Autoscope Technologies Corporation

A Minnesota Corporation
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investorrelations@autoscope.com

SIC Code: 3829

Quarterly Report

For the period ending March 31, 2025

(the "Reporting Period")

The number of shares outstanding of our Common Stock was 5,485,499 shares as of March 31, 2025.

The number of shares outstanding of our Common Stock was 5,478,379 shares as of December 31, 2024 (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 Quarterly 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 results fluctuate from quarter to quarter due to, among other reasons, the fact that our operating costs tend to be fixed, while our revenue tends to be seasonal; 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, the war in Ukraine, the conflict between Israel and Hamas and other disruptions in the Middle East; 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).

The exact name of the issuer is Autoscope Technologies Corporation. Image Sensing Systems, Inc. is the predecessor entity to Autoscope Technologies Corporation. (Please see Part A, Item 3 of this Quarterly Report.)

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

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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 then newly-formed 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 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 terminated.

On February 10, 2023, the Company was admitted and is qualified to trade on the OTCQX Best Market under the symbol "AATC". Because the Company did not file its 2022 Annual Report with the QTCIQ on a timely basis, on May 2, 2023, the Company's Common Stock was removed from the OTCQX Best Market and placed on the Pink Market under "Limited Information." The Company filed its 2022 Annual Report with the OTCIQ on May 11, 2023, and its Common Stock is now traded on the OTCQX Best Market as of May 15, 2023.

As used in this Quarterly 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 in Minnesota 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 5,485,499 shares of Common Stock outstanding at March 31, 2025. 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 the 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 of any shares of our preferred stock then outstanding.

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 our 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 was a party to the Amended and Restated Rights Agreement dated as of July 21, 2021 by and among Autoscope, Continental Stock Transfer & Trust Company (the "Rights Agent") and, only with respect to Section 37 thereof, ISNS (the "Original Rights Agreement"). The Company and the Rights Agent entered into a First Amendment to Amended and Restated Rights Agreement (the "First Amendment"), which was signed on March 4, 2022 with an effective date of March 1, 2022. The Original Rights Agreement, as amended by the First Amendment, is referred to in this Quarterly Report as the "Rights Agreement." The Rights Agreement was 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 provided, subject to certain exceptions, that if any person or group acquired 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 would trigger a dilutive event only if they acquired an additional 1% of the outstanding shares of our Common Stock. The Rights Agreement terminated on June 4, 2024. As of March 31, 2024, the Company's net operating losses had been fully utilized, and therefore the Rights Agreement was not further amended to extend its term upon its termination.

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 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 shareholder; 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.

<u>Articles of Incorporation</u>. 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 on the Board, 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).

<u>Limitation on Liability of Directors and Indemnification</u>. 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, subdivision 7 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:	**March 31, 2025**	**December 31, 2024**	**December 31, 2023**
(ii)	Number of shares authorized	20,000,000	20,000,000	20,000,000
(iii)	Number of shares outstanding	5,485,499	5,478,379	5,446,747
(iv)	Freely tradable shares (public float)	4,262,457	4,262,457	4,272,483
(v)	Number of beneficial shareholders owning at least 100 shares	*	*	*
(vi)	Total number of shareholders of record	26	26	24

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

Preferred Stock

(i)	Period end date:	**March 31, 2025**	**December 31, 2024**	**December 31, 2023**
(ii)	Number of shares authorized	5,000,000	5,000,000	5,000,000
(iii)	Number of shares outstanding	0	0	0
(iv)	Freely tradable shares (public float)	0	0	0
(v)	Number of beneficial shareholders owning at least 100 shares	0	0	0
(vi)	Total number of shareholders of record	0	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 Exchange Act 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, and as described in this Part C, Item 8 below, 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 Quarterly 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 Quarterly 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 Quarterly Report:

- Autoscope and ISNS have not been involved as a debtor in any bankruptcy, receivership, or any similar proceeding;
- Autoscope and ISNS have not been involved with any material reclassifications, mergers, consolidations or purchases or sales of any other significant amount of assets, other than the Reorganization and the sale of the RTMS radar detection product line business (the "RTMS Business") to Sensys Networks, Inc., a Delaware corporation and a U.S. subsidiary of TagMaster AB, effective on August 31, 2023;
- 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 outstanding equity 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 "Note 11. Start up, Restructuring and Exit Activities" in the Notes to the Consolidated Financial Statements included elsewhere in this Quarterly Report;
- 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 have not been any current, past, pending or threatened legal proceedings or administrative actions either by or against Autoscope or ISNS that could have a material effect on Autoscope's business, financial condition, or operations and no current, past or pending trading suspensions by a securities regulator involving Autoscope or ISNS.

B. Business of Issuer

General

ISNS is a global company dedicated to providing an above-ground detection technology platform for advanced traffic management systems, traffic data collection applications, and data driven strategies for the Intelligent Transportation Systems (ITS) sector. ISNS has pioneered the use of the most advanced detection algorithms in the industry, incorporating Artificial Intelligence (AI) and machine learning into its video image processing for vehicle and pedestrian detection. The Company's flagship Autoscope video detection provides highly accurate and reliable intersection, wrong-way detection, and transportation data insight solutions.

By harnessing AI-driven sensor analysis, Autoscope technology delivers dynamic, real-time traffic monitoring and decision-making capabilities, making it an essential tool for mitigating congestion and reducing traffic-related injuries and fatalities in modern urban environments. These machine-learning powered solutions not only enhance road safety and optimize traffic flow but also continuously improve through data-driven learning, staying ahead of the curve in the rapidly evolving ITS landscape.

In 2021, a Bipartisan Infrastructure Law (BIL) established the Safe Streets and Road for All (SS4A) discretionary program, with $5 billion in appropriated funds over five years, from 2022 to 2026. The program funds aim to prevent roadway deaths and serious injuries and supports the U.S. Department of Transportation's National Roadway Safety Strategy and our shared goal of zero roadway deaths and serious injuries, or "Vision Zero." These growing interactions between all roadway users will make our ITS solutions increasingly necessary to complement existing and new roadway infrastructure to manage traffic flow and identify and prevent safety risks for all roadway users.

ISNS believes our solutions are technically superior to those of its competitors because they limit the occurrence of false detection, are generally easier to install with lower costs of ownership and allow end users to manage inputs from a variety of sensors for various tasks.

The Company's distribution channels, particularly our exclusive agreements with Econolite Control Products, Inc. ("Econolite"), position us to expand the reach 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 and through a non-exclusive agreement in the Middle East.

With more than 160,000 installations in over 80 countries worldwide, ISNS is committed to helping cities and transportation agencies improve roadway safety and efficiency. As infrastructure evolves and traffic demands grow, our AI enhanced detection platforms provide cities with the most advanced tools available, empowering them to achieve Vision Zero goals and create safer transportation networks.

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 roadway 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 technological 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 in-pavement 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[(1)]	100%	China
Image Sensing Systems, Inc.	100%	Minnesota, USA
ISS Image Sensing Systems Canada	100%	Canada
Image Sensing Systems Spain SLU	100%	Spain

(1) In the third quarter of 2016, in order to streamline our operating and cost structure, we initiated the closure of our wholly-owned subsidiary, Image Sensing Systems HK Limited (ISS HK), in Hong Kong.

The Company spent $2.4 million and $2.6 million on research and development activities during the last two fiscal years ended December 31, 2024 and 2023, respectively, and $0.7 million and $0.6 million during the three months ended March 31, 2025 and 2024, respectively.

As of March 31, 2025, we had 30 employees, consisting of 23 employees in North America and seven employees in India. 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 Quarterly 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 convert sensory input collected by video 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 other applications supporting the Safe Roads for All (SS4A) discretionary program.

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). 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.

