

Autoscope Technologies Corporation

Annual Report

December 31, 2022

Autoscope Technologies Corporation

A Minnesota Corporation
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SIC Code: 3829

Annual Report **For the period ending December 31, 2022_** (the "Reporting Period")

The number of shares outstanding of our Common Stock was 5,415,192 shares as of May 9, 2023
The number of shares outstanding of our Common Stock was 5,415,192 shares as of December 31, 2022 (end of previous reporting period)

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: No: (Double-click and select "Default Value" to check)

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: No:

Indicate by check mark whether a Change in Control of the company has occurred over this reporting period:

Yes: No:

Forward-Looking Statements

Certain statements and information included in this Annual Report constitute “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 “believes,” “may,” “will,” “should,” “intends,” “plans,” “estimates,” “expects,” “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 discussed in the forward-looking statements. Some factors that might cause these differences include the factors listed below. Although we have attempted to list these factors comprehensively, we wish to caution investors that other factors may prove to be important in the future and may affect our operating results. New factors may emerge from time to time, and it is not possible to predict all of these factors, nor can we assess the effect each factor or combination of factors may have on our business.

Those risks and uncertainties may include, but are not limited to, our historical dependence on a single product for most of our revenue; competition; potential changes in government spending on transportation technology; acceptance of our product offerings and designs; budget constraints by governmental entities that purchase our products, including constraints caused by declining tax revenue; the continuing ability of Econolite Control Products, Inc. to sell our products and pay royalties owed to us; the mix of and margins 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; our operating costs tend to be fixed, while our revenue tends to be seasonal, thereby resulting in operating results that fluctuate from quarter to quarter; any significant variations between actual amounts and the amounts estimated for those matters identified as our critical accounting estimates and other significant accounting estimates made in the preparation of our financial statements; political and economic instability, including continuing volatility in the economic and political environment of the European Union and the war in Ukraine; our inability to comply with international regulatory restrictions over hazardous substances and electronic waste; the impact of international supply chain disruptions and delays; the impact of changes in U.S. federal and state income tax regulations; the impact of inflation and our ability to pass on rising prices to its customers; 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 further caution you not to unduly rely on any forward-looking statements because they reflect our views only as of the date the statements were made. We undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Part A General Company Information

Item 1 The exact name of the issuer and its predecessors (if any),

Autoscope Technologies Corporation. (the “Company”)

Image Sensing Systems, Inc. the predecessor to the Company (“ISNS”) (predecessor entity; please see Part A, Item 3 of this Annual Report)

Item 2 The address of the issuer’s principal executive offices and address(es) of the issuer’s principal place of business.

Autoscope Technologies Corporation
1115 Hennepin Avenue, Minneapolis, Minnesota 55403
Phone: +1 (612) 438.2363
Website: www.autoscope.com

Investor Relations: InvestorCom
Phone: +1 (203) 972-9300
Email: investorrelations@autoscope.com
Address: 19 Old Kings Highway S., STE 130, Darien, CT 06820

Item 3 The jurisdiction(s) and date of the issuer’s incorporation or organization.

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” or the “Company”), 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 (“Nasdaq”) under the ticker symbol “AATC,” and outstanding shares of ISNS’s common stock automatically converted into shares of common stock of Autoscope.

On December 21, 2022, the Company notified Nasdaq of its intention to file a “Form 25 – Notification of Removal from Listing and/or Registration under Section 12(b) of the Securities Exchange Act of 1934” with the Securities and Exchange Commission (the “SEC”) on or about December 30, 2022. The purpose of the Form 25 filing was to effect the delisting from Nasdaq of the Company’s outstanding common stock, par value \$0.01 per share (the “Common Stock”), and the deregistration of the Common Stock under Section 12(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Upon the effectiveness of the Form 25 filing, the Company filed a Form 15 on January 17, 2023 with the SEC to suspend the Company’s duty to file reports under Sections 13(a) and 15(d) of the Exchange Act and to deregister its Common Stock under Section 12(b) of the Exchange Act. The deregistration under Section 12(g) of the Exchange Act will be effective on April 17, 2023, 90 days after filing the Form 15, at which time the Company’s other filing requirements under Section 13(a) of the Exchange Act will terminate.

On February 10, 2023, the Company was admitted and is qualified to trade on the OTCQX Best Market under the symbol “AATC”.

As used in this Annual Report, 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.

Autoscope was incorporated on April 23, 2021 and is deemed active under the laws of the State of Minnesota. ISNS was incorporated in Minnesota on December 20, 1984 and is deemed active under the laws of the State of Minnesota.

Part B Share Structure

Item 4 The exact title and class of securities outstanding.

The Company had 5,415,192 shares of Common Stock outstanding at December 31, 2022. The Company’s CUSIP number is 053306106. The Company’s trading symbol is AATC.

Item 5 Par or stated value and description of the security.

Our Articles of Incorporation (“Articles”) authorize us to issue a total of 25,000,000 shares of capital stock, consisting of 20,000,000 shares of Common Stock and 5,000,000 shares of preferred stock, \$0.01 par value per share. The par value of Common Stock is \$0.01 per share. No shares of preferred stock are outstanding.

Voting Rights. The holders of shares of our Common Stock are entitled to one vote per share on all matters to be voted on by shareholders. Directors are elected by a plurality of the votes cast by shareholders present in person or represented by proxy at a meeting of the shareholders of Autoscope and entitled to vote on the election of directors. Except as otherwise provided by applicable law, our Articles, or our Bylaws, every matter other than the election of directors will be decided by the affirmative vote of a majority of the votes cast by shareholders present in person or represented by proxy at the shareholders meeting at which a quorum is present and entitled to vote on such matter. As provided in our Articles, holders of shares of our Common Stock are not entitled to cumulate their votes in the election of directors or with respect to any matter submitted to a vote of the shareholders.

Dividends. The holders of our Common Stock are entitled to receive dividends declared by our Board of Directors (the “Board”) out of funds legally available for the payment of dividends under the Minnesota Business Corporation Act (Chapter 302A of the Minnesota Statutes) (the MBCA”), subject to the rights, if any, of the holders of our preferred stock.

Liquidation. Upon any liquidation, dissolution or winding up of our business, the holders of Common Stock are entitled to share equally in all assets available for distribution after payment of all liabilities and provision for the liquidation preference of any shares of preferred stock then outstanding.

Rights and Preferences. The holders of our Common Stock have no preemptive rights and no rights to convert their Common Stock into any other securities. There are also no redemption or sinking fund provisions applicable to our Common Stock.

Anti-Takeover Effects of Provisions of Our Articles, Bylaws, and Minnesota Law

Rights Agreement. Autoscope is a party to the Amended and Restated Rights Agreement dated as of July 21, 2021 by and among Autoscope, Continental Stock Transfer & Trust Company and, only with respect to Section 37 thereof, ISNS (the “Rights Agreement”). The Rights Agreement is designed to protect shareholder value by mitigating the likelihood of an “ownership change” that would result in significant limitations to our ability to use our net operating losses or other tax benefits to offset future income. The Rights Agreement provides, subject to certain exceptions, that if any person or group acquires 4.99% or more of our outstanding shares of Common Stock, there would be a triggering event potentially resulting in significant dilution in the voting power and economic ownership of that person or group. Existing shareholders who owned 4.99% or more of our outstanding Common Stock as of the date the Rights Agreement was adopted will trigger a dilutive event only if they acquire an additional 1% of the outstanding shares of our Common Stock.

Minnesota Law. We are subject to the anti-takeover provisions of section 302A.671 of the MBCA. This provision generally limits the voting rights of a shareholder acquiring at least 20% of the voting shares of a corporation in an attempted takeover or otherwise becoming a substantial shareholder unless holders of a majority of the voting power of the disinterested shares approve full voting rights for such substantial shareholder, with certain exceptions.

Section 302A.673 of the MBCA generally prohibits a public Minnesota corporation from engaging in a business combination with an interested shareholder for a period of four years after the date of the transaction in which the person became an interested shareholder unless before the date of the transaction, a committee of the board of directors of the corporation consisting of one or more disinterested directors or, if the board has no disinterested directors, by three or more disinterested persons selected by the board, approved either the business combination or the transaction which resulted in the shareholder becoming an interested shareholder. As used in section 302A.673, a business combination includes:

- any merger or consolidation involving Autoscope or its subsidiary and the interested shareholder;
- any exchange under a plan of exchange of shares or other securities of Autoscope or its subsidiary or money, or other property for shares, other securities, money or property of the interested shareholder;
- any sale, lease, exchange, mortgage, pledge, transfer, or other disposition involving the interested shareholder of assets of Autoscope having an aggregate market value equal to 10% or more of the aggregate market value of all of the assets of Autoscope;
- the issuance or transfer by Autoscope of its shares of that have an aggregate market value equal to at least 5% of the aggregate market value of all of the outstanding shares of Autoscope to the interested shareholder;
- Autoscope's adoption of any plan or proposal for its liquidation or dissolution proposed by or on behalf of the interested shareholder;
- any reclassification of securities or recapitalization of Autoscope proposed by or on behalf of the interested shareholder that has the effect of increasing the proportionate share of any class or series of voting shares of Autoscope that is owned by the interested shareholders; or
- the receipt by the interested shareholder of the benefit of any loans, advances, guarantees, pledges, or other financial assistance provided by or through Autoscope.

In general, as used in section 302A.673, an interested shareholder is defined in section 302A.011, subdivision 49 as any entity or person beneficially owning, directly or indirectly, 10% or more of the outstanding voting stock of the Company, or an affiliate or associate of the Company that, at any time within the four-year period immediately before the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the outstanding voting stock of Autoscope.

Articles of Incorporation. Certain provisions of our Articles may delay or discourage transactions involving an actual or potential change in our control or change in our management, including transactions in which shareholders might otherwise receive a premium for their shares, or transactions that our shareholders might otherwise deem to be in their best interests. Therefore, these provisions could adversely affect the price of our Common Stock. Among other things, our Articles:

- permit our Board to authorize and issue shares of preferred stock without prior shareholder approval, commonly referred to as "blank check" preferred stock, with any rights, preferences and privileges as the Board may designate, including the right to approve an acquisition or other change in our control;
- provide that the authorized number of directors may be increased by resolution of the Board;
- provide that all vacancies, including newly-created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum; and
- do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of Common Stock entitled to vote in any election of directors to elect all of the directors standing for election).

Limitation on Liability of Directors and Indemnification. Our Articles limit the liability of our directors to the fullest extent permitted by the MBCA. Section 302A.251, subdivision 4 of the MBCA provides that a director's personal liability to Autoscope or its shareholders for monetary damages for breach of fiduciary duty may be eliminated, except for liability due to:

- breach of the duty of loyalty to Autoscope or its shareholders;
- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- the unlawful payment of dividends or redemption of shares as provided in section 302A.559 of the MBCA or civil liability for securities violations under section 80A.76 of the Minnesota Statutes; or
- transactions from which our directors derived an improper personal benefit.

These limitations of liability do not apply to liabilities arising under federal securities laws and do not affect the availability of equitable remedies such as injunctive relief or rescission.

Our Bylaws provide that we will indemnify and advance expenses to our directors, officers and persons serving in any other capacity at our request to the fullest extent permitted by Minnesota law. Section 302A.521 of the MBCA also permits us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in connection with their services to us. We maintain a directors' and officers' liability insurance policy.

Item 6 The number of shares or total amount of the securities outstanding for each class of securities authorized.

Common Stock

(i)	Period end date:	December 31, 2022	December 31, 2021
(ii)	Number of shares authorized	20,000,000	20,000,000
(iii)	Number of shares outstanding	5,415,192	5,378,857
(iv)	Freely tradable (public float)	4,214,007	4,239,552
(v)	Total number of shareholders of record	23	25

The number of beneficial shareholders of Autoscope Technologies Corporation. owning at least 100 shares exceeds 50.

Preferred Stock

(vi)	Period end date:	December 31, 2022	December 31, 2021
(vii)	Number of shares authorized	5,000,000	5,000,000
(viii)	Number of shares outstanding	0	0
(ix)	Freely tradable (public float)	0	0
(x)	Total number of shareholders of record	0	0

Item 7 The name and address of the transfer agent.

Continental Stock Transfer & Trust Company
 1 State Street, 30th Floor
 New York, NY 10004-1561
 Phone: +1 (212) 509-4000

The Company's transfer agent is registered under the Securities Exchange Act of 1934 and is an authorized transfer agent subject to regulation by the U.S. Securities and Exchange Commission.

Part C Business Information

Item 8 The nature of the issuer's business.

A. Business Development

Autoscope creates value through owning and supporting operating subsidiaries and investments, anchored by core investments in the fields of technology and engineering. Autoscope's main subsidiary is ISNS. For at least the last three years, ISNS has been committed to providing above-ground detection technology products for advanced traffic management systems, traffic data collection applications, and related markets.

