

IMAGE SENSING SYSTEMS INC  
Form DEF 14A  
March 22, 2018

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934

Filed by the Registrant  
Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement  
**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
Definitive Proxy Statement  
Definitive Additional Materials  
Soliciting Material Pursuant to §240.14a-12

Image Sensing Systems, Inc.

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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No fee required.  
Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No:

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(3) Filing Party:

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(4) Date Filed:

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March 22, 2018

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of Image Sensing Systems, Inc. to be held at Image Sensing Systems, Inc., 500 Spruce Tree Centre, 1600 University Ave. W., St. Paul, Minnesota, on Tuesday, May 1, 2018 at 9:00 a.m. Central Time.

At the meeting, you will be asked to vote for the election of our Board of Directors, to ratify the selection of Boulay PLLP as our independent registered public accounting firm for 2018, to vote on an advisory resolution to approve executive compensation (the “say-on-pay” vote), and to approve the adoption of an amendment to our Section 382 rights agreement designed to preserve our net operating loss carryforwards and other tax benefits. I encourage you to vote for each of the director nominees, for ratification of the appointment of Boulay PLLP, for the advisory resolution to approve executive compensation, and to approve the amendment to our Section 382 rights agreement.

Under the Securities and Exchange Commission’s rules, we have elected to deliver our proxy materials to our shareholders over the Internet. This delivery process allows us to provide shareholders with the information they need while lowering the cost of delivery. We intend to begin mailing to our shareholders a Notice of Internet Availability of Proxy Materials on or about March 22, 2018 containing instructions on how to access our proxy statement and proxy for our 2018 annual meeting and our 2017 annual report to shareholders. The notice will also provide instructions on how to vote over the Internet or by telephone and will include instructions on how to receive a paper copy of the proxy materials by mail.

We hope that you will be able to join us at our annual meeting. Whether or not you expect to attend the meeting, it is important that you cast your vote either in person or by proxy. You may vote by attending the meeting in person, by telephone or over the Internet or by mailing a completed proxy card if you elect to receive written proxy materials.

Changes in regulations effective in 2010 eliminated the ability of your bank or broker to vote your uninstructed shares on certain matters, including the election of directors, so it is important that you vote your proxy.

Very truly yours,

Image Sensing Systems, Inc.

Andrew T. Berger  
Executive Chairman

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Image Sensing Systems, Inc.

500 Spruce Tree Centre  
1600 University Avenue West  
St. Paul, Minnesota 55104

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON MAY 1, 2018

TO THE SHAREHOLDERS OF IMAGE SENSING SYSTEMS, INC.:

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of Image Sensing Systems, Inc. will be held at 9:00 a.m. Central Time on Tuesday, May 1, 2018, at Image Sensing Systems, Inc. 500 Spruce Tree Centre, 1600 University Ave. W., St. Paul, Minnesota, for the following purposes:

1. To elect four directors to serve on our Board of Directors.
2. To ratify the appointment of Boulay PLLP as our independent registered public accounting firm for the 2018 fiscal year.
3. To vote on an advisory resolution to approve the compensation of our named executive officers.
4. To approve the adoption of an amendment to our Section 382 rights agreement designed to preserve our net operating loss carryforwards and other tax benefits.
5. To transact such other business as may properly come before the meeting.

The Board of Directors has fixed the close of business on March 12, 2018 as the record date for the determination of shareholders entitled to notice of and to vote at the meeting.

We encourage you to take part in the affairs of our company either by attending the annual meeting in person or by voting your proxy as promptly as possible. To ensure that your shares are represented, we request that you vote your proxy before the meeting whether or not you plan to attend the meeting.

BY ORDER OF THE BOARD OF DIRECTORS,

Chad A. Stelzig  
President and Chief Executive Officer  
Dated: March 22, 2018



IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS  
FOR THE  
ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 1, 2018

This notice, the accompanying proxy statement and proxy and the Image Sensing Systems, Inc. 2017 Annual Report to Shareholders, which includes the Image Sensing Systems, Inc. Annual Report on Form 10-K for the year ended December 31, 2017, are available at <http://imagesensingsystems.com>. Additionally, and in accordance with the rules of the Securities and Exchange Commission, shareholders may access these materials at the website indicated in the Notice of Internet Availability of Proxy Materials that you receive in connection with this notice and the accompanying proxy statement.

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**PROXY STATEMENT**

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## PROXY STATEMENT

### 2018 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 1, 2018

The Board of Directors of Image Sensing Systems, Inc. (the “Company”) is soliciting proxies for use at our annual meeting of shareholders to be held on May 1, 2018, and at any adjournment of the meeting. This proxy statement and the proxy are being made available to our shareholders on the Internet or mailed to shareholders on or about March 22, 2018.

### QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

#### What is the purpose of the meeting?

At our annual meeting, shareholders will act upon the matters described in the Notice of Annual Meeting of Shareholders. These consist of the election of directors, the ratification of the appointment of our independent registered public accounting firm, the vote on the advisory resolution to approve the compensation of our named executive officers (the “say-on-pay” vote), and the vote on the adoption of an amendment to our Section 382 rights agreement designed to preserve our net operating loss carryforwards and other tax benefits. Also, management will report on our performance during the last fiscal year and respond to questions from shareholders.

#### Who is entitled to vote at the meeting?

The Board of Directors has set March 12, 2018 as the record date for the annual meeting. If you were a shareholder of record at the close of business on March 12, 2018, you are entitled to notice of and to vote at the annual meeting.

As of the record date, 5,210,448 shares of common stock, par value \$.01 per share, were issued and outstanding and, therefore, eligible to vote at the annual meeting.

#### What are my voting rights?

Holders of our common stock are entitled to one vote per share. Therefore, a total of 5,210,448 votes are entitled to be cast at the meeting. There is no cumulative voting for directors.

#### How many shares must be present to hold the meeting?

In accordance with our bylaws, shares equal to at least a majority of the voting power of the outstanding shares of our common stock as of the record date must be present at the meeting in order to hold the meeting and conduct business. This is called a quorum. Therefore, the holders of at least 2,605,225 shares constitute a quorum for the 2018 annual meeting. Shares are counted as present at the meeting if:

- you are present and vote them in person at the meeting; or
- you have properly submitted a proxy by mail.

#### How do I vote my shares?

If you are a shareholder of record, you can give a proxy to be voted at the meeting by voting your proxy over the Internet or by telephone or, if you elect by receive written proxy materials, by completing, signing and mailing the proxy card. If you properly vote and do not revoke your proxy, it will be voted in the manner you specify.

How do I access the proxy materials?

We are making proxy materials for the annual meeting available over the Internet. Therefore, we are mailing to our shareholders a Notice of Internet Availability of Proxy Materials instead of paper copies of the proxy materials. All shareholders receiving the Notice of Internet Availability of Proxy Materials will have the ability to access the proxy materials over the Internet and to request to receive paper copies of the proxy materials by mail. Instructions on how to access the proxy materials over the Internet or to request paper copies may be found on the Notice of Internet Availability of Proxy Materials. Our proxy materials may also be accessed on our website at <http://imagesensingsystems.com>.

Can I vote my shares in person at the meeting?

If you are a shareholder of record, you may vote your shares in person at the meeting by completing a ballot at the meeting. Even if you currently plan to attend the meeting, we recommend that you also submit your proxy as described above so that your vote will be counted if you later decide not to attend the meeting.

What vote is required for the election of directors or for a proposal to be approved?

In accordance with Minnesota law, if a quorum is present, the nominees for election as directors will be elected by a plurality of the votes cast at the annual meeting. This means that because shareholders will be electing four directors, the four nominees receiving the highest number of votes will be elected. The affirmative vote of a majority of the shares of our common stock present in person or by proxy and entitled to vote at the annual meeting is required to approve Proposals 2, 3 and 4 (provided that a quorum is present at the meeting).

How are votes counted?

You may either vote “FOR” or “WITHHOLD AUTHORITY” to vote for each nominee for the Board of Directors. You may vote “FOR,” “AGAINST” or “ABSTAIN” on Proposals 2, 3 and 4.

If you submit your proxy but abstain from voting or withhold authority to vote on one or more matters, your shares will be counted as present at the meeting for the purpose of determining a quorum. Your shares also will be counted as present at the meeting for the purpose of calculating the vote on the particular matter with respect to which you abstained from voting or withheld authority to vote.

If you withhold authority to vote for one or more of the directors, this has no effect on the election of those directors. If you abstain from voting on a proposal, your abstention has the same effect as a vote against that proposal.

If you hold your shares in “street name” and do not provide voting instructions to your broker, your shares will be considered to be “broker non votes” and will not be voted on any proposal on which your broker does not have discretionary authority to vote. Shares that constitute broker non votes will be counted as present at the meeting for the purpose of determining a quorum but will not be represented at the meeting for purposes of calculating the vote with respect to such matter or matters. This effectively reduces the number of shares needed to approve such matter or matters.

What is the difference between a “shareholder of record” and a shareholder who holds stock in “street name”?

If you hold our shares directly in your name with our transfer agent, Continental Stock Transfer and Trust Company, you are a “shareholder of record” (also known as a “registered shareholder”). The Notice of Internet Availability of Proxy Materials and, if you elect to receive written proxy materials, the Notice of Annual Meeting, Proxy Statement, 2017 Annual Report to Shareholders, and proxy card have been sent directly to you by us or our representative.

If you own your shares indirectly through a broker, bank, or other financial institution, your shares are said to be held in “street name.” Technically, the bank or broker is the shareholder of record with respect to those shares. In this case, the Notice of Internet Availability of Proxy Materials and, if you elect to receive written proxy materials, the Notice of Annual Meeting of Shareholders, Proxy Statement, Annual Report to Shareholders, and a voting instruction form have been forwarded to you by your broker, bank or other financial institution or its designated representative. Through this process, your bank or broker collects the voting instructions from all of their customers who hold our shares and then submits those votes to us.

Because of a change in the rules of The NASDAQ Stock Market (NASDAQ) effective in 2010, your broker will NOT be able to vote your shares with respect to the election of directors, the advisory resolution to approve executive compensation, or the approval of the amendment to our Section 382 rights agreement unless you provide voting instructions to it. We strongly encourage you to exercise your right to vote.

What is a broker non vote?

A broker non vote occurs when a broker's or bank's customer does not provide the broker or bank with voting instructions on "non routine" matters for shares owned by the customer (sometimes referred to as the "beneficial owner") but held in the name of the broker or bank. For such matters, the broker or bank cannot vote on behalf of the beneficial owner and reports the number of such shares as "non votes." By contrast, if a proposal is considered "routine," the broker or bank, in its discretion, may vote any shares as to which it has not received specific instructions from its customer. Each bank or broker has its own policies that control whether or not it casts votes for routine matters.

Whether the proposal is non routine or routine is governed by NASDAQ rules. The election of directors (Proposal 1), the vote on the advisory resolution to approve the compensation of our named executive officers (Proposal 3), and the approval of the amendment to our Section 382 rights agreement (Proposal 4) are considered non routine by NASDAQ; the ratification of our independent registered public accounting firm (Proposal 2) is considered routine.

What is the effect of not casting my vote?

Changes in NASDAQ regulations in 2010 eliminated the ability of your bank or broker to vote your uninstructed shares in the election of directors on a discretionary basis. Therefore, if you hold your shares in street name and you do not instruct your bank or broker how to vote in the election of directors (Proposal 1), the vote on the advisory resolution to approve the compensation of our named executive officers (Proposal 3), or the approval of the amendment to our Section 382 rights agreement (Proposal 4), no votes will be cast on your behalf. Before 2010, if you held your shares in street name and you did not indicate how you wanted your shares voted in the election of directors, your bank or broker was allowed to vote those shares on your behalf in the election of directors as it felt appropriate.

Your bank or broker will, however, continue to have discretion to vote any uninstructed shares on the ratification of the appointment of the Company's independent registered public accounting firm (Proposal 2). If you are a shareholder of record and you do not cast your vote, no votes will be cast on your behalf on any proposals at the annual meeting.

How does the Board of Directors recommend that I vote?

The Board of Directors recommends a vote:

- FOR all of the nominees for director;
- FOR the ratification of the appointment of Boulay PLLP as our independent registered public accounting firm for the 2018 fiscal year;
- FOR the advisory resolution approving the compensation of our named executive officers; and
- FOR approval of the amendment to our Section 382 rights agreement.





What if I do not specify how I want my shares voted?

If you vote your proxy and do not specify how you want to vote your shares, we will vote your shares:

- FOR all of the nominees for director;
- FOR the ratification of the appointment of Boulay PLLP as our independent registered public accounting firm for the 2018 fiscal year;
- FOR the advisory resolution approving the compensation of our named executive officers;
- FOR approval of the amendment to our Section 382 rights agreement; and
- in the discretion of the persons named in the proxy on any other proposals that properly come before the meeting and as to which we did not receive notice before February 13, 2018.

Can I change my vote after submitting my proxy or voting instructions?

Yes. You may revoke your proxy at any time before the proxy vote is cast at the annual meeting in any of the following ways:

- by giving written notice of revocation to our Corporate Secretary (whose address is set forth below);
- by submitting a later dated proxy; or
- by voting in person at the meeting.

Who pays for the cost of proxy preparation and solicitation?

We pay for the cost of proxy preparation and solicitation.

We are soliciting proxies by making our proxy materials available over the Internet and by providing paper copies of our proxy materials to shareholders who request them. In addition, some of our officers, directors and regular employees may solicit proxies by telephone, letter, facsimile or personally. These individuals will receive no additional compensation for these services.

How can I communicate with the Board of Directors?

Shareholders may communicate with our Board of Directors by sending a letter addressed to the Board of Directors or specified individual directors to:

The Office of the Corporate Secretary

Image Sensing Systems, Inc.

500 Spruce Tree Centre

1600 University Avenue West

St. Paul, MN 55104

Our Corporate Secretary will deliver such letters to a director that can address the matter, or to a specified director if so addressed.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of March 12, 2018 by (1) each person or entity known by us to own beneficially more than five percent of our common stock; (2) each director and nominee for election as a director of Image Sensing Systems, Inc.; (3) each of our executive officers named in the Summary Compensation Table below; and (4) all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (the "SEC") and includes voting power and investment power with respect to our securities. Shares of our common stock issuable pursuant to stock options and convertible securities that are exercisable or convertible as of or within 60 days after March 12, 2018 are deemed outstanding for computing the beneficial ownership percentage of the person or member of a group holding the options but are not deemed outstanding for computing the beneficial ownership percentage of any other person. Except as indicated by footnote, the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. The address of each director and executive officer named below is the same as that of Image Sensing Systems, Inc.

| Name and Address of Beneficial Owner   | Amount and Nature of Beneficial Ownership | Percent of Common Stock Outstanding(1) |
|--|---|--|
| Five Percent Shareholders<br>AB Value Management LLC.<br><br>84 Elm Street,<br><br>Westfield, NJ 07090 | 923,305 (7)                               | 17.7 %                                 |
| Norman H. Pessin<br><br>366 Madison Avenue, 14th Floor<br><br>New York, NY 10017                       | 432,205 (2)                               | 8.3 %                                  |
| John H. Lewis<br><br>300 Drakes Landing Road, Suite 172<br><br>Greenbrae, CA 94904                     | 481,927 (3)                               | 9.2 %                                  |
| Nicusa Capital Partners L.P.<br>19 West 34th Street<br>New York, NY 10001                              | 470,660 (4)                               | 9.0 %                                  |
| Panos G. Michalopoulos   | 294,298 (5)                               | 5.6 %                                  |
| Executive Officers and Directors   |   |  |
| Andrew T. Berger   | 94,912 (7)                                | 1.8 %                                  |
| James W. Bracke  | 68,376 (6)                                | 1.3 %                                  |
| Richard A. Ehrich <sup>(8)</sup>   | 50,436 (6)                                | *                                      |

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|   |         |     |     |   |
|---|---------|-----|-----|---|
| Paul F. Lidsky  | 32,055  |     | *   |   |
| Chad A. Stelzig   | 23,558  | (6) | *   |   |
| Geoffrey C. Davis   | 10,749  |     | *   |   |
| All directors and executive officers as a group (6 persons) | 280,086 | (6) | 5.4 | % |

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\* Less than one percent.

