of products, which we market as Autoscope® video or video products ("Autoscope"), RTMS® radar or radar products ("RTMS"), and IntellitraffiQ® or iQ products, provides end users with the tools needed to optimize traffic flow and enhance driver safety. Our technology analyzes signals from sophisticated sensors and transmits the information to management systems and controllers or directly to users. Our products provide end users with complete solutions for the intersection and transportation markets.

Our technology is a process in which software, rather than humans, examines outputs from various types of sophisticated sensors to determine what is happening in a field of view. In the ITS industry, this process is a critical component of managing congestion and traffic flow. In many cities, it is not possible to build roads, bridges and highways quickly enough to accommodate the increasing congestion levels. During 2020, congestion levels decreased significantly as a result of COVID-19 related government lockdowns, although automobile travel has rebounded in many areas, causing congestion levels to begin returning to previous levels (per INRIX 2020 Global Traffic scorecard). In 2021, on average, United States commuters lost 36 hours a year in congestion, which cost an average of $564 per driver in wasted time (per INRIX 2021 Global Traffic scorecard). We believe this growing use of vehicles will make our ITS solutions increasingly necessary to complement existing and new roadway infrastructure to manage traffic flow and optimize throughput.

We believe our solutions are technically superior to those of our competitors because they have a higher level of accuracy, limit the occurrence of false detection, are generally easier to install with lower costs of ownership, work effectively in a multitude of light and weather conditions, and provide end users the ability to manage inputs from a variety of sensors for a number of tasks. It is our view that the technical advantages of our products make our solutions well suited for use in ITS markets.

We believe the strength of our distribution channels positions us to increase the penetration of our technology-driven solutions in the marketplace. We market our Autoscope video products in the United States, Mexico, Canada and the Caribbean through exclusive agreements with Econolite Control Products, Inc. ("Econolite"), which we believe is the leading distributor of ITS intersection control products in these markets.

We market the RTMS radar systems to a network of distributors globally. On a limited basis, we may sell directly to the end user. We market our Autoscope video products outside the United States, Mexico, Canada and the Caribbean through a combination of distribution and direct sales channels through our office in Spain. Our end users primarily include governmental agencies and municipalities.

The following discussion of period-to-period changes and trends in financial statement results under "Management's Discussion and Analysis of Financial Condition and Results of Operations" aligns with the financial statement presentation discussed above.

Trends and Challenges in Our Business

We believe the expected growth in our business can be attributed primarily to the following global trends:

- worsening traffic caused by increased numbers of vehicles in metropolitan areas without corresponding expansions of road infrastructure and the need to automate safety, security and access applications for automobiles and trucks, which has increased demand for our products;
- advances in information technology, which have made our products easier to market, implement and integrate;
- the continued funding allocations for centralized traffic management services and automated enforcement schemes, which have increased the ability of our primary end users to implement our products; and
- general increases in the cost effectiveness of electronics, which make our products more affordable for end users.

We believe our continued growth primarily depends upon:

- continued adoption and governmental funding of ITS and other automated applications for traffic control, safety and enforcement in developed countries;
- a propensity by traffic engineers to implement lower cost technology-based solutions rather than civil engineering solutions such as widening roadways;
- countries in the developing world adopting above-ground detection technology, such as video or radar, instead of in-pavement loop technology to manage traffic; and
- our ability to develop new products that provide increasingly accurate information and enhance the end users' ability to cost-effectively manage traffic and environmental issues.

Because the majority of our end users are governmental entities, we are faced with challenges related to potential delays in purchasing decisions by those entities and changes in budgetary constraints. These contingencies could result in significant fluctuations in our revenue among periods. The ongoing economic environment in Europe and the United States, the COVID-19 pandemic declared in March 2020 and the outbreak of new COVID-19 variants are further adding to the unpredictability of purchasing decisions, creating more delays than usual and decreasing governmental budgets, and they are likely to continue to affect our revenue.