Autoscope Analytics. Our Autoscope Analytics is an advanced traffic safety platform designed to accelerate progress toward Vision Zero by reducing traffic-related fatalities and injuries. The platform provides immediate data collection, rapid analysis, and actionable insights through intuitive dashboards. Users can monitor and optimize safety treatments in real-time, allowing for an iterative approach that adapts to changing conditions. Autoscope Analytics' scalable solution ensures that cities and communities can efficiently allocate resources, engage with residents, and implement proactive safety measures, leading to faster, more effective achievement of Vision Zero goals.

Autoscope IntelliSight. Launched in 2023, Autoscope IntelliSight has been released for the European and Middle Eastern markets. Autoscope IntelliSight offers 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, and enhanced traffic data collection in real-time, and they are 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.

Autoscope Vision. Autoscope Vision is our flagship integrated product that includes a color high definition, zoom camera and machine vision processing computer contained in a compact housing that is our leading offering in the North American market. 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.

We also offer a video-based wrong way module that uses a video-based digital video stream and leverages our video detection algorithms to identify 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 to help drivers self-correct or alert agency personnel if drivers continue towards on-coming traffic.

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 and 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.

<u>Sales of Autoscope Video in the United States, Mexico, Canada and the Caribbean</u>. 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 gross profit 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.

<u>Sales in Europe, Asia, the Middle East and Africa</u>. We market our Autoscope video product lines to a network of distributors covering countries in Europe and the Middle East through exclusive and non-exclusive agreements. Technical support to these distributors is provided by our product support services located in Minneapolis, Minnesota with second-tier support provided by our engineering groups. From time to time, we may grant exclusive or non-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 August 21, 2024, ISNS announced the introduction of Autoscope Analytics, a data insights platform that serves as a pivotal tool in the ongoing endeavor to accelerate communities' advancement toward Vision Zero. By harnessing cutting-edge AI technology, Autoscope Analytics empowers communities to swiftly and decisively implement safety measures, thus making significant strides towards the overarching goal of achieving zero traffic-related fatalities and severe injuries. ISNS believes foundational traffic data should be readily available to communities of all sizes and resources, so they provide limited access to agencies at no cost. In addition to no-cost data, ISNS has a premium paid offering that delivers even deeper insights into comprehensive safety analytics for agencies to support the achievement of Safe Roads for All (SS4A) objectives.

On May 3, 2023, ISNS announced the availability of Autoscope IntelliSight for the European market. Autoscope IntelliSight offers the most advanced detection algorithms with AI and machine learning on the market today. The camera and processor provide high-performance vehicle detection, bicycle and pedestrian detection, and enhanced traffic data collection in real-time, and they are 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. ISNS released a comparable version of Autoscope IntelliSight in July 2023 for the European market. ISNS plans to distribute the product in North America under the brand name "Autoscope OptiVu" beginning in the second quarter of 2025.

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, NoTraffic, Derq Incorporated, ITS Plus Incorporated, Wavetronix, LLC, FLIR Systems, Inc., Cubic Transportation Systems, Signal Group Inc. (Peek), Sensys Networks Inc., and Smartmicro Inc. 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 services required under this warranty. In Europe and Asia, we engage contract manufacturers to manufacture the Autoscope family of products.

We typically provide a two- to three-year warranty on our products, with extended warranties available for purchase at the time of the sale.

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. Historically, a substantial portion of our revenue has consisted of royalties resulting from sales made by Econolite, including 97% and 99% in the years ended December 31, 2024 and 2023, respectively, and 97% and 99% in the three months ended March 31, 2025 and 2024, respectively. Econolite's account receivable represented 100% and 93% of our accounts receivable at December 31, 2024 and 2023, respectively, and 99% of our accounts receivable at both March 31, 2025 and 2024. 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’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 a smaller facility in India, primarily as office space for local employees.

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 March 31, 2025 are presented below, including in the following table. The address of each director is 1115 Hennepin Avenue, Minneapolis, Minnesota 55403:

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, Chair of the Nominating and Governance Committee	January 2019
Ezekiel J. Kruglick	Director, Chair of the 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 since October 2015, Executive Chair of ISNS since June 2016, 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 and served in that role until May 12, 2023. 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, Inc., 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 it successfully emerged from 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. In October 2024, Mr. Berger was appointed as a director of Table Trac Inc. (OTCQX: TBTC), a software company specializing in casino management systems. Mr. Berger is qualified to serve on Autoscope's Board due to his experience in investment analysis, management, and business consulting for both public and private companies.

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, Nominating and Corporate Governance, and Technology Advisory Committees. Mr. Bracke has also been a director of NVE Corporation, a publicly-held 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 Autoscope's Board due to his management, technical and public company experiences, and, 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 of Autoscope since January 2019. Mr. Daly is a member and the Chair of the Nominating and Corporate Governance Committee and a member of the Technology Advisory 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. Since February 2024, Mr. Daly has served on the board of directors of Butler National Corp. (OTCQB: BUKS), an aerospace and gaming company. In October 2016, Mr. Daly acquired the product life cycle management ("PLM") software assets of SofTechInc. and formed Essig PLM, which offers PLM-related solutions to a broad, global client base. In September 2019, Mr. Daly acquired the assets of Performance Tool, LLC to give Essig Research design/build capabilities. 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 Autoscope's 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 of the Audit Committee, a member of the Nominating and Corporate Governance Committee, a member and the Chair of the Compensation Committee, and a member and Chair of the Technology Advisory 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. Mr. Kruglick is qualified to serve on Autoscope's Board due to his extensive experience in senior positions in companies offering engineering services and technology development.

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, a member of the Compensation Committee, and a member of the Technology Advisory 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 he 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). Mr. VanDerBosch is qualified to serve on Autoscope's Board due to his extensive experience in senior positions in companies offering traffic detection technologies and manufacturing capabilities.

Executive Officers

The identity of the executive officers of the Company, as well as certain information about them, as of March 31, 2025 are presented below, including in the following table.

Name	Position with Company	Officer Since
Andrew (Andy) M. Markese	Interim Chief Executive Officer	December 2023
Lori M. Schug	Chief Financial Officer	December 2023

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 officers not already described herein appears below.

Andrew (Andy) M. Markese was appointed Interim Chief Executive Officer of Autoscope and President and Chief Executive Officer of ISNS in December 2023. Prior to his appointment as Interim Chief Executive Officer, Mr. Markese served as the Senior Vice President of Global Sales, Marketing and Product Management for Autoscope and ISNS, and, prior to that, he was the Company's Vice President of Global Sales and Marketing. Before joining the Company in 2018, Mr. Markese held leadership roles at Vnomics and Ultralife Corporation, where he led multi-national teams and North American teams into government and defense programs and the commercial transportation market. Andy has more than 25 years of global sales leadership, marketing and product management experience in the software, power and information services industry.

Lori M. Schug was appointed as Chief Financial Officer and Corporate Secretary of Autoscope and ISNS in December 2023. Prior to her appointment to Chief Financial Officer and Secretary, Ms. Schug served as the Corporate Controller for the Company since November 2022. Prior to joining the Company, Ms. Schug performed various accounting and management roles as a consultant with Salo (now Salo -A Korn Ferry Company) from August 2015 through November 2022. She was the Corporate Controller for MakeMusic from October 2007 through May 2013, during which time the business was publicly-held. She continued to serve in this capacity after the business was acquired by private equity ownership in May 2013 and remained with the business through March 2015. Prior to 2007, Ms. Schug held management and accounting roles at Fargo Electronics, Inc. (later acquired by HID Global) and NBI, Inc. She is a CPA (inactive) and earned a Bachelor of Business Administration in Accounting and Finance from the University of Wisconsin-Oshkosh.

Both Mr. Markese and Ms. Schug were appointed to their roles upon the announcement of the retirement of Frank G. Hallowell effective in December 2023. Mr. Hallowell had served as the Interim Chief Executive Officer of Autoscope since November 10, 2022. 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.