As described in Part A, Item 3 of this Annual Report, Autoscope was incorporated as a Minnesota corporation on April 23, 2021, and ISNS was incorporated as a Minnesota corporation on December 20, 1984. Autoscope and ISNS have a fiscal year ending on December 31. Also as described in Part A, Item 3 of this Annual Report, in the Reorganization, ISNS became a wholly-owned subsidiary of Autoscope, which became the successor issuer to ISNS. As a result of the

Reorganization, Autoscope replaced ISNS as the public company trading on Nasdaq under the ticker symbol “AATC,” and outstanding shares of ISNS’s common stock automatically converted into shares of Common Stock of Autoscope.

During the immediately preceding three years and through the date of this Annual Report:

- Autoscope and ISNS have not been involved as a debtor in any bankruptcy, receivership, or any similar proceeding;
- Neither Autoscope nor ISNS has been involved in any material reclassifications, mergers, consolidations or purchases or sales of any significant amount of assets, other than the Reorganization;
- Neither Autoscope nor ISNS has defaulted on the terms of any note, loan, lease or other indebtedness or financing arrangement requiring either Autoscope or ISNS to make payments;
- There has been no change in control of Autoscope or ISNS;
- There has not been any increase of 10% or more in any class of securities of Autoscope;
- There has not been any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off or reorganization, except as disclosed in Footnote 15, Start Up, Restructuring and Exit Activities to the Company’s December 31, 2022 consolidated financial statements and are incorporated by reference from the Company’s 2022 Annual Report filed separately through the OTC Disclosure and News Service and available at www.otcmarkets.com.
- There has not been any delisting of Autoscope’s securities by any securities exchange except for the voluntary delisting from Nasdaq described in Part A, Item 3 above; and
- There has not been any pending or threatened legal proceedings or administrative actions either by or against the Autoscope or ISNS that could have a material effect on their business, financial condition, or operations and no pending trading suspensions by a securities regulator involving Autoscope or ISNS.

B. Business of Issuer

General

Autoscope’s main subsidiary ISNS, is a global company committed to providing above-ground detection technology products for advanced traffic management systems, traffic data collection applications, and related markets. ISNS pioneered video image processing, also known as machine vision, for vehicle detection and continues to be an industry leader today. ISNS's industry-leading products include the Autoscope® video or video products, RTMS® radar or radar products (“RTMS”), and IntellitraffiQ®, or iQ products, which provide end users with the tools needed to optimize traffic flow and enhance driver safety. ISNS's technology analyzes signals from sophisticated sensors and transmits the information to management systems and controllers or directly to users. ISNS's products provide end users with complete solutions for the intersection and transportation markets.

ISNS's 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 intelligent transportation systems (“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 ISNS's 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 ISNS's 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. Autoscope video products are marketed 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.

RTMS radar systems are marketed to a network of distributors globally. On a limited basis, we may sell directly to the end user. Autoscope video products are marketed 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.

With more than 140,000 installations in over 70 countries worldwide, ISNS remains dedicated to helping improve safety and efficiency for cities and highways by providing meaningful and reliable data through innovative technologies, applications, and solutions.

The Intelligent Transportation Systems Market

The ITS market encompasses a broad range of information processing and control electronics technologies that, when integrated into roadway infrastructure, help monitor and manage traffic flow, reduce congestion, and enhance driver safety. The ITS market has been built around the detection of conditions that impact the proper operation of roadway infrastructure. ITS applications include a wide array of traffic management systems, such as traffic signal control, tolling and variable messaging signs. ITS technologies include video vehicle detection, inductive loop detection, sensing technologies (such as radar), floating cellular data, computational technologies and wireless communications.

In traffic management applications, vehicle detection products are used for automated vehicle detection and are a primary data source upon which ITS solutions are built. Traditionally, automated vehicle detection is performed using inductive wire loops buried in the pavement. However, in-pavement loop detectors are costly to install, difficult to maintain, expensive to repair and not capable of either wide area vehicle detection without installations of multiple loops.

Above-ground detection solutions for ITS offer several advantages to in-pavement loop detectors. Above-ground detection solutions tend to have a lower total cost of ownership than in-pavement loop detectors because above-ground solutions are nondestructive to road surfaces, do not require closing roadways to install or repair, and are capable of wide area vehicle detection with a single device, thus enabling one input device to do the work of many in-pavement loops. Due to their location above-ground, these solutions have no exposure to the wear and tear associated with expanding and contracting pavement and generally less exposure to the vibration and compaction caused by traffic. Furthermore, in the event of malfunction or product failure, above-ground detection solutions can be serviced and repaired without shutting down the roadway. Each of these factors results in greater up time and increased reliability of above-ground detection solutions compared to in-pavement loop detectors. These technology solutions also offer a broader set of detection capabilities and a wider field of view than in-pavement loop detectors. In addition, a single unit video or radar-based system can detect and measure a variety of parameters, including vehicle presence, counts, speed, length, time occupancy, headway and flow rate as well as environmental factors and obstructions to the roadway. An equivalent installation using loops would require many installations per lane.

Subsidiaries, Research and Development, and Employees

The Company's subsidiaries are listed below:

Company Name	% of Ownership	Country or US State of Incorporation
Autoscope Technologies India Private Limited	100%	India
Image Sensing Systems HK Limited	100%	China
Image Sensing Systems, Inc.	100%	Minnesota, USA
ISS Image Sensing Systems Canada	100%	Canada
Image Sensing Systems Spain SLU	100%	Spain

The Company spent \$2.1 million and \$2.2 million on research and development activities during the last two fiscal years ended December 31, 2022 and 2021, respectively.

As of December 31, 2022, we had 35 employees, consisting of 29 employees in North America, 5 employees in India and one employee in Europe. None of our employees are represented by a union.

Other Information

The Company's SIC Code is 3289, which is measuring and controlling devices not elsewhere classified.

The Company is not a "shell company." For purposes of this Annual Report, a "shell company" means an issuer, other than a business combination related shell company, as defined by Securities Act Rule 405, or an asset-backed issuer, as defined by Item 1101(b) of Regulation AB, that has:

- (1) No or nominal operations; and
- (2) Either:
 - a. No or nominal assets,
 - b. Assets consisting solely of cash and cash equivalents, or
 - c. Assets consisting of any amount of cash and cash equivalents and nominal other assets.

Item 9 The nature of products or services offered.

A. Principal products or services, and their markets

Our vehicle and traffic detection products are critical components of many ITS applications. Our Autoscope video systems and RTMS radar systems convert sensory input collected by video and radar modules into vehicle detection and traffic data used to operate, monitor and improve the efficiency and safety of roadway infrastructure. At the core of each product line are proprietary digital signal processing algorithms and sophisticated embedded software that analyze sensory input and deliver actionable data to integrated applications. Our digital signal processing software algorithms represent a foundation on which to support additional product development into the automatic incident detection (AID) market.]

Our Autoscope video systems and RTMS radar systems convert sensory input collected by video and radar modules into vehicle detection and traffic data used to operate, monitor, and improve the efficiency and safety of roadway infrastructure. At the core of each product line are proprietary digital signal processing algorithms and sophisticated embedded software that analyze sensory input and deliver actionable data to integrated applications.

Autoscope Video. Our Autoscope video system processes video input from a traffic scene in real time and extracts the required traffic data, including vehicle presence, bicycle presence/differentiation, counts, speed, length, time occupancy

(percent of time the detection zone is occupied), turning movements (quantifying the movement of vehicles) and flow rate (vehicles per hour per lane). Our Autoscope system supports a variety of standard video cameras or can be purchased with an integrated high-definition video camera. For intersections, the system communicates with the intersection signal controller, which changes the traffic lights based on the data provided. The data may also be transmitted to a traffic management center via the internet or other standard communication means and processed in real time to assist in traffic management and stored for later analysis for traffic planning purposes.

The Autoscope system comes in two varieties. Autoscope Vision is our flagship integrated product that includes a color high definition, zoom camera and a machine vision processing computer contained in a compact housing that is our leading offering in the North American market. Autoscope Pn-520 is our card-only machine vision processing computer that is located in an intersection signal controller, control hub, incident management center or traffic management center that receives video from a separate camera. The Pn-520 and its variants are our top selling Autoscope products in international markets. Autoscope rack-based products offer digital MPEG 4 video streaming, high-speed Ethernet interface, web browser maintenance and data and video over power line communications. The Autoscope Vision product offers high-definition streaming video, built-in Wi-Fi for quick and easy setup, cost-effective three-wire cable, and full screen object detection and motion tracking algorithm technology for best-in-class detection accuracy.

RTMS Radar. Our RTMS radar systems use radar to measure vehicle presence, volume, occupancy, speed and classification information for roadway monitoring applications. Data is transmitted to a central computer at a traffic management center via standard communication means, including wireless. Data can be processed in real time to assist in traffic management and stored for later analysis for traffic planning purposes.

RTMS radar is an integrated radar transmitter/receiver and embedded processor contained in a compact, self-contained unit. The unit is typically situated on roadway poles and side fired, making it especially well-suited for highway detection applications.

The RTMS radar system is available in different varieties which include the RTMS Sx-300 and the RTMS Echo. RTMS Sx-300 is a non-intrusive radar for the detection and measurement of traffic on roadways and is currently our leading offering in both North America and the Middle East. The RTMS Sx-300 HDCAM has a high-definition camera that provides the user with visual setup confirmation, data capture and real-time traffic surveillance. The Sx-300 HDCAM has been deployed in North America for various applications such as ramp metering and wrong way driver detection. We also offer a wrong way module that interfaces with the Sx-300 HDCAM digital video stream and leverages our video detection algorithms to detect occurrences of vehicles driving in the incorrect direction. The event is captured and sent to the end users via short message service (SMS) and email in parallel with actuation or roadside or in-pavement warning systems. The RTMS Echo we launched in 2020 is the culmination of a two-year development effort resulting in best in class per-vehicle speed calculation, Wi-Fi connectivity, the ability to store 1 million individual vehicle records, and a powerful application programming interface (API) that unlocks new insights and value for our customers. Designed and tested for global applicability, the Echo will become the flagship of the RTMS product portfolio for years to come.

IntellitraffiQ. Our IntellitraffiQ software provides traffic measurement and data collection across large and small areas. An enterprise-level system capable of monitoring traffic in hundreds of locations, IntellitraffiQ's simple yet powerful user interface helps traffic operation centers make decisions to keep traffic flowing smoothly.

IntellitraffiQ currently is available in an on-premise system that allows traffic managers the ability to monitor their network of sensors from one screen within the traffic management center. The IntellitraffiQ maps provide an interactive map of their sensor network, while displaying data coming directly from the sensors in the field.

B. Distribution methods of the products or services

We market and sell our products globally. Together with our partners, we offer a combination of high-performance detection technology and experienced local support. Our end users primarily consist of federal, state, city and county departments of transportation, port, highway, tunnel and other transportation authorities. The decision makers within these

entities typically are traffic planners and engineers, who in turn often rely on consulting firms that perform planning and feasibility studies. Our products sometimes are sold directly to system integrators or other suppliers of systems and services who are operating under subcontracts in connection with major road construction contracts.

Sales of Autoscope Video in the United States, Mexico, Canada and the Caribbean. We have granted Econolite an exclusive right to manufacture, market and distribute the Autoscope video system in the United States, Mexico, Canada and the Caribbean. The agreement with Econolite grants it a first refusal right that arises when we make a proposal to Econolite to extend the license to additional products in the United States, Mexico, Canada and the Caribbean and a first negotiation right that arises when we make a proposal to Econolite to include rights corresponding to Econolite's rights under our current agreements in countries not in these territories. Econolite provides the marketing and technical support needed for its sales in these territories. Econolite pays us a royalty on the revenue derived from its sales of the Autoscope system. We provide second-tier technical support for Autoscope and video products. We have the right to terminate our agreements with Econolite if it does not meet minimum annual sales levels or if Econolite fails to make payments as required by the agreements. In 2008, the term of the original agreement with Econolite, as amended, was extended to 2031. The agreement can be terminated by either party upon three years' notice.

Sales of RTMS Radar in North America, the Caribbean and Latin America. We market the RTMS radar systems to a network of distributors covering countries in North America, the Caribbean and Latin America. On a limited basis, we sell directly to the end user. We provide technical support to these distributors from our various North American locations.

Sales in Europe, Asia, the Middle East and Africa. We market our Autoscope video and RTMS radar product lines of products to a network of distributors covering countries in Europe, the Middle East, Africa and Asia through our wholly-owned subsidiary in Spain. On a limited basis, we sell directly to the end user. Technical support to these distributors is provided by our wholly-owned subsidiary in Spain, with second tier support provided by our engineering groups. From time to time, we may grant exclusive rights to Econolite for markets outside of our significant markets for certain jurisdictions or product sales based on facts and circumstances related to the opportunities.