Key Financial Terms and Metrics

Revenue. We derive revenue from two sources: (1) royalties received from Econolite for sales of the Autoscope video systems in the United States, Mexico, Canada and the Caribbean and (2) revenue received from the direct sales of our RTMS radar systems worldwide and our Autoscope video systems in Europe and Asia. Autoscope video royalties are calculated using a profit sharing model in which the gross profits on sales of product made through Econolite are shared equally with Econolite. This royalty arrangement has the benefit of decreasing our cost of revenues and our selling, marketing and product support expenses because these costs and expenses are borne primarily by Econolite. Although this royalty model has a positive impact on our gross margin, it also negatively impacts our total revenue, which would be higher if all the sales made by Econolite were made directly by us. The royalty arrangement is exclusive under the long-term Manufacturing, Distributing and Technology Agreement dated as of June 11, 1991, as amended (the "Econolite Agreement"), between the Company and Econolite.

Cost of Revenue. Software amortization is the sole cost of revenue related to royalties, as virtually all manufacturing, warranty and related costs are incurred by Econolite. Cost of revenue related to product sales consists primarily of the amount charged by our third party contractors to manufacture hardware products, whose costs are influenced mainly by the cost of electronic components. The cost of revenue also includes logistics costs, estimated expenses for product warranties, and inventory obsolescence. The key metric that we follow is achieving certain gross margin percentages on product sales by operating segment.

Operating Expenses. Our operating expenses fall into three categories: (1) selling, marketing and product support; (2) general and administrative; and (3) research and development. Selling, marketing and product support expenses consist of various costs related to sales and support of our products, including salaries, benefits and commissions paid to our personnel; commissions paid to third parties; travel, trade show and advertising costs; technical support for Econolite; and general product support, where applicable. General and administrative expenses consist of certain corporate and administrative functions that support the development and sales of our products and provide an infrastructure to support future growth. These expenses include management, supervisory and staff salaries and benefits; legal and auditing fees; travel; rent; and costs associated with being a public company, such as board of director fees, listing fees and annual reporting expenses. Research and development expenses consist mainly of salaries and benefits for our engineers and third party costs for consulting and prototyping. We measure all operating expenses against our annually approved budget, which is developed with achieving a certain operating margin as a key focus. We also include any restructuring costs in operating expenses.

Non-GAAP Operating Measures. We provide certain non-GAAP financial information as supplemental information to financial measures calculated and presented in accordance with GAAP (Generally Accepted Accounting Principles in the United States). This non-GAAP information excludes the impact of depreciating fixed assets and amortizing intangible assets, and it may exclude other non-recurring items. Management believes that this presentation facilitates the comparison of our current operating results to historical operating results. Management uses this non-GAAP information to evaluate short-term and long-term operating trends in our core operations. Non-GAAP information is not prepared in accordance with GAAP and should not be considered a substitute for or an alternative to GAAP financial measures and may not be computed the same as similarly titled measures used by other companies.

Reconciliations of GAAP income from operations to non-GAAP income from operations are as follows (in thousands):

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2022	2021	2022	2021
Income from operations	$ 145	$ 904	$ 168	$ 1,315
Adjustments to reconcile to non-GAAP income				
Amortization of intangible assets	204	195	404	382
Depreciation	46	40	95	80
Non-GAAP income from operations	$ 395	$ 1,139	$ 667	$ 1,777

Seasonality. Our quarterly revenues and operating results have varied significantly in the past due to the seasonality of our business. Our first quarter generally is the weakest due to weather conditions that make roadway construction more difficult in parts of North America, Europe and northern Asia. We expect such seasonality to continue for the foreseeable future. Additionally, our international revenues regularly contain individually significant sales. This can result in significant variations of revenue between periods. Accordingly, we believe that quarter-to-quarter comparisons of our financial results should not be relied upon as an indication of our future performance. No assurance can be given that we will be able to achieve or maintain profitability on a quarterly or annual basis in the future.