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 March 31, 2025 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) all of our executive officers; and (4) all of our directors and our 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 March 31, 2025 are deemed outstanding for computing the beneficial ownership of shares of Common Stock of the person or member of a group holding the options or convertible securities but are not deemed outstanding for computing the beneficial ownership 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	599,315
James W. Bracke	Director	112,877
Ezekiel J. Kruglick[2]	Director	254,023
Joseph P. Daly	Director	224,009
Brian J. VanDerBosch	Director	23,765
Andrew M. Markese[3]	Interim CEO	5,037
Lori M. Schug[4]	CFO	2,500
All directors and officers as a group		1,207,526

(1) Andrew T. Berger has 132,673 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) Mr. Kruglick purchased 30,726 shares directly on the open market in the second quarter of 2024. Purchases included 4,000 shares for $6.54 on May 20, 2024; 6,020 shares for $6.32 on May 21, 2024; 3,519 shares for $6.35, 5,000 shares for $6.45 and 5,000 shares for $6.37 on May 22, 2025; 4,500 shares for $6.12 on June 4, 2024 and 2,687 shares for $6.12 on June 5, 2024.

(3) Mr. Markese is eligible to receive shares of Autoscope Common Stock equivalent to a total value of $60,000 granted to him in December 2023. The shares are being issued to Mr. Markese in three grants valued at $20,000 each, to be made on or before January 15, 2024, 2025 and 2026, subject to approval by the Board of Directos. The table includes the initial $20,000 grant, effective on January 15, 2024 and consisting of 2,522 shares of Common Stock, and the second $20,000 grant, effective January 15, 2025 and consisting of 2,515 shares of Common Stock. The portion of the shares vesting in January 2026 are not included in the table.

(4) On January 15, 2024, Autoscope granted Ms. Schug 7,500 shares of restricted stock, of which 2,500 shares are to vest annually on each anniversary date of the grant date over a three-year period beginning on January 15, 2025. The initial shares of 2,500 that vested on January 15, 2025 are included in the table. The portion of the shares vesting in 2026 and 2027 are not included in the table.

Compensation of Directors and Executive Officers

The following table presents information concerning the compensation paid for the year ended December 31, 2024 by the Company to its directors and executive officers.

Name	Position	Salaries	Bonus	401(k) Contributions[1]	Stock Award Grants[2]	Director Fees paid in Cash	Director Fees Paid in Stock[3]
Andrew T. Berger	Executive Chair, Director	N/A	N/A	N/A	N/A	$40,000	$29,985
James W, Bracke	Director	N/A	N/A	N/A	N/A	$34,000	$29,985
Joseph P. Daly	Director	N/A	N/A	N/A	N/A	$29,000	$29,985
Ezekiel J. Kruglick	Director	N/A	N/A	N/A	N/A	$41,000	$29,985
Brian J. VanDerBosch	Director	N/A	N/A	N/A	N/A	$40,000	$29,985
Andrew M. Markese[4]	Interim CEO	$280,000	$0	$8,400	2,522	N/A	N/A
Lori M. Schug[4]	CFO	$185,000	$25,000	$5,944	7,500	N/A	N/A

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(1) Consists of contributions made by the Company to the Company's qualified defined contribution 401(k) plan during the year ended December 31, 2024.

(2) Consists of number of shares of Common Stock.

(3) 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 9 - Stock-Based Compensation” in the Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report for a discussion of the assumptions used in calculating the grant date fair value.

(4) Consists of all compensation paid to Andrew M. Markese and Lori M. Schug during 2024, including for their roles as executive officers during the year ended December 31, 2024.

During 2024, each of the Company's 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 vesting date of the award. Except for the Common Stock award for the first quarter of 2024, which was made in May 2024, the fees (including the Common Stock awards) are payable quarterly on or about the 15th day of the last calendar month in each quarter.

On March 7, 2025, the Board approved the establishment of a Technology Advisory Committee to provide technological oversight and strategic guidance in achieving the Company's objectives. The addition of the Technology Advisory Committee did not change the total compensation paid to directors. Compensation from existing committees was reallocated to allow for the creation of the new committee without impacting the Company’s total director compensation expense.

On March 20, 2025, the Board approved a 2025 directors compensation plan effective January 1, 2024. Each director receives an annual $50,000 retainer, of which $20,000 is to be paid in cash and $30,000 is 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 vesting date of the award. Common Stock awards are payable quarterly on or about the 15th day of the last calendar month in each quarter. In addition, the Board approved the payment in 2025 of an annual fee to the Executive Chair of $20,000 in cash.

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

- Audit Committee - $8,000
- Compensation Committee - $6,000
- Nominating and Corporate Governance Committee - $3,000
- Technology Advisory Committee - $5,000

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

- Audit Committee - $5,000
- Compensation Committee - $3,000
- Nominating and Corporation Governance Committee - $2,000
- Technology Advisory Committee - $3,000

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 2024 or the three months ended March 31, 2025.

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.

Hallowell Employment Agreement and Independent Consulting Agreement. On February 1, 2022, the Company entered into an Employment Agreement (the "Employment Agreement") with Frank G. Hallowell as the Chief Financial Officer of Autoscope and the President, Chief Financial Officer and Chief Operating Officer of ISNS. Under the Employment Agreement, Mr. Hallowell was an at-will employee of the Company, and his employment could have been terminated by the Company or Mr. Hallowell at any time. In connection with the Employment Agreement, in February 2022, 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 was 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.

Mr. Hallowell voluntarily terminated his employment with Autoscope and ISNS effective December 31, 2023. Effective as of that date, Mr. Hallowell and Autoscope entered into an Independent Consulting Agreement (the "Consulting Agreement"). Under the Consulting Agreement, Mr. Hallowell agreed to provide certain transitional services to the Company, including those relating to the Company's lender and service providers. The Company agreed to pay Mr. Hallowell $10,000 per month, plus reimburse him for out-of-pocket expenses. The Consulting Agreement contains provisions obligating Mr. Hallowell to keep the Company's information confidential and prohibiting him from soliciting the Company's customers. It also provides that it may be terminated by either party upon the other party's material or substantial nonperformance or other breach of the Consulting Agreement; upon Mr. Hallowell's death; by either party with four weeks prior notice to the other party; immediately by the Company if Mr. Hallowell fails to sign and comply with the Company's Code of Ethics; and immediately by the Company if Mr. Hallowell fails to sign and comply with the Company's Anit-Bribery and Corruption Policy and training. Upon termination of the Consulting Agreement, with certain exceptions, the Company's only obligation is to pay Mr. Hallowell the amounts due and owing to him under the Consulting Agreement to the date of termination.

Effective October 1, 2024, the Company amended the Consulting Agreement with Mr. Hallowell under Amendment One to the Independent Consulting Agreement (the "Amendment"). The Amendment changed only the fee paid to Mr. Hallowell to an hourly rate of $200 per hour for services rendered on request of the Company. Because Mr. Hallowell and Autoscope entered into the Consulting Agreement, under the terms of his Employment Agreement, the option described above continues to vest according to its terms.

Markese Employment Offer. On December 7, 2023, the Company entered into an Employment Offer letter (the "Markese Employment Offer") with Mr. Markese as the Interim Chief Executive Officer of Autoscope and the President and Chief Executive Officer of ISNS. Under the Markese Employment Offer, Mr. Markese is an at-will employee of the Company, and his employment may be terminated by the Company or Mr. Markese at any time.

The Markese Employment Offer provided for an annual salary of $280,000; eligibility to participate in an annual incentive award conditional upon attainment of performance objectives 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 the Company's vacation policy.