C. Status of any publicly announced new product or service

On March 29, 2022, ISNS announced the introduction of Autoscope IntelliSight for the European market. Once qualified and released, Autoscope IntelliSight will offer the most advanced detection algorithms with Artificial Intelligence (AI) and machine learning on the market today. The camera and processor provide high performance vehicle detection, bicycle and pedestrian detection, enhanced traffic data collection in real-time, and Smart City ready with connectivity to other systems. The performance of IntelliSight is robust and reliable and is based on a new hardware platform designed to enable future capabilities and solutions. Provided that Econolite and ISNS reach a definitive agreement, ISNS expects to release a comparable version of Autoscope IntelliSight which will be distributed by Econolite in North America in mid-2023 under the brand name Autoscope OptiVu.

D. Competitive business conditions, the issuer's competitive position in the industry, and methods of competition

We compete with companies that develop, manufacture and sell traffic management devices using video and radar sensing technologies as well as other above-ground detection technologies based on laser, infrared and acoustic sensors. For ITS applications, we also compete with providers of in-pavement loop detectors and estimate that more than 60% of the traffic management systems currently in use in the U.S. use in-pavement loop detectors. For competition with other above-ground detection products, we typically compete on performance and functionality, and to a lesser extent on price. When competing against providers of loop detectors, we compete principally on ease of installation and the total cost of ownership over a multi-year period, and to a lesser extent on functionality.

Among the companies that provide direct competition to Autoscope video worldwide are Iteris, Inc., Miovision Technologies Incorporated, Wavetronix, LLC, FLIR Systems, Inc., GRIDSMART, Signal Group Inc. (Peek), Citilog S.A.,

Sensys Inc., and Smartmicro Inc. Among the companies that provide direct competition to RTMS radar worldwide are Wavetronix, LLC, Houston Radar, LLC, MS Sedco Inc., and Smartmicro Sensors GmbH. In addition, there are smaller local companies providing direct competition to the Company in specific markets throughout the world. We are aware that these and other companies will continue to develop technologies for use in traffic management applications. One or more of these technologies could in the future provide increased competition for our systems.

E. Sources and availability of raw materials and the names of principal suppliers

Autoscope video products for sale under the Econolite license agreement are manufactured through agreements with Econolite. Econolite is responsible for securing raw materials and setting warranty terms and must provide all service required under this warranty. In Europe and Asia, we engage contract manufacturers to manufacture the Autoscope family of products.

We engage E.I. Microcircuits, Inc. to manufacture our radar products and perform warranty and post-warranty repairs for all radar units sold.

We typically provide a two- to three-year warranty on our products.

Most of the hardware components used to manufacture our products are standard electronics components that are available from multiple sources. Although some of the components used in our products are obtained from single source suppliers, we believe other component vendors are available should the necessity arise.

F. Dependence on one or a few major customers

We have granted Econolite an exclusive right to manufacture, market and distribute the Autoscope video system in the United States, Mexico, Canada and the Caribbean. The agreement with Econolite grants it a first refusal right that arises when we make a proposal to Econolite to extend the license to additional products in the United States, Mexico, Canada and the Caribbean and a first negotiation right that arises when we make a proposal to Econolite to include rights corresponding to Econolite's rights under our current agreements in countries not in these territories. Econolite provides the marketing and technical support needed for its sales in these territories.

In exchange for its rights under the agreements, Econolite pays us royalties for sales of the Autoscope video system. Since 2002, a substantial portion of our revenue has consisted of royalties resulting from sales made by Econolite, including 66% in 2022 and 64% in 2021. Econolite's account receivable represented 65% of our accounts receivable at December 31, 2022 and 60% of our accounts receivable at December 31, 2021. We expect that Econolite will continue to account for a significant portion of our revenue for the foreseeable future. Any decrease in Econolite's sales volume could significantly reduce our royalty revenue and adversely impact earnings. A failure by Econolite to make royalty payments to us in a timely manner or at all will harm our financial condition. In addition, we believe sales of our products are a material part of Econolite's business, and any significant decrease in Econolite's sales of the other products it sells could harm Econolite, which could have a material adverse effect on our business and prospects.

G. Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts, including their duration

To protect our rights to our proprietary, know how, technology and other intellectual property, it is our policy to require all employees and consultants to sign confidentiality agreements that prohibit the disclosure of our confidential information to any third parties. These agreements also require disclosure and assignment to us of any discoveries and inventions made by employees and consultants while they are devoted to our business activities. We also rely on trade secret, copyright and trademark laws to protect our intellectual property. We have also entered into exclusive and nonexclusive license and confidentiality agreements relating to our own and third party technologies. We aggressively protect our processes, products, and strategies as proprietary trade secrets. Our efforts to protect intellectual property and

avoid disputes over proprietary rights include ongoing review of third-party patents and patent applications.

The Company Company’s workforce is not subject to collective bargaining.

H. The need for any governmental approval of principal products or services and the status of such of any requested government approvals

The European Parliament has enacted a directive for the restriction of the use of certain hazardous substances in electrical and electronic equipment (“RoHS”). To our knowledge, our contract manufacturing and component vendors in Europe and Asia comply with the European directive on RoHS. There is no material effect on the Company to comply with existing and, to the Company’s knowledge, probable applicable governmental regulations of its business, including any governmental approvals, or the costs and effects of compliance with federal, state and local environmental laws.

Item 10 The nature and extent of the issuer’s facilities.

Our largest physical office and headquarters are located at 1115 Hennepin Avenue, Minneapolis, Minnesota 55403, where we own a two-story office building which contains approximately 9,000 square feet of office space, (the “Property”). The Property, including land and certain real property, was purchased by ISNS in December 2021. ISNS financed the purchase of the Property through a loan from Coulee Bank. ISNS fully occupied the Property in February 2022.

We continue to lease approximately 160 square feet in our former headquarters at 400 Spruce Tree Centre, 1600 University Avenue West, St. Paul, Minnesota 55104. We also lease smaller facilities in Canada, India, and Spain primarily as office space for local employees and storage of items used in the sale and support of the Company’s products and services.

Part D Management Structure and Financial Information

Item 11 Company Insiders (Officers, Directors, and Control Persons).

A. Officers and Directors

Directors

The identities of the members of the Board of the Company, as well as certain information about them, as of December 31, 2022 are presented in the following table:

Name	Position with Company	Director Since
Andrew T. Berger	Executive Chair of the Board of Directors	October 2015
James W. Bracke	Director	March 2009
Joseph P. Daly	Director, Lead Independent Director, Chair of the Nominating and Governance Committee	January 2019
Ezekiel J. Kruglick	Director, Chair of Compensation Committee	September 2021
Brian J. VanDerBosch	Director, Chair of the Audit Committee	June 2021

Andrew T. Berger

Executive Chair of the Board of Directors

Andrew T. Berger has been a director of Autoscope and ISNS since October 2015, Executive Chair of ISNS since June 2016, a director and Chief Executive Officer of Autoscope from April 2021 until November 2022, and the Executive Chair of Autoscope since March 10, 2022. Mr. Berger was appointed Chief Executive Officer of Tuesday Morning Corporation, an off-price retailer of home goods and décor, on November 4, 2022. In February 2023, Tuesday Morning Corporation filed for Chapter 11 protection under the federal bankruptcy laws. Mr. Berger is the Managing Member of

AB Value Management LLC, which serves as the General Partner of AB Value Partners, LP. Mr. Berger has over two decades of experience in investment analysis, investment management, and business consulting. From 1998 through 2002, Mr. Berger served as Equity Analyst for Value Line, Inc. Since 2002, Mr. Berger has served as President of Walker's Manual, Inc., an investment publisher that he transformed into a business consulting company whose clients have included public and private companies. From 2017 through 2022, Mr. Berger served as the Chief Executive Officer of Cosi, a fast-casual restaurant chain that operates and franchises more than 25 domestic and international restaurants. In 2020, Cosi, Inc. filed for Chapter 11 protection under the federal bankruptcy laws, and successfully emerged from the Chapter 11 in August 2022. From January 2020 through October 2021, Mr. Berger served on the board of directors of Rocky Mountain Chocolate Factory, Inc., (Nasdaq: RMCF), an international franchisor and confectionery manufacturer.

James W. Bracke

Director

James W. Bracke has been a director of Autoscope since March 2009. Mr. Bracke was Chairman of the Board from September 2011 until June 2016. He is a member of the Audit, Compensation and the Nominating and Corporate Governance Committees. Mr. Bracke has also been a director of NVE Corporation, a leader in the practical commercialization of spintronics nanotechnology, since 2021. Mr. Bracke has been President of Boulder Creek Consulting, LLC, a business and technology consulting firm, since 2004. He was Vice President of Oral Health and EPIEN Medical Inc., a privately held medical device company, from April 2014 to September 2018. Mr. Bracke was a director of Enventis Corporation, formerly known as Hickory Tech Corporation, a publicly-held company, from 2004 until it was acquired by Consolidated Communications Holdings, Inc. in October 2014. Mr. Bracke was also Managing Director of National Green Gas LLC, a medical waste-to-energy company, from 2009 to 2014. Mr. Bracke is qualified to serve on our Board due to his management, technical and public company experiences, most significantly his 20 years as President and Chief Executive Officer of Lifecore Biomedical, Inc., a publicly-held medical device manufacturer, from 1983 to 2004.

Joseph P. Daly

Director

Joseph P. Daly has been a director since January 2019. Mr. Daly is the lead independent director of Autoscope and a member and the Chair of the Nominating and Corporate Governance Committee. Mr. Daly is the Chief Executive Officer of Essig Research, Inc., a global engineering services company specializing in the design and repair of large, infrastructure related equipment, which he founded in October 1993. Since January 2012, Mr. Daly has been a business and finance instructor at Northeastern University in Boston, Massachusetts. In October 2016, Mr. Daly acquired the product lifecycle management ("PLM") software assets of SofTech Inc. and formed EssigPLM, which offers PLM related solutions to a broad, global client base. Mr. Daly was also a director from December 2013 through July 2016 and largest shareholder of Kreisler Manufacturing Inc., which was acquired by Arlington Capital Partners in July 2016. Mr. Daly received his BSME from Rensselaer Polytechnic Institute and his MBA/MSF from Northeastern University. Mr. Daly is qualified to serve on our Board due to his extensive experience in senior positions in companies offering engineering services, software solutions, and manufacturing capabilities.

Ezekiel J. Kruglick

Director

Ezekiel ("Zeke") J. Kruglick has been a director since September 2021. Dr. Kruglick is a member the Audit Committee and a member and the Chair of the Compensation Committee. Dr. Kruglick served on the Board of Directors of Cognitive Battery Systems from 2017 to 2022. Since January 2021, Dr. Kruglick has served as a Technical Advisor to the Board of PaperClip Inc., a leading supplier of enterprise cloud content management services that enable document management, communications, and data transcription focused on achieving "Straight Through Processing". Dr. Kruglick also served as Chief Executive Officer and Director of Ardent Research, a full-service research and development boutique firm specializing in technology development, from November 2009 to April 2021, resulting in a highly profitable sale of the assets. From July 2016 to January 2020, Dr. Kruglick served as a Technical Advisor to the Executive Chairman and Board of Directors of ISNS. Dr. Kruglick received his B.S. and M.S. in electrical engineering and computer science from the University of California, Los Angeles, and his Ph.D. in electrical engineering and computer science from the University of California, Berkeley.

Brian J. VanDerBosch

Director

Brian J. VanDerBosch has been a director since June 2021. Mr. VanDerBosch is a member and Chair of the Audit Committee and a member of the Compensation Committee. Mr. VanDerBosch has been Executive Vice President of Proprietors Capital Holdings, LLC, an angel investing fund, since October 2019. He was Chief Financial Officer and Chief Operating Officer of Global Traffic Technologies, LLC, a developer and manufacturer of traffic signal priority control and traffic detection systems. He served in these capacities under private equity ownership from January 2008 to August 2016 when the business was sold to Fortive Corporation and remained with the business through April 2019. Mr. VanDerBosch was Chief Financial Officer of Lubrication Technologies, Inc., a provider of advanced lubrication and energy solutions, from February 2001 through December 2007. Prior to 2001, he held various financial positions in publicly traded and privately held companies in diverse industries. Mr. VanDerBosch earned his Bachelor of Science degree in Accounting from the University of Minnesota and is a CPA (inactive).

Executive Officer

The only executive officer of the Company, as well as certain information about him, as of December 31, 2022 are presented in the following table.

Name	Position with Company	Officer Since
Francis (Frank) Hallowell	Interim Chief Executive Officer and Chief Financial Officer	April 29, 2019

All correspondence to the Company's executive officers may be mailed to the Company's corporate headquarters at

1115 Hennepin Avenue
Minneapolis, MN 55403 United States

Biographical information for the current executive officer not already described herein appears below.

Frank Hallowell was appointed Interim Chief Executive Officer of Autoscope on November 10, 2022. Mr. Hallowell continues to serve as Chief Financial Officer of Autoscope and as President and Chief Operating Officer of ISNS. On February 1, 2022, Mr. Hallowell was appointed President and Chief Operating Officer of ISNS. On April 29, 2021, Mr. Hallowell was appointed Chief Financial Officer of Autoscope. Mr. Hallowell joined ISNS and was appointed Chief Financial Officer on April 29, 2019.

