

IMAGE SENSING SYSTEMS, INC. AND SUBSIDIARIES CODE OF ETHICS AND BUSINESS CONDUCT

Introduction:

We want Image Sensing Systems, Inc. and its subsidiaries (the “Company”, “we” and “us”) to be known as an organization that conducts its business lawfully and ethically. To accomplish this objective, we believe it is essential that each of our directors, officers, employees and consultants act at all times with integrity and propriety; that they exercise good judgment and conduct business in a manner that their actions can be supported without reservation or apology.

While it is impractical to develop a detailed set of rules, policies or procedures that cover all circumstances, we believe this Code of Ethics and Business Conduct (the “Code”) provides a basic guide to assist our directors, officers, employees and consultants in understanding their responsibilities. The best guidelines, however, are individual integrity, common sense and compliance with the laws and regulations that pertain to our organization.

This Code applies to all of the directors, officers, employees and consultants (collectively, “associates”) of the Company.

Enforcement:

This Code of Conduct will be strictly enforced. Officers and managers are expected to enforce this Code and should never sanction or condone violations. Violation of this Code will result in serious adverse consequences, which may include termination of employment with the Company. If an associate finds himself or herself in a situation which the associate believes may violate or lead to a violation of this Code, the associate should follow the procedures described in the “*Reporting/Investigation Procedures*” and “*Procedures for Submitting Confidential, Anonymous Complaints Regarding Accounting and Auditing Matters*” sections of this Code.

Compliance with Laws:

Obeying the letter and spirit of the laws and regulations that pertain to the Company is the foundation on which our ethical standards are built. All associates must obey the laws of the cities, states and countries in which we operate. Associates are not expected to know the details of these laws; however associates are expected to be comfortable that they are in compliance with the laws that pertain to their activities and to know enough to determine when to seek advice from supervisors, managers or other appropriate personnel.

Conflict of Interest:

Beyond compliance with laws, we require that all associates act in an ethical manner. This includes the obligation to avoid any actual or apparent conflicts of interest in personal and professional relationships. The honesty and integrity of our business conduct must not be compromised.

A conflict of interest arises when an associate, or a member of his or her immediate family, receives improper personal benefit as a result of his or her position with the Company. While it is not possible to develop a comprehensive list of situations involving possible conflicts of interest, the following are examples of activities which could involve a conflict of interest if undertaken by an associate:

- Owning, directly or indirectly, a substantial interest in any competing business or in any outside distributor or customer that does or seeks to do business with us;
- Providing services as a director, manager, consultant, employee or independent contractor to any outside concern that does business with us or is in a competing business;
- Engaging in any outside employment which is in conflict with a material aspect of our business or which requires significant time, attention or energy,
- Accepting gifts (other than gifts of nominal value), favors, compensation, loans, excessive entertainment or other similar activities from our competitors or from any other company or person that does business or seeks to do business with us;
- Representing us in any transaction with a person or organization in which associates or their immediate family have a direct or indirect personal interest or may derive a benefit;
- Competing directly or indirectly with us in the design, manufacture, marketing, purchase or sale of products or property rights or interests;
- Taking advantage of any business opportunity which would rightfully belong to us; and
- Using or revealing (without proper authorization) any confidential product information, confidential financial information or other confidential information concerning our plans, decisions or activities, including information which is not available to the general public and which could be considered of some importance in a decision whether to buy or sell our stock.

Before engaging in any of the foregoing activities or any other activity that involves an actual or potential conflict of interest, an associate must receive the specific approval of the Audit Committee or the Board of Directors.

Additional guidelines and more detailed information regarding some of the above examples can be found at the “*Protecting Confidential Information*” and “*Insider Trading*” sections of this Code.

Protection and Proper Use of Company Assets:

Theft, carelessness and waste have a direct impact on the Company’s profitability. Any suspected incident of fraud or theft should be immediately reported for investigation.

All associates should endeavor to protect Company assets and ensure their efficient use. Our telephones, mail services (including email), computers and Internet access should be used primarily for Company business and personal use should not be excessive.

Corporate Records/Public Reports:

Company documents and records (in any form or media) are part of the Company's assets, and associates are charged with maintaining their accuracy and safety. Associates are required to record information accurately and honestly, and retain records as long as necessary to meet business objectives and government regulations.