In connection with the Markese Employment Offer, Mr. Markese is eligible to receive shares of Autoscope Common Stock equivalent to a total value of $60,000. The shares are to be issued to Mr. Markese in three grants valued at $20,000 each, to be made on or before January 15, 2024, 2025 and 2026, subject to approval by the Board of Directors. The initial $20,000 grant was effective on January 15, 2024 and consisted of 2,522 shares of Common Stock, and the second $20,000 grant was effective on January 15, 2025 and consisted of 2,515 shares of Common Stock. The equity award initially 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. In 2025, the Board amended Mr. Markese's grant so that it is under the Autoscope Technologies Corporation 2022 Stock Option and Incentive Plan.

Effective January 1, 2025, the Company increased Mr. Markese's base salary to $291,200.

Schug Employment Offer. On December 7, 2023, the Company entered into an Employment Offer letter (the "Schug Employment Offer") with Ms. Schug as the Chief Financial Officer of Autoscope and ISNS. Under the Schug Employment Offer, Ms. Schug is an at-will employee of the Company, and her employment may be terminated by the Company or Ms. Schug at any time.

The Schug Employment Offer provided for an annual salary of $185,000; a target bonus of up to 25% of Ms. Schug's salary for the previous calendar year based on the attainment of performance goals set by the Company's Board of Directors; a $50,000 retention bonus paid in two installments of $25,000 each on July 15, 2024 and January 15, 2025 provided Ms. Schug was in good standing and employed with the Company as of June 30, 2024 and December 31, 2024, respectively; insurance and other benefits in accordance with the Company's standard and executive benefits; and vacation in accordance with Company's vacation policy.

In connection with the Schug Employment Offer, on January 15, 2024, Autoscope granted Ms. Schug 7,500 shares of restricted stock, of which 2,500 shares will vest annually on each anniversary date of the grant date over a three-year vesting period beginning on January 15, 2025. The value of the shares will be determined based on the closing price of Autoscope's Common Stock as quoted on the OTC Markets on the trading day immediately before each vesting date. The restricted shares were granted under the terms of the Image Sensing Systems, Inc. 2014 Stock Option and Incentive Plan that was assumed by Autoscope effective July 21, 2021.

Effective January 1, 2025, the Company increased Ms. Schug's salary to $215,000.

B. Legal/disciplinary history

None of the current directors and executive officers 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 or 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.

C. Disclosure of family relationships

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

D. Disclosure of related party transactions

During and for the three months ended March 31, 2025 and the years ended December 31, 2024 and December 31, 2023, the Company had no material transactions with related persons other than the Employment Agreement, the Consulting Agreement, the Markese Employment Offer, and the Schug Employment Offer described in Part D, Item 11.A. of this Quarterly Report. 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.

E. Disclosure of Conflicts of Interest

This Item is not applicable, as the Company has had no conflicts of interest involving its directors or executive officers in the three months ended March 31, 2025 or the years ended December 31, 2024, 2023 or 2022.

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

The Company has provided the following unaudited consolidated financial statements as of and for the quarters ended March 31, 2025 and March 31, 2024, which are attached hereto and hereby incorporated by reference:

1. Condensed Consolidated Balance Sheets
2. Condensed Consolidated Statements of Operations
3. Condensed Consolidated Statements of Comprehensive Income
4. Condensed Consolidated Statements of Shareholders' Equity
5. Condensed 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 provided the following audited consolidated financial statements as of and for the years ended December 31, 2024 and December 31, 2023 as part of its 2024 Annual Report filed with the OTCIQ on March 17, 2025, which are hereby incorporated by reference:

1. Independent Auditors' Report
2. Consolidated Balance Sheets
3. Consolidated Statements of Operations
4. Consolidated Statements of Comprehensive Income
5. Consolidated Statements of Shareholders' Equity
6. Consolidated Statements of Cash Flows
7. 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 disclosure.

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: (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, The Boulay Group, 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, 2024 and December 31, 2023.

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
Email: nmiller@boulaygroup.com

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

General

We are a leading provider of above-ground detection technology for advanced traffic management systems, traffic data collection applications, and data driven strategies for the intelligent transportation systems ("ITS") industry. Our flagship product, which we market as Autoscope video or video products, provides end users with the tools needed to optimize traffic flow and enhance roadway safety. Our AI-driven technology delivers dynamic, real-time traffic monitoring and decision-making capabilities, making it an essential tool for mitigating congestion and reducing traffic-related injuries and fatalities in modern urban environments. Our machine-learning powered solutions not only enhance road safety and optimize traffic flow but also continuously improve through data-driven learning, staying ahead of the curve in the rapidly evolving ITS landscape.

We believe our solutions are technically superior to those of our competitors because they limit the occurrence of false detection, are generally easier to install with lower costs of ownership, and allow end users to manage inputs from a variety of sensors for various 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 and a non-exclusive agreement in the Middle East. We believe Econolite is the leading distributor of ITS intersection control products in these markets.

We market our Autoscope video products outside of the United States, Mexico, Canada and the Caribbean through a combination of distribution and indirect sales channels. Our end users primarily include governmental agencies and municipalities.

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

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 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 Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report are prepared in accordance with GAAP, which requires 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 Credit Losses. 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 credit losses are estimated by management based on an evaluation of potential losses related to customer receivable balances. We determine the allowance based on historical loss rate experience in the industry, regional economic data, and an evaluation of specific customer accounts for risk of loss. We review our allowance for credit losses monthly. Account balances are charged off against the allowance when we believe it is probable the receivable will not be recovered. 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. We do not have any off-balance sheet credit exposure related to our customers.

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):

	Three-Month Periods Ended March 31,	
	2025	**2024**
Income from operations	$ 446	$ 1,128
Adjustments to reconcile to non-GAAP income		
Amortization of intangible assets	26	131
Depreciation	45	27
Non-GAAP income from operations	$ 517	$ 1,286

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.

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 sales and royalties, respectively:

	Three-Month Periods Ended March 31,	
	2025	**2024**
Royalties	96.9%	99.5%
Product Sales	3.1	0.5
Total revenue	100.0	100.0
Gross profit - product sales	40.3	(93.8)
Gross profit - royalties	100.0	96.6
Selling, general and administrative	47.1	40.3
Research and development	30.8	19.4
Income from operations	20.3	36.0
Other income, net	0.4	0.3
Income tax expense	4.5	8.4
Net income	16.5	27.2

The 2025 first quarter revenue for the Company, which includes the results of ISNS, a wholly-owned subsidiary of the Company, was $2.2 million, a 30.1 percent decrease from $3.1 million in the first quarter of 2024. Revenue from royalties was $2.1 million in the first quarter of 2025 compared to $3.1 million in the first quarter of 2024, a 31.9 percent decrease. Royalty revenues decreased in the first quarter of 2025 in comparison to the first quarter of 2024 due to the timing and variability of sales and economic uncertainties during the quarter, which delayed budget approval cycles. Product sales in the first quarter of 2025 were $67,000 compared to $16,000 in the first quarter of 2024. The increased product sales were primarily due to increased sales of our Wrong Way product and sales of our Autoscope Analytics product in the first quarter of 2025, which had no sales in the first quarter of 2024 given the product was not launched until the third quarter of 2024.

Gross margin for the first quarter of 2025 was 98.2 percent, a 2.5 percentage point increase from a gross margin of 95.7 percent for the same period in 2024. Royalty gross margin for the first quarter of 2025 was 100.0 percent compared to a gross margin of 96.6 percent for the same period in 2024. Royalty gross margin increased 3.4 percentage points due to lower product amortization costs associated with capitalized software development which became fully amortized in the third quarter of 2024. Product sales gross margin percentage for the first quarter of 2025 was 40.3 percent compared to (93.8) in the first quarter of 2024. Product sales gross margin was negative in 2024 due to the low sales volume and amortization costs associated with capitalized software development, which are fixed. Product sales gross margin increased in the first quarter of 2025 due to increased sales.

