



500 Spruce Tree Centre
1600 University Avenue West
St. Paul, Minnesota 55104-3825 USA
651.603.7700 Fax: 651.603.7795
www.imagesensing.com

NEWS RELEASE

**Contacts: Art Bourgeois, Chief Financial Officer
Image Sensing Systems, Inc. Phone: 651.603.7700**

FOR IMMEDIATE RELEASE

Image Sensing Systems Announces Third Quarter Financial Results

Saint Paul, Minn., October 31, 2005-Image Sensing Systems, Inc. (ISS) (NASDAQ: ISNS), announced today financial results for its third quarter ended September 30, 2005.

Net income for the quarter increased 17.2% to \$1,145,000 (\$0.30 per fully diluted share) from \$977,000 (\$0.26 per fully diluted share) for the comparable period in 2004, while net income for the nine-month period ended September 30, 2005 decreased 5.4% to \$2,152,000 (\$0.56 per fully diluted share) from \$2,276,000 (\$0.60 per fully diluted share) for the comparable period in 2004.

Revenues for the third quarter were \$3,463,000, a 12.5% increase from \$3,077,000 for the comparable period in fiscal 2004, while revenues for the nine-month period ended September 30, 2005 were \$8,114,000, a 5.4% decrease from \$8,578,000 for the comparable period a year ago. Revenue from royalty income for the third quarter increased 6.3% to \$2,669,000 from \$2,511,000 in the third quarter of 2004 and increased 13.5% to \$6,468,000 in the first nine months of fiscal 2005 from \$5,698,000 in the comparable period of 2004 and reflects the continuing success that ISS's North American distributor, Econolite Control Products, Inc., is having selling the Autoscope Solo product in the United States and Canada. International sales for the third quarter of 2005 increased 40.3% to \$794,000 from \$566,000 for the comparable quarter in 2004 and decreased 42.8% to \$1,646,000 in the first nine months of fiscal 2005 from \$2,880,000 in the comparable period of 2004. Revenue improvements for the third quarter came from increased sales volume from both the European and Hong Kong subsidiaries. The decrease in revenue from international sales for the nine-month period ended September 30, 2005 was due to reduced sales from the Hong Kong subsidiary in the first half of 2005. They were unable to repeat a large order sold in the second quarter of 2004 to a customer in Korea. In addition, transition to a new loop detection product for sale in the Asian market was delayed due to technical issues that have since been corrected.

Operating expenses for the quarter were \$1,368,000, an 8.1% increase from \$1,265,000 in 2004 while operating expenses for the first nine months of fiscal 2005 increased 14.2% to \$4,027,000 from \$3,527,000 in fiscal 2004. The increases were due primarily to the addition of technical and sales staff in Europe and the U.S.

Jim Murdakes, Chairman and CEO said, "We were very pleased with the third quarter results, especially to have all three markets show revenue increases over the third quarter of 2004. Although we have had a decline in revenues and earnings for the first nine months of 2005 compared to 2004, we believe the third quarter is a good indicator that we are turning the corner internationally and are positioning ourselves for the coming new fiscal year."

Headquartered in St. Paul, Minnesota, Image Sensing Systems, Inc. combines expertise in image processing, hardware and software engineering, and communications to develop video vehicle detection systems for traffic management and control applications. The Autoscope vehicle detection system is the world leader in video detection for advanced traffic management systems for highways, tunnel incident detection, intersection control, and traffic data collection. The Autoscope system provides traffic managers the means to reduce roadway congestion, improve roadway planning, and improve cost efficiencies.

Safe Harbor Statement: Statements made in this release concerning the Company's or management's intentions, expectations, or predictions about future results or events are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements reflect management's current expectations or beliefs, and are subject to risks and uncertainties that could cause actual results or events to vary from stated expectations, which variations could be material and adverse. Factors that could produce such a variation include, but are not limited to, the following: the inherent unreliability of earnings, revenue and cash flow predictions due to numerous factors, many of which are beyond the Company's control; developments in the demand for the Company's products and services; relationships with the Company's major customers and suppliers; unanticipated delays, costs and expenses inherent in the development and marketing of new products and services; the impact of governmental laws and regulations; and competitive factors. Our forward-looking statements speak only as of the time made, and we assume no obligation to publicly update any such statements. Additional information concerning these and other factors that could cause actual results and events to differ materially from the Company's current expectations are contained in the Company's Form 10-KSB for the year ended December 31, 2004.

Image Sensing Systems, Inc.
Condensed Statement of Income
(in thousands, except per share information):

	Three-Month Periods Ended September 30		Nine-month Periods Ended September 30	
	2005	2004	2005	2004
Revenue				
Royalty income	\$2,669	\$2,511	\$6,468	\$5,698
International sales	794	566	1,646	2,880
	<u>3,463</u>	<u>3,077</u>	<u>8,114</u>	<u>8,578</u>
Cost of revenue				
Royalty fee	118	102	288	243
Cost of sales	322	219	653	1,415
	<u>440</u>	<u>321</u>	<u>941</u>	<u>1,658</u>
Gross profit	3,023	2,756	7,173	6,920
Operating expenses				
Selling, marketing and product support	480	565	1,805	1,784
General and administrative	365	369	1,071	947
Research and development	523	331	1,151	796
	<u>1,368</u>	<u>1,265</u>	<u>4,027</u>	<u>3,527</u>
Income from operations	1,655	1,491	3,146	3,393
Other income	66	21	172	45
Income before income taxes	1,721	1,512	3,318	3,438
Income taxes	576	535	1,166	1,162
Net income	<u>\$1,145</u>	<u>\$977</u>	<u>\$2,152</u>	<u>\$2,276</u>
Net income per common share				
Basic	\$0.32	\$0.28	\$0.60	\$0.67
Diluted	\$0.30	\$0.26	\$0.56	\$0.60
Weighted average shares outstanding				
Basic	3,625	3,442	3,576	3,378
Diluted	3,851	3,818	3,865	3,798

Image Sensing Systems, Inc.
Condensed Balance Sheet
(in thousands)

	September 30, 2005	December 31, 2004
Assets		
Current assets		
Cash and cash equivalents	\$5,902	\$1,262
Investments	4,050	7,300
Receivables	3,627	2,176
Inventories	450	404
Prepaid expenses and deferred taxes	181	324
	14,210	11,466
Property and equipment, net	244	127
Goodwill and capitalized software development costs, net	1,276	1,470
	\$15,730	\$13,063
Liabilities and Shareowners' Equity		
Current liabilities		
Accounts payable and accrued expenses	\$789	\$1,110
Income taxes payable	379	30
	1,168	1,140
Deferred income taxes	144	144
Shareholders' equity	14,418	11,779
	\$15,730	\$13,063

Image Sensing Systems, Inc.
Condensed Statement of Cash Flows
(in thousands)

	Nine-Month Periods Ended	
	September 30	
	2005	2004
Operating activities		
Net income	\$2,152	\$2,276
Adjustments to reconcile net income to net cash provided by operations		
Depreciation and amortization	275	247
Changes in operating assets and liabilities	(1,276)	(634)
Net cash provided by operating activities	1,151	1,889
Investing activities		
Purchase of property and equipment	(199)	(61)
Sale of short-term investments	3,250	-
Purchase of callable FHLB bonds	-	(2,300)
Net cash provided by (used in) investing activities	3,051	(2,361)
Financing activity – proceeds from exercise of stock options	438	472
Increase in cash and cash equivalents	4,640	-
Cash and cash equivalents, beginning of period	1,262	5,384
Cash and cash equivalents, end of period	\$5,902	\$5,384

###