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## **NEWS RELEASE**

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### **FOR IMMEDIATE RELEASE**

## **Image Sensing Systems Announces Second Quarter Results**

**Saint Paul, Minn., July 24, 1998--** Image Sensing Systems, Inc. (NASDAQ/Small Cap: ISNS), a maker of video-based traffic management systems, announced today financial results for its second fiscal quarter ended June 30, 1998.

Revenues for the second quarter of 1998 were \$789,000, down 30% from \$1,131,000 for the same period a year ago. Revenues for the first half of 1998 were \$1,547,000, down 24% from \$2,036,000 a year ago. The decrease in revenues for the quarter and first half of the year was due primarily to fewer sales of Autoscope® systems, the Company's cornerstone product, by Image Sensing Systems, Inc. (ISS) directly to overseas customers and by Econolite Control Products, Inc., its North American distribution partner. Lower average per unit selling prices also contributed to the decline in revenues.

Incoming President and Chief Executive Officer, William L. Russell, said, "We are pleased to announce a seventh consecutive quarter of profitability. Given the nine-month delay in passage of the transportation bill by the United States Congress and the prolonged Asian economic crisis, we were not surprised by the revenue shortfall for the first half of the year. We also recognized that record revenues and earnings resulting from several large orders in the U.S. and Korea in the first half of 1997 would be difficult to match."

Net income for the second quarter was \$45,000 or \$.02 per share versus \$257,000 or \$.10 per share for the comparable period in 1997. Net income for the first half of 1998 was \$47,000 or \$.02 per share versus \$262,000 or \$.10 per share in 1997. The decrease in earnings for the second quarter and first half of 1998 was due primarily to decreases in revenues.

Revenue from royalties and direct sales for the second quarter decreased 36% and 20%, respectively, compared to the second quarter of 1997. Revenue from royalties and direct sales for the first half of 1998 decreased 26% and 21%, respectively, compared to and first half of 1997. The Company believes the delay in passage of the transportation bill in the United States Congress may have caused traffic managers to put off traffic management projects otherwise planned for early 1998. The Asian economic crisis is also having a negative impact on direct sales overseas. Operating expenses were 18% less in the second quarter of 1998 compared to 1997 as the Company continued to focus on software development for the new integrated product. These costs are being capitalized until the new product is ready for sale on a broad basis.

Mr. Russell added, "We are hopeful that the recent passage of the five year transportation bill will have an immediate positive impact on domestic sales for the last half of 1998. Overseas, a potential large order from an Asian customer may depend on how well the local economy recovers and translates to tax revenue collections. We are optimistic that if large orders under consideration by several customers are received the Company will meet 1998 expectations."

ISS develops and markets products using video image processing technology for use in advanced traffic management systems and traffic data collection to reduce congestion and improve roadway planning. Also known as machine vision or artificial vision, video image processing uses video cameras and computers to emulate the function of the human eye and is used in a variety of industrial applications. ISS has combined its proprietary machine vision technology, consisting of complex algorithms, software, and special purpose hardware, with commercially available computer hardware and video cameras to create a system that collects, processes, and analyzes video images.

Statements regarding the Company's anticipated performance for the second half of 1998 are forward-looking and therefore involve risk and uncertainties, including but not limited to: the ability and willingness of governmental agencies responsible for roadway planning to invest in Autoscope machine vision technology for advanced traffic management, the impact of new products introduced by competitors, and higher than expected expenses to complete the development of new products and to establish a worldwide marketing presence.

**Three-Month Periods Ended June 30, 1998 and 1997**

*(Dollars in thousands except per share amounts)*

	<u>1998</u>	<u>1997</u>
Revenues	\$ 789	\$1,131
Operating income	20	
236		
Net income	45	
257		
Net income per share	\$ .02	\$ .10
Weighted average number of common shares and dilutive potential common shares outstanding	2,491,000	
2,475,000		

**Six-Month Periods Ended June 30, 1998 and 1997**

*(Dollars in thousands except per share amounts)*

	<u>1998</u>	<u>1997</u>
Revenues	\$1,547	\$2,036
Operating income (loss)	(8)	213
Net income	47	262
Net income per share	\$ .02	\$ .10
Weighted average number of common shares and dilutive potential common shares outstanding	2,487,000	2,475,000

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