Selling, general and administrative expenses decreased to $1.0 million, or 47.1% of total revenue, in the first quarter of 2025 compared to $1.3 million, or 40.3% of total revenue, in the first quarter of 2024. The decrease in selling, general and administrative expenses is primarily due to decreased salaries and benefits due to decreased headcount. The increase in selling, general and administrative expenses as a percentage of total revenue is primarily due to the lower revenues in the first quarter of 2025 compared to the same period in the prior year, partially offset by decreased costs.

Research and development expenses increased to $0.7 million, or 30.8% of total revenue, in the first quarter of 2025 compared to $0.6 million, or 19.4% of total revenue, in the first quarter of 2024. The increase in research and development expenses is primarily due to increased consulting fees, partially offset by decreased salaries and benefits due to decreased headcount. The increase in research and development expenses as a percentage of total revenue is primarily due to the lower revenues in the first quarter of 2025 compared to the same period in the prior year and slightly increased costs.

The Company reported net income for the first quarter 2025 of $0.4 million or $0.07 per diluted share compared to net income of $0.9 million or $0.16 per diluted share in the prior year period. This decrease is the result of decreased royalty revenue, partially offset by a decrease in operating expenses in the first quarter of 2025 compared to the same period in 2024.

Liquidity and Capital Resources

We believe that cash and cash equivalents on hand, coupled with readily available investments in debt and equity securities on March 31, 2025 totaling $1.7 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.

As of March 31, 2025, we had $0.6 million in cash and cash equivalents compared to $4.4 million on December 31, 2024. Net cash provided by operating activities was $1.0 million in the first three months of 2025 compared to net cash used by operating activities of $34,000 in the same period in 2024. Net cash provided by operating activities increased in the first three months of 2025 compared to the same period in 2024 primarily due to decreased cash used for accounts payable and decreased accounts receivable. Cash used for accounts payable in the first quarter of 2024 related to inventory purchases made during the fourth quarter of 2023, and no large inventory purchases were made during the first quarter of 2025 or 2024.

Net cash provided by investing activities was $1.9 million in the first three months of 2025 compared to net cash provided by investing activities of $3.1 million in the same period in 2024. The decrease in net cash provided by investing activities in the first three months of 2025 compared to the same period in the prior year is primarily the net result of sales and purchases of debt securities previously purchased as investments. Sales of debt securities were $2.4 million in the first three months of 2025 compared to $5.7 million in the first three months of 2024. Purchases of debt securities were $0.4 million in the first three months of 2025 compared to $2.6 million in the first three months of 2024. Proceeds from the sale of debt securities during the first three months of 2025 and 2024 were used to fund the special dividend payments in their respective periods. Cash used for purchases of property and equipment increased during the first three months of 2025 compared to the same period in 2024 due to payments made for assets relating to Autoscope Analytics.

Net cash used by financing activities was $6.6 million in the first three months of 2025 compared to net cash used by financing activities of $7.9 million in the first three months of 2024. The decrease in net cash used for financing activities in the first three months of 2025 is primarily due to a lower special dividend paid in 2025 compared to 2024, partially offset by a higher quarterly dividend. In 2025, the Company paid a special dividend of $1.05 per share compared to a special dividend of $1.32 per share in 2024. The Company paid a quarterly dividend of $0.15 per share in the first quarter of 2025 compared to $0.13 per share in the first quarter of 2024.

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, 2024 and 2023 and the period since December 31, 2024 through March 31, 2025:

Date	Nature of Offering	Shares Issued To	Total Number of Shares Issued	Trading Status of Shares	Restricted Shares
May 10, 2023	Vesting of RSAs[1]	Non-executive employee	2,522	Freely tradable[1]	No[1]
June 30, 2023	Vesting of restricted stock units ("RSUs")[2]	Directors	16,890	Restricted[2]	Yes[2]
September 15, 2023	Vesting of RSUs[2]	Directors	6,195	Restricted[2]	Yes[2]
December 15, 2023	Vesting of RSUs[2]	Directors	5,470	Restricted[2]	Yes[2]
November 30, 2023	Exercise of stock options[3]	Two non-executive employees	3,000	Restricted[3]	Yes[3]
January 15, 2024	Vesting of RSA[4]	Interim Chief Executive Officer	2,522	Restricted[4]	Yes[4]
May 9, 2024	Vesting of RSUs[2]	Directors	5,645	Restricted[2]	Yes[2]
June 17, 2024	Vesting of RSUs[2]	Directors	6,330	Restricted[2]	Yes[2]
July 30, 2024	Vesting of RSAs[1]	Former Non-executive employee	2,521	Freely tradable[1]	No[1]
September 16, 2024	Vesting of RSUs[2]	Directors	4,930	Restricted[2]	Yes[2]
December 16, 2024	Vesting of RSUs[2]	Directors	4,705	Restricted[2]	Yes[2]
January 15, 2025	Vesting of RSUs[4]	Interim Chief Executive Officer	2,515	Restricted[4]	Yes[4]
January 15, 2025	Vesting of RSA[5]	Chief Financial Officer	2,500	Restricted[5]	Yes[5]
March 21, 2025	Vesting of RSUs[2]	Directors	4,605	Restricted[2]	Yes[2]

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[1] The grant and vesting of these RSAs 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 Minnesota state securities laws. The RSAs and shares were issued as compensation to these employees, who paid no consideration to the Company for the RSAs or the shares.

(2) The grants of these RSUs and the issuances of the shares of Common Stock upon the vesting of the RSUs were exempt from registration under Rule 506 of Regulation D under the Securities Act and Section 4(a)(2) of the Securities Act and exempt from registration under applicable state securities laws, consisting of Minnesota, California, Florida and Ohio securities laws. The RSUs and shares were issued as compensation to the directors of the Company, who paid no consideration to the Company for the RSUs or the shares. The sale by the directors of these shares of Common Stock is restricted and must be conducted in accordance with federal and state securities laws, which may include the applicable provisions of Rule 144 under the Securities Act. The agreements pursuant to which the RSUs were granted include a provision under which the recipients of the RSUs agreed that the sale of the shares is restricted under applicable state and federal securities laws.

(3) The grants of these stock options 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 Minnesota state securities laws. The exercises of the stock options were exempt from registration under Rule 506 of Regulation D under the Securities Act and Section 4(a)(2) of the Securities Act and exempt from registration under Minnesota state securities laws. The stock options were issued as compensation to the non-executive employees, who paid no consideration to the Company for the stock options. The exercise price of the stock options was $4.22 per share. The sale by the employees of these shares of Common Stock is restricted and must be conducted in accordance with federal and state securities laws, which may include Rule 144 under the Securities Act. The agreements pursuant to which the stock options were granted include a provision under which the recipients of the stock options agreed that the sale of the shares is restricted under applicable state and federal securities laws.

(4) The grants of these RSAs and the issuance of the shares of Common Stock upon the vesting of the RSAs were exempt from registration under Rule 506 of Regulation D under the Securities Act and Section 4(a)(2) of the Securities Act and exempt from registration under New York state securities laws. The RSAs were issued as compensation to Andrew (Andy) M. Markese, the Interim Chief Executive Officer of the Company, who paid no consideration to the Company for the RSAs or the shares. The sale by the Interim Chief Executive Officer of these shares of Common Stock is restricted and must be conducted in accordance with federal and state securities laws, which may include the applicable provisions of Rule 144 under the Securities Act. The agreements pursuant to which the RSAs were granted include a provision under which the recipient of the RSAs agreed that the sale of the shares is restricted under applicable state and federal securities laws.

(5) The grant of this RSA was exempt from registration under Rule 506 of Regulation D under the Securities Act and Section 4(a)(2) of the Securities Act and exempt from registration under Minnesota securities laws. The RSA was issued as compensation to Lori M. Schug, the Chief Financial Officer of the Company, who paid no consideration to the Company for the RSA. The sale by Ms. Schug of the shares of Common Stock subject to the RSA is restricted and must be conducted in accordance with federal and state securities laws, which may include the applicable provisions of Rule 144 under the Securities Act. The agreement under which the RSA was granted includes a provision under which Ms. Schug agreed that the sale of the shares is restricted under applicable state and federal securities laws.