Segments. We currently operate in two reportable segments: Intersection and Highway. Autoscope video is our machine-vision product line, and revenue consists of royalties (all of which are received from Econolite), as well as a portion of international product sales. Video products are normally sold in the Intersection segment. RTMS and IntellitraffiQ are our radar product lines, and revenue consists of sales to external customers. Radar products are normally sold in the Highway segment**.** As a result of business model changes and modifications in how we manage our business, we may reevaluate our segment definitions in the future.

The following tables set forth selected unaudited financial information for each of our reportable segments (in thousands):

	Three Months Ended June 30,					
	Intersection		Highway		Total	
	2022	2021	2022	2021	2022	2021
Revenue	$ 1,456	$ 2,637	$ 1,363	$ 1,151	$ 2,819	$ 3,788
Gross profit	1,305	2,437	690	524	1,995	2,961
Amortization of intangible assets	105	97	99	98	204	195
Intangible assets	1,782	1,364	1,214	1,593	2,996	2,957

	Six Months Ended June 30,					
	Intersection		Highway		Total	
	2022	2021	2022	2021	2022	2021
Revenue	$ 3,438	$ 4,529	$ 2,133	$ 2,238	$ 5,571	$ 6,767
Gross profit	3,074	4,161	1,057	1,073	4,131	5,234
Amortization of intangible assets	210	190	194	192	404	382
Intangible assets	1,782	1,364	1,214	1,593	2,996	2,957

Results of Operations

The following tables set forth, for the periods indicated, certain statements of operations data as a percent of total revenue and gross profit on product sales and royalties as a percentage of product sales and royalties, respectively.

	Three-Month Periods Ended June 30,	
	2022	2021
Product sales	50.8 %	34.5 %
Royalties	49.2	65.5
Total revenue	100.0	100.0
Gross profit - product sales	49.8	44.1
Gross profit - royalties	92.4	96.1
Selling, general and administrative	47.0	40.0
Research and development	18.7	14.3
Income from operations	5.1	23.9
Other income, net	0.4	—
Income tax expense	1.2	4.0
Net income	2.6	19.9

	Six-Month Periods Ended June 30,	
	2022	2021
Product sales	42.5 %	36.5 %
Royalties	57.5	63.5
Total revenue	100.0	100.0
Gross profit - product sales	48.0	45.6
Gross profit - royalties	93.4	95.6
Selling, general and administrative	54.0	42.6
Research and development	17.1	15.3
Income from operations	3.0	19.4
Other income, net	0.4	13.7
Income tax expense	0.6	5.3
Net income	1.7	27.8

Total revenue decreased to $2.8 million in the three-month period ended June 30, 2022 from $3.8 million in the same period in 2021, a decrease of 25.6%, and decreased to $5.6 million in the first six months of 2022 from $6.8 million in the same period in 2021, a decrease of 17.7%. Royalty revenue decreased to $1.4 million in the second quarter of 2022 from $2.5 million in the second quarter of 2021, a decrease of 44.1%. The decrease in royalty revenue is primarily due to component shortages during the second quarter of 2022, which resulted in the purchase of higher costing alternative components and a slowdown in production that resulted in delayed order fulfillment. Product sales increased to $1.4 in the second quarter of 2022 from $1.3 million in the second quarter of 2021, an increase of 9.7%, and decreased to $2.4 million in the first six months of 2022 from $2.5 million in the first six months of 2021, a decrease of 4.1%. The increase in product sales in the second quarter of 2022 compared to the second quarter of 2021 is due to increased adoption of the Echo product line. The decrease in year-to-date product sales in the first six months of 2022 compared to the first six months of 2021 is primarily the result of labor shortages causing installation delays and impacting project timing. While royalty revenues in the second quarter 2022 were down, the Company has not seen a material change in current pipeline sales or backlog for its Autoscope Vision product.