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- (1) Based on 5,210,448 shares outstanding as of March 12, 2018.
- (2) We have relied upon the information supplied by Norman H. Pessin in a Schedule 13D/A he filed with the SEC on October 11, 2016.
- (3) We have relied upon the information supplied by John H. Lewis in a Schedule 13G/A he filed with the SEC on February 12, 2014. Since February 12, 2014, no additional information has been supplied by John H. Lewis, and he has not been identified as a registered shareholder during the search conducted by our proxy group. As a result, we do not believe that John H. Lewis continues to hold a position in the Company's common stock.
- (4) We have relied upon the information supplied by Nicusa Capital Partners L.P. in a Schedule 13G/A it filed with the SEC on February 23, 2012. Since February 23, 2012, no additional information has been supplied by Nicusa Capital Partners L.P., and it has not been identified as a registered shareholder during the search conducted by our proxy group. As a result, we do not believe that Nicusa Capital Partners L.P. continues to hold a position in the Company's common stock.
- (5) Includes 262,935 shares held by Transatlantic Emporium & Technology Exchange LLC, a company controlled by Dr. Panos G. Michalopoulos.
- (6) Includes the following shares issuable pursuant to options exercisable as of or within 60 days after March 12, 2018: for Mr. Bracke, 22,000 shares; for Mr. Stelzig, 8,000 shares; for Mr. Ehrich, 8,750 shares; and for all directors and executive officers as a group, 38,750 shares.
- (7) Mr. Berger has 94,912 shares under his direct ownership. By virtue of his relationships with AB Value Management LLC, AB Value Management LLC's Managed Account, and AB Value Partners, LP, Mr. Berger may be deemed to beneficially own the 828,393 shares owned by AB Value Partners, LP and the Managed Account.
- (8) Mr. Ehrich resigned as Chief Financial Officer on March 13, 2018, when Todd C. Slawson was appointed as Interim Chief Financial Officer.

#### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors and persons who beneficially own more than 10% of our common stock to file initial reports of ownership and reports of changes in ownership of our common stock with the Securities and Exchange Commission. Executive officers, directors and beneficial owners of more than 10% of our common stock are required by regulations of the Securities and Exchange Commission to furnish us with copies of all Section 16(a) reports they file. Based solely on a review of the copies of such forms furnished to us and written representations from the executive officers and directors, we believe that all of our executive officers, directors and beneficial owners of more than 10% of our common stock complied with all Section 16(a) filing requirements applicable to them for fiscal 2017, except as follows: one report on Form 4 reporting the purchase of common stock on June 6, 2017 for Richard A. Ehrich, our former Chief Financial Officer as of his resignation on March 13, 2018, was not filed on a timely basis.

PROPOSAL 1 ELECTION OF DIRECTORS

The business and affairs of Image Sensing Systems, Inc. are managed under the direction of our Board of Directors, which presently is comprised of four members. Each of our directors is elected until the next annual meeting of shareholders and until the director's successor has been elected and qualifies to serve as a director or until the director's earlier removal, death or resignation. All of the nominees presently are members of the Board of Directors.

The Board of Directors recommends that you vote FOR election of the four nominated directors. Proxies will be voted FOR the election of the four nominees unless otherwise specified.

If for any reason any nominee shall be unavailable for election to the Board of Directors, the named proxies will vote for such other candidate or candidates as may be nominated by the Board of Directors. The Board of Directors has no reason to believe that any of the nominees will be unable to serve.

The nominees for election to our Board of Directors provided the following information about themselves as of March 12, 2018.

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Andrew T. Berger, age 45, has been a director since October 2015. Mr. Berger was appointed Executive Chairman of the Board of Directors in June 2016. Mr. Berger is also Chair of the Nominating and Corporate Governance Committee and a member of the Audit Committee and Compensation Committee. 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 nearly two decades of experience in investment analysis, investment management, and business consulting. From March 1998 through January 2002, Mr. Berger served as Equity Analyst for Value Line, Inc. Since February 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. Since December 2016, Mr. Berger has been Chief Executive Officer of LIMAB, LLC, which operates Cosi, Inc, a restaurant company.

Mr. Berger is qualified to serve on our Board due to his two decades of experience in investment analysis, investment management, and business consulting for both public and private companies.

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James W. Bracke, age 70, has been a director since 2009. Mr. Bracke was Chairman of the Board from September 2011 until June 2016. He is chair of the Audit Committee and a member of the Nominating and Corporate Governance Committee and the Compensation Committee. Mr. Bracke has been Vice President of Oral Health and EPIEN Medical Inc., a privately held medical device company, since April 2014. He has been the President of Boulder Creek Consulting, LLC, a business and technology consulting firm, since 2004. Mr. Bracke was a director of Enventis Corporation, formerly known as Hickory Tech Corporation, a publicly held company, from 2004 until it was acquired by Consolidated Communications Holdings, Inc. in October 2014. Mr. Bracke was also Managing Director of National Green Gas LLC, a medical waste-to-energy company, from 2009 to 2014.

Mr. Bracke is qualified to serve on our Board due to his management, technical and public company experiences, most significantly his 20 years as President and Chief Executive Officer of Lifecore Biomedical, Inc., a publicly held medical device manufacturer, from 1983 to 2004.

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Paul F. Lidsky, age 63, has been a director since June 2013. Mr. Lidsky is Chair of the Compensation Committee and a member of the Audit Committee and the Nominating and Corporate Governance Committee. Mr. Lidsky was elected as a director of Datalink Corporation in June 1998 and became its President and Chief Executive Officer in

July 2009. He served in these capacities until Datalink Corporation was acquired by Insight Enterprises, Inc. in January 2017. Mr. Lidsky was the President and Chief Executive Officer of Calabrio, Inc., from October 2007 until July 2009. From December 2005 until September 2007, Mr. Lidsky served as Chief Operating Officer for Spanlink Communications, Inc. Between 2003 and 2004, Mr. Lidsky was President and Chief Executive Officer of Computer Telephony Solutions. From 2002 to 2003, Mr. Lidsky was President and Chief Executive Officer of VigiLanz Corporation. From 1997 until 2002, Mr. Lidsky was the President and Chief Executive Officer of OneLink Communications, Inc. Between 1985 and 1997, Mr. Lidsky was employed by Norstan, Inc., most recently as Executive Vice President of Strategy and Business Development.

Mr. Lidsky is qualified to serve on our Board due to his extensive experience working in senior executive positions for both public and private companies in a variety of industries as well as prior service on public company boards.

Geoffrey C. Davis, age 59, has been a director since November 2016. Mr. Davis is a principal at Republic Consulting, LLC. From 2005 to 2012, Mr. Davis served as a U.S. Congressman from the Commonwealth of Kentucky, and he represented the Fourth District in the United States House of Representatives. During his tenure in Congress, Mr. Davis earned a leadership role within the Republican Conference as a Deputy Whip, which is a close advisor to Congressional Leadership. Mr. Davis also served on the House and Finance Services and Armed Services Committees from 2005 to 2008. Late in 2008, he was appointed to the Ways and Means Committee. Prior to serving in Congress, Mr. Davis owned and operated a consulting firm specializing in lean manufacturing and systems integrations. Davis graduated from the U.S. Military Academy at West Point, New York.

Mr. Davis is qualified to serve on our Board due to his extensive experience working in senior positions in government and the manufacturing industry sector.

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Our executive officers and their biographical information as of the date of this proxy statement are as follows:

**Todd C. Slawson**, age 31, was appointed as Interim Chief Financial Officer on March 13, 2018. From 2016 to 2018, Mr. Slawson served as the Director of Finance and Corporate Controller of the Company. In addition, he held the positions at the Company of Director of Finance and Business Development from 2015 to 2016 and Senior Financial Analyst from 2013 to 2015. He has prior experience as a certified public accountant with KPMG LLP from 2010 to 2013.

**Chad A Stelzig**, age 42, was appointed President and Chief Executive Officer in March 2017 following his appointment as Interim President and Interim Chief Executive Officer in June 2016. Prior to Mr. Stelzig's appointment, he served as the Vice President of Engineering of the Company from 2014 to 2016. In addition to his position as Vice President, he also held positions of Director of Algorithm and Software Engineering and Algorithm Manager at the Company from 2011 to 2014. Prior to joining the Company, he has held various positions at General Dynamics, C4 Systems, from 2004 to 2011 and Lockheed Martin from 2000 to 2004.



## CORPORATE GOVERNANCE

Our Board of Directors and management are dedicated to exemplary corporate governance. In 2004, we adopted a Code of Ethics and Business Conduct. This Code is a statement of our high standards for ethical behavior and legal compliance, and it governs the manner in which we conduct our business. A copy of our Code of Ethics and Business Conduct can be found on our website at [www.imagesensing.com](http://www.imagesensing.com) by clicking on “Company,” then “Investors,” then “Investor Resources” and then on “Corporate Code of Ethics and Business Conduct.”

### Board Composition and Meetings

Our Board of Directors has determined that all of our current directors and nominees are independent directors as defined under the applicable rules of the SEC and Nasdaq. The independent directors of our current Board are Andrew T. Berger, James W. Bracke, Paul F. Lidsky and Geoffrey C. Davis. Each of the Committees of the Board is composed of independent directors. In making the independence determinations, our Board of Directors reviewed all of our directors’ relationships with us based primarily on a review of the responses of the directors to questions regarding employment, business, familial, compensation and other relationships with us and our management.

We believe our Board of Directors, taken as a whole, possesses an appropriate combination of skills and experiences. The majority of our Board members have experience in operating and advising high growth technology based businesses. Individually, our directors have varied experiences in small and large publicly held companies in the operational areas of engineering, sales, marketing and finance.

The Board of Directors held six meetings during 2017 in addition to Board Committee meetings. No director who was a director in 2017 attended fewer than 80% of the total meetings held in 2017 of the Board and the Board Committees on which the director served during 2017.

### Board Leadership Structure

We separate the roles of Chief Executive Officer and Executive Chairman of the Board of Directors. The Company believes that such a separation benefits the Company by enhancing the opportunities for checks and balances between the Company’s strategies and its objectives and ensuring that a wider selection of alternative measures are considered. Our current Executive Chairman, Andrew T. Berger, has served in that role since June 2016. Our previous Chairman, James W. Bracke, served in that role from September 2011 to June 2016.

### Risk Oversight

The Board of Directors, in conjunction with management, has identified and prioritized various enterprise risks, and each prioritized risk is assigned to a Board Committee or the full Board for oversight. For example, financial risks are overseen by the Audit Committee; compensation risks are overseen by the Compensation Committee; Chief Executive Officer succession planning is overseen by the Governance and Nominating Committee; and strategic, legal and compliance risks are typically overseen by the full Board. Management regularly reports on each such risk to the relevant Committee or the Board, and material risks identified by a relevant Committee are then presented to the full Board. Additional review or reporting on enterprise risks is conducted as needed or as requested by the Board or Committee. Coordination of management’s review of risks is performed by the Interim Chief Financial Officer, who reports to the Board of Directors.

Board Committees

Our Board of Directors conducts its business through meetings of the Board and the following three standing Committees: Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. Each of these Committees has adopted and operates under a written charter. Copies of the charters are posted on our website at [www.imagesensing.com](http://www.imagesensing.com). The current membership of these Committees is described below.

|                         |                           |  |
|-------------------------|---------------------------|--|
| Audit Committee(1)      | Compensation Committee(2) | Nominating and Corporate Governance Committee(4) |
| James W. Bracke (Chair) | Paul F. Lidsky (Chair)    | Andrew T. Berger (Chair)                         |
| Paul F. Lidsky          | James W. Bracke           | Paul F. Lidsky                                   |
| Andrew T. Berger        | Andrew T. Berger          | James W. Bracke                                  |

- (1) Mr. Bracke was appointed Chair of the Audit Committee on November 1, 2016.
- (2) Mr. Lidsky was appointed as Chair of the Compensation Committee on March 27, 2015.
- (3) Mr. Berger was appointed as Chair of the Nominating and Corporate Governance Committee on May 11, 2016.

Audit Committee

The Audit Committee is responsible for the selection and compensation of the independent registered public accounting firm, and it reviews with the independent registered public accounting firm the scope of the annual audit, matters of internal control and procedure and the adequacy thereof, the audit results and reports and other general matters relating to our accounts, records, controls and financial reporting. Each current member of our Audit Committee possesses the financial qualifications required of audit committee members under the rules and regulations of Nasdaq and the SEC. For 2017, our Board of Directors identified James W. Bracke., Andrew T. Berger and Paul F. Lidsky as audit committee financial experts as defined in the applicable rules of the SEC. During 2017, the Audit Committee held five meetings.

Compensation Committee

The Compensation Committee reviews and recommends to the Board of Directors the compensation guidelines and stock award grants for executive officers and other key personnel. During 2017, the Compensation Committee held one meeting, and it acted by written action in lieu of a meeting one time. The Committee’s primary responsibilities include:

- annually reviewing and approving corporate goals and objectives relevant to the compensation of the Company’s Chief Executive Officer and Chief Financial Officer, evaluating their performances in light of those goals and objectives, and subsequently determining their incentive compensation levels based on this evaluation and other factors deemed relevant and appropriate by the Committee;
- annually reviewing and determining for our Chief Executive Officer and Chief Financial Officer their annual base salary levels, annual incentive opportunity levels, employment agreements, severance arrangements and change of control agreements/provisions, and special or supplemental benefits, if any; and

- reviewing and making recommendations to the Board of Directors with respect to compensation programs and policies, including incentive compensation plans and equity based plans.

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#### Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee recommends director nominees to the Board and recommends policy guidelines on corporate governance issues. During 2017, the Nominating and Corporate Governance Committee held one meeting, and it acted by written action in lieu of a meeting one time.

#### Compensation Committee Interlocks and Insider Participation

No executive officer of the Company serves as a member of the board of directors or compensation committee of any entity that has any of its executive officers serving as a member of our Board of Directors or Compensation Committee.

#### Executive Sessions of the Board

At least twice annually, our independent directors meet in executive session without any director being present who does not meet the independence requirements of the listing standards of Nasdaq. During 2017, our independent directors met five times in executive session.