Prior to joining the Company in 2019, Mr. Hallowell served in senior management roles at AT&T (formerly BellSouth Corporation), Dataserv, Inc., ExpressPoint Technology Services, Inc., Logic PD, Inc., KPMG LLP, Legal Research Center, Pearson Plc., Scantron Corporation, and Wipaire, Inc., where he served as the Vice President and Chief Financial Officer from January 2016 to April 2019.

Equity Ownership of Directors and Executive Officers

The following table sets forth certain information with respect to the beneficial ownership of Autoscope's Common Stock as of December 31, 2022 by (1) each person or entity known by us to own beneficially more than five percent (5%) of Autoscope's Common Stock; (2) each director of Autoscope; (3) our only executive officer; and (4) all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting power and investment power with respect to Autoscope's shares of Common Stock. Shares of Autoscope's Common Stock issuable pursuant to stock options and convertible securities that are exercisable or convertible as of or within 60 days after December 31, 2022 are deemed outstanding for computing the beneficial ownership percentage of the person or member of a group holding the options but are not deemed outstanding for computing the beneficial ownership percentage of any other person. Except as indicated by footnote, the persons named in the table below have sole voting and investment power with respect

to all shares of Common Stock shown as beneficially owned by them. The address of each director and executive officer named below is the same as that of Autoscope.

Name	Position	Common Stock Beneficially Owned
Andrew T. Berger ⁽¹⁾	Executive Chair, Director	588,401
James W. Bracke	Director	101,923
Geoffrey C. Davis ⁽²⁾	Director	36,099
Joseph P. Daly	Director	213,055
Ezekiel J. Kruglick	Director	193,985
Brian J. VanDerBosch	Director	12,811
Frank G. Hallowell ⁽³⁾	Interim CEO and CFO	70,516
Directors and Officers	Directors and Interim CEO and CFO	1,216,790

- (1) Andrew T. Berger has 121,759 shares under his direct ownership. By virtue of his relationships with AB Value Management LLC and AB Value Partners, LP, Mr. Berger may be deemed to beneficially own the 466,642 shares owned by AB Value Partners, LP.
- (2) Geoffrey C. Davis resigned from the Board of Directors on August 4, 2022.
- (3) Frank G. Hallowell has 10,516 shares under his direct ownership. In connection with his Employment Agreement, AATC granted Mr. Hallowell an immediately exercisable option with a term of 10 years to purchase 60,000 shares of Autoscope common stock at an exercise price of \$6.87 per share. Mr. Hallowell is deemed to beneficially own the 60,000 common shares since the options are exercisable within 60 days of December 31, 2022.

Compensation of Directors and Executive Officers

The following table presents information concerning the compensation paid for the year ended December 31, 2022 by the Company to its directors and executive officers.

Name	Position	Salaries	Bonus	Stock Option Grants ⁽¹⁾	Director Fees paid in Cash	Director Fees Paid in Stock ⁽²⁾
Andrew T. Berger	Executive Chair, Director	N/A	N/A	N/A	\$20,000	\$30,000
James W. Bracke	Director	N/A	N/A	N/A	\$41,972	\$30,000
Joseph P. Daly	Director	N/A	N/A	N/A	\$41,264	\$30,000
Geoffrey C. Davis ⁽³⁾	Director	N/A	N/A	N/A	\$29,983	\$22,500
Ezekiel J. Kruglick	Director	N/A	N/A	N/A	\$25,250	\$30,000
Brian J. VanDerBosch	Director	N/A	N/A	N/A	\$31,672	\$30,000
Frank G. Hallowell	Interim CEO and CFO	\$300,000	\$0	60,000	N/A	N/A

- (1) Consists of number of shares of Common Stock.
- (2) Represents the grant date fair value of stock awards during the year determined pursuant to Financial Accounting Standards Board Accounting Standard Codification Topic 718, Compensation – Stock Compensation (ASC Topic 718). Refer to “Note 13 - Stock-Based Compensation” in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report for a discussion of the assumptions used in calculating the grant date fair value.
- (3) Geoffrey C. Davis resigned from the Board of Directors on August 4, 2022.

During 2022, each of Company's non-employee directors received an annual \$50,000 retainer, of which \$20,000 was paid

in cash and \$30,000 was paid in the form of a Common Stock award grant, with the per share value of the Common Stock based on the closing price of the common stock on the trading day before the grant date of the award.

The Executive Chair of the Board did not receive any additional compensation for services provided as Executive Chair of the Board of Directors during 2022.

The Committee Chairs of the following standing Committees of the Board receive the following additional annual cash retainers:

- Audit Committee - \$10,000
- Compensation Committee - \$7,000
- Nominating and Corporate Governance Committee - \$5,000

Members of the Committees receive the following additional annual cash retainers:

- Audit Committee - \$6,000
- Compensation Committee - \$5,000
- Nominating and Corporation Governance Committee - \$4,000

Members of any special Committees formed by the Board receive a \$1,500 quarterly retainer for each special Committee on which they serve, with the Chair of each special Committee receiving an additional \$4,000 quarterly retainer. The Company had no special Committees during 2022.

The Company reimburses directors' travel, lodging and other reasonable out-of-pocket expenses in connection with attendance at Board, Committee and shareholder meetings. These amounts are not included in the table above.

On February 1, 2022, the Company entered into an Employment Agreement (the "Employment Agreement") with Mr. Hollowell as the Chief Financial Officer of Autoscope and the President, Chief Financial Officer and Chief Operating Officer of ISNS. The Employment Agreement supersedes the employment agreement between ISNS and Mr. Hollowell dated as of April 29, 2019. Under the Employment Agreement, Mr. Hollowell is an at-will employee of the Company, and his employment may be terminated by the Company or Mr. Hollowell at any time.

The Employment Agreement provides for an annual salary of \$300,000.00 for the remainder of the 2022 calendar year; a target bonus of up to 25% of Mr. Hollowell's salary for the previous calendar year based on the attainment of performance goals set by the Company's Board of Directors; insurance and other benefits in accordance with Company's standard and executive benefits; and vacation in accordance with Company's vacation policy. The Employment Agreement also provides for the following compensation and benefits upon termination of employment:

- If the termination of employment is voluntary on the part of Mr. Hollowell and not for "Good Reason" as defined in the Employment Agreement, the Company must pay to Mr. Hollowell all earned and unpaid amounts due to him for salary through the termination date. Mr. Hollowell then will have 90 days after the termination of his employment (or such shorter period as is provided in the documents governing such options) to exercise any and all options to purchase the shares of Autoscope's Common Stock that he owns and are exercisable at the termination date. Any other options and any unvested restricted stock or restricted stock units for the Autoscope's Common Stock that he owns will terminate.
- If the termination of employment is "With Cause" as defined in the Employment Agreement, Mr. Hollowell will not be entitled to any severance, and any and all options, restricted stock and restricted stock units for Autoscope's Common Stock that he owns will terminate. However, in that case, Mr. Hollowell would have 10 days after being provided by the Company with written notice of the breach to cure such alleged breach, failure or misconduct if the breach, failure or misconduct is curable.
- If Mr. Hollowell terminates his employment for "Good Reason" as defined in the Employment Agreement or the Company terminates his employment for any reason other than With Cause or because of Mr. Hollowell's inability

to perform his duties because of death or disability, upon his entry into a release agreement substantially in the form attached as Appendix B to the Employment Agreement (the “Release”), Mr. Hallowell will be entitled to six months of salary continuation, without eligibility for bonus, and he will have 90 days after the termination of his employment (or such shorter period as is provided in the documents governing such options) to exercise all options to purchase the shares of the Company’s Common Stock that he owns and that are exercisable at the termination date. Any other options and any unvested restricted stock or restricted stock units for Company’s Common Stock owned by him will terminate.

In connection with the Employment Agreement, Autoscope granted Mr. Hallowell an immediately exercisable option with a term of 10 years to purchase 60,000 shares of Autoscope’s Common Stock at an exercise price of \$6.87 per share (which is equal to the closing price of Autoscope’s Common Stock as quoted on Nasdaq on the trading day immediately before the date of the Employment Agreement). The option was granted under the terms of the Image Sensing Systems, Inc. 2014 Stock Option and Incentive Plan that was assumed by Autoscope effective on July 21, 2021. When he signed the Employment Agreement, Mr. Hallowell also entered into a Confidentiality, Noncompetition, and Invention Assignment Agreement with the Company dated as of February 1, 2022 in the form attached as Appendix A to the Employment Agreement (the “Noncompetition Agreement”).

Legal/disciplinary history

None of the current directors and executive officer of the Company have, in the last five years, been the subject of (1) a conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding any traffic violations and other minor offenses); (2) the entry of an order, judgment or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person’s involvement in any type of business, securities, commodities and banking activities; (3) a finding or judgment by a court of competent jurisdiction (in a civil action), the SEC, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended or vacated; or (4) the entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person’s involvement in any type of business or securities activities.

Disclosure of family relationships

There are no family relationships among and between the Company’s directors, officers, or beneficial owners of more than five percent (5%) of any class of Autoscope’s equity securities.

Disclosure of related party transactions

During and for the years ended December 31, 2022 and December 31, 2021, the Company had no material transactions with related persons. For purposes of this disclosure

- a “related person” means any director, executive officer, nominee for director, or beneficial owner of more than five percent (5%) of any class of Autoscope’s equity securities, immediate family members of any such person, and any person (other than a tenant or employee) sharing the household of any such person;
- a “transaction” includes, but is not limited to, any financial transaction, arrangement or relationship (including any indebtedness or guarantee of indebtedness) or any series of similar transactions, arrangements or relationships; and
- “Material” is defined as greater than \$15,000, which is the lesser of \$120,000 or one percent (1%) of the average of the Company’s total assets at year-end for its last three fiscal years.

Item 12 Financial information for the issuer’s most recent fiscal period.

The Company has provided the following audited consolidated financial statements for the years ended December 31, 2022 and December 31, 2021, which are attached hereto and hereby incorporated by reference:

1. Independent Auditors’ Report
2. Consolidated Balance Sheets
3. Consolidated Statements of Income
4. Consolidated Statements of Shareholders’ Equity
5. Consolidated Statements of Cash Flows
6. Notes to Consolidated Financial Statements

Item 13 Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.

The Company has provided the following audited consolidated financial statements for the years ended December 31, 2022 and December 31, 2021, which are attached hereto and hereby incorporated by reference:

1. Independent Auditors’ Report
2. Consolidated Balance Sheets
3. Consolidated Statements of Operations
4. Consolidated Statements of Shareholders’ Equity
5. Consolidated Statements of Cash Flows
6. Notes to Consolidated Financial Statements

Item 14 The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business, development and disclosures.

Securities Counsel

Michele D. Vaillancourt
Winthrop & Weinstine, P. A.
Capella Tower STE 3500, 225 South Sixth Street
Minneapolis, MN 55402-4629
United States

Website: www.winthrop.com
Phone: +1 (612) 604-6681
Email: mvaillancourt@winthrop.com

Auditor

Preparation of the Company’s financial statements is the responsibility of the Company’s management. The Company’s independent audit firm, Boulay PLLP, is responsible for expressing an opinion on the Company’s financial statements based on its audit as of and for the years ended December 31, 2022 and December 31, 2021.

Auditor contact information:

Nathan Miller
Boulay PLLP
11095 Viking Dr. #500
Eden Prairie, MN
United States

Website: www.boulaygroup.com
Phone: +1 (952) 841-8296
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Investor Relations Consultant

John G Grau
ICOM Advisors LLC d/b/a InvestorCom
19 Old Kings Highway S, STE 210
Darien, CT 06820 United States

Website: www.investor-com.com
Phone: +1 (203) 972-9300
Email: jgrau@investor-com

Item 15 Management's discussion and analysis or plan of operation

A. Plan of Operation

This Item is not applicable, as the Company has had revenues in each of the last two fiscal years.

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

Fiscal Year 2022 compared with Fiscal Year 2021

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 and RTMS radar or radar products ("RTMS"), 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 users with complete solutions for the intersection and transportation markets.

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 an exclusive agreement with 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 in North America, the Caribbean and Latin America. On a limited basis, we sell directly to the end user in these geographic areas. We market our Autoscope video and RTMS radar products outside of 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 year-to-year trends in financial statement results aligns with the Company's audited consolidated financial statements for the years ended December 31 2022 and 2021 included in this Annual Report.

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 product sales of our RTMS radar systems and our Autoscope video systems in Europe and Asia. Autoscope video royalties are calculated using a profit-sharing model where 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 a long-term agreement.

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 platforms, which is influenced mainly by the cost of electronic components. The cost of revenue also includes logistics costs, estimated expenses for product warranties, restructuring costs and inventory reserves. The key metric that we follow is achieving certain gross margin percentages on product sales by geographic region and to a lesser extent by product line.