Revenue for the Intersection segment decreased to $1.5 million in the second quarter of 2022 from $2.6 million in the second quarter of 2021, a decrease of 44.8%. Revenue for the Intersection segment decreased to $3.4 million in the first six months of 2022 from $4.5 million in the first six months of 2021, a decrease of 24.1%. Revenue for the Highway segment increased to $1.4 million in the second quarter of 2022 from $1.2 million in the second quarter of 2021, an increase of 18.4%. Revenue for the Highway segment decreased to $2.1 million in the first six months of 2022 from $2.2 million in the first six months of 2021, a decrease of 4.7%.

Gross margin percent for product sales increased to 49.8% in the three months ended June 30, 2022 from 44.1% in the three months ended June 30, 2021. The dollar amount of product sales gross profit increased $138,000, or 24.0%, in the three months ended June 30, 2022 compared to the prior year period. Gross margin percent for product sales increased to 48.0% in the first six months of 2022 from 45.6% in the first six months of 2021. The increase in product gross margin percent was primarily the result of an increase in total product sales and a significant increase in warranty expense in 2021, with no comparable items in 2022.

Gross margin percent for royalty sales for the three months ended June 30, 2022 decreased to 92.4% from 96.1% in the same period in 2021. Gross profit from royalties decreased by $1.1 million, or 46.3%, in the three months ended June 30, 2022 compared to the prior year period. Gross margin percent for royalty sales for the six months ended June 30, 2022 decreased to 93.4% from 95.6% in the same period in 2021. The decrease in royalty gross margin percent is primarily attributable to the sourcing of higher cost components to avoid manufacturing disruptions.

Selling, general and administrative expense was $1.3 million, or 47.0% of total revenue, in the second quarter of 2022 compared to $1.5 million, or 40.0% of total revenue, in the second quarter of 2021, and it increased to $3.0 million, or 54.0% of total revenue, in the first six months of 2022 compared to $2.9 million, or 42.6% of total revenue, in the first six months of 2021. The year-over-year increase for the first six months is due to the increased stock-based compensation expense and increased costs associated with resumed travel in the first six months of 2022.

Research and development expense decreased to $526,000, or 18.7% of total revenue, in the three-month period ended June 30, 2022, from $541,000, or 14.3% of total revenue, in the three-month period ended June 30, 2021, and it decreased to $954,000 million, or 17.1% of total revenue, in the six-month period ended June 30, 2022 from $1.0 million, or 15.3% of total revenue, in the six-month period ended June 30, 2021. The decrease was due to higher capitalized software development costs in the six-month period ended June 30, 2022 of $534,000 compared to capitalized software costs of $178,000 for the same period in 2021.

The Company recognized other income of $931,000 for the forgiveness of the Paycheck Protection Program loan and accrued interest during the first six months of 2021. There were no comparable items in the first six months of 2022.

There was $33,000 and $152,000 of income tax expense recorded in the three months ended June 30, 2022 and 2021, respectively, and $36,000 and $357,000 of income tax expense recorded in the six months ended June 30, 2022 and 2021, respectively.

Consolidated net income was $74,000, or $0.01 per basic share and diluted share, in the three-month period ended June 30, 2022 compared to a net income of $752,000, or $0.14 per basic and diluted share, in the comparable prior year period. Consolidated net income was $92,000, or $0.02 per basic and diluted share, in the six-month period ended June 30, 2022 compared to a net income of $1.9 million, or $0.35 per basic and diluted share, in the comparable prior year period.

Liquidity and Capital Resources

At June 30, 2022, we had $1.9 million in cash and cash equivalents compared to $8.2 million in cash and cash equivalents at December 31, 2021.