#### Board Nomination Process

The Nominating and Corporate Governance Committee determines the required selection criteria and qualifications of director nominees based upon our needs at the time nominees are considered. Directors should possess the highest personal and professional ethics, integrity and values and be committed to representing the long term interests of our shareholders. In evaluating a candidate for nomination as a director of Image Sensing Systems, Inc., the Nominating and Corporate Governance Committee considers criteria including business and financial expertise; where the director resides; experience as a director of a public company; diversity of background and experience on the Board; and general criteria such as ethical standards, independent thought, practical wisdom and mature judgment. The Nominating and Corporate Governance Committee will consider these criteria for nominees identified by the Nominating and Corporate Governance Committee, by shareholders, or through some other source. The Nominating and Corporate Governance Committee does not have a policy that specifically addresses diversity in its nominating process.

The Nominating and Corporate Governance Committee will consider qualified candidates for possible nomination that are submitted by our shareholders. Shareholders wishing to make such a submission may do so by sending the following information to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, at the address indicated on the Notice of Annual Meeting of Shareholders: (1) name of the candidate and a brief biographical sketch and resume; (2) contact information for the candidate and a document evidencing the candidate's willingness to serve as a director if elected; and (3) a signed statement as to the submitting shareholder's current status as a shareholder and the number of shares currently held.

The Nominating and Corporate Governance Committee conducts a process of making a preliminary assessment of each proposed nominee based upon the nominee's resume and biographical information, an indication of the nominee's willingness to serve and other background information. This information is evaluated against the criteria set forth above and our specific needs at that time. Based upon a preliminary assessment of the candidate(s), those who appear best suited to meet our needs may be invited to participate in a series of interviews, which are used as a further means of evaluating potential candidates. On the basis of information learned during this process, the Nominating and Corporate Governance Committee determines which nominee(s) to recommend to the Board to submit for election at the next annual meeting. The Nominating and Corporate Governance Committee uses the same process for evaluating

all nominees, regardless of the original source of the nomination.

No candidates for director nominations were submitted by any shareholder in connection with the 2018 annual meeting.

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Policy Regarding Attendance at Annual Meetings

We encourage, but do not require, our Board members to attend the annual meeting of shareholders. Last year, all of our then elected directors, excluding Paul F. Lidsky, attended the annual shareholders meeting.

Non-Employee Director Compensation

During 2017, each of our non-employee directors received an annual \$50,000 retainer, of which \$25,000 is paid in cash and \$25,000 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 grant date of the award. The Chairman and Executive Chairman of the Board received an additional \$22,500 annual cash retainer. The Committee Chairs received the following additional annual cash retainers: Audit Committee \$10,000; Compensation Committee \$7,000; and Nominating and Corporate Governance Committee \$5,000. Members of the Committees received the following additional annual cash retainers: Audit Committee - \$6,000; Compensation Committee - \$5,000; and Nominating and Corporation Governance Committee - \$4,000. Members of any special Committees formed by the Board received a \$1,500 quarterly retainer for each special Committee on which they served, with the Chair of each special Committee receiving an additional \$2,500 quarterly retainer. In 2016, until his resignation on June 24, 2016, Mr. Dale E. Parker was the only member of the Board who was an employee.

The following table provides information regarding the compensation earned by the members of the Board of Directors in 2017.

Director Compensation – 2017

| Name              | Fees Earned or<br>Paid in Cash(1)<br>(\$) | Stock<br>Awards(2)<br>(\$) | Total<br>(\$) |
|-------------------|---|----------------------------|---------------|
| Andrew T. Berger  | \$ 67,500                                 | \$ 25,008                  | \$ 92,508     |
| James W. Bracke   | \$ 50,000                                 | \$ 25,008                  | \$ 75,008     |
| Paul F. Lidsky    | \$ 47,000                                 | \$ 25,008                  | \$ 72,008     |
| Geoffrey C. Davis | \$ 25,000                                 | \$ 25,008                  | \$ 50,008     |

(1) Consists of fees earned and paid in 2017.

(2) Represents the grant date fair value of stock awards during the year determined pursuant to Financial Accounting Standards Board Accounting Standard Codification Topic 718, Compensation – Stock Compensation (ASC Topic 718). Refer to “Note 12 Stock-Based Compensation” in our Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of the assumptions used in calculating the grant date fair value.

Each director is reimbursed by the Company for his or her actual out-of-pocket expenses, including telephone, travel and miscellaneous items incurred on behalf of the Company.

## EXECUTIVE COMPENSATION

### Compensation Discussion

#### Overview

This compensation discussion describes the material elements of compensation awarded to, earned by or paid to each of our named executive officers (the “Named Executive Officers”), as that term is defined in Item 402(a)(3) of the SEC’s Regulation S-K. During 2017, our Named Executive Officers consisted of Chad A. Stelzig, our President and Chief Executive Officer; and Richard A. Ehrich, who served in the capacities of Chief Financial Officer from August 2016 until he resigned on March 13, 2018. During 2016, our Named Executive Officers consisted of Chad A. Stelzig, our President and Chief Executive Officer; Richard A. Ehrich, our Chief Financial Officer; and Dale E. Parker, our Interim President and Interim Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Treasurer who served in the capacities of Interim President and Interim Chief Executive Officer from December 2014 until he resigned in June 2016.

#### Objectives of the Compensation Program

The Compensation Committee sets the compensation programs for the Named Executive Officers. The independent members of our Board approve the compensation of the Named Executive Officers

The primary objective of our various compensation programs is to attract, motivate and retain key executives and align their compensation with our overall performance. Our Compensation Committee believes that incentive, performance based compensation can be a key factor in motivating executive performance to maximize shareholder value and align executive performance with our corporate objectives and shareholder interests. To this end, the Committee has established a compensation philosophy that includes the following considerations:

- an emphasis on performance based compensation that differentiates compensation results based upon varying elements of Company and individual performance;
- a recognition of both quantitative and qualitative performance objectives based upon an executive officer’s responsibilities; and
- a mix of short term cash and long term equity based compensation.

The Committee and the Board believe it is important, when making their compensation related decisions, to be informed as to current practices of similarly situated companies. The Committee and the Board do not engage in benchmarking compensation against comparator groups, and they have not established targeted percentile rankings with respect to total compensation or the specific elements of compensation for the Company’s Named Executive Officers. Members of our Board of Directors and members of the Committee are experienced in compensation matters and leverage such experience in addressing compensation matters and practices.

#### Design of the Compensation Program for the Named Executive Officers

The Committee and the Board have designed the compensation program for the Named Executive Officers to achieve the objectives described above, to ensure market competitiveness and to assure satisfaction of our objective of providing total executive pay that achieves an appropriate balance of variable pay for performance and at risk compensation. The compensation program will reward the Named Executive Officers based upon corporate

performance as well as the performance of the Named Executive Officers.

The compensation program for the Named Executive Officers includes the following elements: base salary, annual cash incentives, restricted stock grants and other benefits. We characterize the annual cash incentives and the restricted stock grants as performance based compensation. Our executive compensation policy for the Named Executive Officers provides that a significant portion of the total compensation payable to them will be in the form of performance based compensation. We do not have a target for each element of performance based compensation relative to total compensation. The elements of our compensation program are described below.



**Base Salaries.** Base salary is an important element of executive compensation because it provides executives with a fixed level of regular periodic income. In determining base salaries for our Named Executive Officers, the Committee and the Board consider historic individual and corporate performance, level of responsibility and market and competitive data. The Committee establishes base salaries for the Named Executive Officers at a level such that a significant portion of the total compensation that they can earn is performance based cash incentives and equity awards.

**Annual Cash Incentive.** As part of our executive compensation program, the Named Executive Officers may receive annual cash incentive awards pursuant to our annual cash bonus program. Targeted bonus amounts are designed to provide competitive incentive pay and reflect our pay for performance philosophy. The Committee historically has reviewed and determined target bonus amounts annually.

Performance objectives intended to focus attention on achieving key goals are established at the beginning of each fiscal year. The primary quantitative objective is achievement of revenue and net income targets set forth in our annual operating plan established by the Board of Directors. Specifically, these include metrics such as revenue and net profit (after tax), international operations revenue and operating profit. Additionally, the performance of the Named Executive Officers is judged on success in achieving certain strategic and operational initiatives. In evaluating their performance, the Committee may consider other factors in awarding bonuses and may, in its discretion, award as a discretionary bonus a portion of any bonus amount that is not earned based upon achievement of the financial and other metrics described above. The Committee reviews the individual incentive components of the Named Executive Officers' employment agreements, described below, and evaluates the objective portions relative to the Company's performance. The Committee also evaluates subjective, individual performance goals in determining the total amount of bonus to be awarded and has the ability to exercise discretion with respect to this portion. For the Named Executive Officers, up to one third of the bonus calculation may be associated with strategic and operational initiatives and is considered to be discretionary.

**Grants of Stock Options and Stock Awards.** Our executive officers also may receive equity based incentive compensation under stock plans approved by our shareholders and administered under the supervision of our Board of Directors. Grants under these plans are designed to align a significant portion of the executive compensation package with the long term interests of our shareholders. Stock options are generally granted with an exercise price equal to the closing sale price of the stock on the trading day before the date of grant, and they provide no cash benefit if the price of the stock does not exceed the grant price during the option's term. Therefore, for any value to be derived from an option grant, our performance needs to result in increased stock price performance and shareholder value over a multi year period. Individual equity awards historically have been recommended by the Committee based on an officer's current performance, potential for future contribution and responsibility and market competitiveness.

For 2017, the Committee recommended and the Board approved the grant of a stock award to the Named Executive Officers under the terms of the Company's 2014 Stock Option and Incentive Plan. The awards will vest as to one-third of the shares subject to the awards on each of the first, second and third anniversary dates of the date of grant if the officer is then an employee of the Company.

In 2016, and in connection with the appointment of Chad A. Stelzig as Interim President and Interim Chief Executive Officer, on June 27, 2016, the Committee recommended and the Board approved the grant of 10,000 shares of restricted stock to him under the terms of the Company's 2014 Stock Option and Incentive Plan, which vested on December 27, 2016.

**Retirement Plans.** We generally expect executives to plan for and fund their own retirement. We maintain a 401(k) plan that permits eligible employees, including our Named Executive Officers, to defer a limited portion of salary and bonus into any of several investment alternatives. We make matching contributions equal to 50% of the first 6% of compensation deferred by employees subject to a maximum annual match of \$5,000 and maximums established under

the Internal Revenue Code of 1986 (the “Code”). We may also make discretionary contributions to the 401(k) plan. Payments made to the Named Executive Officers for matching contributions are included in the Summary Compensation Table below. We do not maintain defined benefit retirement or senior executive retirement plans, or provide post retirement medical benefits, for our Named Executive Officers.

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Other Benefits and Perquisites. Our executive compensation program also includes other benefits and perquisites. The Named Executive Officers participate in Company sponsored group benefit plans such as health, life and disability insurance plans available to all employees. In addition, Named Executive Officers may upon joining the Company receive assistance in relocating in the discretion of our Board of Directors. For more detailed information regarding benefits and perquisites provided to our Named Executive Officers, see the Summary Compensation Table included elsewhere in this proxy statement.

2018 Compensation Program. In March 2018, the Compensation Committee recommended and the Board of Directors approved a 2018 compensation plan for Chad A. Stelzig, the Company's President and Chief Executive Officer, and Todd C. Slawson, the Company's Interim Chief Financial Officer. Under the compensation plan, Mr. Stelzig will receive an annual base salary of \$237,500, and Mr. Slawson will receive an annual base salary of \$140,000. In addition, the compensation plan includes a target cash bonus for Mr. Stelzig and Mr. Slawson if the Company achieves performance criteria for 2018 set by the Board. Furthermore, Mr. Stelzig and Mr. Slawson each was granted an award of restricted common stock, under the Company's 2014 Stock Option and Incentive Plan, with the grant date fair value equal to \$64,000 for Mr. Stelzig and \$48,000 for Mr. Slawson determined pursuant to Financial Accounting Standards Board Accounting Standard Codification Topic 718, *Compensation - Stock Compensation*. The awards will vest as to one-third of the shares subject to the awards on each of the first, second and third anniversary dates of the date of grant if the officer is then an employee of the Company.

2017 Compensation Program. In March 2017, the Compensation Committee recommended and the Board of Directors approved a 2017 compensation plan for Chad A. Stelzig, the Company's President and Chief Executive Officer, and Richard A. Ehrich, the Company's former Chief Financial Officer as of his resignation on March 13, 2018. Under the compensation plans, Mr. Stelzig received an annual base salary of \$225,000 and Mr. Ehrich received an annual base salary of \$180,000, which were the same as their annual base salaries for 2016 paid to them in their capacities as executive officers of the Company. In addition, the compensation plan included target cash bonuses for Mr. Stelzig and Mr. Ehrich if the Company achieved performance criteria for 2017 set by the Board. Additionally, on March 8, 2017, Mr. Stelzig and Mr. Ehrich each received an award of 10,000 shares of restricted common stock under the Company's 2014 Stock Option and Incentive Plan. The awards vest as to one-third of the shares subject to the awards on each of the first, second and third anniversary dates of the date of grant if the officer is then an employee of the Company. Furthermore, on March 8, 2017, the Company's Board of Directors approved the payment of a \$25,000 cash bonus to Mr. Stelzig in recognition of his performance achievements to date.

#### Named Executive Officers' Role in Compensation Decisions

The Committee recommends to the Board of Directors the actual and targeted compensation of the Company's Named Executive Officers. The Board, with any non independent members abstaining, approves the compensation of the Named Executive Officers. (During 2016 until his resignation on June 24, 2016, Mr. Dale E. Parker was the only non-independent member of the Board and, during 2017, all members of the Board were independent.) The Committee determines its recommendations regarding the compensation plan for the Named Executive Officers based on major goals and objectives established by the Board of Directors. When applicable, the Committee also receives input from our Chief Executive Officer regarding another Named Executive Officer's leadership capabilities, past performance and potential for future contributions when making its recommendations on actual and targeted compensation amounts for Named Executive Officers.

#### Other Considerations

Although the Committee and the Board consider tax and accounting issues in connection with their compensation decisions, those have not become material factors in their compensation decisions to date.



Compensation Committee Report on Executive Compensation

Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings by reference, including this proxy statement, in whole or in part, the following report of the Compensation Committee shall not be deemed to be incorporated by reference into any such filings and shall not otherwise be deemed filed under such acts.

We have reviewed and discussed the foregoing Compensation Discussion with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion be included in this proxy statement and in our Annual Report on Form 10 K for the year ended December 31, 2017.