The following table sets forth information regarding Common Stock options and an unvested restricted stock award issued during the fiscal years ended December 31, 2024 and 2023 and the period since December 31, 2024 through March 31, 2025; there were no stock options or stock awards issued during the year ended December 31, 2024 that have not vested:

Date	Nature of Offering	Shares Issued To	Number of Shares Subject to RSA Issued	Exercise Price	Purpose
January 15, 2024	Grant of RSA[(1)]	Chief Financial Officer	7,500	Not applicable	Employee RSA

[(1)] The grant of this RSA was exempt from registration under Rule 506 of Regulation D under the Securities Act and Section 4(a)(2) of the Securities Act and exempt from registration under Minnesota state securities laws. The RSA was issued as compensation to Lori M. Schug, who is the Chief Financial Officer of the Company and who paid no consideration to the Company for the RSA. The agreement pursuant to which the RSA was granted includes a provision under which Ms. Schug agreed that she will not transfer the RSA and that the sale of the shares subject to the RSA is restricted under applicable state and federal securities laws.

There were no other offerings by Autoscope of its equity securities in the two years ended December 31, 2024 or during the period from December 31, 2024 to the date of this Quarterly Report.

Part F Exhibits

Item 17 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 Quarterly Report is posted through www.OTCIQ.com, or that were entered into not more than two years before such posting.

- Asset Purchase Agreement between Sensys Networks, Inc. and Image Sensing Systems, Inc. dated as of August 25, 2023.
- Agreement and Plan of Merger dated as of July 20, 2021 by and among Image Sensing Systems, Inc., Autoscope Technologies Corporation, and Spruce Tree Merger Co. Inc.
- Amended and Restated Rights Agreement dated July 21, 2021 among Autoscope Technologies Corporation, Continental Stock Transfer & Trust Company, as rights agent (the "Rights Agent"), and, only with respect to Section 37 thereof, Image Sensing Systems, Inc.
- First Amendment to Amended and Restated Rights Agreement dated as of March 1, 2022 by and between Autoscope Technologies Corporation and the Rights Agent.
- 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.
- Independent Consulting Agreement dated as of December 31, 2023 by and between Autoscope Technologies Corporation and Francis (Frank) G. Hallowell.
- Amendment One to the Independent Consulting Agreement dated as of October 1, 2024 by and between Autoscope Technologies Corporation and Francis (Frank) G. Hallowell.
- Employment Offer letter dated as of December 7, 2023 by and among Autoscope Technologies Corporation, Image Sensing Systems, Inc. and Andrew (Andy) M. Markese.
- Employment Offer letter dated as of December 7, 2023 by and among Autoscope Technologies Corporation, Image Sensing Systems, Inc. and Lori M. Schug.
- Restricted Stock Award Agreement dated as of January 15, 2024 by and between Andrew (Andy) M. Markese and Autoscope Technologies Corporation.
- Restricted Stock Award Agreement dated as of January 15, 2024 by and between Lori M. Schug and Autoscope Technologies Corporation.
- Form of Stock Option Agreement for Autoscope Technologies Corporation.
- Form of Restricted Stock Unit 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, is 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 is 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.

There has been no purchase made by or on behalf of the Company or any "Affiliated Purchaser" of shares or other units of any class of the Company's securities during the years ended December 31, 2024 and 2023 or the three months ended March 31, 2025. The term "Affiliated Purchaser" is defined in paragraph (C) of Item 19 of the form of Annual/Quarterly Report of the OTC Markets.

Item 20 Issuer's Certifications.

I, Andrew M. Markese, certify that:

1. I have reviewed this Quarterly 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 8, 2025

/s/ Andrew M. Markese
Interim Chief Executive Officer

I, Lori M. Schug, certify that:

1. I have reviewed this Quarterly 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 8, 2025

/s/ Lori M. Schug
Chief Financial Officer

AUTOSCOPE TECHNOLOGIES CORPORATION
Condensed Consolidated Balance Sheets
(in thousands, except share data)

	March 31, 2025 (Unaudited)	December 31, 2024
ASSETS		
Current assets:		
Cash and cash equivalents	$ 609	$ 4,355
Accounts receivable, net of allowance for credit losses of $5 and $5, respectively	3,709	4,064
Inventories	2,703	2,717
Investments in available-for-sale debt securities	845	2,840
Investments in equity securities	252	251
Prepaid expenses and other current assets	371	393
Total current assets	8,489	14,620
Property and equipment:		
Furniture and fixtures	137	133
Equipment	816	710
Real property	2,059	2,059
	3,012	2,902
Accumulated depreciation	888	842
	2,124	2,060
Intangible assets, net	549	575
Deferred income taxes	1,816	1,908
Operating lease asset, net	8	10
TOTAL ASSETS	$ 12,986	$ 19,173
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 115	$ 27
Deferred revenue	94	104
Warranty	20	20
Accrued compensation	139	248
Operating lease obligations	9	11
Current maturities of long-term debt	63	63
Other current liabilities	86	74
Total current liabilities	526	547
Non-current liabilities:		
Long-term debt, net of current maturities	1,477	1,493
TOTAL LIABILITIES	2,003	2,040
Shareholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $0.01 par value; 20,000,000 shares authorized, 5,485,499 and 5,478,379 issued and outstanding at March 31, 2025 and December 31, 2024, respectively	55	55
Additional paid-in capital	26,046	25,979
Accumulated other comprehensive loss	(527)	(526)
Accumulated deficit	(14,591)	(8,375)
Total shareholders' equity	10,983	17,133
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 12,986	$ 19,173

See accompanying notes to the condensed consolidated financial statements.

AUTOSCOPE TECHNOLOGIES CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)
(in thousands, except per share data)

	Three-Month Periods Ended March 31,	
	2025	**2024**
Revenue:		
Royalties	$ 2,126	$ 3,121
Product sales	67	16
	2,193	3,137
Cost of Revenue:		
Royalties	—	105
Product sales	40	31
	40	136
Gross profit	2,153	3,001
Operating expenses:		
Selling, general and administrative	1,032	1,263
Research and development	675	610
	1,707	1,873
Income from operations	446	1,128
Other income	9	9
Investment income	20	(5)
Interest expense	(16)	(17)
Income from operations before income taxes	459	1,115
Income tax expense	98	263
Net income	$ 361	$ 852
Net income per share:		
Basic	$ 0.07	$ 0.16
Diluted	$ 0.07	$ 0.16
Weighted average number of common shares outstanding:		
Basic	5,476	5,412
Diluted	5,489	5,419

See accompanying notes to the condensed consolidated financial statements.

AUTOSCOPE TECHNOLOGIES CORPORATION
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(in thousands)

	Three-Month Periods Ended March 31,	
	2025	**2024**
Net income	$ 361	$ 852
Other comprehensive income:		
Unrealized gain on available for sale debt securities, net of tax	—	63
Foreign currency translation adjustment	(1)	(22)
Comprehensive income	$ 360	$ 893

See accompanying notes to the condensed consolidated financial statements.