Financial records must accurately reflect all financial transactions of the Company. No false, artificial or misleading entries shall be made in the books and records of the Company for any reason. All periodic reports required by law to be filed with the Securities and Exchange Commission by the Company, reports to the Company's shareholders and all other public communications made by the Company must contain full, fair, accurate, timely and understandable disclosures.

Intellectual Property

Patents, trademarks, copyrights and trade secrets are valuable corporate assets, and all associates have a legal and ethical obligation to protect them. This obligation continues even if an associate leaves the services of the Company for any reason.

Employees and consultants who produce inventions and ideas in the course of their work for the Company are required to assign ownership of them to the Company. Such employees and consultants are required to prepare and maintain contemporaneous records, to submit technical details of the invention or idea to the Company, and to maintain them as trade secrets or to assist in the patent process, as decided by the Company.

The Company will respect the intellectual property of others, and the Company will not knowingly infringe valid patents held by others. If any associate believes that another company is infringing a Company patent or that the Company is infringing the valid patent of another, that associate should inform the Company's President and Chief Executive Officer, who will, in turn, contact our legal counsel.

Protecting Confidential Information

Associates may become aware of confidential, non-public information concerning the affairs and business transactions of the Company, its customers, suppliers, shareholders, fellow associates, and third parties who have disclosed information to the Company in confidence. While some information may not be regulated by legal obligations, it is the Company's policy that all information developed or shared as a result of the business process is proprietary to the Company and must be treated as confidential. Such confidential information includes pricing, financial data, development information, marketing and sales programs, employment records, potential contracts or ventures and customer data. It also includes internal correspondence, regulatory reports, and computer passwords or software. Materials that contain confidential information, such as memos, notebooks and computer disks, should be stored securely and shared only with Company associates with a need to know. Associates should be especially careful not to inadvertently disclose confidential information through the electronic media, such as e-mail, telephone voice mail or the Internet. It is also prudent to refrain from discussing

sensitive Company information in public places like airports and restaurants. If associates have a question as to whether information is confidential, proprietary or a trade secret, they should contact their supervisor or the Company's President and Chief Executive Officer.

Caution and discretion are required in the use of confidential information. The obligations of employees and consultants with respect to the Company's trade secrets and proprietary information and other confidential information to which employees and consultants have access by reason of their employment at the Company are:

- not to disclose the information to persons outside the Company
- not to use this information for their personal benefit or the benefit of persons outside the Company; and
- to share this information only with other Company associates who have a legitimate need to know.

Insider Trading:

In the course of business, the Company will need to announce "material" developments regarding its operations. Such material information includes potential acquisitions, earnings, new products, stock splits, major management changes, upcoming litigation, and joint ventures. This information is considered material because it is information that an investor would consider important in deciding whether to buy, sell or hold the Company stock or the stock of its competitors. At the appropriate time, such announcements are made through a public means, such as a news release, to ensure that the information is made available to all members of the investing community on an equal basis.

Prior to a public announcement, some associates may have knowledge of confidential or "inside" information. Associates must exercise the utmost care in handling such material inside information to avoid legal and ethical violations.

Securities laws prohibit associates from trading securities of the Company based on non-public (inside) material information for as long as it remains undisclosed. If associates have questions about whether the information they possess is material or whether it has been made public, associates should contact the Company's Chief Financial Officer or its legal counsel before buying or selling securities.

Associates are also prohibited from disclosing confidential information to someone outside the Company. Such "tips" may result in friends, relatives or others trading on the basis of inside information, which is also prohibited by securities laws.

Violators of securities laws are subject to severe civil and criminal punishments. Such penalties may even apply where the disclosing person did not engage in the transaction or personally benefit from the trading.

To obtain a copy of the Image Sensing Systems, Inc. Procedures and Guidelines Governing Insider Trading and Tipping Policy, please contact the Chief Financial Officer.