By the Compensation Committee –

Paul F. Lidsky, Chair

James W. Bracke

Andrew T. Berger

Summary Compensation Table 2017 and 2016

The following table sets forth information about compensation awarded to, earned by or paid to our Named Executive Officers for 2017 and 2016.

| Name and Principal Position   | Year | Salary<br>(\$) | Stock-<br>Based<br>Compensation<br>(1)<br>(\$) | Non-Equity<br>Incentive<br>Plan<br>Compensation<br>(\$) | All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|---|------|----------------|--|---|-----------------------------------|---------------|
| Chad A. Stelzig<br>President and Chief Executive<br>Officer   | 2017 | \$ 225,000     | \$ 9,300                                       | \$ 103,750  | \$ 5,000(2)                       | \$ 343,050    |
|   | 2016 | \$ 206,219     | \$ 27,272                                      | \$ –  | \$ 5,000(3)                       | \$ 238,491    |
| Richard A. Ehrich<br>Former Chief Financial Officer   | 2017 | \$ 180,000     | \$ 8,604                                       | \$ 54,000   | \$ 5,000(4)                       | \$ 247,604    |
|   | 2016 | \$ 160,521     | \$ 3,951                                       | \$ –  | \$ 5,003(5)                       | \$ 169,475    |
| Dale E. Parker<br>Former Interim President,<br>Interim Chief Executive<br>Officer, Chief Operating<br>Officer, Chief Financial<br>Officer and Treasurer | 2016 | \$ 133,445     | \$ 1,691                                       | \$ –  | \$ 5,000(6)                       | \$ 140,136    |

(1) Consists of the grant date fair value of stock option awards during each year determined pursuant to Accounting Standards Codification (“ASC”) Topic 718. Refer to “Note 12 – Stock-Based Compensation” in our Annual Report on Form 10-K for the year ended December 31, 2017 and “Note 12 – Shareholders’ Equity” in our Annual Report on Form 10 K for the year ended December 31, 2016 for a discussion of the assumptions used in calculating the grant date fair value. There can be no assurance that the amounts reflected in the table will ever be realized.

(2) For Mr. Stelzig, the \$5,000 in All Other Compensation for 2017 consists of the Company match paid into his 401(k) plan account in 2017.

(3) For Mr. Stelzig, the \$5,000 in All Other Compensation for 2016 consists of the Company match paid into his 401(k) plan account in 2016.

(4) For Mr. Ehrich, the \$5,000 in All Other Compensation for 2017 consists of the Company match paid into his 401(k) plan account in 2017.

(5) For Mr. Ehrich, the \$5,003 in All Other Compensation for 2016 consists of the Company match paid into his 401(k) plan account in 2016.

(6) For Mr. Parker, the \$5,000 in All Other Compensation for 2016 consists of the Company match paid into his 401(k) plan account in 2016.

Grants of Equity and Non-Equity Awards 2017

In the following table, we have provided information regarding equity and non-equity incentive plan awards under our 2014 Stock Option and Incentive Plan made to Mr. Stelzig and Mr. Ehrich for 2017.

| Name              | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) |            |             | All Other Stock Awards: Number of Securities Underlying Stock Awards (#) | Exercise or Base Price of Option Awards (\$/Sh) | Grant Date Fair Value of Stock and Option Awards(2) |
|-------------------|------------|--|------------|-------------|--|---|---|
|                   |            | Threshold(\$)  | Target(\$) | Maximum(\$) |  |   |   |
| Chad A. Stelzig   | 1/01/17    | \$ 63,000  | \$ 78,750  | \$ 94,500   | --   | --  | --  |
| Chad A. Stelzig   | 3/15/17    | --   | --         | --          | 10,000(3)  | \$ 0.00   | \$23,600  |
| Richard A. Ehrich | 1/01/17    | \$ 43,200  | \$ 54,000  | \$ 64,800   | --   | --  | --  |
| Richard A. Ehrich | 3/15/17    | --   | --         | --          | 10,000(4)  | \$ 0.00   | \$ 23,600   |

(1) Represents the range of awards under the incentive component for 2017 under the incentive cash bonus plans for Mr. Stelzig and Mr. Ehrich. The amounts in these columns reflect the minimum payment level if an award is achieved, the target payment level and the maximum payment level under each plan if superior performance is attained. Amounts actually paid for 2017 are set forth in the “Non Equity Incentive Plan Compensation” column of the “Summary Compensation Table 2017 and 2016” above.

(2) Represents the grant date fair value determined pursuant to ASC Topic 718. Generally, the grant date fair value is the amount expensed in our financial statements over the vesting schedule of the stock options or restricted stock awards.

(3) Consists of a restricted stock award granted under the 2014 Stock Option and Incentive Plan. The restricted stock award will vest as to one-third of the shares subject to the awards on each of the first, second and third anniversary dates of the date of grant if the officer is then an employee of the Company.

(4) Consists of a restricted stock award granted under the 2014 Stock Option and Incentive Plan. The restricted stock award will vest as to one-third of the shares subject to the awards on each of the first, second and third anniversary dates of the date of grant if the officer is then an employee of the Company.

Outstanding Equity Awards at Fiscal Year End 2017

In April 2005, we adopted the 2005 Stock Incentive Plan, and in May 2014, we adopted the 2014 Stock Option and Incentive Plan (collectively, the “Plans”), which provide for the granting of incentive stock options, non qualified stock options, stock appreciation rights, restricted stock awards and performance awards to our officers, directors,



employees, consultants and independent contractors. Options granted to employees under the Plans generally vest over three to five years based on service and have a contractual term of nine to 10 years. As of December 31, 2017, there were options outstanding under the Plans to purchase a total of 85,750 shares with a weighted average exercise price per share of \$5.78.

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In the following table, we have provided information regarding outstanding stock option awards held at December 31, 2017 by the Named Executive Officers.

| Name              | Option Awards   |   | Option<br>Exercise Price<br>(\$) | Option<br>Expiration<br>Date |
|-------------------|---|---|----------------------------------|------------------------------|
|                   | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options<br>(#)<br>Exercisable | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options<br>(#)<br>Unexercisable |                                  |                              |
| Chad A. Stelzig   | 3,000   | —   | \$ 5.00                          | 09/17/2022                   |
|                   | 2,000   | —   | \$ 7.10                          | 08/20/2023                   |
|                   | 4,000   | 1,000   | \$ 4.22                          | 05/13/2024                   |
| Richard A. Ehrich | 5,000   | —   | \$ 5.00                          | 09/17/2022                   |
|                   | 5,000   | 1,250   | \$ 4.22                          | 05/13/2024                   |

#### Option Exercises and Stock Vested – 2017

There were no stock options exercised by the Named Executive Officers in 2017. Additionally, no shares vested in 2017 that related to stock awarded to Named Executive Officers.

#### Stock Options

Under the terms of our 2005 Stock Incentive Plan and 2014 Stock Option and Incentive Plan, if a participant's employment with us terminates by reason of the participant's death or disability, then, to the extent a stock option held by the participant is vested as of the date of death or disability, the stock option may be exercised by the participant, the legal representative of the participant's estate, the legatee of the participant under the will of the participant, or the distributee of the participant's estate, whichever is applicable, for a period of one year from the date of death or disability or until the expiration of the stated term of the stock option, whichever period is shorter. Any options that are not vested as of the date of death or termination due to disability will immediately lapse and be of no further force or effect.

If a participant's employment with us terminates for any reason other than death or disability or other than for cause, then, to the extent any stock option held by the participant is vested as of the date of termination, the stock option may be exercised for a period of 90 days from the date of termination or until the expiration of the stated term of the stock option, whichever period is shorter. Any options that are not vested as of the date of termination will immediately lapse and be of no further force or effect. Upon the termination of the participant's employment by us for cause, any and all unexercised stock options granted to the participant will immediately lapse and be of no further force or effect.

In the event of a “change in control” of our Company, as that term is defined in the respective Plans, all stock options held by executive officers then outstanding and not fully vested will become fully vested and exercisable in accordance with their terms.

## Employment Agreements

Chad A. Stelzig

On June 27, 2016, we entered into an Employment Agreement with Chad A. Stelzig (the “Agreement”) providing that Mr. Stelzig will serve as our Interim President and Interim Chief Executive Officer. The Agreement provides for a base salary for the year ended December 31, 2016 of \$225,000. The Agreement provides that Mr. Stelzig was eligible to receive a bonus to be determined by the Company’s Board of Directors and that he is entitled to insurance and other benefits in accordance with the Company’s standard executive employee programs.

The Agreement provides that if Mr. Stelzig’s termination of employment is voluntary on his part and not for “Good Reason” as defined in the Agreement, the Company must pay to Mr. Stelzig all earned and unpaid amounts due to him for salary through the termination date, and Mr. Stelzig will have 90 days after the date of the termination of his employment to exercise all options owned by Mr. Stelzig that are exercisable as of such termination date. Any other options, restricted stock and restricted stock units owned by Mr. Stelzig shall automatically terminate. The Agreement also provides that if the termination of employment is “With Cause” as defined in the Agreement, Mr. Stelzig will not be entitled to any severance, and all of the options, restricted stock and restricted stock units then owned by Mr. Stelzig shall automatically terminate. It also provides that if the termination is “Without Cause” as defined in the Agreement, Mr. Stelzig will be entitled to six months of salary continuation, without eligibility for bonus, and he will have 90 days to exercise all options that he owns that are exercisable as of such termination date. Any other options and any unvested restricted stock or restricted stock units for the Company’s common stock owned by him will terminate.

On March 15, 2017, the Company approved a compensation plan for the year ending December 31, 2017 for Mr. Stelzig. Under the compensation plan, Mr. Stelzig received a base salary of \$225,000 plus a restricted stock award of 10,000 shares of common stock under the 2014 Stock Option and Incentive Plan. The restricted award vests as to one-third of the shares subject to the awards on each of the first, second and third anniversary dates of the date of grant if Mr. Stelzig is then an employee of the Company. In addition, for 2017, Mr. Stelzig received a Board approved cash bonus of \$25,000 in recognition of performance achievements. Furthermore, Mr. Stelzig was eligible to receive a cash bonus for 2017 to be determined by the Company’s Board of Directors.

Richard A. Ehrich

On September 2, 2016, we entered into a Benefit and Compensation Agreement with Richard A. Ehrich (the “2016 Employment Agreement”), effective on August 25, 2016, providing that as our Chief Financial Officer, Mr. Ehrich would receive a base salary for the year ending December 31, 2016 of \$180,000.

The 2016 Employment Agreement provided that if Mr. Ehrich’s termination was “With Cause” as defined in the 2016 Employment Agreement, Mr. Ehrich would not be entitled to any severance. It also provides that if the termination is “Without Cause” as defined in the Agreement, Mr. Ehrich would be entitled to six months of salary continuation, without eligibility for bonus. If Mr. Ehrich voluntarily terminated his employment with the Company, the Company was required pay to him all earned and unpaid amounts due to him for salary through the termination date.

On March 15, 2017, the Company approved a compensation plan for the year ending December 31, 2017 for Mr. Ehrich. Under the compensation plan, Mr. Ehrich received a base salary of \$180,000 plus a restricted stock award of 10,000 shares of common stock under the 2014 Stock Option and Incentive Plan. The restricted award was to vest as to one-third of the shares subject to the awards on each of the first, second and third anniversary dates of the date of grant if Mr. Ehrich was then an employee of the Company. In addition, for 2017, Mr. Ehrich was eligible to receive a cash bonus to be determined by the Company’s Board of Directors.

Mr. Ehrich voluntarily resigned without “Good Reason” on March 13, 2018 as an officer, director and employee of the Company, and as a result he forfeited any unvested restricted stock awards. In connection with his resignation, effective on March 13, 2018, Mr. Ehrich and the Company entered into a severance and Release Agreement (the "Release Agreement"). The Release Agreement provides that the Company will pay to Mr. Ehrich an amount equal to three months of base compensation over a three-month period on the conditions that Mr. Ehrich assists ISS, during such three-month period, in any matter requested by ISS. Additionally, the Release Agreement provides that Mr. Ehrich is entitled to all amounts due related to his 2017 executive compensation plan, which is equal to \$54,000, and that Mr. Ehrich will receive an amount equal to the closing price, as quoted on the Nasdaq Capital Market, of 3,333 shares of ISS common stock subject to his previously granted restricted stock award within 10 days of the expiration of the rescission periods described below. Furthermore, the Release Agreement provides that Mr. Ehrich is to receive a continuation of all benefits over this three-month period. The Release Agreement contains releases by Mr. Ehrich of claims he may have against the Company. Mr. Ehrich may rescind the Release Agreement with respect to potential age-related claims within the seven-day period after March 13, 2018 and with respect to potential claims under the Minnesota Human Rights Act with the 15-day period after March 13, 2018. If Mr. Ehrich rescinds the Release Agreement, he gives up any right to the aforementioned compensation.

Dale E. Parker

On April 22, 2014, we entered into an Amended and Restated Employment Agreement with Dale E. Parker (the “2014 Parker Employment Agreement”) providing that Mr. Parker would serve as our Chief Operating Officer, Chief Financial Officer and Treasurer. The 2014 Parker Employment Agreement superseded the Employment Agreement between the Company and Mr. Parker dated as of June 25, 2013 (the “Original Parker Employment Agreement”). The Original Parker Employment Agreement and the 2014 Parker Employment Agreement both provided that Mr. Parker was eligible to receive a bonus to be determined by the Company’s Board of Directors and that he was entitled to insurance and other benefits in accordance with the Company’s standard employee programs.

The 2014 Parker Employment Agreement amended the Original Parker Employment Agreement to add certain “change in control” provisions. The 2014 Parker Employment Agreement provided that if Mr. Parker’s termination of employment was voluntary on his part and not for “Good Reason” as defined in the 2014 Parker Employment Agreement, the Company must pay to Mr. Parker all earned and unpaid amounts due to him for salary through the termination date and a pro rata portion of any incentive pay to which he would have been entitled had he remained in the Company’s employ, and Mr. Parker would have 90 days to exercise all options to purchase shares of the Company’s common stock that he owned and were exercisable at the termination date. Any other options and any unvested restricted stock or restricted stock units for the Company’s common stock that he owned would terminate. The 2014 Parker Employment Agreement also provided that if the termination of employment was “With Cause” as defined in the 2014 Parker Employment Agreement, Mr. Parker would not be entitled to any severance, and any and all options, restricted stock and restricted stock units for the Company’s common stock that he owns would terminate. It also provided that if the termination was “Without Cause” as defined in the 2014 Parker Employment Agreement, Mr. Parker would be entitled to 12 months of salary continuation, without eligibility for bonus, and he would have 90 days to exercise all options to purchase shares of the Company’s common stock that he owned and that were exercisable at the termination date. Any other options and any unvested restricted stock or restricted stock units for the Company’s common stock owned by him would terminate. Upon a “Change in Control Termination” as defined in the 2014 Parker Employment Agreement, the Company was to pay to Mr. Parker a severance payment equal to 1.5 times the amount of his annual salary and the total annual incentive pay to which he was entitled; any and all outstanding unvested options to purchase the Company’s common stock owned by him with an exercise price that was less than “Fair Market Value” of such common stock would vest and he would have 90 days to exercise all options; the risks of forfeiture on any restricted stock or restricted stock units owned by him would lapse; and for a period beginning on the date of the Change in Control Termination and ending on the earlier of the date that Mr. Parker obtained new employment or two years after the date of the Change in Control Termination, the Company would provide a continuation of the group medical insurance coverage previously provided to Mr. Parker by the Company and pay that portion of the premium for group medical insurance that it paid during his employment. Under the 2014 Parker Employment Agreement, the Company was obligated to make the payments and provide the benefits to Mr. Parker if his employment was terminated Without Cause or upon a Change in Control Termination only if Mr. Parker had signed a release agreement, the form of which was attached to the 2014 Parker Employment Agreement. The term “Change in Control Termination” as defined in the 2014 Parker Employment Agreement meant that, upon or within 12 months after a “Change in Control,” Mr. Parker’s employment was terminated for any reason other than “With Cause” or Mr. Parker terminated his employment for “Good Reason.”