AUTOSCOPE TECHNOLOGIES CORPORATION
Condensed Consolidated Statements of Cash Flow
(Unaudited)
(in thousands)

	Three-Month Periods Ended March 31, 2025	2024
Operating activities:		
Net income	$ 361	$ 852
Adjustments to reconcile net income to net cash provided by (used by) operating activities:		
Depreciation	45	27
Software amortization	26	131
Amortization of debt issuance costs	1	1
Stock-based compensation	67	33
Deferred income tax expense	93	261
Loss on disposal of assets	—	1
Investment amortization	—	73
Realized gain on AFS investments	(11)	—
Unrealized loss on AFS investments	—	1
Unrealized gain on equity investments	(1)	—
Changes in operating assets and liabilities:		
Accounts receivable, net	355	(390)
Inventories	14	3
Prepaid expenses and other current assets	22	27
Accounts payable	89	(1,070)
Accrued expenses and other current liabilities	(109)	16
Net cash provided by (used by) operating activities	952	(34)
Investing activities:		
Purchases of property and equipment	(110)	(20)
Purchase of debt securities	(387)	(2,648)
Sale of debt securities	2,393	5,733
Net cash provided by investing activities	1,896	3,065
Financing activities:		
Dividends paid	(6,577)	(7,898)
Principal payments on long-term debt	(16)	(16)
Net cash used by financing activities	(6,593)	(7,914)
Effect of exchange rate changes on cash	(1)	(25)
Change in cash and cash equivalents	(3,746)	(4,908)
Cash and cash equivalents at beginning of period	4,355	6,506
Cash and cash equivalents at end of period	$ 609	$ 1,598
Non-Cash investing and financing activities:		
Cash paid for interest	16	17

See accompanying notes to the condensed consolidated financial statements.

AUTOSCOPE TECHNOLOGIES CORPORATION
Condensed Consolidated Statements of Shareholders' Equity
(in thousands, except share data)

	Three-Month Period Ended March 31, 2024					
	Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance, December 31, 2023 (unaudited)	5,446,747	$ 55	$ 25,765	$ (552)	$ (2,722)	$ 22,546
Stock-based compensation	10,022	—	33	—	—	33
Dividends declared	—	—	—	—	(7,898)	(7,898)
Comprehensive income:						
Unrealized gain on available for sale debt securities, net of tax	—	—	—	63	—	63
Foreign currency translation adjustment	—	—	—	(22)	—	(22)
Net income	—	—	—	—	852	852
Balance, March 31, 2024 (unaudited)	5,456,769	$ 55	$ 25,798	$ (511)	$ (9,768)	$ 15,574

	Three-Month Period Ended March 31, 2025					
	Shares Issued	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance, December 31, 2024 (unaudited)	5,478,379	$ 55	$ 25,979	$ (526)	$ (8,375)	$ 17,133
Stock-based compensation	—	—	67	—	—	67
Dividends declared	—	—	—	—	(6,577)	(6,577)
Comprehensive income:						
Unrealized gain on available for sale debt securities, net of tax	—	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	(1)	—	(1)
Net income	—	—	—	—	361	361
Balance, March 31, 2025 (unaudited)	5,478,379	$ 55	$ 26,046	$ (527)	$ (14,591)	$ 10,983

AUTOSCOPE TECHNOLOGIES CORPORATION
Notes to Condensed Consolidated Financial Statements
(Unaudited)
March 31, 2025

1. Description of Business and Significant Accounting Policies

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 Condensed 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 terminated.

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

The Company develops and markets video 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

These Condensed Consolidated Financial Statements include the accounts of Autoscope and its wholly-owned subsidiary, ISNS, and ISNS's following wholly-owned subsidiaries: Image Sensing Systems HK Limited (ISS HK) in Hong Kong; 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.

Cash Dividend

On January 15, 2025, the Board of Directors of the Company approved a special cash dividend of $1.05 per share to shareholders of record on the close of business on January 27, 2025, which was paid to shareholders on February 3, 2025.

On February 5, 2025, the Board of Directors of the Company approved a cash dividend of $0.15 per share to shareholders of record on the close of business on February 18, 2025, which was paid to shareholders on February 25, 2025.

Summary of Significant Accounting Policies

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

Revenue Recognition

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

We determine revenue recognition through the following steps:

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

Revenue disaggregated by revenue source for the three months ended March 31, 2025 and 2024 consists of the following (in thousands); revenue excludes sales and usage-based taxes when or if it has been determined that we are acting as a pass-through agent:

	Three Months Ended March 31,	
	2025	**2024**
Royalties	$ 2,126	$ 3,121
Product sales	67	16
Total revenue	$ 2,193	$ 3,137

Product Sales:

Product revenue is generated from the direct sales of our Autoscope video systems in the United States, 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.

<u>Royalties:</u>
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.

<u>Practical Expedients and Exemptions:</u>
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.

Cash and Cash Equivalents
We consider all highly liquid investments with an original maturity of six 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 $46,000 and $92,000 at March 31, 2025 and December 31, 2024, 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. The Company performs on-going credit evaluations of its customers' financial condition, and it generally requires no collateral. The Company maintains an allowance for credit losses on accounts receivables, which is recorded as an offset to accounts receivable. Changes in the allowance for credit losses are included as a component of operating expenses in the Statements of Operations. The Company assesses credit losses on a collective basis where similar risk characteristics exist. Risk characteristics considered by the Company include customer type, geography, market, credit risk, and age of receivable. Receivables that do not share risk characteristics with other receivables, or where known collectively issues exist, are evaluated on an individual basis. In determining the allowance for credit losses, the Company considers historical loss rates, adjusted for current market conditions, and reasonable and supportable forecasts of future economic conditions, when applicable. Accounts considered to be uncollectible are written off against the allowance for credit losses. The allowance for credit losses was $5,000 at March 31, 2025 and $5,000 at December 31, 2024.

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.

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. We did not capitalize any software development costs during the three months ended March 31, 2025 and 2024.

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 March 31, 2025 and 2024, we determined there was no impairment of intangible assets. At March 31, 2025 and 2024, there were no indefinite-lived intangible assets.

Investments in Debt Securities
We classify investments in debt securities on the acquisition date and at each balance sheet date. At December 31, 2024 and March 31, 2025, all of our investments in debt securities were classified as available-for-sale.

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

2. New Accounting Standards Adopted

In November 2023, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU") 2023-07: Improvements to Reportable Segment Disclosures. This ASU, which amends Topic 280: Segment Reporting, improves disclosure requirements for reportable segments and enhances disclosures for companies with single reportable segments. The Company has a single reportable segment, "Intersection", based on the nature of its operations. The nature of business and the accounting policies of the segment are the same as described throughout Note 1. The Company's Chief Operating Decision Maker ("CODM") is its executive team. The CODM assesses the reportable segment's performance and allocates resources for the reportable segment based on the net income and total assets which are the same amounts in all material respects as those reported on the Consolidated Statements of Operations and Balance Sheets. The Company adopted the ASU on January 1, 2024. The adoption did not have a material impact on the Company's consolidated financial statements.

3. 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.

4. Investments in available-for-sale debt securities

Investments in available-for-sale debt securities at March 31, 2025 and December 31, 2024 are summarized by type below (in thousands).

	March 31, 2025			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value[1]
U.S. government	$ 845	$ —	$ —	$ 845
	$ 845	$ —	$ —	$ 845

	December 31, 2024			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value[1]
U.S. government	$ 2,840	$ —	$ —	$ 2,840
	$ 2,840	$ —	$ —	$ 2,840

The amortized cost and estimated fair value of available-for-sale debt securities at March 31, 2025 and December 31, 2024 are summarized below by contractual maturity dates (in thousands).

	March 31, 2025			
	Due in one year or less	Due after one year through five years	Mortgage-backed securities	Total
Amortized cost	$ 845	$ —	$ —	$ 845
Fair value[1]	$ 845	$ —	$ —	$ 845

	December 31, 2024			
	Due in one year or less	Due after one year through five years	Mortgage-backed securities	Total
Amortized cost	$ 2,840	$ —	$ —	$ 2,840
Fair value[1]	$ 2,840	$ —	$ —	$ 2,840

(1) The fair value of the Company's available-for-sale debt securities is 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 at March 31, 2025 and December 31, 2024, summarized by type of securities and length of time that individual securities had been in a continuous loss position deemed to be temporary (in thousands).