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; second-tier 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. Also included in operating expenses are any restructuring costs.

Non-GAAP Operating Measure. We provide certain non-GAAP financial information as supplemental information to financial measures calculated and presented in accordance with U.S. 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 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.

Critical Accounting Policies

Our Consolidated Financial Statements included elsewhere in this Annual Report are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), which require us to make estimates and assumptions in certain circumstances that affect amounts reported. In preparing these financial statements, management has made its best estimates and judgments of certain amounts, giving due consideration to materiality. We believe that of our significant accounting policies, the following are particularly important to the portrayal of our results of operations and financial position, may require the application of a higher level of judgment by our management, and as a result, are subject to an inherent degree of uncertainty.

Revenue Recognition and Allowance for Doubtful Accounts. We are required to comply with a variety of technical accounting requirements in order to achieve consistent and accurate revenue recognition. Royalty income is recognized based on sales shipped or delivered to our customers as reported to us by Econolite. Revenue is recognized when both product ownership and the risk of loss have transferred to the customer and we have no remaining obligations. Allowances for doubtful accounts are estimated by management based on an evaluation of potential losses related to customer receivable balances. We determine the allowance based on historical write-off experience in the industry, regional economic data, and an evaluation of specific customer accounts for risk of loss. We review our allowance for doubtful accounts monthly. Account balances are charged off against the allowance when we believe it is probable the receivable will not be recovered. We do not have any off balance sheet credit exposure related to our customers. The establishment of this allowance requires the use of judgment and assumptions regarding the potential for losses on receivable balances. Although management considers these balances adequate and proper, changes in economic conditions in specific markets in which we operate could have an effect on reserve balances required.

Warranty Liabilities. The estimated cost to service warranty and customer service claims is included in cost of sales. This estimate is based on historical trends of warranty claims. We regularly assess and adjust the estimate of accrued warranty claims by updating claims rates for actual trends and projected claim costs. Our warranty liability contains uncertainties because our warranty obligations cover an extended period of time. While these liability levels are based on historical warranty experience, they may not reflect the actual claims that will occur over the upcoming warranty period, and additional warranty reserves may be required. A revision of estimated claim rates or the projected cost of materials and freight associated with sending replacement parts to customers could have a material adverse effect on future results of operations.

Software Development Costs. We incur costs associated with the development of software to be sold, leased, or otherwise marketed. 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. A significant amount of judgment and estimation is required to assess when technological feasibility is established as well as in the ongoing assessment of the recoverability of capitalized costs. In evaluating the recoverability of capitalized software costs, we compare expected product performance, utilizing forecasted revenue amounts, to the total costs incurred to date and estimates of additional costs to be incurred. If revised forecasted product revenue is less than, and/or revised forecasted costs are greater than, the previously forecasted amounts, the net realizable value may be lower than previously estimated, which could result in recognition of an impairment charge in the period in which such a determination is made.

Impairment of Long-Lived Assets. We review the carrying value of long-lived assets or asset groups, such as property and equipment and intangibles subject to amortization, when events or changes in circumstances such as asset utilization, physical change, legal factors, or other matters indicate that the carrying value may not be recoverable. When this review indicates the carrying value of an asset or asset group exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group, we recognize an asset impairment charge against operations. The amount of the impairment charge recorded is the amount by which the carrying value of the impaired asset or asset group exceeds its fair value. Our impairment loss calculations contain uncertainties because they require management to make assumptions and to apply judgment to identify events or changes in circumstances indicating the carrying value of assets may not be recoverable, estimate future cash flows, estimate asset fair values, and select a discount

rate that reflects the risk inherent in future cash flows. Expected cash flows may not be realized, which could cause long-lived assets to become impaired in future periods and could have a material adverse effect on future results of operations.

The table below reconciles non-GAAP income from operations, which is a non-GAAP financial measure, to comparable GAAP financial measures (in thousands):

	Years Ended December 31,	
	2022	2021
Income from operations	\$ 1,599	\$ 2,273
Adjustments to reconcile to non-GAAP income		
Amortization of intangible assets	799	780
Depreciation	171	148
Non-GAAP operating income	<u>\$ 2,569</u>	<u>\$ 3,201</u>

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. The RTMS radar is our radar product line, 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 financial information for each of our reportable segments (in thousands):

	For the year ended December 31, 2022		
	Intersection	Highway	Total
Revenue	\$ 8,502	\$ 3,903	\$ 12,405
Gross profit	7,784	1,687	9,471
Amortization of intangible assets	534	265	799
Intangible assets	1,521	1,080	2,601

	For the year ended December 31, 2021		
	Intersection	Highway	Total
Revenue	\$ 9,323	\$ 3,919	\$ 13,242
Gross profit	8,421	1,184	10,235
Amortization of intangible assets	511	265	780
Intangible assets	1,521	1,345	2,866

Results of Operations

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

	For the years ended December 31,	
	2021	2021
Product sales	34.0%	35.6%
Royalties	66.0	64.4
Total revenue	100.0	100.0
Gross profit - product sales	40.5	44.6
Gross profit - royalties	94.9	95.3
Selling, marketing and product support	18.3	16.1
General and administrative	28.0	27.3
Research and development	17.1	16.7
Income from operations	12.9	17.3
Income tax expense (benefit)	3.2	6.8
Net income	9.7	17.3

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Total revenue decreased to \$12.4 million in 2022 compared to 2021. Royalty income decreased to \$8.2 million in 2022 compared to \$8.5 million in 2021, a decrease of 4.1%. 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 alternatives to meet customer order demand. Product sales decreased to \$4.2 million in 2022 from \$4.7 million in 2021, a decrease of 10.4%. The decrease in product sales was primarily the result of labor shortages causing installation delays and impacting project timing.

Revenue for the Intersection segment decreased to \$8.5 million in 2022 compared to 2021.

Revenue for the Highway segment remained unchanged at \$3.9 million in 2022 compared to 2021.

Gross margin on product sales decreased to 40.5% in 2022 from 44.6% in 2021. Product sales gross profit in 2022 decreased \$395,000 or 18.8% compared to the prior year. The decrease in product sales gross profit is primarily the result of COVID-19 related challenges that continued to impact regions throughout the year, as well as labor shortages that caused installation delays and impacted project timing. Product sales gross profit for the Highway product lines has historically been lower than gross profit for the Intersection product lines and therefore the mix of the product lines sold in any given period can result in varying gross profit. Additionally, the geographic sales mix of our product sales can influence margins, as products sold in some jurisdictions have lower margins.

Gross margins on royalty sales decreased to 94.9% in 2022 compared to 95.3% in 2021. Gross profit for royalties in 2022 decreased \$369,000 or 4.5% compared to the prior year. The decrease in royalty gross profits and percent is primarily the result of increased amortization costs associated with the release of IntelliSight detection software and component shortages during the second quarter of 2022, which resulted in the purchase of higher costing alternatives to meet customer order demand.

Selling, marketing and product support expense increased to \$2.3 million, or 18.3% of total revenue, in 2022 compared to \$2.1 million, or 16.1% of total revenue, in 2021. The increase in selling, marketing, and product support expense over 2021 is primarily the result of increasing advertising and travel and trade shows expenses to attend customer sponsored events. The increase in selling, marketing and product support expense as a percent of revenue is primarily the result of higher expenses as discussed above and lower revenues in 2022 compared to 2021.

General and administrative expense decreased to \$3.5 million, or 28.1% of total revenue, in 2022 compared to \$3.6 million, or 27.3% of total revenue, in 2021. The decrease in general and administrative expense over 2021 is primarily the result of lower salaries and benefits paid due to employee turnover that was not replaced during the year and lower rent expense as the Company moved to an owned facility in early 2022. The increase in general and administrative expense as a percent of revenue is primarily the result of lower revenues in 2022 compared to 2021.

Research and development expense decreased to \$2.1 million, or 17.1% of total revenue, in 2022 from \$2.2 million, or 16.7% of total revenue, in 2021. The decrease is due to increased capitalized software development costs in 2022 of \$534,000 compared to capitalized software development costs of \$485,000 in 2021. After normalizing for software development costs, overall research and development expenditures decreased in 2022 compared to 2021 due to decreased headcount. The increase in research and development expense as a percent of revenue is primarily the result of lower revenues in 2022 compared to 2021.

Income tax expense of \$391,000 was recorded for the year ended December 31, 2022 compared to \$905,000 for the year ended December 31, 2021. The decrease in income tax expense is due to higher pre-tax income in 2021 compared to 2022.

Other income decreased by \$885,000 in 2022 from \$927,000 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 quarter of 2021. There were no comparable items in 2022.

Consolidated net income was \$1.2 million, or \$0.22 per basic and diluted share, in 2022 compared to \$2.3 million, or \$0.43 per basic and diluted share, in 2021.

Liquidity and Capital Resources

At December 31, 2022, we had \$1.2 million in cash and cash equivalents compared to \$8.2 million at December 31, 2021.

Net cash provided by operating activities decreased to \$668,000 in 2022 compared to \$2.6 million in 2021. Net cash provided by operating activities decreased in 2022 compared to the prior year primarily as the result of lower net income, higher investment accounts receivable and inventory, and lower deferred taxes and accrued expenses in 2022 compared to 2021.

Net cash used for investing activities was \$5.0 million in 2022 compared to net cash used for investing activities of \$2.6 million in 2021. The increase in the amount of net cash used for investing activities in 2022 compared to the prior year is primarily the result of the purchase of equity and debt securities offset by lower purchases of property and equipment. To generate a greater return on our cash position, the Company purchased and sold various debt and equity securities during the first nine months of 2022 totaling \$5.5 million and \$1.4 million, respectively.

Net cash used for financing activities was \$2.6 million in 2022 compared to net cash used of \$229,000 in 2021. The increase in net cash used for financing activities is primarily due to higher quarterly cash dividends paid and lower borrowings on long-term debt in 2022 compared to 2021. The Company paid four quarterly cash dividends of \$0.12 per share compared to three quarterly cash dividends in 2021. ISNS financed the purchase of the Property through a loan from Coulee Bank in December 2021. There were no borrowings on long-term debt in 2022.

We believe that cash and cash equivalents on hand coupled with readily available investment in debt and equity securities on December 31, 2022 totaling \$5.4 million, along with the cash provided by operating activities, will satisfy our projected working capital needs, investing activities, and other cash requirements for the foreseeable future.

C. Off-Balance Sheet Arrangements

The Company does not have any obligations that meet the definition of an off-balance sheet arrangement that have had, or are reasonably likely to have, a material effect on the Company's financial condition or results of operations.

Part E Issuance History

Item 16 List of securities offerings and shares issued for services in the past two years.

The following table sets forth information regarding the shares of Common Stock the Company issued during the fiscal years ended December 31, 2022 and 2021; the Company issued no shares of Common Stock since December 31, 2022 to the date of this Annual Report:

Date	Nature of Offering	Party Shares Issued To	Number of Shares Issued	Trading Status of Shares	Restricted Shares
March 16, 2022	Stock award	Directors	6,996	Restricted	Yes
June 15, 2022	Stock award	Directors	8,304	Restricted	Yes
September 15, 2022	Stock award	Directors	8,820	Restricted	Yes
December 15, 2022	Stock award	Directors	7,485	Restricted	Yes

The following table sets forth information regarding Common Stock options issued during fiscal years ended December 31, 2022 and 2021.

Date	Nature of Offering	Party Shares Issued To	Number of Shares Issued	Exercise Price	Purpose
February 3, 2022	Stock options	Two non-executive employees	60,000	\$6.67	Employee option award
February 3, 2022	Stock option	Frank G. Hallowell	60,000	\$6.67	Option award
December 12, 2022	Stock option	One non-executive employee	5,000	\$5.12	Employee option award

All of the issuances described in the foregoing two tables were registered under the Securities Act pursuant to Registration Statements on Form S-8 filed by the Company with the SEC and registered with or exempt from registration under applicable state securities laws. The shares were issued as compensation to the directors and executive officers, who paid no consideration to the Company for the shares. The sale by the holders of the shares of Common Stock described in the table other than the two non-executive employees is restricted under the applicable provisions of Rule 144 under the Securities Act. The sale of the shares of Common Stock by the two non-executive employees was registered under the Registration Statements on Form S-8 filed by the Company with the SEC and is not restricted.

Part F Exhibits

Item 18 Material Contracts.

The following are the material contracts of the Company, not made in the ordinary course of business, that will be performed after this Annual Report if posted through www.OTCIQ.com or was entered into not more than two years before such posting

- Agreement and Plan of Merger dated as of July 20, 2021 by and among Image Sensing Systems, Inc., Autoscope Technologies Corporation, and Spruce Tree MergerCo. Inc.
- Amended and Restated Rights Agreement dated July 21, 2021 among Autoscope Technologies Corporation,

Continental Stock Transfer & Trust Company, as rights agent, and, only with respect to Section 37 thereof, Image Sensing Systems, Inc.