In March 2016, the Company approved a compensation plan for the year ending December 31, 2016 for Mr. Parker. Under the compensation plan, Mr. Parker received a base salary of \$230,000 and was eligible to receive a restricted stock award with a grant date fair value equal to \$275,000 if the Company’s common stock met certain performance metrics from the date of grant through December 31, 2016. The shares of the common stock subject to the award were to vest as to 50% of the shares on the first anniversary date of the achievement date and 50% of such shares on the second anniversary date of the achievement date. The award was to automatically terminate and be forfeited if Mr.

Parker's employment with the Company was terminated for any reason during the performance period or if Mr. Parker's employment with the Company was terminated for any reason after the attainment of the performance goal and before the award vested. In addition, for 2016, Mr. Parker was to receive a total cash payment of \$45,000 to be paid in 12 equal monthly installments through December 31, 2016.

Mr. Parker voluntarily resigned without "Good Reason" on June 24, 2016 as an officer, director and employee of the Company, and he forfeited his restricted stock award and the remaining portions of his \$45,000 cash payments.

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Potential Payments upon Termination of Employment

The table below reflects the amount of compensation to Chad A. Stelzig and Richard A. Ehrich as our Named Executive Officers as of December 31, 2017 upon termination of employment under the specified circumstances. The amounts shown assume that the termination was effective as of December 31, 2017, include amounts earned through that time and are estimates of the amounts which would be paid out to each of our Named Executive Officers upon the termination of their employment. The actual amounts to be paid out can be determined only at the time of actual separation from our Company.

| Name                      | Cash Severance<br>Payment | Total   |
|---------------------------|---------------------------|---------|
| Chad A. Stelzig           |                           |         |
| Retirement or resignation | \$ —                      | \$ —    |
| Termination without cause | 112,500                   | 112,500 |
| Termination for cause     | —                         | —       |
| Death                     | —                         | —       |
| Richard A. Ehrich         |                           |         |
| Retirement or resignation | \$ —                      | \$ —    |
| Termination without cause | 90,000                    | 90,000  |
| Termination for cause     | —                         | —       |
| Death                     | —                         | —       |



#### Other Post Employment Payments

We generally do not provide pension arrangements or post retirement health coverage for executive officers or other employees. We do not provide any nonqualified defined contribution or other deferred compensation plans.

#### RELATED PERSON TRANSACTIONS AND POLICY

##### Related Person Transactions

During the year ended December 31, 2017, the Company had no transactions with related persons as described in Item 404 of the SEC's Regulation S-K.

##### Related Person Transaction Policy

The Company's Code of Ethics and Business Conduct (the "Ethics Code") requires that the Company's Board or Audit Committee approve activities that could involve a conflict of interest if undertaken by an "associate," which consists of the Company's directors, officers, employees and consultants. These transactions include owning a substantial interest in any competing business or in any outside distributor or customer that does or seeks to do business with the Company; providing services to any outside concern that does business with the Company or competes with the Company; representing the Company in any business transaction with a person or organization in which associates or their immediate family have a personal interest or may derive a benefit; or taking advantage of any business opportunity which may belong to the Company. In considering these transactions under the Ethics Code, the Board or the Audit Committee would consider and evaluate information regarding the transaction, including the dollar amounts involved in the transaction.

## AUDIT COMMITTEE REPORT

Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings by reference, including this proxy statement, in whole or in part, the following report of the Audit Committee shall not be deemed to be incorporated by reference into any such filings and shall not otherwise be deemed filed under such acts.

### Audit Committee Report

The Audit Committee of the Board of Directors is currently composed of the following non employee directors: James W. Bracke (Chair), Andrew T. Berger and Paul F. Lidsky. Mr. Bracke was appointed Audit Committee Chair on November 1, 2016. Prior to his appointment, Ms. Melissa Fisher was Chair of the Audit Committee from March 27, 2015 until she resigned from the Board on November 1, 2016. The members of the Audit Committee in 2017 were and now are independent for purposes of the listing standards of The Nasdaq Capital Market and the rules of the Securities and Exchange Commission. For 2017, our Board of Directors identified members Lidsky, Bracke and Berger as audit committee financial experts under the rules of the Securities and Exchange Commission. The Audit Committee operates under a written charter adopted by the Board of Directors.

The Audit Committee oversees our financial reporting process on behalf of the Board of Directors and selects our independent registered public accounting firm. Management has the primary responsibility for the financial reporting process, including our system of internal controls. Our independent registered public accounting firm is responsible for performing an independent audit of our consolidated financial statements in accordance with auditing standards generally accepted in the United States and issuing a report on our financial statements. The Audit Committee discusses with our independent registered public accounting firm the overall scope and plans for its audits and meets with our independent registered public accounting firm, with and without management present, to discuss the results of its examinations, its evaluations of our internal controls, and the overall quality of our financial reporting.

In fulfilling our oversight responsibilities, the Audit Committee has met and held discussions with management and our independent registered public accounting firm. The Audit Committee reviewed and discussed the financial statements with management and our independent registered public accounting firm, including a discussion of the application of accounting principles generally accepted in the United States, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The Audit Committee also has discussed with our independent registered public accounting firm the firm's independence from management, including whether the provision of non audit services is compatible with maintaining the firm's independence, and matters required to be discussed by the Auditing Standards No. 1301, Communications with Audit Committee, as adopted by the Public Company Accounting Oversight Board. The Audit Committee received the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and has discussed with the independent accountant the independent account's independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in Image Sensing Systems, Inc.'s Annual Report on Form 10 K for the fiscal year ended December 31, 2017 filed with the Securities and Exchange Commission. The Committee has selected Boulay PLLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018.

By the Audit Committee –

James W. Bracke, Chair

Paul F. Lidsky

Andrew T. Berger

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CHANGE IN AND PAYMENT OF FEES TO OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

Change in Registered Public Accounting Firms

As disclosed in our Current Report on Form 8-K filed with the SEC on July 12, 2016, after completing a comprehensive, competitive process to determine our independent registered public accounting firm, on July 10, 2016, the Company's Audit Committee approved the engagement of Boulay PLLP ("Boulay") as our independent registered public accounting firm for the fiscal year ending December 31, 2016. Grant Thornton LLP ("GT") served as our independent registered public accounting firm for each of the years ended December 31, 2015 and 2014. We expect that a representative of Boulay will be present at the annual meeting of shareholders, will have the opportunity to make a statement if it desires to do so, and will be available to respond to appropriate questions. A representative of GT is not expected to be present at the annual meeting.

The audit report of Boulay on the consolidated financial statements of the Company for the year ended December 31, 2016 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles. The audit reports of GT on the consolidated financial statements of the Company for each of the years ended December 31, 2015 and December 31, 2014 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company's fiscal year ended December 31, 2015 and during the subsequent interim period from January 1, 2016 through July 10, 2016, (i) there were no disagreements with GT on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures that, if not resolved to GT's satisfaction, would have caused GT to make reference to the subject matter of the disagreement in connection with its reports and (ii) there were no "reportable events" as defined in Item 304(a)(1)(v) of the SEC's Regulation S-K.

During the fiscal year ended December 31, 2015 and during the subsequent interim period from January 1, 2016 through July 10, 2016, neither the Company nor anyone on its behalf consulted Boulay regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report nor oral advice was provided to the Company that Boulay concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a "disagreement" (as defined in Item 304(a)(1)(iv) of the SEC's Regulation S-K) or a "reportable event" (as defined in Item 304(a)(1)(v) of the SEC's Regulation S-K).

Audit Fees

Audit fees, including aggregate fees for the audit of our annual financial statements, reviews of our quarterly financial statements and reviews of filings with the Securities and Exchange Commission, were \$64,340 and \$92,900 for fiscal 2017 and 2016, respectively. Audit fees for fiscal 2016 consisted of \$38,100 paid to GT and \$54,800 paid to Boulay.

Audit Related Fees

There were no audit related fees paid to either Boulay or GT for fiscal 2017 and 2016.

Tax Fees

There were no tax related fees paid to either Boulay or GT for fiscal 2017 and 2016.



All Other Fees

We paid no other fees to our independent registered public accounting firm in 2017 or 2016.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services Provided by Our Independent Registered Public Accounting Firm

The Audit Committee is responsible for appointing, setting compensation for and overseeing the work of our independent registered public accounting firm. The Audit Committee has established a policy for pre-approving the services provided by our independent registered public accounting firm in accordance with the auditor independence rules of the Securities and Exchange Commission. This policy requires the review and pre-approval by the Audit Committee of all audit and permissible non-audit services provided by our independent registered public accounting firm and an annual review of the financial plan for audit fees.

To ensure that auditor independence is maintained, the Audit Committee annually pre-approves the audit services to be provided by our independent registered public accounting firm and the related estimated fees for such services, as well as the nature and extent of specific types of audit-related, tax and other non-audit services to be provided by our independent registered public accounting firm during the year.

As the need arises, other specific permitted services are pre-approved on a case-by-case basis during the year. A request for pre-approval of services on a case-by-case basis must be submitted by our Interim Chief Financial Officer, providing information as to the nature of the particular service to be provided, estimated related fees and management's assessment of the impact of the service on the auditor's independence. The Audit Committee has delegated to its Chair pre-approval authority between meetings of the Audit Committee. Any pre-approvals made by the Chair must be reported to the Audit Committee. The Audit Committee will not delegate to management the pre-approval of services to be performed by our independent registered public accounting firm.

All of the services provided by our independent registered public accounting firm in fiscal 2017 and 2016 were approved by the Audit Committee under its pre-approval policies.

**PROPOSAL 2 – RATIFICATION OF APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Boulay PLLP audited our consolidated financial statements for the fiscal year ended December 31, 2017. The Audit Committee has appointed Boulay PLLP as our independent registered public accounting firm for the year ending December 31, 2018.

Although we are not required to do so, we are submitting the appointment of Boulay PLLP to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2018 for ratification in order to ascertain the views of our shareholders on this appointment. If the appointment is not ratified, the Audit Committee will reconsider its selection. A representative of Boulay PLLP is expected to be present at the 2018 annual meeting. The representative will have an opportunity to make a statement at the meeting and will be available to respond to appropriate questions from shareholders.

The Board of Directors recommends that you vote FOR ratification of the appointment of Boulay PLLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018. Proxies will be voted FOR ratifying this appointment unless otherwise specified.

**PROPOSAL 3 – VOTE ON THE ADVISORY RESOLUTION TO APPROVE THE COMPENSATION PAID TO OUR NAMED EXECUTIVE OFFICERS**

Our executive compensation program emphasizes performance-based compensation, recognizes both quantitative and qualitative performance objectives based upon our executives officers' responsibilities, and includes a mix of short-term cash and long-term equity-based compensation. The annual cash incentives and the stock options and awards we grant to our Named Executive Officers, which constitute a significant portion of their total compensation, are performance-based compensation. We believe that performance-based compensation can be a key factor in motivating executive performance to maximize shareholder value and align executive performance with our corporate objectives and shareholder interests.

We generally do not have separate retirement plans or benefits for our Named Executive Officers. They may participate in our 401(k) plan in which all eligible employees may participate. In addition, our Named Executive Officers participate in Company-sponsored group benefit plans available to all employees.

We urge you to read the Compensation Discussion section of this proxy statement for additional details on our executive compensation, including our compensation philosophy and objectives and the fiscal 2017 compensation of our Named Executive Officers. We believe that, viewed as a whole, our compensation practices and policies are appropriate and fair to both the Company and its executives.

As provided by the say-on-pay rules, we are asking you to vote on the adoption of the following resolution:

BE IT RESOLVED by the shareholders of Image Sensing Systems, Inc. that the shareholders approve the compensation of the Company's Named Executive Officers as disclosed pursuant to Item 402 of Regulation S-K in the Company's proxy statement for the 2018 Annual Meeting.

Proxies will be voted in favor of the resolution unless shareholders specify otherwise in their proxies and except for broker non-votes. The affirmative vote of at least a majority of the voting power of the shares present, in person or by proxy, and entitled to vote (excluding broker non-votes) is required for advisory approval of our executive compensation. As an advisory vote, this proposal is non-binding. However, the Board and our Compensation Committee, which is responsible for designing and overseeing the administration of our executive compensation program, value the opinions of our shareholders and will consider the outcome of the vote when making future compensation decisions for our Named Executive Officers.



The Board of Directors recommends that you vote FOR the approval of the compensation of our Named Executive Officers as disclosed in this proxy statement pursuant to the SEC's compensation disclosure rules.

#### PROPOSAL 4 –VOTE ON THE AMENDMENT TO OUR SECTION 382 SHAREHOLDER RIGHTS AGREEMENT

##### Background of and Reasons for the Amendment

Effective August 23, 2016, the Company's Board of Directors authorized and adopted a First Amendment to Rights Agreement (the "Section 382 Amendment") to the Rights Agreement between the Company and Continental Stock Transfer & Trust Company, as rights agent, dated as of June 6, 2013 (the "Original Rights Agreement"). The Board had previously declared a dividend distribution of one right (a "Right") for each outstanding share of the Company's common stock, par value \$0.01 per share, to shareholders of record at the close of business on June 17, 2013 pursuant to the Original Rights Agreement. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of the Series A Junior Participating Preferred Stock, par value \$0.01 per share (the "Preferred Shares"), of the Company at an exercise price of \$25.00 per one one-thousandth of a Preferred Share, subject to adjustment (the "Exercise Price"). (The Original Rights Agreement, as amended by the Section 382 Amendment, is referred to in this Proxy Statement as the "Rights Agreement.").

The Section 382 Amendment was submitted to our shareholders for their approval at the annual meeting of shareholders held on May 11, 2017, and the shareholders approved the Section 382 Amendment. On March 12, 2018, our Board of Directors adopted an amendment to the Rights Agreement (the "2018 Amendment") to extend the expiration date of the Rights Agreement from June 6, 2018 to June 5, 2020. The Company is now submitting the 2018 Amendment to the shareholders for their consideration and approval.

By adopting the 2018 Amendment, the Board is helping to preserve the value of certain deferred tax benefits of the Company, including those generated by net operating losses (collectively, the "Tax Benefits"). As of December 31, 2017, we estimate that we had U.S. federal net operating loss carryforwards of \$16 million. Unless otherwise restricted, we believe that we will be able to carry forward a significant amount of these net operating loss carryforwards and any other Tax Benefits, and so these Tax Benefits could be a substantial asset to us. If we experience an ownership change for purposes of Section 382 of the Code, however, our ability to use our Tax Benefits will be substantially limited. These limitations could require us to pay U.S. federal income taxes earlier than would otherwise be required if such limitations were not in effect and could cause the Tax Benefits to expire unused, in each case reducing or eliminating the benefit of the Tax Benefits. Similar rules and limitations may apply for state income tax purposes.