Net cash used for operating activities was $79,000 in the first six months of 2022 compared to net cash provided by operating activities of $709,000 in the same period in 2021. The decrease in cash provided by operating activities was a result of a decrease in net income and operating assets and liabilities. To avoid any unforeseen supply chain delays, the Company purchased an increased amount of inventory components in the first six months of 2022 compared to the prior year. Additionally, the Company agreed to advance funds to fill component gaps in Econolite's production of our vision cameras to avoid any future production delays.

Net cash used for investing activities was $4.9 million for the first six months of 2022 compared to $186,000 in the same period in 2021. The increase of the amount of net cash used for investing activities in the first six months of 2022 compared to the prior year period was primarily due to the purchase of $4.3 million of debt and equity securities and higher capitalized internal software development costs compared to the prior year period.

Net cash used for financing activities was $1.3 million in the first six months of 2022 compared to net cash used for financing activities of $671,000 in the same period in 2021. The increase of the amount of net cash used for financing activities was due to quarterly cash dividends of $0.12 per share to shareholders paid to shareholders in the first and second quarters of 2022, whereas we paid no dividends in the first quarter of 2021.

We believe that cash and cash equivalents on hand at June 30, 2022 and cash provided by operating activities will satisfy our projected working capital needs, investing activities, and other cash requirements for at least one year from June 30, 2022.

Off-Balance Sheet Arrangements

We do not participate in transactions or have relationships or other arrangements with an unconsolidated entity, including special purpose and similar entities, or other off-balance sheet arrangements.

Critical Accounting Policies

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2021. The accounting policies used in preparing our interim Condensed Consolidated Financial Statements as of and for the three and six months ended June 30, 2022 are set forth elsewhere in this Quarterly Report on Form 10-Q and should be read in conjunction with those described in our Annual Report on Form 10-K.

Cautionary Statement:

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange of 1934, as amended. Forward-looking statements represent our expectations or beliefs concerning future events and can be identified by the use of forward-looking words such as "expects," "believes," "may," "will," "should," "intends," "plans," "estimates," or "anticipates" or other comparable terminology. Forward-looking statements are subject to risks and uncertainties that may cause our actual results to differ materially from the results described in the forward-looking statements. Factors that might cause such differences include, but are not limited to:

- our historical dependence on a single product for most of our revenue;
- budget constraints by governmental entities that purchase our products, including constraints caused by declining tax revenue;
- the continuing ability of Econolite to pay royalties owed;
- the mix of and margin on the products we sell;
- our dependence on third parties for manufacturing and marketing our products;
- our dependence on single-source suppliers to meet manufacturing needs;
- our failure to secure adequate protection for our intellectual property rights;
- our inability to develop new applications and product enhancements;
- the potential disruptive effect on the markets we serve of new and emerging technologies and applications, including vehicle-to-vehicle communications and autonomous vehicles;
- unanticipated delays, costs and expenses inherent in the development and marketing of new products;
- our inability to respond to low-cost local competitors;
- our inability to properly manage any growth in revenue and/or production requirements;
- the influence over our voting stock by affiliates;
- our inability to hire and retain key scientific and technical personnel;
- the effects of legal matters in which we may become involved;
- our inability to achieve and maintain effective internal controls;
- our inability to successfully integrate any acquisitions;
- tariffs and other trade barriers;
- political and economic instability, including continuing volatility in the economic and political environment of the European Union;
- our inability to comply with international regulatory restrictions over hazardous substances and electronic waste;
- disruptions in our supply chains; and
- conditions beyond our control such as war, terrorist attacks, health epidemics (including the COVID-19 pandemic caused by the coronavirus) and economic recession.

We caution that the forward-looking statements made in this report or in other announcements made by us are further qualified by the risk factors set forth in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Approximately 20% of our revenue has historically been derived from shipments to customers outside the United States, and a large portion of this revenue is denominated in currencies other than the U.S. dollar. Our international subsidiaries have functional currencies other than our U.S. dollar reporting currency and, occasionally, transact business in currencies other than their functional currencies. These non-functional currency transactions expose us to market risk on assets, liabilities and cash flows recognized on these transactions.