- Modification to Manufacturing, Distributing and Technology License Agreement dated September 1, 2000 by and between Image Sensing Systems, Inc. and Econolite Control Products, Inc. ("Econolite").
- Manufacturing, Distributing and Technology License Agreement dated June 11, 1991 by and between Image Sensing Systems, Inc. and Econolite.
- Extension and Second Modification to License Agreement dated July 13, 2001 by and between Image Sensing Systems, Inc. and Econolite.
- Production Agreement dated February 14, 2002 by and among Image Sensing Systems, Inc., Wireless Technology, Inc. and Econolite.
- Extension and Third Modification to Manufacturing Distributing and Technology License Agreement dated July 3, 2008 by and between Image Sensing Systems, Inc. and Econolite.
- Fourth Modification to Manufacturing, Distributing and Technology License Agreement dated as of December 15, 2011 by and between Image Sensing Systems, Inc. and Econolite.
- Image Sensing Systems, Inc. 2014 Stock Option and Incentive Plan.
- Autoscope Technologies Corporation 2022 Stock Option and Incentive Plan.
- Purchase Agreement dated August 27, 2021 between Image Sensing Systems, Inc. and T&Z Family Limited Partnership.
- First Amendment to Purchase Agreement dated as of October 26, 2021 between Image Sensing Systems, Inc. and T&Z Family Limited Partnership.
- Assignment and Assumption Agreement dated as of July 21, 2021 by and between Image Sensing Systems, Inc. and Autoscope Technologies Corporation.
- Employment Agreement dated February 1, 2022 among Autoscope Technologies Corporation, Image Sensing Systems, Inc. and Francis (Frank) G. Hallowell.
- Form of Stock Option Agreement for Autoscope Technologies Corporation.
- Business Loan Agreement dated as of December 10, 2021 between Image Sensing Systems, Inc. and Coulee Bank.
- Promissory Note dated as of December 10, 2021 between Image Sensing Systems, Inc. and Coulee Bank.
- Mortgage dated as of December 10, 2021 between Image Sensing Systems, Inc. and Coulee Bank.
- Assignment of Rents dated as of December 10, 2021 between Image Sensing Systems, Inc. and Coulee Bank.
- Extension of Modification to Manufacturing, Distributing and Technology License Agreement dated May 31, 2002 by and between Image Sensing Systems, Inc. and Econolite.
- Letter agreement dated June 19, 1997 by and between Image Sensing Systems, Inc. and Econolite.

- License and Distribution Agreement dated January 2, 2011 by and among Image Sensing Systems, Inc., Econolite and Econolite Canada Inc.

Item 18 Articles of Incorporation and Bylaws.

A complete copy of Autoscope’s Restated Articles of Incorporation, including the Certificate of Designation of Series A Junior Participating Preferred Stock 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 by the Company with the SEC.

A complete copy of Autoscope’s Bylaws of Autoscope, incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K dated July 21, 2021 filed by the Company with the SEC.

Item 19 Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

None.

Item 20 Issuer’s Certifications.

I, Andrew T. Berger, certify that:

1. I have reviewed this Annual Report of Autoscope Technologies Corporation;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: May 11, 2023

/s/ Andrew T. Berger
Executive Chair

I, Francis G. Hallowell, certify that:

1. I have reviewed this Annual Report of Autoscope Technologies Corporation;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: May 11 2023

/s/ Francis G. Hallowell
Interim President and Chief Executive Officer and Chief Financial Officer



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Autoscope Technologies Corporation

Opinion

We have audited the accompanying consolidated financial statements of Autoscope Technologies Corporation (the "Company"), which comprise the balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the consolidated financial statements).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information Included in the Company's Annual Report

Management is responsible for the other information included in the Company's Annual Report. The other information comprises certain financial and other information, but it does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Boulay PLLP

Minneapolis, Minnesota

May 11, 2023

AUTOSCOPE TECHNOLOGIES CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31,	
	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,177	\$ 8,229
Accounts receivable, net of allowance for doubtful accounts of \$19 and \$18, respectively	3,688	2,369
Inventories	2,287	1,429
Investments in available-for-sale debt securities	2,893	—
Investments in equity securities	245	—
Prepaid expenses and other current assets	545	355
Total current assets	10,835	12,382
Property and equipment:		
Furniture and fixtures	136	136
Leasehold improvements	6	6
Equipment	1,010	994
Real property	2,059	2,059
	3,211	3,195
Accumulated depreciation	1,079	958
	2,132	2,237
Intangible assets, net	2,601	2,866
Deferred income taxes	4,475	4,824
Long-term investments in available-for-sale debt securities	1,054	—
Operating lease asset, net	3	58
TOTAL ASSETS	\$ 21,100	\$ 22,367
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 423	\$ 236
Deferred revenue	99	107
Warranty	108	128
Accrued compensation	72	132
Operating lease obligation	3	59
Current maturities of long-term debt	58	56
Other current liabilities	104	181
Total current liabilities	867	899
Non-current liabilities		
Long-term debt, net	1,616	1,674
TOTAL LIABILITIES	2,483	2,573
Commitments and contingencies (Note 17)		
Shareholders' equity		
Preferred stock, \$.01 par value; 5,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$.01 par value; 20,000,000 shares authorized, 5,415,192 and 5,378,857 issued and outstanding, respectively	54	54
Additional paid-in capital	25,566	25,167
Accumulated other comprehensive loss	(478)	(288)
Accumulated deficit	(6,525)	(5,139)
Total shareholders' equity	18,617	19,794
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 21,100	\$ 22,367

See accompanying notes to the consolidated financial statements.

AUTOSCOPE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Years ended December 31,	
	2022	2021
Revenue:		
Product sales	\$ 4,222	\$ 4,710
Royalties	8,183	8,532
	12,405	13,242
Cost of revenue:		
Product sales	2,514	2,607
Royalties	420	400
	2,934	3,007
Gross profit	9,471	10,235
Operating expenses:		
Selling, marketing and product support	2,272	2,127
General and administrative	3,480	3,621
Research and development	2,120	2,214
	7,872	7,962
Income from operations	1,599	2,273
Other income, net	42	927
Investment income	24	—
Interest expense, net	(71)	—
Income from operations before income taxes	1,594	3,200
Income tax expense	391	905
Net income	\$ 1,203	\$ 2,295
Net income per share:		
Basic	\$ 0.22	\$ 0.43
Diluted	\$ 0.22	\$ 0.43
Weighted average number of common shares outstanding:		
Basic	5,383	5,342
Diluted	5,392	5,358

See accompanying notes to the consolidated financial statements.

AUTOSCOPE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years ended December 31,	
	2022	2021
Net income	\$ 1,203	\$ 2,295
Other comprehensive income:		
Foreign currency translation adjustment	(127)	(138)
Unrealized loss on available-for-sale securities, net of tax	(1)	—
Transfer of investments from held-to-maturity to available-for-sale classification, net of tax	(62)	—
Comprehensive income	\$ 1,013	\$ 2,157

See accompanying notes to the consolidated financial statements.

AUTOSCOPE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(in thousands)

	Years ended December 31,	
	2022	2021
Operating activities:		
Net income	\$ 1,203	\$ 2,295
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	171	148
Software amortization	799	780
Stock-based compensation	381	226
Amortization of debt issuance costs	2	—
Deferred income tax	367	884
Forgiveness of PPP loan	—	(931)
Loss on disposal of assets	6	4
Investment amortization	7	—
Realized loss on equity investments	53	—
Realized loss on available-for-sale investments	20	—
Unrealized loss on equity investments	5	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,319)	(108)
Inventories	(858)	(659)
Prepaid expenses and other current assets	(190)	125
Accounts payable	187	(310)
Accrued expenses and other current liabilities	(166)	108
Net cash provided by operating activities	<u>668</u>	<u>2,562</u>
Investing activities:		
Capitalized software development costs	(534)	(485)
Purchase of property and equipment	(84)	(2,087)
Purchase of equity securities	(795)	—
Sale of equity securities	492	—
Purchase of debt securities	(5,499)	—
Sale of debt securities	1,444	—
Net cash used for investing activities	<u>(4,976)</u>	<u>(2,572)</u>
Financing activities:		
Dividends paid	(2,589)	(1,932)
Stock for tax withholding	(14)	(35)
Proceeds from long-term debt	—	1,743
Deferred finance fees	—	(13)
Principal payments on long-term debt	(58)	—
Proceeds from stock options exercised	32	8
Net cash used for financing activities	<u>(2,629)</u>	<u>(229)</u>
Effect of exchange rate changes on cash	<u>(115)</u>	<u>(137)</u>
Decrease in cash and cash equivalents	<u>(7,052)</u>	<u>(376)</u>

AUTOSCOPE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW (continued)

Cash and cash equivalents at beginning of period	<u>8,229</u>	<u>8,605</u>
Cash and cash equivalents at end of period	<u>\$ 1,177</u>	<u>\$ 8,229</u>
Supplemental Disclosure of Cash Flows		
Cash paid during the year for:		
Interest expense	<u>\$ 72</u>	<u>\$ —</u>
Income taxes	<u>\$ 11</u>	<u>\$ —</u>

See accompanying notes to the consolidated financial statements.

AUTOSCOPE TECHNOLOGIES CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share data)

	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	31,233	—	226	—	—	226
Stock for tax withholding	(7,002)	—	(35)	—	—	(35)
Stock options exercised	2,000	—	8	—	—	8
Dividend declared	—	—	—	—	(1,932)	(1,932)
Comprehensive income:						
Foreign currency translation adjustment	—	—	—	(138)	—	(138)
Net income	—	—	—	—	2,295	2,295
Balance, December 31, 2021	5,378,857	\$ 54	\$ 25,167	\$ (288)	\$ (5,139)	\$ 19,794
Stock-based compensation	31,605	—	381	—	—	381
Stock for tax withholding	(2,270)	—	(14)	—	—	(14)
Stock options exercised	7,000	—	32	—	—	32
Dividend declared	—	—	—	—	(2,589)	(2,589)
Comprehensive income (loss):						
Foreign currency translation adjustment	—	—	—	(127)	—	(127)
Unrealized loss on available-for-sale debt securities, net of tax	—	—	—	(1)	—	(1)
Transfer of investments from held-to-maturity to available-for-sale classification, net of tax	—	—	—	(62)	—	(62)
Net income	—	—	—	—	1,203	1,203
Balance, December 31, 2022	5,415,192	\$ 54	\$ 25,566	\$ (478)	\$ (6,525)	\$ 18,617

See accompanying notes to the consolidated financial statements.

Autoscope Technologies Corporation
Notes to Consolidated Financial Statements

December 31, 2022

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

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 ("Nasdaq") 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 these Consolidated Financial Statements, 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.

On December 21, 2022, the Company notified Nasdaq of its intention to file a "Form 25 - Notification of Removal from Listing and/or Registration under Section 12(b) of the Securities Exchange Act of 1934" with the Securities and Exchange Commission (the "SEC") on or about December 30, 2022. The purpose of the Form 25 filing was to effect the delisting from Nasdaq of the Company's outstanding common stock, par value \$0.01 per share (the "Common Stock"), and the deregistration of the Common Stock under Section 12(b) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act").

Upon the effectiveness of the Form 25 filing, the Company filed a Form 15 on January 17, 2023 with the SEC to suspend the Company's duty to file reports under Sections 13(a) and 15(d) of the Exchange Act and to deregister its Common Stock under Section 12(b) of the Exchange Act. The deregistration under Section 12(g) of the Exchange Act was effective on April 17, 2023, 90 days after filing the Form 15, at which time the Company's other filing requirements under Section 13(a) of the Exchange Act will terminate.

On February 10, 2023, the Company was admitted and is qualified to trade on the OTCQC Best Market, under the symbol "AATC".

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.

CONSOLIDATION

The Consolidated Financial Statements include the accounts of Autoscope and its wholly-owned subsidiary ISNS and its following wholly-owned subsidiaries: Image Sensing Systems HK Limited (ISS HK) in Hong Kong; Image Sensing Systems (Shenzhen) Limited (ISS WOFE) in China; Image Sensing Systems Spain SLU (ISS Spain) in Spain; ISS Image Sensing Systems Canada Limited (ISS Canada) in Canada; and Autoscope Technologies India Private Limited (Autoscope India) in India. All significant inter-company transactions and balances have been eliminated.

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;
- 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 years ended December 31, 2022 and 2021 consists of the following (in thousands); revenue excludes sales and usage-based taxes where it has been determined that we are acting as a pass-through agent:

	Years Ended December 31,	
	2022	2021
Product sales	\$ 4,222	\$ 4,710
Royalties	8,183	8,532
Total revenue	<u>\$ 12,405</u>	<u>\$ 13,242</u>

Product Sales:

Product revenue is generated 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 consideration we expect to be entitled to in exchange for those goods or services.