In general terms, the Rights Agreement works by imposing a significant penalty upon any person or group that acquires 4.99% or more of the outstanding shares of the Company's common stock without the approval of the Board. The Company's ability to use the Tax Benefits would be substantially limited if it were to experience an "ownership

change” as defined under Section 382 of the Code. In general, an ownership change would occur if there is a greater than 50-percentage point change in ownership of securities by shareholders owning (or deemed to own under Section 382 of the Code) five percent or more of a corporation’s securities over a rolling three-year period. The Rights Agreement reduces the likelihood that changes in the Company’s investor base have the unintended effect of limiting the Company’s use of its Tax Benefits. The Board believes it is in the best interest of the Company and its shareholders that the Company provide for the protection of the Tax Benefits by adopting the 2018 Amendment extending the expiration date of the Rights Agreement

The Rights Agreement is intended to act as a deterrent to any Acquiring Person (as defined below). This would protect the Tax Benefits because changes in ownership by a person owning less than 4.99% of the Company's common stock are not included in the calculation of "ownership change" for purposes of Section 382 of the Code. The Board has established procedures to consider requests to exempt certain acquisitions of the Company's securities from the Rights Agreement if the Board determines that doing so would not limit or impair the availability of the Tax Benefits or is otherwise in the best interests of the Company.

#### Description of the Rights Agreement

#### Distribution and Transfer of Rights; Rights Certificates

Before the Distribution Date referred to below:

- the Rights are and will be evidenced by and trade with the stock certificates for the shares of the Company's common stock (or, with respect to any uncertificated shares of common stock registered in book entry form, by notation in book entry), and no separate Rights certificates will be distributed;
- stock certificates for shares of the Company's common stock issued after the Record Date (as that term is defined in the Rights Agreement) contain a legend incorporating the Rights Agreement by reference (and, for any uncertificated shares of common stock registered in book entry form, this legend is contained in a notation in book entry);
- new Rights will accompany any new shares of the Company's common stock issued after the Record Date; and
- the surrender for transfer of any certificates for shares of the Company's common stock (or the surrender for transfer of any uncertificated shares of common stock registered in book entry form) will also constitute the transfer of the Rights associated with such shares.

#### Distribution Date

Subject to certain exceptions specified in the Rights Agreement, the Rights will separate from the Company's common stock and become exercisable following (i) the 10th business day (or such later date as may be determined by the Board) after the public announcement that an Acquiring Person has acquired beneficial ownership of 4.99% or more of the Common Shares or (ii) the 10th business day (or such later date as may be determined by the Board) after a person or group announces a tender or exchange offer that would result in ownership by a person or group of 4.99% or more of the Company's common stock. The date on which the Rights separate from the shares of the Company's common stock and become exercisable is referred to as the "Distribution Date."

After the Distribution Date, the Rights will separate from the shares of common stock and be evidenced by book-entry credits or by Rights certificates that the Company will cause to be mailed to all eligible holders of common stock, and any Rights held by an Acquiring Person will be void and may not be exercised.

#### Preferred Shares Purchasable Upon Exercise of Rights

After the Distribution Date, each Right will entitle the holder to purchase, for the Exercise Price (as that term is defined in the Rights Agreement), one one-thousandth of a Preferred Share having economic and other terms similar to that of one share of the Company's common stock. This portion of a Preferred Share is intended to give the shareholder approximately the same dividend, voting and liquidation rights as would one share of common stock and should approximate the value of one share of common stock.

More specifically, each one one-thousandth of a Preferred Share, if issued, will:

- not be redeemable;
- entitle its holder to quarterly dividend payments of \$0.001 per share, or an amount equal to the dividend paid on one share of common stock, whichever is greater;
- entitle its holder upon liquidation either to receive \$1.00 per share or an amount equal to the payment made on one share of common stock, whichever is greater;
- have the same voting power as one share of common stock; and
- entitle its holder to a per share payment equal to the payment made on one share of common stock, if the shares of common stock are exchanged via merger, consolidation or a similar transaction.

#### Consequences of a Person or Group Becoming an Acquiring Person

Definition of Acquiring Person. An “Acquiring Person” is a person or group that, together with affiliates and associates of such person or group, acquires beneficial ownership of 4.99% or more of the Company’s common stock, other than (i) an “Exempt Person”; (ii) any shareholder that, as of the time of the first public announcement of adoption of the Section 382 Amendment, beneficially owns 4.99% or more of the Company’s common stock (unless and until such person thereafter acquires any additional shares of common stock, subject to certain exceptions); (iii) a person who becomes an Acquiring Person solely as a result of the Company repurchasing shares of its common stock; and (iv) certain shareholders who inadvertently buy shares in excess of 4.99% of the shares of common stock and who thereafter reduce the percentage of the shares they own below 4.99%. An Exempt Person is defined as the Company, its subsidiaries and their respective employee benefit plans; and any person that the Board has affirmatively determined, in its sole discretion, prior to the Distribution Date, in light of the intent and purposes of the Rights Agreement or other circumstances facing the Company, shall not be deemed an Acquiring Person.

Flip-In Trigger. If an Acquiring Person acquires beneficial ownership of 4.99% or more of the outstanding shares of the Company’s common stock, all holders of Rights may purchase, for the Exercise Price, a number of shares of common stock (or, in certain circumstances, cash, property or other securities of the Company) having a then-current

market value equal to twice the Exercise Price, based on the market price of the common stock before such acquisition. However, the Rights are not exercisable following the occurrence of such an event until the Rights are no longer redeemable by the Company, as described below.

Following the occurrence of an event described in the preceding paragraph, all Rights that are or, under certain circumstances specified in the Rights Agreement, were beneficially owned by an Acquiring Person or certain of its transferees will be null and void.

Flip-Over Trigger. If, after an Acquiring Person obtains 4.99% or more of the outstanding shares of the Company's common stock, the Company merges into another entity, an acquiring entity merges into the Company, or the Company sells or transfers more than 50% of its assets, cash flow or earning power, then each Right (except for Rights that have previously been voided as set forth above) will entitle its holder to purchase, for the Exercise Price, a number of shares of stock of the acquiring person engaging in the transaction having a then-current market value equal to twice the Exercise Price, based on the market price of the acquiring person's stock before such transaction.

### Redemption of the Rights

The Board may redeem the Rights for \$0.001 per Right (payable in cash, shares of the Company's common stock or other consideration deemed appropriate by the Board) at any time before a person becomes an Acquiring Person. When the Board redeems the Rights, the Rights will terminate, and the only right of the holders of the Rights will be to receive the \$0.001 redemption price. The redemption price will be adjusted if the Company undertakes a stock dividend or a stock split of its common stock.

### Exchange

After a person or group becomes an Acquiring Person, but before an Acquiring Person beneficially owns 50% of the outstanding shares of the Company's common stock, the Board may extinguish the Rights (except for Rights that have previously been voided as set forth above), in whole or in part, by exchanging two shares of common stock or an equivalent security for each Right. In certain circumstances, the Company may elect to exchange the Rights for cash or other securities of the Company having a value approximately equal to two shares of common stock.

### Expiration of the Rights

The Rights expire on the earliest of (i) 5:00 p.m., Eastern time, on June 6, 2018 (unless such date is extended because the 2018 Amendment is approved by the Company's shareholders); (ii) the time at which the Rights are redeemed or exchanged under the Rights Agreement; (iii) the repeal of Section 382 of the Code or any successor statute or any other change if the Board determines that the Rights Agreement is no longer necessary or desirable for the preservation of the Tax Benefits; or (iv) the time at which the Board determines that the Tax Benefits are fully utilized or no longer available. If the Company's shareholders approve the 2018 Amendment, the Rights will expire at the earliest of 5:00 p.m., Eastern time, on June 5, 2020 (unless such date is extended) and the occurrence of the other events set forth in clauses (ii) through (iv) of the foregoing sentence.

### Amendment of Terms of Rights Agreement and Rights

The terms of the Rights and the Rights Agreement may be amended in any respect without the consent of the holders of the Rights on or before the Distribution Date. After the Distribution Date, the terms of the Rights and the Rights Agreement may be amended without the consent of the holders of Rights in order to cure any ambiguities, to shorten or lengthen any time period set forth in the Rights Agreement, or to make changes that do not adversely affect the interests of holders of the Rights.

### Voting Rights; Other Shareholder Rights

The Rights do not have any voting rights. Until a Right is exercised, the holder of the Right will have no separate rights as a shareholder of the Company.

### Anti-Dilution Provisions

The Board may adjust the Exercise Price, the number of Preferred Shares issuable and the number of outstanding Rights to prevent dilution that may occur from a stock dividend, a stock split or a reclassification of the Company's Preferred Shares or shares of common stock.

With certain exceptions, no adjustments to the Exercise Price will be made until the cumulative adjustments amount to at least 1% of the Exercise Price. No fractional Preferred Shares will be issued and, in lieu thereof, an adjustment in cash will be made based on the current market price of the Preferred Shares.



## Taxes

The distribution of Rights should not be taxable for federal income tax purposes. However, following any occurrence of an event that renders the Rights exercisable or upon any redemption of the Rights, shareholders may recognize taxable income.

The foregoing is a summary of the terms of the Rights Agreement. The summary does not purport to be complete and is qualified in its entirety by reference to full text of the 2018 Amendment attached as Appendix A, the full text of the Section 382 Amendment attached as Appendix B, and the full text of the Original Rights Agreement attached as Appendix C.

## Certain Considerations Relating to the Rights Agreement

The Board believes that attempting to protect the Tax Benefits as described above is in our and the shareholders' best interests. Nonetheless, we cannot eliminate the possibility that an ownership change will occur even if the 2018 Amendment is approved. You should consider the factors below when making your decision.

- **Future Use and Amount of the Tax Benefits Are Uncertain.** Our use of the Tax Benefits depends on our ability to generate taxable income in the future. We cannot assure you whether we will have taxable income in any applicable period or, if we do, whether such income or the Tax Benefits at such time will exceed any potential limitation under Section 382 of the Code.
- **Potential Challenge to the Tax Benefits.** The amount of the Tax Benefits has not been audited or otherwise validated by the Internal Revenue Service (the "IRS"). The IRS could challenge the amount of the Tax Benefits, which could result in an increase in our liability in the future for income taxes. In addition, determining whether an ownership change has occurred is subject to uncertainty because of the complexity and ambiguity of the Section 382 provisions and because of limitations on the knowledge that any publicly-traded company can have about the ownership of, and transactions in, its securities on a timely basis. Therefore, we cannot assure you that the IRS or another taxing authority will not claim that we experienced an ownership change and attempt to reduce the benefit of the Tax Benefits available to us at such time even if the Rights Agreement is in place.
- **Continued Possibility of Ownership Change.** Although the Rights Agreement is intended to diminish the likelihood of an ownership change by deterring (rather than prohibiting) persons or groups of persons from

acquiring beneficial ownership of our common stock in excess of the specified limitations, we cannot assure you that it will be effective. The amount by which an ownership interest may change in the future could, for example, be affected by sales of our common stock by shareholders who are 5% shareholders (as defined under Section 382 of the Code) or by sales or purchases of stock or other interests in corporations, partnerships or other legal entities that own 5% or more of our common stock, over which we have no control. Additionally, it may be in our best interests, taking into account all relevant facts and circumstances at the time, to permit the acquisition of common stock in excess of the specified limitations or to issue a reasonable amount of equity in the future, all of which may increase the likelihood of an ownership change.

- **Potential Effects on Liquidity.** The Rights Agreement is intended to deter persons or groups of persons from acquiring beneficial ownership of our common stock in excess of the specified limitations. A shareholder's ability to dispose of our common stock may be limited if the Rights Agreement reduces the number of persons willing to acquire our common stock or the amount they are willing to acquire. A shareholder may become an Acquiring Person upon actions taken by persons related to, or affiliated with, them. Shareholders are advised to carefully monitor their ownership of our common stock and consult their own legal advisors and/or us to determine whether their ownership of the shares approaches the proscribed level.

- **Potential Impact on Value.** The Rights Agreement could negatively impact the value of our common stock by deterring persons or groups of persons from acquiring our common stock, including in acquisitions for which some shareholders might receive a premium above market value.
- **Anti-Takeover Effect.** The Board adopted the Section 382 Amendment and the 2018 Amendment to diminish the risk that our ability to use the Tax Benefits to reduce potential federal and state income tax obligations becomes limited. Nonetheless, the Rights Agreement may have an “anti-takeover effect” because it may deter a person or group of persons from acquiring beneficial ownership of 4.99% or more of our common stock or, in the case of a person or group of persons that already own 4.99% or more of our common stock, from increasing its percentage ownership by more than 1.00% of our outstanding shares. The Rights Agreement could discourage or prevent a merger, tender offer, proxy contest or accumulations of substantial blocks of shares.

Proxies will be voted in favor of the 2018 Amendment unless shareholders specify otherwise in their proxies and except for broker non-votes. The affirmative vote of at least a majority of the voting power of the shares present, in person or by proxy, and entitled to vote (excluding broker non-votes) is required for the approval of the 2018 Amendment. If the 2018 Amendment is not approved, the Rights Agreement will expire at 5:00 p.m., Eastern time, on June 6, 2018.

The Board of Directors recommends that you vote FOR the approval of the 2018 Amendment.

#### SHAREHOLDER PROPOSALS FOR THE 2019 ANNUAL MEETING

Any proposal by a shareholder to be included in our proxy statement for the 2019 annual meeting must comply with the applicable rules and regulations of the Securities and Exchange Commission and must be received at our principal executive offices, 500 Spruce Tree Centre, 1600 University Avenue West, St. Paul, Minnesota 55104, no later than November 22, 2018. Pursuant to the rules of the Securities and Exchange Commission, proxies solicited by management for the next annual meeting may grant management the authority to vote in its discretion on any proposal submitted by a shareholder otherwise than through inclusion in the proxy statement for the meeting unless we have received notice of the shareholder proposal at our principal executive offices on or before February 4, 2019.

#### ANNUAL REPORT TO SHAREHOLDERS

We are including with this proxy statement our Annual Report to Shareholders for the year ended December 31, 2017, which includes our Annual Report on Form 10 K for the year ended December 31, 2017, without certain exhibits. Shareholders may request a complete copy of our Annual Report on Form 10 K for fiscal 2017 with all exhibits, as filed with the Securities and Exchange Commission, by writing to Image Sensing Systems, Inc., 500 Spruce Tree Centre, 1600 University Avenue West, St. Paul, Minnesota 55104, Attention: Chief Financial Officer.



OTHER MATTERS

We know of no matters other than those that are described in this proxy statement to come before the 2018 annual meeting of shareholders. However, if any other matters are properly brought before the meeting, one or more persons named in the proxy or their substitutes will vote in accordance with their best judgment on such matters.

Andrew T. Berger  
Executive Chairman

Dated: March 22, 2018

**Appendix A**

IMAGE SENSING SYSTEMS, INC.

and

CONTINENTAL STOCK TRANSFER & TRUST COMPANY

as Rights Agent

SECOND AMENDMENT

TO

RIGHTS AGREEMENT

This Second Amendment to Rights Agreement (the “Amendment”) is between Image Sensing Systems, Inc., a Minnesota corporation (the “Company”), and Continental Stock Transfer & Trust Company, a New York limited purpose trust company, as rights agent (the “Rights Agent”), and shall be effective as the 12th day of March, 2018.