	March 31, 2025					
	Less than 12 months		12 months or more		Total	
	Fair value[1]	Gross unrealized gains (losses)	Fair value[1]	Gross unrealized gains (losses)	Fair value[1]	Gross unrealized gains (losses)
U.S. government	$ 845	$ —	$ —	$ —	$ 845	$ —
	$ 845	$ —	$ —	$ —	$ 845	$ —

	December 31, 2024					
	Less than 12 months		12 months or more		Total	
	Fair value[1]	Gross unrealized gains (losses)	Fair value[1]	Gross unrealized gains (losses)	Fair value[1]	Gross unrealized gains (losses)
U.S. government	$ 2,840	$ —	$ —	$ —	$ 2,840	$ —
	$ 2,840	$ —	$ —	$ —	$ 2,840	$ —

We did not consider any of our available-for-sale securities to be impaired as of March 31, 2025. When evaluating for impairment, we assess indicators that include, but are not limited to, financial performance, changes in underlying credit ratings, market conditions and offers to purchase or sell.

5. Investments in equity securities

Investments in equity securities at March 31, 2025 and December 31, 2024 are summarized based on the primary industry of the investee in the table below (in thousands).

	March 31, 2025		
	Cost Basis	Net Unrealized Gains (Losses)	Fair Value[1]
Banks and finance	$ 250	$ 2	$ 252
	$ 250	$ 2	$ 252

	December 31, 2024		
	Cost Basis	Net Unrealized Gains (Losses)	Fair Value[1]
Banks and finance	$ 250	$ 1	$ 251
	$ 250	$ 1	$ 251

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

6. Inventories

Inventories consisted of the following (in thousands):

	March 31, 2025	December 31, 2024
Finished goods	$ 2,703	$ 2,717
Components	—	—
Total	$ 2,703	$ 2,717

7. Intangible Assets

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

	March 31, 2025			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life (in Years)
Wrong Way development costs	$ 228	$ (228)	$ —	—
Vision development costs	3,107	(3,107)	—	—
IntelliSight development costs	840	(291)	549	5.3
Total	$ 4,175	$ (3,626)	$ 549	5.3

	December 31, 2024			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life (in Years)
Wrong Way development costs	$ 228	$ (228)	$ —	—
Vision development costs	3,107	(3,107)	—	—
IntelliSight development costs	840	(265)	575	5.5
Total	$ 4,175	$ (3,600)	$ 575	5.5

8. Warranties

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

	Three-Month Periods Ended March 31,	
	2025	2024
Beginning balance	$ 20	$ 40
Warranty provisions	—	—
Warranty claims	—	—
Adjustments to preexisting warranties	—	—
Currency	—	—
Ending balance	$ 20	$ 40

9. 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. 2014 Stock Option and Incentive Plan (the "2014 Plan"), which were approved by our shareholders and are administered under the supervision of our Board of Directors. The 2014 Plan expired in April 2024, although as of March 31, 2025, there were options and stock awards to acquire 100,000 shares outstanding under the 2014 Plan that were issued before the 2014 Plan expired, the terms of which are governed by the 2014 Plan. The 2014 Plan and awards granted under the 2014 Plan were assumed by Autoscope in the Reorganization. There have been no issuances of stock options under the 2022 Plan. Generally, stock option awards are granted at exercise prices equal to the closing price of our stock on the day before the date of grant. Generally, options vest ratably over periods of three to five years from the dates of the grant, beginning one year from the date of grant, and have a contractual term of nine to 10 years. There have been 28,730 stock awards issued under the 2022 Plan, all of which were vested at March 31, 2025.

Compensation expense, net of estimated forfeitures, is recognized ratably over the vesting period. Stock-based compensation expense included in general and administrative expense for the three-month periods ended March 31, 2025 and 2024 was $67,000 and $33,000, respectively. At March 31, 2025, 471,270 shares were available for grant under the 2022 Plan.

Stock Options

A summary of the stock option activity for the first three months of 2025 is as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at December 31, 2024	95,000	$ 6.78	7.13	$ 115,750
Granted	—	$ —	—	$ —
Exercised	—	$ —	—	$ —
Expired	—	$ —	—	$ —
Forfeited	—	$ —	—	$ —
Options outstanding at March 31, 2025	95,000	$ 6.78	6.89	$ 124,300
Options exercisable at March 31, 2025	85,000	$ 6.82	6.87	$ 107,900

No stock options were granted, exercised, expired or forfeited during the three-month periods ended March 31, 2025 and March 31, 2024. During the three-month periods ended March 31, 2025 and 2024, we recognized $5,000 and $5,000, respectively, in stock-based compensation expense related to stock options. As of March 31, 2025, there was $18,000 of unrecognized compensation cost related to non-vested stock options.

Restricted Stock Awards and Stock Awards

Restricted stock awards are granted under the 2014 Plan or the 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 of the restricted stock awards, the recipients of Common Stock may request to receive a net of the number of shares required for employee withholding taxes, which can be withheld up to the relevant jurisdiction's maximum statutory rate. Compensation expense related to any stock awards issued to employees is determined on the grant date based on the publicly-quoted fair market value of our Common Stock and is charged to earnings on the grant date.

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

The following table summarizes restricted stock award activity for the first three months of 2025:

	Number of Shares	Weighted Average Grant Date Fair Value
Awards outstanding December 31, 2024	7,500	$ 7.93
Granted	7,120	8.07
Vested	(9,620)	8.03
Forfeited	—	—
Awards outstanding at March 31, 2025	5,000	$ 7.93

As of March 31, 2025, the total stock-based compensation expense related to non-vested awards not yet recognized was $35,000, which is expected to be recognized over a weighted average period of 1.8 years. During the three-month periods ended March 31, 2025 and March 31, 2024, we recognized $62,000 and $28,000, respectively, of stock-based compensation expense related to restricted stock awards.

10. Income per Common Share

Net income per share is computed by dividing net income (loss) by the daily weighted average number of common shares outstanding during the applicable periods. Diluted net income (loss) per share includes the potentially dilutive effect of common shares subject to outstanding stock options and restricted stock awards using the treasury stock method. Under the treasury stock method, shares subject to certain outstanding stock options and restricted stock awards have been excluded from the calculation of the diluted weighted average shares outstanding because the exercise of those options or the vesting of those restricted stock awards would lead to a net reduction in common shares outstanding. As a result, stock options and restricted stock awards to acquire 36,346 weighted common shares have been excluded from the diluted weighted shares outstanding for the three-month period ended March 31, 2024. There were no stock options or restricted stock awards excluded from the diluted weighted shares outstanding for the three-month period ended March 31, 2025

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

	Three-Month Periods Ended March 31, 2025	2024
Numerator:		
Net income from operations	$ 361	$ 852
Denominator:		
Weighted average common shares outstanding	5,476	5,412
Dilutive potential common shares	—	7
Shares used in diluted net income per common share calculations	5,476	5,419
Basic net income per common share	$ 0.07	$ 0.16
Diluted net income per common share	$ 0.07	$ 0.16

11. 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 Limited (ISS UK) and Image Sensing Systems Holdings Limited (ISS Holdings). At September 30, 2021, Image Sensing Systems (Shenzhen) Limited was fully closed. We incurred $6,000 and $7,000 for these entities' closure costs in the three-month periods ended March 31, 2025 and 2024, respectively.

12. Long-term Debt

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 Company’s headquarters located at 1115 Hennepin Avenue, Minneapolis, Minnesota (the “Real Property”) and certain related personal property from TJ&Z Family Limited Partnership ("TJ&Z").

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 amount.

Upon the occurrence of an event of default under the Loan Agreement, at the Bank's option, 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 (in thousands):

	Long-term Debt Maturities
2026	$ 1,496

13. 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.