Certain product sales may contain multiple performance obligations for revenue recognition purposes. Multiple performance obligations may include the 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 and the expected cost plus margin approach 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 is 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, marketing and product support 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.

SHIPPING AND HANDLING

Freight revenue billed to customers is reported within revenue in the Consolidated Statements of Operations, and expenses incurred for shipping products to customers are reported within cost of revenue in the Consolidated Statements of Operations.

CASH AND CASH EQUIVALENTS

We consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents, both inside and outside the United States, are invested in money market funds and bank deposits in local currency denominations. Cash located in foreign banks was \$66,000 and \$201,000 at December 31, 2022 and 2021, respectively. We hold our cash and cash equivalents with financial institutions and, at times, the amounts of our balances may be in excess of deposit insurance limits.

ACCOUNTS RECEIVABLE

We grant credit to customers in the normal course of business and generally do not require collateral from domestic customers. When deemed appropriate, receivables from customers outside the United States are supported by letters of credit from financial institutions. Management performs on-going credit evaluations of customers. The allowance for doubtful accounts is based on management's assessment of the collectability of specific customer accounts and includes consideration of the credit worthiness and financial condition of those specific customers. We record an allowance to reduce receivables to the amount that is reasonably believed to be collectible and consider factors such as the financial condition of the customer and the aging of the receivables. If there is a deterioration of a customer's financial condition, if we become aware of additional information related to the credit worthiness of a customer, or if future actual default rates on trade receivables in general differ from those currently anticipated, we may have to adjust our allowance for doubtful accounts, which would affect earnings in the period the adjustments were made.

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.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Additions, replacements, and improvements are capitalized at cost, while maintenance and repairs are charged to operations as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets and by accelerated methods for income tax purposes. Leasehold improvements are depreciated over the shorter of the estimated useful lives of the assets or the contractual term of the lease, with consideration of lease renewal options if renewal appears probable. Useful lives of furniture and fixtures, leasehold improvements, and equipment range from three to seven years. The useful life of the real property is 30 years.

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 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 Agreement also provides 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, business records related to the Real Property, and certain personal property located on the Real Property, all 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 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 Purchase Agreement. On December 10, 2021, ISNS closed (the "Closing") on the purchase of the Real Property under the terms of the Purchase Agreement and on a loan in the original principal amount of \$1,742,500 from Coulee Bank to ISNS to finance the purchase of the Real Property. In addition to the \$100,000 in earnest money paid by ISNS as described above and the \$1,742,500 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.

INCOME TAXES

We record a tax provision for the anticipated tax consequences of the 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 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 \$534,000 and \$485,000 of software development costs during the years ended December 31, 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 December 31, 2022 and 2021, there were no indefinite-lived intangible assets.

IMPAIRMENT OF LONG-LIVED ASSETS

We review the carrying value of long-lived assets or asset groups, such as property and equipment and intangibles subject to amortization, when events or changes in circumstances such as asset utilization, physical change, legal factors, or other matters indicate that the carrying value may not be recoverable. When this review indicates the carrying value of an asset or asset group exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group, we recognize an asset impairment charge against operations. The amount of the impairment loss recorded is the amount by which the carrying value of the impaired asset or asset group exceeds its fair value. No such impairment losses were recorded during the years ended December 31, 2022 and 2021.

INVESTMENTS IN DEBT SECURITIES

We classify investments in debt securities on the acquisition date and at each balance sheet date. At December 31, 2022, all of our investments in debt securities were classified as available-for-sale.

During the year ended December 31, 2022, we changed the classification of approximately \$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. The difference between the reclassified securities' amortized cost and fair value at the date of transfer of \$79,000 was recognized as an unrealized loss recorded as a component of other comprehensive income during the year ended December 31, 2022.

INVESTMENTS IN EQUITY SECURITIES

We carry all investments in equity securities at fair value and record the subsequent changes in values in the Consolidated Statements of Operations as a component of investment income or loss.

RESEARCH AND DEVELOPMENT

Research and development costs associated with new products are charged to operations in the period incurred.

WARRANTIES

We generally provide a two- to three-year warranty on product sales. We record estimated warranty costs at the time of sale and accrue for specific items at the time that their existence is known and the amounts are determinable. We estimate warranty costs using standard quantitative measures based on historical warranty claim experience and an evaluation of specific customer warranty issues. In addition, warranty provisions are recognized for certain nonrecurring product claims that are individually significant.

FOREIGN CURRENCY

The financial position and results of operations of our foreign subsidiaries are measured using local currency as the functional currency. Assets and liabilities are translated using fiscal period-end exchange rates, and statements of operations are translated using average exchange rates applicable to each period, with the resulting translation adjustments recorded as a separate component of shareholders' equity under "Accumulated other comprehensive loss." Gains and losses from foreign currency transactions are recognized in the Consolidated Statements of Operations.

NET INCOME PER SHARE

Basic income per share excludes dilution and is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted income per share includes potentially dilutive common shares consisting of stock options and restricted stock using the treasury stock method. Under the treasury stock method, shares associated with certain stock options have been excluded from the diluted weighted average shares outstanding calculation because the exercise of those options would lead to a net reduction in common shares outstanding. As a result, stock options to acquire 110,405 and 2,000 weighted common shares have been excluded from the diluted weighted shares outstanding calculation for the years ended December 31, 2022 and 2021, respectively, because the exercise prices were greater than the average market price of the common shares during the period and were excluded from the calculation of diluted net income per share.

LOSS CONTINGENCIES

We establish an accrual for loss contingencies when it is both probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. When loss contingencies are not probable and cannot be reasonably estimated, we do not establish an accrual. However, when there is at least a reasonable possibility that a loss has been incurred, but it is not probable or reasonably estimated, we disclose the nature of the loss contingency and an estimate of the possible loss or range of loss as applicable. Any adjustment made to a loss contingency accrual during an accounting period affects the earnings of the period.

USE OF ESTIMATES

The preparation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Ultimate results could differ from those estimates. Changes in these estimates will be reflected in the consolidated financial statements in future periods. Significant estimates include warranty reserves, the allowance for doubtful accounts, inventory reserves, the valuation of investments, and the valuation of deferred tax assets.

STOCK-BASED COMPENSATION

We measure the cost of employee services received in exchange for the award of equity instruments based on the fair value of the award at the date of grant and recognize the cost over the period during which an employee is required to provide services in exchange for the award. Stock options or awards are granted at exercise prices equal to the closing market price of our stock on the day before the date of grant.

For purposes of determining the estimated fair value of stock options, we utilize the Black-Scholes option pricing model, which requires the input of certain assumptions requiring management judgment. Because our employee stock option awards have characteristics significantly different from those of traded options, and because changes in the input assumptions can materially affect fair value estimates, existing models may not provide a reliable single measure of the fair value of employee stock options. Management will continue to assess the assumptions and methodologies used to calculate the estimated fair value of stock-based compensation. Circumstances may change and additional data may become available over time that could result in changes to these assumptions and methodologies and thereby materially impact the fair value determination of future grants of stock-based payment awards. If factors change and we employ different assumptions in future periods, the compensation expense recorded may differ significantly from the stock-based compensation expense recorded in the current period.

2. 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.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

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.

3. INVENTORIES

Inventories consisted of the following (in thousands):

	December 31,	
	2022	2021
Finished goods	\$ 1,928	\$ 1,205
Components	359	224
Total	<u>\$ 2,287</u>	<u>\$ 1,429</u>

4. INVESTMENTS IN AVAILABLE-FOR-SALE DEBT SECURITIES

Investments in available-for-sale debt securities as of December 31, 2022 are summarized by type below (in thousands).

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value⁽¹⁾
U.S. government	\$ 2,182	\$ —	\$ (8)	\$ 2,174
Corporate and other taxable bonds	1,211	—	(25)	1,186
Other	635	—	(48)	587
	<u>\$ 4,028</u>	<u>\$ —</u>	<u>\$ (81)</u>	<u>\$ 3,947</u>

The fair value of available-for-sale debt securities at December 31, 2022 are summarized below by contractual maturity dates (in thousands).

	Due in one year or less	Due after one year through five years	Total
Amortized cost	\$ 2,912	\$ 1,116	\$ 4,028
Fair value ⁽¹⁾	\$ 2,893	\$ 1,054	\$ 3,947

(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.

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 December 31, 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	\$ 2,174	\$ (8)	\$ —	\$ —	\$ 2,174	\$ (8)
Corporate and other taxable bonds	1,186	(25)	—	—	1,186	(25)
Other	587	(48)	—	—	587	(48)
	<u>\$ 3,947</u>	<u>\$ (81)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,947</u>	<u>\$ (81)</u>

We did not consider any of our available-for-sale securities to be impaired as of December 31, 2022. When evaluating securities 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.

5. INVESTMENTS IN EQUITY SECURITIES

Investments in equity securities as of December 31, 2022 are summarized based on the primary industry of the investee in the table below (in thousands).

	<u>Cost Basis</u>	<u>Net Unrealized Gains (Losses)</u>	<u>Fair Value⁽¹⁾</u>
Fixed Income Exchange Traded Funds	\$ 250	\$ (5)	\$ 245
	<u>\$ 250</u>	<u>\$ (5)</u>	<u>\$ 245</u>

(1) 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.

6. 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 buildout 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.

The cost components of our operating leases were as follows for the years ended December 31 (in thousands):

	<u>2022</u>	<u>2021</u>
Operating lease costs	\$ 65	\$ 212
Variable lease costs	95	194
Total	<u>\$ 160</u>	<u>\$ 406</u>

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 December 31, 2022:

	<u>Total</u>
2023	\$ 3
2024 and thereafter	—
Total lease payments	<u>3</u>
Less: Interest	—
Present value of lease liabilities	<u>\$ 3</u>

The weighted average remaining lease terms and discount rates for all of our operating leases were as follows as of December 31, 2022:

	<u>December 31, 2022</u>
Remaining lease term and discount rate:	
Weighted average remaining lease term (years)	0.29
Weighted average discount rate	4.75 %

Cash paid for amounts included in the measurement of operating lease liabilities was \$103,000 and \$210,000 for the years ended December 31, 2022 and 2021, respectively, and these amounts are included in operating activities in the Consolidated Statements of Cash Flows. There were no operating lease assets obtained in exchange for new operating lease liabilities for the years ended December 31, 2022 and 2021, except that during 2021, ISNS entered into Amendment XV to Office Lease Agreement, which increased operating lease assets and liabilities by \$134,000.

On July 28, 2021, ISNS and Spruce Tree Centre L.L.P. entered into Amendment XV, 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"). Amendment XV was signed by Spruce Tree on July 28, 2021. The Lease term was to expire on July 31, 2021. Amendment XV, which was effective August 1, 2021, extended the term of the Lease to March 31, 2022. In addition, Amendment XV increased the monthly rent from \$16,660 to \$16,960 for the period from August 1, 2021 through March 31, 2022. On February 18, 2022, ISNS and Spruce Tree Centre L.L.P. entered into a one-year lease agreement ("New Lease"), for a small office space to store and access certain equipment owned and operated by ISNS with monthly rent of \$700 per month. On February 9, 2023, ISNS and Spruce Tree Centre L.L.P. entered into an Amendment, which amended the New Lease to extend the term of the Lease from April 1, 2023 through March 31, 2026. The monthly base rent is \$700 per month from May 1, 2023 through March 31, 2023, \$725 per month from April 1, 2024 through March 31, 2025 and \$750 per month from April 1, 2025 through March 31, 2026.

On October 6, 2022 Image Sensing Systems Canada Limited entered into a short-term lease agreement with Thornmount Holding Corp. The lease term is from December 1, 2022 through November 30, 2023, with monthly rent of \$853 per month.

The following is a schedule of minimum future rental income (in thousands) on the operating lease related to the billboard located on the Real Property as of December 31, 2022.

	Total
2023	\$ 38
2024	38
2025	38
2026	38
2027 and thereafter	38
Total minimum future rental income	<u>\$ 190</u>

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

7. INTANGIBLE ASSETS

Intangible assets include capitalized software development costs consisting of the following (dollars in thousands):

	December 31, 2022			Weighted Average Useful Life (in Years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	
Wrong Way development costs	228	(228)	—	—
Vision development costs	3,107	(2,371)	736	2.3
Echo development costs	1,852	(772)	1,080	2.9
IntellitracfiQ development costs	468	(468)	—	—
IntelliSight development costs	840	(55)	785	2.4
	<u>\$ 6,495</u>	<u>\$ (3,894)</u>	<u>\$ 2,601</u>	7.6

	December 31, 2021			Weighted Average Useful Life (in Years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	
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
IntellitracfiQ development costs	468	(409)	59	4.0
IntelliSight development costs	307	—	307	—
	<u>\$ 5,962</u>	<u>\$ (3,096)</u>	<u>\$ 2,866</u>	6.6

The estimated future amortization expense related to other intangible assets for the next five fiscal years is as follows (dollars in thousands):

	Amortization Expense
2023	\$ 790
2024	645
2025	410
2026	370
2027	127
2028 and thereafter	259

The above amortization expense relates to various capitalized costs related to software development. Future amortization amounts presented above are estimates. Actual future amortization expense may be different due to future acquisitions, impairments, changes in amortization periods, or other factors.