WHEREAS, the Company and the Rights Agent executed and entered into that certain Rights Agreement dated as of June 6, 2013 (the “Original Rights Agreement”);

WHEREAS, the Company and the Rights Agent executed and entered into that certain First Amendment to Rights Agreement dated as of August 23, 2016 (the “First Amendment”) (the Original Rights Agreement, as amended by the First Amendment, the “Rights Agreement”);

WHEREAS, Section 28 of the Rights Agreement provides that the Company may, and the Rights Agent shall, if the Company so directs, supplement or amend any provision of the Rights Agreement without the approval of any holders of the Rights;

WHEREAS, the Company has determined that it is necessary or desirable, in the interests of the Company and the holders of the Rights, to amend the Rights Agreement as provided herein; and

WHEREAS, all acts and things necessary to make this Amendment a valid agreement according to its terms have been done and performed, and the execution and delivery of this Amendment by the Company and the Rights Agent have been in all respects authorized by the Company and the Rights Agent.

NOW, THEREFORE, in consideration of the foregoing and mutual agreements set forth herein, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and intending to be legally bound, the Company and the Rights Agent agree as follows:

### **III. Amendments.**

**A. Section 1(o) of the Rights Agreement is hereby amended and restated in its entirety as follows:**

**(o) “Final Expiration Date” means the date upon which the Rights expire and will be (i) if the Company’s shareholders do not approve this Amendment at the regular meeting of the Company’s shareholders to be held in 2018 (or any adjournment or postponement thereof) by the affirmative vote of the majority of the Common Shares present in person or represented by proxy and voting on such matter at such regular meeting of shareholders (or any adjournment or postponement thereof) duly held in accordance with the Company’s Bylaws and applicable law, 5:00 p.m., Eastern time, on June 6, 2018; or (ii) if the Company’s shareholders approve this Amendment at the regular meeting of the Company’s shareholders to be held in 2018 (or any adjournment or postponement thereof) by the affirmative vote of the majority of the Common Shares present in person or represented by proxy and voting on such matter at such regular meeting of shareholders (or any adjournment or postponement thereof) duly held in accordance with the Company’s Bylaws and applicable law, 5:00 p.m., Eastern time, on June 5, 2020.**

**IV. Capitalized Terms. Capitalized terms used but not defined in this Amendment shall have the respective meanings given to them in the Rights Agreement.**

**V. Effect of Amendment. It is the intent of the Company and the Rights Agent that this Amendment constitutes an amendment of the Rights Agreement as contemplated by Section 28 thereof. Except as expressly provided in this Amendment, the terms of the Rights Agreement remain in full force and effect. Unless the context clearly provides otherwise, any reference to this “Agreement” or the “Rights**



**Agreement” shall be deemed to be a reference to the Rights Agreement as amended hereby and by the First Amendment.**

**VI. Benefits of this Amendment. Nothing in this Amendment shall be construed to give to any Person other than the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, the Common Shares) any legal or equitable right, remedy or claim under this Amendment; and this Amendment shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, the Common Shares).**

**VII. Severability. If any term, provision, covenant or restriction of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Amendment shall remain in full force and effect and shall in no way be affected, impaired or invalidated.**

**VIII. Governing Law. This Amendment shall be deemed to be a contract made under the laws of the State of New York (other than its conflicts of law provisions) and shall be governed by and construed in accordance with the laws of such State applicable to**

**contracts made and performed entirely within such State.**

**IX. Counterparts. This Amendment may be executed in any number of counterparts, and each of such counterpart shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument. A signature to this Amendment transmitted electronically shall have the same authority, effect and enforceability as an original signature.**

**X. Descriptive Headings. Descriptive headings of the several Sections of this Amendment are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.**

[Signature page follows.]

[Signature Page to Second Amendment to Rights Agreement

Dated as of March 12, 2018

by and between Image Sensing Systems, Inc. and  
Continental Stock Transfer & Trust Company]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the day and year first above written.

Attest:

Image Sensing Systems, Inc.

By: /s/ Todd C. Slawson  
Name: [Todd C. Slawson]  
Title: [Director of Finance and Corporate Controller]

By: /s/ Chad A. Stelzig  
Name: [Chad A. Stelzig]  
Title: [President and Chief Executive Officer]

Attest:

Continental Stock Transfer & Trust Company

By: /s/ Steven Vacante  
Name: [Steven Vacante]  
Title: [Account Administrator]

By: /s/ Stacy Aqui  
Name: [Stacy Aqui]  
Title: [Vice President]

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Appendix B

IMAGE SENSING SYSTEMS, INC.

and

CONTINENTAL STOCK TRANSFER & TRUST COMPANY

as Rights Agent

FIRST AMENDMENT

TO

RIGHTS AGREEMENT

This First Amendment to Rights Agreement (the “Amendment”) is between Image Sensing Systems, Inc., a Minnesota corporation (the “Company”), and Continental Stock Transfer & Trust Company, a New York limited purpose trust company, as rights agent (the “Rights Agent”), and shall be effective as the 23rd day of August, 2016.

WHEREAS, the Company and the Rights Agent executed and entered into that certain Rights Agreement dated as of June 6, 2013 (the “Rights Agreement”);

WHEREAS, Section 27 of the Rights Agreement (which is being redesignated by this Amendment as Section 28) provides that the Company may, and the Rights Agent shall, if the Company so directs, supplement or amend any provision of the Rights Agreement without the approval of any holders of the Rights;

X. Descriptive Headings. Descriptive headings of the several Sections of this Amendment are inserted for

WHEREAS, the Company has determined that it is necessary or desirable, in the interests of the Company and the holders of the Rights, to amend the Rights Agreement as provided herein; and

WHEREAS, all acts and things necessary to make this Amendment a valid agreement according to its terms have been done and performed, and the execution and delivery of this Amendment by the Company and the Rights Agent have been in all respects authorized by the Company and the Rights Agent.

NOW, THEREFORE, in consideration of the foregoing and mutual agreements set forth herein, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and intending to be legally bound, the Company and the Rights Agent agree as follows:

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## **XI. Amendments**

### **A. Section 1 of the Rights Agreement is hereby amended and restated in its entirety as follows:**

**“Section 1. Definitions. For purposes of this Agreement, the following terms have the meanings indicated:**

**1. “Acquiring Person” means any Person who or which, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of 4.99% or more of the Common Shares of the Company then outstanding, but shall not include an “Exempt Person” (as hereinafter defined); provided, however, that no Person who Beneficially Owns, as of the time of the public announcement of this Agreement, 4.99% or more of the Common Shares of the Company then outstanding shall become an Acquiring Person unless such Person shall, after the time of the public announcement of this Agreement, increase its Beneficial Ownership of the then outstanding Common Shares (other than as a result of an acquisition of Common Shares by the Company) to an amount equal to or greater than the greater of (x) 4.99% of the outstanding Common Shares of the Company or (y) the sum of (i) the lowest Beneficial Ownership of such Person as a percentage of the outstanding Common Shares as of any time from and after the public announcement of this Agreement plus (ii) 1.00%. Notwithstanding the foregoing, no Person shall become an “Acquiring Person” as the result of an acquisition of Common Shares by the Company which, by reducing the number of Common Shares of the Company outstanding, increases the proportionate number of Common Shares of the Company Beneficially Owned by such Person to 4.99% or more of the Common Shares of the Company then outstanding; provided, however, that, if a Person shall become the Beneficial Owner of 4.99% or more of the Common Shares of the Company then outstanding by reason of share purchases by the Company and shall, after the public announcement of such share purchases by the Company, become the Beneficial Owner of any additional Common Shares of the Company, then such Person shall be deemed to be an Acquiring Person. Notwithstanding the foregoing, if the Board determines in good faith that a Person who would otherwise be an Acquiring Person, as defined pursuant to the foregoing provisions of this paragraph (a), has become such inadvertently, and such Person divests as promptly as practicable a sufficient number of Common Shares so that such Person would no longer be an Acquiring Person, as**

defined pursuant to the foregoing provisions of this paragraph (a), then such Person shall not be deemed to be an Acquiring Person for any purposes of this Agreement. Notwithstanding the foregoing, if a bona fide swaps dealer who would otherwise be an Acquiring Person has become so as a result of its actions in the ordinary course of its business that the Board determines, in its sole discretion, were taken without the intent or effect of evading or assisting any other Person to evade the purposes and intent of this Agreement, or otherwise seeking to control or influence the management or policies of the Company, then, and unless and until the Board shall otherwise determine, such Person shall not be deemed to be an Acquiring Person for any purposes of this Agreement. Notwithstanding the foregoing, no Person shall become an “Acquiring Person” by means of share purchases or issuances (including debt to equity exchanges), directly from the Company or indirectly through an underwritten offering of the Company, in a transaction approved by the Board; provided, however, that a Person shall be deemed to be an “Acquiring Person” if such Person (A) is or becomes the Beneficial Owner of 4.99% or more of the shares of Common Stock then outstanding following such transaction and (B) following such transaction, becomes the Beneficial Owner of any additional shares of Common Stock without the prior written consent of the Board and then Beneficially Owns 4.99% or more of the shares of Common Stock then outstanding.

2. “Affiliate” shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act as in effect on the date of this Agreement.

3. “Associate” shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act as in effect on the date of this Agreement.

**4. A Person shall be deemed the “Beneficial Owner” of and shall be deemed to “Beneficially Own” any securities:**

**a) which such Person or any of such Person’s Affiliates or Associates beneficially owns, directly or indirectly;**

**b) which such Person or any of such Person’s Affiliates or Associates has (A) the right or the obligation to acquire (whether such right is exercisable, or such obligation is required to be performed, immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities), or upon the exercise of conversion rights, exchange rights, rights (other than these Rights), warrants or options, or otherwise, including, without limitation, securities or other interests that would be treated as exercised under Section 1.382-4(d) or other applicable sections of the Treasury Regulations; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to Beneficially Own, securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person’s Affiliates or Associates until such tendered securities are accepted for purchase or exchange; or (B) the right to vote pursuant to any agreement, arrangement or understanding; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to Beneficially Own, any security if the agreement, arrangement or understanding to vote such security (1) arises solely from a revocable proxy or consent given to such Person in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations promulgated under the Exchange Act and (2) is not also then reportable on Schedule 13D under the Exchange Act (or any comparable or successor report);**

**c) that such Person or any of such Person’s Affiliates or Associates (A) has any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities) for the purpose of acquiring, holding, voting (except to the extent contemplated by the proviso to Section 1(d)(ii)(B) hereof) or disposing of any securities of the Company or (B) beneficially owns, directly or indirectly, for purposes of Section 13(d) of the Exchange Act and Rule 13d-3 of the General Rules and Regulations under the Exchange Act, including, with respect to both clause (A) and clause (B) of this Section 1(d)(iii), pursuant to any agreement, arrangement or understanding (whether or not in writing), but only if the effect of such agreement, arrangement or understanding is to treat such Persons as an “entity” under Section 1.382-3(a)(1) of the Treasury Regulations; or**

**d) which are beneficially owned, directly or indirectly, by a Counterparty (or any of such Counterparty’s Affiliates or Associates) under any Derivatives Contract (without regard to any short or similar position under the same or any other Derivatives Contract) to which such Person or any of such Person’s Affiliates or Associates is a Receiving Party (as such terms are defined in the immediately following paragraph); provided, however, that the number of Common Shares of the Company that a Person is deemed to Beneficially Own pursuant to this clause (iv) in connection with a particular Derivatives Contract shall not exceed the number of Notional Common Shares with respect to such Derivatives Contract; provided, further, that the number of securities beneficially owned by each Counterparty (including its Affiliates and Associates) under a Derivatives Contract shall for purposes of this clause (iv) be deemed to include all securities that are beneficially owned, directly or indirectly, by any other Counterparty (or any of such other Counterparty’s Affiliates or Associates) under any Derivatives Contract to which such first Counterparty (or any of such first Counterparty’s Affiliates or Associates) is a Receiving Party, with this proviso being applied to**



**successive Counterparties as appropriate.**

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d) which are beneficially owned, directly or indirectly, by a Counterparty (or any of such Counterparty's Affiliates or

Notwithstanding the foregoing, a Person shall be deemed the “Beneficial Owner” of, and shall be deemed to “beneficially own,” securities if such Person would be deemed constructively to own such securities pursuant to Sections 1.382-2T(h) and 1.382-4(d) of the Treasury Regulations, such Person owns such securities pursuant to a “coordinated acquisition” treated as a single “entity” as defined in Section 1.382-3(a)(1) of the Treasury Regulations, or such securities are otherwise aggregated with securities owned by such Person, pursuant to the provisions of Section 382 of the Code and the Treasury Regulations promulgated thereunder.

A “Derivatives Contract” is a contract between two parties (the “Receiving Party” and the “Counterparty”) that is designed to produce economic benefits and risks to the Receiving Party that correspond substantially to the ownership by the Receiving Party of a number of Common Shares specified or referenced in such contract (the number corresponding to such economic benefits and risks, the “Notional Common Shares”), regardless of whether obligations under such contract are required or permitted to be settled through the delivery of cash, Common Shares or other property, without regard to any short position under the same or any other Derivative Contract. For the avoidance of doubt, interests in broad-based index options, broad-based index futures and broad-based publicly traded market baskets of stocks approved for trading by the appropriate federal governmental authority shall not be deemed to be Derivatives Contracts.

Notwithstanding anything in this definition of Beneficial Ownership to the contrary, the phrase “then outstanding,” when used with reference to a Person’s Beneficial Ownership of securities of the Company, shall mean the number of such securities then issued and outstanding together with the number of such securities not then actually issued and outstanding which are issuable by the Company and which such Person would be deemed to Beneficially Own hereunder.