Competition and Fair Dealing:

We seek to outperform our competition fairly and honestly. We seek competitive advantages through superior performance, never through unethical or illegal business practices. Stealing proprietary information, possessing trade secret information that was obtained without the owner's consent, or inducing such disclosures by past or present employees of other companies is prohibited. Each associate should endeavor to respect the rights of and deal fairly with our customers, suppliers and competitors. No associate should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other intentional unfair-dealing practice. Agreements with competitors to fix bids or fix prices or to refrain from competing with each other are among the actions prohibited under the antitrust laws of many of the countries in which we do business.

Bribery or Undue Influence:

It is illegal to pay or receive a bribe intended to influence business conduct. Use of Company funds or property to bribe or unduly influence any decision by a director, officer, employee or agent of another company or any governmental employee or official is strictly prohibited.

Business Courtesies:

Business courtesies are things such as gifts, meals, discounts, hospitality, entertainment, recreation, tickets, promotional items, or anything of value for which the recipient does not pay fair market value.

Company associates may keep a business courtesy only if it is unsolicited, inexpensive and not given to influence an associate's judgment. The practice of giving and receiving gifts varies throughout the world. Therefore, if an associate will be entertaining, or will be entertained by colleagues in different countries, the associate should explore beforehand what is appropriate for that culture and contact his or her supervisor or the Audit Committee regarding any questions about how this policy applies.

Associates must never accept payments, loans, kickbacks, special privileges or services from anyone by reason of, or for the purpose of, influencing our business. Company associates also must never offer payments, loans, kickbacks, etc., to our customers or suppliers.

Payments to Government Personnel:

The U.S. Foreign Corrupt Practices Act prohibits giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. It is strictly prohibited to make illegal payments to government officials of any country. In addition, the U.S. government has a number of laws and regulations regarding business gratuities which may be accepted by U.S. government personnel. The promise, offer or delivery to an official or employee of the U.S. government of a gift, favor or other gratuity in violation of these rules would not only violate Company policy but could also be a criminal offense. State and local governments, as well as foreign governments, may have similar rules.

Work Environment:

We strive to provide each associate with a safe and healthful work environment. Each associate has a responsibility for maintaining a safe and healthy workplace for all associates by following safety and health rules and practices and reporting accidents, injuries and unsafe conditions. Violence, threatening behavior or harassment of any kind, whether verbal, physical or visual, is not permitted. Associates should report to work in condition to perform their duties, free from influence of illegal drugs or alcohol.

Compliance with Labor Laws:

We expect and require compliance with all requirements of applicable labor laws, including those regarding occupational health and safety, equal employment opportunity, sexual harassment, rates of pay and overtime. We strive to provide our associates with a working environment of mutual respect and support that allows them to be productive and effective in their jobs.

Equal Opportunity Employer Policy:

The Company is committed to hiring and employment practices that are free from discrimination as defined by applicable local laws.

Reporting/Investigation Procedures:

If an associate believes in good faith that there has been a material violation of this Code, the associate should report it immediately to the President and Chief Executive Officer or the Audit Committee, and the matter will be promptly investigated. The associate may report any matter directly to the Audit Committee at the telephone number and address listed in the next section. The investigation will be handled discreetly and appropriately, and the information will be disclosed to others only on a need to know basis and as required by law. There will be no adverse action taken against associates who report violations of the Code or who participate in the investigation. If the investigation leads to a conclusion that a material violation of the Code has occurred, we will take appropriate corrective action, which may lead to dismissal of the violating associate. However, making a complaint without a good faith basis is itself an ethical violation of this Code.

Procedures for Submitting Confidential, Anonymous Complaints Regarding Accounting and Auditing Matters:

Any officer, employee or consultant who believes in good faith that there has been a material violation of this Code caused by questionable accounting or auditing matters has the right to submit a confidential, anonymous complaint to the Audit Committee.

The complaint should provide sufficient information so that a reasonable investigation can be conducted. Any such complaint can be submitted to Dale Parker, Chairman of the Audit Committee, either telephonically at (651) 603-7763, or in writing (marked “confidential”) to Mr. Parker at Image Sensing Systems, Inc. 1600 University Ave W, Suite 500, St. Paul MN 55104.

Waivers of the Code:

Any waivers of this Code for directors and executive officers may be made only by the full Board of Directors and will be promptly disclosed to shareholders, along with the reasons for such waiver, as required by law or NASDAQ regulation.

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