In accordance with U.S. generally accepted accounting principles (GAAP), we performed an assessment of recoverability on our software development costs, which is impacted by estimates and assumptions of future revenue and expenses for these products, as well as other factors such as changes in product technologies. We determined that the amount of the estimated undiscounted cash flows is greater than the asset carrying value, and there were no impairment triggers during the years ended December 2022 or 2021.

8. WARRANTIES

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

	Years ended December 31,	
	2022	2021
Beginning balance	\$ 128	\$ 141
Warranty provisions	27	41
Warranty claims	(36)	(47)
Adjustments to preexisting warranties	(11)	(7)
Ending balance	<u>\$ 108</u>	<u>\$ 128</u>

9. INCOME TAXES

The components of income before income taxes were as follows (in thousands):

	Years ended December 31,	
	2022	2021
Income from operations before income taxes		
Domestic	\$ 1,635	\$ 3,158
Foreign	(41)	42
Total	<u>\$ 1,594</u>	<u>\$ 3,200</u>

The components of income tax expense were as follows (in thousands):

	Years ended December 31,	
	2022	2021
Current:		
Federal	\$ —	\$ —
State	22	17
Foreign	9	3
	<u>\$ 31</u>	<u>\$ 20</u>
Deferred:		
Federal	\$ 448	\$ 894
State	(33)	49
Foreign	(55)	(58)
	<u>360</u>	<u>885</u>
Total income tax expense	<u>\$ 391</u>	<u>\$ 905</u>

A reconciliation from the federal statutory income tax provision to our effective tax expense is as follows (in thousands):

	December 31,	
	2022	2021
United States federal tax statutory rate	\$ 333	\$ 686
State taxes, net of federal benefit	(23)	(37)
Changes in valuation allowances against deferred tax assets	75	(132)
Research and development tax credits	(57)	(24)
Foreign provision different than U.S tax rate	1	31
PPP loan forgiveness	—	(196)
Nondeductible expenses	—	43
Deferred true-up	—	295
Write off of attributes from disposed entity	—	279
Other	62	(40)
Total	\$ 391	\$ 905

A summary of the deferred tax assets and liabilities is as follows (in thousands):

	December 31,	
	2022	2021
Deferred tax assets (liabilities):		
Accrued compensation and benefits	\$ 6	\$ 6
Inventory reserves	3	5
Stock compensation	24	—
Allowance for doubtful accounts	4	14
Prepaid expenses and other	(38)	(35)
Warranty reserves	11	2
Deferred rent/revenue	(2)	—
Intangible and other assets	(66)	(267)
Net operating loss carryforwards	3,164	3,757
Property, equipment and other	1	3
Miscellaneous reserves	16	—
Research and development credit	3,006	2,951
Total net deferred tax asset:	6,129	6,436
Less: valuation allowance	(1,654)	(1,612)
Total deferred tax assets:	\$ 4,475	\$ 4,824

As of December 31, 2022, the Company had sustained a significant accumulated tax loss. The net operating loss carry forward in the United States and Canada as of December 31, 2022 was approximately \$16.2 million and \$239,000, respectively.

On a quarterly basis, the Company evaluates all positive and negative evidence in determining if the valuation allowance is fairly stated. The valuation allowance of approximately \$1.7 million and \$1.6 million at December 31, 2022 and 2021, respectively, relates to state and foreign net operating losses, U.S. federal and state research and development credits, and foreign tax credits that are not more likely than not to be utilized.

In accordance with Accounting Standards Codification 740-30, *Income Taxes*, we have not recognized a deferred tax liability for the undistributed earnings of certain of our foreign operations because those subsidiaries have invested or will invest the undistributed earnings indefinitely. It is impractical for us to determine the amount of unrecognized deferred tax liabilities on these indefinitely reinvested earnings. Deferred taxes are recorded for earnings of foreign operations when we determine that such earnings are no longer indefinitely reinvested.

During 2021, the Company identified an error related to the 2020 income tax provision which resulted in the income tax benefit to be overstated by approximately \$224,000 for the year ended December 31, 2020. The error was corrected during the fourth quarter of 2021, resulting in the income tax expense for the year ended December 31, 2021 to be overstated by a corresponding \$224,000. The error relates to the accounting for the tax benefits of certain operating losses of the Company's ISS HK foreign entity. Management has determined the error was not material to the 2021 consolidated financial statements.

The Company had recognized no material uncertain tax positions as of December 31, 2022. The Company files income tax returns in the U.S federal jurisdiction and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S federal or state and local income tax examinations by tax authorities for years before 2018. It is difficult to predict the final timing and resolution of any particular uncertain tax position. Based on the Company's assessment of many factors, including past experience and complex judgments about future events, the Company does not currently anticipate significant changes in its uncertain tax positions over the next 12 months.

10. LICENSING

We have licensed the exclusive right to manufacture and market the Autoscope video technology in the United States, Mexico, Canada and the Caribbean to Econolite, and we receive royalties from Econolite on sales of systems in those territories as well as in non-exclusive territories as allowed from time to time. We may terminate our agreement with Econolite if a minimum annual sales level is not met or if Econolite fails to make royalty payments as required by the agreement. The agreement's term expires in 2031, unless terminated by either party upon three years' notice.

We recognized royalty income from this agreement of \$8.2 million and \$8.5 million in the years ended December 31, 2022 and 2021, respectively.

11. SIGNIFICANT CUSTOMERS AND CONCENTRATION OF CREDIT RISK

Royalty revenue from Econolite comprised 66% and 64% of revenue in the years ended December 31, 2022 and 2021, respectively. Accounts receivable from Econolite were \$2.4 million and \$1.4 million at December 31, 2022 and 2021, respectively. Major disruptions in the manufacturing and distribution of our products by Econolite or the inability of Econolite to make payments on its accounts receivable with us could have a material adverse effect on our business, financial condition and results of operations. At December 31, 2022, Econolite comprised 65% of our accounts receivable compared to 60% at December 31, 2021.

Product revenue from four of the Company's major customers other than Econolite comprised 21% and 16% of revenue in the years ended December 31, 2022 and 2021, respectively. Accounts receivable from these customers were \$924,000 and \$352,000 at December 31, 2022 and 2021, respectively. Major disruptions in the distribution of our products by these customers or the inability to make payments on their accounts receivable with us could have a material adverse effect on our business, financial condition and results of operations. At December 31, 2022, the accounts receivable of these customers comprised more than 25% of our accounts receivable.

12. RETIREMENT SAVINGS PLANS

Substantially all of our employees in the United States are eligible to participate in our qualified defined contribution 401(k) plan. Participants may elect to have a specified portion of their salary contributed to the plan, and we may make discretionary contributions to the plan. We made contributions totaling \$82,000 and \$72,000 to the plan during the years ended December 31, 2022 and 2021 respectively.

13. STOCK-BASED COMPENSATION

We compensate officers, directors, key employees and consultants with stock-based compensation under the Autoscope Technologies Corporation 2022 Stock Option and Incentive Plan (the "2022 Plan") and the Image Sensing Systems, Inc. Stock Option and Incentive Plan (the "2014 Plan"), which have been approved by our shareholders and are administered under the supervision of our Board of Directors. The Image Sensing Systems, Inc. 2005 Stock Incentive Plan (the "2005 Plan") expired in 2015, although there are options to purchase 15,000 shares outstanding under the 2005 Plan that were issued before the 2005 Plan expired. The 2014 Plan and the 2005 Plan and awards granted under the 2014 Plan and the 2005 Plan were assumed by Autoscope in the Reorganization. There have been no issuances of stock option awards under the 2022 Plan. 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 proportionally 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 years ended December 31, 2022 and 2021 was \$381,000 and \$226,000, respectively. At December 31, 2022, 591,169 shares were available for grant under the 2014 Plan and 2022 Plans.

Stock Options

The following tables summarize stock option activity:

	For the year ended December 31, 2022			
	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	125,000	\$ 6.80		
Exercised	(7,000)	\$ 4.55		
Expired	—	\$ —		
Forfeited	(2,000)	\$ 7.10		
Options outstanding at December 31, 2022	128,000	\$ 6.74	8.94	\$ —
Options exercisable at December 31, 2022	63,000	\$ 6.74	8.72	\$ —
	For the year ended December 31, 2021			
	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at December 31, 2020	15,000	\$ 4.76	2.94	\$ 2,700
Granted	—	\$ —		
Exercised	(2,000)	\$ 4.22		
Expired	—	\$ —		
Forfeited	(1,000)	\$ 4.22		
Options outstanding at December 31, 2021	12,000	\$ 4.90	1.13	\$ 19,860
Options exercisable at December 31, 2021	12,000	\$ 4.90	1.13	\$ 19,860

During the years ended December 31, 2022 and 2021, we recognized \$172,000 and \$0, respectively, of stock-based compensation related to stock options.

At December 31, 2022, there was \$113,000 unrecognized stock option expense related to non-vested stock options which is expected to be recognized over a weighted average period of 3.1 years.

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 grant life, stock price volatility, dividends, and risk-free interest rates. Each vesting period of an option award is valued separately, with this value being recognized evenly over the vesting period. We granted options to purchase 125,000 shares during the year ended December 31, 2022. No options were granted during the year ended December 31, 2021.

Restricted Stock and Stock Awards

Restricted stock awards are granted under the 2014 Plan or 2022 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, 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. Stock awards granted to consultants are recognized over the performance period based on the stock price on the date when the consultant's performance is complete.

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. Compensation expense related to stock awards 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.

The following table summarizes restricted stock award activity for the years ended December 31, 2022 and 2021:

	<u>2022</u>		<u>2021</u>	
	<u>Number of</u>	<u>Weighted</u>	<u>Number of</u>	<u>Weighted</u>
	<u>Shares</u>	<u>Average</u>	<u>Shares</u>	<u>Average</u>
		<u>Grant Date</u>		<u>Grant Date</u>
		<u>Fair Value</u>		<u>Fair Value</u>
Awards outstanding at beginning of year	18,597	\$ 5.72	33,330	\$ 4.52
Granted	31,605	\$ 5.46	31,233	\$ 6.40
Vested	(45,159)	\$ 5.44	(45,966)	\$ 5.31
Forfeited	—	\$ —	—	\$ —
	<u>5,043</u>	\$ 6.61	<u>18,597</u>	\$ 5.72

As of December 31, 2022, the total stock-based compensation expense related to non-vested awards not yet recognized was \$23,000, which is expected to be recognized over a weighted average period of 1.4 years. During the years ended December 31, 2022 and 2021, we recognized \$209,000 and \$226,000, respectively, of stock-based compensation expense related to restricted stock awards.

14. INCOME PER COMMON SHARE

Net income per share is computed by dividing net income by the daily weighted average number of common shares outstanding during the applicable periods. Diluted net income 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 diluted weighted average shares outstanding calculation 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 to acquire 110,405 and 2,000 weighted common shares have been excluded from the diluted weighted shares outstanding for the years ended December 31, 2022 and December 31, 2021, respectively.

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

	Years ended December 31,	
	2022	2021
Numerator:		
Net income	\$ 1,203	\$ 2,295
Denominator:		
Weighted average common shares outstanding	5,383	5,342
Dilutive potential common shares	9	16
Shares used in diluted net income per common share calculations	5,392	5,358
Basic net income per common share	\$ 0.22	\$ 0.43
Diluted net income per common share	\$ 0.22	\$ 0.43

15. START UP, 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 (ISS UK) and Image Sensing Systems Holdings Limited (ISS Holdings). At September 30, 2021, Image Sensing Systems (Shenzhen) Limited was fully closed. We incurred \$7,000 of legal entity closure costs in the year ended December 31, 2022 compared to \$28,000 in the year ended December 31, 2021.

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") which was legally formed on October 14, 2021. Autoscope India's operations will solely focus on research and development.

16. 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 is 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 six 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 accelerate the Company's obligations under the Note and pursue 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. As of December 31, 2020, the Company had not recognized any forgiveness of this PPP Loan. 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 loan principal and accrued interest forgiven totaling approximately \$931,000 as other non-operating income in 2021.

The foregoing description of the Note does not purport to be complete and is qualified in its entirety by reference to the full text of the Note.

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 to finance the purchase of the Real Property.

The Note has a term of five years and bears interest at the fixed annual rate of 3.950% 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 Note 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.

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.

Upon a default, the Bank will have all the rights and remedies provided in the Loan Agreement, the Note, the Mortgage, and the Assignment or available at law, in equity, or otherwise.

In connection with the Note, 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 four fiscal years are as follows (dollars in thousands):

	Long-term Debt	
	Maturities	
	<u>\$</u>	
2023	60	
2024	63	
2025	66	
2026	1,496	

17. 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.