The strengthening of the U.S. dollar relative to foreign currencies decreases the value of foreign currency-denominated revenue and earnings when translated into U.S. dollars. Conversely, a weakening of the U.S. dollar increases the value of foreign currency-denominated revenue and earnings. A 10% adverse change in foreign currency rates could have a material effect on our results of operations or financial position.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of June 30, 2022, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the fiscal quarter covered by this Quarterly Report on Form 10-Q, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) 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

Our results of operations and financial condition are subject to numerous risks and uncertainties described in our Annual Report on Form 10-K for our fiscal year ended December 31 2021, filed on March 22, 2022. You should carefully consider these risk factors in conjunction with the other information contained in this Quarterly Report. Should any of these risks materialize, our business, financial condition and future prospects could be negatively impacted. As of August 11, 2022, there had been no material changes to the disclosures made in the above-referenced Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed as part of this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2022:

Exhibit Index

Exhibit Number	Description
3.1	Restated Articles of Incorporation of Autoscope Technologies Corporation, incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2021 filed on August 12, 2021 (File No. 0-26056) (the "Second Quarter 2021 Form 10-Q").
3.2	Bylaws of Autoscope Technologies Corporation, incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K dated July 21, 2021 (File No. 0-26056).
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock of Autoscope Technologies Corporation, included in Exhibit 3.1 to the Second Quarter 2021 Form 10-Q (File No. 0-26056).
4.1	First Amendment to Rights Agreement dated as of March 1, 2022 by and between Autoscope Technologies Corporation and Continental Stock Transfer & Trust Company, as rights agent, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated March 4, 2022 filed on March 10, 2022 (File NO. 0-26056).
10.1	Employment Agreement dated February 1, 2022 among Autoscope Technologies Corporation, Image Sensing Systems, Inc. and Francis (Frank) G. Hallowell, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 1, 2022 (File No. 0-26056).*
10.2	Form of Stock Option Agreement for Autoscope Technologies Corporation, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 1, 2022 (File No. 0-26056).*
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of theSarbanes-Oxley Act of 2002 (filed herewith).
101	The following financial information from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, formatted in iXBRL (Inline Extensible Business Reporting Language), (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to Condensed Consolidated Financial Statements (filed herewith).

*Management contract or compensatory plan or agreement.

SIGNATURES

In accordance with 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.

Autoscope Technologies Corporation

Dated: August 11, 2022

By: /s/ Andrew T. Berger
Andrew T. Berger
President and Chief Executive Officer
(Principal Executive Officer)

Dated: August 11, 2022

By: /s/ Frank G. Hallowell
Frank G. Hallowell
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Andrew T. Berger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Autoscope Technologies Corporation for its fiscal quarter ended June 30, 2022;

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, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (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;

   (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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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 control over financial reporting.

Date: August 11, 2022

/s/ Andrew T. Berger

Name: Andrew T. Berger

Title: President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Frank G. Hallowell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Autoscope Technologies Corporation for its fiscal quarter ended June 30, 2022;

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, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(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;

(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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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 control over financial reporting.

Date: August 11, 2022

/s/ Frank G. Hallowell

Name: Frank G. Hallowell

Title: Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Autoscope Technologies Corporation (the "Company") on Form 10-Q for the period ended June 30, 2022, as filed with the Securities and Exchange Commission (the "Report"), I, Andrew T. Berger, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Andrew T. Berger

Andrew T. Berger

President and Chief Executive Officer
(Principal Executive Officer)
August 11, 2022

Exhibit 32.2

CERTIFICATION PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Autoscope Technologies Corporation (the "Company") on Form 10-Q for the period ended June 30, 2022, as filed with the Securities and Exchange Commission (the "Report"), I, Frank G. Hallowell, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Frank G. Hallowell

Frank G. Hallowell

Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
August 11, 2022