**5. “Board” shall have the meaning set forth in the recitals.**

**6. “Business Day” shall mean any day other than a Saturday, a Sunday, or a day on which banking institutions in St. Paul, Minnesota are authorized or obligated by law or executive order to close.**

7. **“Close of Business”** on any given date shall mean 5:00 P.M., Eastern time, on such date; provided, however, that, if such date is not a Business Day, it shall mean 5:00 P.M., Eastern time, on the next succeeding Business Day.
8. **“Code”** shall mean the Internal Revenue Code of 1986, as amended.
9. **“Common Shares”** when used with reference to the Company shall mean the shares of common stock, par value \$0.01 per share, of the Company. **“Common Shares”** when used with reference to any Person other than the Company shall mean the capital stock (or equity interest) with the greatest voting power of such other Person or, if such other Person is a Subsidiary of another Person, the Person or Persons which ultimately control such first-mentioned Person.
10. **“Distribution Date”** shall have the meaning set forth in Section 3(a) hereof.
11. **“Exchange Act”** shall mean the Securities Exchange Act of 1934, as amended.
12. **“Exempt Person”** means (i) the Company or any Subsidiary of the Company, in each case including the officers and members of the Board thereof acting in their fiduciary capacities; (ii) any employee benefit plan of the Company or of any Subsidiary of the Company or any entity or trustee holding (or acting in a fiduciary capacity in respect of) Common Shares of the Company for or pursuant to the terms of any such plan, or for the purpose of funding other employee benefits for employees of the Company or any Subsidiary of the Company; (iii) an underwriter or member of a banking or selling group that becomes the Beneficial Owner of 4.99% or more of the then outstanding Common Shares as a result of an acquisition from the Company in connection with a distribution of securities pursuant to a prospectus or by way of a private placement; or (iv) any Person deemed to be an **“Exempt Person”** in accordance with Section 25(a) or (b).
13. **“Expiration Date”** means the earliest to occur of (i) the Close of Business on the Final Expiration Date; (ii) the Redemption Date; (iii) the time at which the Board orders the exchange of the Rights as provided in Section 24; (iv) the close of business on the effective date of the repeal of Section 382

**of the Code or any successor statute or any other change if the Board, in its sole discretion, determines that this Rights Agreement is no longer necessary or desirable for the preservation of the Tax Benefits; (v) the time at which the Board determines that the Tax Benefits are fully utilized or no longer available pursuant to Section 382 of the Code or that an ownership change pursuant to Section 382 of the Code would not adversely impact in any material respect the time period in which the Company could use the Tax Benefits, or materially impair the amount of the Tax Benefits that could be used by the Company in any particular time period, for applicable tax purposes; or (vi) a determination by the Board, in its sole discretion and prior to the Distribution Date, that this Rights Agreement and the Rights are no longer in the best interests of the Company and its shareholders.**

14. **“Exchange Ratio” shall have the meaning set forth in Section 24(a) hereof.**

15. **“Final Expiration Date” means the date upon which the Rights expire and will be the earlier of (i) 5:00 p.m., Eastern time, on the date of the Company’s regular meeting of shareholders to be held in 2017 (or any adjournment or postponement thereof), unless the continuation of the Rights is approved by the affirmative vote of the majority of the Common Shares present in person or represented by proxy and voting on such matter at such regular meeting of shareholders (or any adjournment or postponement thereof) duly held in accordance with the Company’s Bylaws and applicable law (in which case the following clause (ii) will govern); or (ii) 5:00 p.m., Eastern time, on June 6, 2018.**

16. **“NASDAQ” shall mean The NASDAQ Stock Market LLC.**

17. **“Person” shall mean any individual, partnership, firm, corporation, limited liability company, association, trust, unincorporated organization or other entity, and shall include any successor (by merger or otherwise) of such entity, as well as any group under Rule 13d-5(b)(1) of the Exchange Act.**

18. **“Preferred Shares” shall mean shares of Series A Junior Participating Preferred Stock, par value \$0.01 per share, of the Company having the rights and preferences set forth in the Form of Designation of Series A Junior Participating Preferred Stock attached to this Agreement as Exhibit A.**

19. **“Purchase Price” shall have the meaning set forth in Section 4 hereof.**

20. **“Record Date” shall have the meaning set forth in the second paragraph hereof.**

21. **“Redemption Date” shall have the meaning set forth in Section 7(a) hereof.**

22. **“Redemption Price” shall have the meaning set forth in Section 23(a) hereof.**

**23. “Right” shall have the meaning set forth in the second paragraph hereof.**

**24. “Rights Certificate” shall have the meaning set forth in Section 3(a) hereof.**

**25. “Shares Acquisition Date” shall mean the first date of public announcement by the Company or an Acquiring Person that an Acquiring Person has become such.**

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26. **“Subsidiary” of any Person shall mean any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by such Person.**

27. **“Summary of Rights” shall have the meaning set forth in Section 3(b) hereof.**

28. **“Tax Benefits” means net operating losses, capital loss carryovers, general business credit carryovers, alternative minimum tax credit carryovers, foreign tax credit carryovers or any loss or deduction attributable to a “net unrealized built-in loss” within the meaning of Section 382 of the Code, in each case of the Company or any of its Subsidiaries, and any other tax attribute the benefit of which is subject to possible limitation pursuant to Section 382 of the Code.**

29. **“Trading Day” shall have the meaning set forth in Section 11(d) hereof.**

30. **“Treasury Regulations” shall mean the final and temporary (but not proposed) tax regulations promulgated under the Code, as such regulations may be amended from time to time.”**

**B. Section 3(c) of the Rights Agreement is hereby amended and restated in its entirety as follows:**

**“(c) Certificates for Common Shares which become outstanding (including, without limitation, reacquired Common Shares referred to in the last sentence of this paragraph (c)) after the Record Date but before the earliest of the Distribution Date, the Redemption Date or the Final Expiration Date shall have impressed on, printed on, written on or otherwise affixed to them the following legend:**

**THIS CERTIFICATE ALSO EVIDENCES AND ENTITLES THE HOLDER HEREOF TO CERTAIN RIGHTS AS SET FORTH IN AN AGREEMENT DATED AS OF JUNE 6, 2013 BETWEEN IMAGE SENSING SYSTEMS INC. (THE “COMPANY”) AND CONTINENTAL STOCK TRANSFER & TRUST COMPANY, AS RIGHTS AGENT, AS THE SAME MAY BE AMENDED FROM TIME TO TIME (THE “RIGHTS AGREEMENT”), THE TERMS OF WHICH ARE HEREBY**

25. **“Shares Acquisition Date” shall mean the first date of public announcement by the Company of an Acqui**

**INCORPORATED HEREIN BY REFERENCE AND A COPY OF WHICH IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE COMPANY. UNDER CERTAIN CIRCUMSTANCES, AS SET FORTH IN THE RIGHTS AGREEMENT, SUCH RIGHTS (AS DEFINED IN THE RIGHTS AGREEMENT) MAY BE REDEEMED, MAY BECOME EXERCISABLE FOR SECURITIES OR ASSETS OF THE COMPANY OR SECURITIES OF ANOTHER ENTITY, MAY BE EXCHANGED FOR SHARES OF COMMON STOCK OR OTHER SECURITIES OR ASSETS OF THE COMPANY, MAY EXPIRE OR MAY BE EVIDENCED BY SEPARATE CERTIFICATES AND MAY NO LONGER BE EVIDENCED BY THIS CERTIFICATE. THE COMPANY WILL MAIL TO THE HOLDER OF THIS CERTIFICATE A COPY OF THE RIGHTS AGREEMENT WITHOUT CHARGE AFTER RECEIPT OF A WRITTEN REQUEST THEREFOR. UNDER CERTAIN CIRCUMSTANCES AS SET FORTH IN THE RIGHTS AGREEMENT, RIGHTS THAT ARE OWNED BY, TRANSFERRED TO OR HAVE BEEN OWNED BY AN ACQUIRING PERSON (AS DEFINED IN THE RIGHTS AGREEMENT) OR ANY OF ITS AFFILIATES (AS DEFINED IN THE RIGHTS AGREEMENT) OR ASSOCIATES (AS DEFINED IN THE RIGHTS AGREEMENT) WILL BE NULL AND VOID AND WILL NO LONGER BE TRANSFERRABLE.**



**With respect to such certificates containing the foregoing legend, until the Distribution Date, the Rights associated with the Common Shares of the Company represented by such certificates shall be evidenced by such certificates alone, and the surrender for transfer of any such certificate shall also constitute the transfer of the Rights associated with the Common Shares of the Company represented thereby. If the Company purchases or acquires any Common Shares of the Company after the Record Date but before the Distribution Date, any Rights associated with such Common Shares of the Company shall be deemed cancelled and retired so that the Company shall not be entitled to exercise any Rights associated with the Common Shares of the Company which are no longer outstanding. Notwithstanding this Section 3(c), the omission of a legend shall not affect the enforceability of any part of this Rights Agreement or the rights of any holder of the Rights.”**

**C. Section 24(a) of the Rights Agreement is hereby amended and revised in its entirety as follows:**

**“Section 24. Exchange. (a) The Board may, at its option, at any time after any Person becomes an Acquiring Person, exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become void pursuant to the provisions of Section 11(a)(ii) hereof) for Common Shares at an exchange ratio of two Common Shares per Right, appropriately adjusted to reflect any adjustment in the number of Rights pursuant to Section 11(i) (such exchange ratio being hereinafter referred to as the “Exchange Ratio”). Notwithstanding the foregoing, (i) the Board shall not be empowered to effect such exchange at any time after any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or any such Subsidiary, or any entity holding Common Shares for or pursuant to the terms of any such plan), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of 50% or more of the Common Shares of the Company then outstanding; and (ii) no exchange shall result in a Person becoming an Acquiring Person, and the Company may, at its option, substitute for each Common Share that would otherwise be issued to cause such Person to become an Acquiring Person cash via check or wire transfer, promissory notes or other property having a value equal to the current market value of such Common Share determined in accordance with Section 11(d). The exchange of the Rights by the Board may**

**be made effective at such time, on such basis and with such conditions as the Board in its sole discretion may establish.”**

**D. The following is added as a new Section 25 of the Rights Agreement, and Sections 25 through 34 of the Rights Agreement (inclusive) are hereby redesignated as Sections 26 through 35, respectively:**

“Section 25. Process to Seek Exemption or Waiver.

**1. Any Person who desires to effect any acquisition of Common Shares that would, if consummated, result in such Person beneficially owning 4.99% or more of the then outstanding Common Shares (a “Requesting Person”) may, prior to the Shares Acquisition Date and in accordance with this Section 25(a), request that the Board grant an exemption with respect to such acquisition under this Rights Agreement so that such Person would be deemed to be an “Exempt Person” under Section 1(l) for purposes of this Rights Agreement (an “Exemption Request”). An Exemption Request shall be in proper form and shall be delivered by overnight delivery service or first-class mail, postage prepaid, to the Secretary of the Company at the principal executive office of the Company. The Exemption Request shall be deemed made upon receipt by the Secretary of the Company. To be in proper form, an Exemption Request shall set forth (i) the name and address of the Requesting Person, (ii) the number and percentage of Common Shares then Beneficially Owned by the Requesting Person, together with all Affiliates and Associates of the Requesting Person, and (iii) a reasonably detailed description of the transaction or transactions by which the Requesting Person would propose to acquire Beneficial Ownership of Common Shares aggregating 4.99% or more of the then outstanding Common Shares and the maximum number and percentage of Common Shares that the Requesting Person proposes to acquire. The Board shall make a determination whether to grant an exemption in response to an Exemption Request as promptly as practicable (and, in any event, within ten (10) Business Days) after receipt thereof; provided, that the failure of the Board to make a determination within such period shall be deemed to constitute the denial by the Board of the Exemption Request. The Requesting Person shall respond promptly to reasonable and appropriate requests for additional information from the Board and its advisors to assist the Board in making its determination. For purposes of considering the Exemption Request, any calculation of the number of Common Shares outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding Common Shares of which any Person is the Beneficial Owner, shall be made**

D. The following is added as a new Section 25 of the Rights Agreement, and Sections 25 through 34 of the

**pursuant to and in accordance with Section 382 of the Code. The Board shall grant an exemption in response to an Exemption Request only if the Board determines in its sole discretion that the acquisition of Beneficial Ownership of Common Shares by the Requesting Person (A) will not adversely impact in any material respect the time period in which the Company could use the Tax Benefits or limit or impair the availability to the Company of the Tax Benefits or (B) is in the best interests of the Company despite the fact that it may adversely impact in a material respect the time period in which the Company could use the Tax Benefits or limit or impair the availability to the Company of the Tax Benefits. Any exemption granted hereunder may be granted in whole or in part, and may be subject to limitations or conditions (including a requirement that the Requesting Person agree that it will not acquire Beneficial Ownership of Common Shares in excess of the maximum number and percentage of shares approved by the Board), in each case as and to the extent the Board shall determine necessary or desirable to provide for the protection of the Tax Benefits. Any Exemption Request may be submitted on a confidential basis and, except to the extent required by applicable law, the Company shall maintain the confidentiality of such Exemption Request and the Board's determination with respect thereto, unless the information contained in the Exemption Request or the Board's determination with respect thereto otherwise becomes publicly available. The Exemption Request shall be considered and evaluated by directors serving on the Board, or a duly constituted committee thereof, who are independent of the Company and the Requesting Person and disinterested with respect to the Exemption Request, and the action of a majority of such independent and disinterested directors shall be deemed to be the determination of the Board for purposes of such Exemption Request.**

**2. The Board may, of its own accord or upon the request of a shareholder (a “Waiver Request”), subsequent to a Shares Acquisition Date and prior to the Distribution Date, and in accordance with this Section 25(b), grant an exemption with respect to any Acquiring Person under this Rights Agreement so that such Acquiring Person would be deemed to be an “Exempt Person” under Section 1(l) for purposes of this Rights Agreement. A Waiver Request shall be in proper form and shall be delivered by overnight delivery service or first-class mail, postage prepaid, to the Secretary of the Company at the principal executive office of the Company. The Waiver Request shall be deemed made upon receipt by the Secretary of the Company. To be in proper form, a Waiver Request shall set forth (i) the name and address of the Acquiring Person, (ii) the number and percentage of Common Shares then Beneficially Owned by the Acquiring Person, together with all Affiliates and Associates of the Acquiring Person, and (iii) a reasonably detailed description of the transaction or transactions by which the Acquiring Person acquired Beneficial Ownership of Common Shares aggregating 4.99% or more of the then outstanding Common Shares and the maximum number and percentage of Common Shares that the Acquiring Person proposes to acquire. The Board shall make a determination whether to grant an exemption in response to a Waiver Request as promptly as practicable (and, in any event, within 10 Business Days) after receipt thereof; provided, that the failure of the Board to make a determination within such period shall be deemed to constitute the denial by the Board of the Waiver Request. The Acquiring Person shall respond promptly to reasonable and appropriate requests for additional information from the Board and its advisors to assist the Board in making its determination. For purposes of considering the Waiver Request, any calculation of the number of Common Shares outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding Common Shares of which any Person is the Beneficial Owner, shall be made pursuant to and in accordance with Section 382 of the Code. The Board shall only grant an exemption for an Acquiring Person if the Board determines in its sole discretion that the acquisition of Beneficial Ownership of Common Shares by such Acquiring Person does not adversely impact in any material respect the time period in which the Company could use the Tax Benefits or limit or impair the availability to the Company of the Tax Benefits. Any exemption granted hereunder may be granted in whole or in part, and may be subject to limitations or conditions (including a requirement that such Acquiring Person agree that it will not acquire Beneficial Ownership of Common Shares in excess of the maximum number and percentage of shares**

2. The Board may, of its own accord or upon the request of a shareholder (a “Waiver Request” subsequent to a Shares Acquisition Date and prior to the Distribution Date, and in accordance with this Section 25(b), grant an exemption with respect to any Acquiring Person under this Rights Agreement so that such Acquiring Person would be deemed to be an “Exempt Person” under Section 1(l) for purposes of this Rights Agreement. A Waiver Request shall be in proper form and shall be delivered by overnight delivery service or first-class mail, postage prepaid, to the Secretary of the Company at the principal executive office of the Company. The Waiver Request shall be deemed made upon receipt by the Secretary of the Company. To be in proper form, a Waiver Request shall set forth (i) the name and address of the Acquiring Person, (ii) the number and percentage of Common Shares then Beneficially Owned by the Acquiring Person, together with all Affiliates and Associates of the Acquiring Person, and (iii) a reasonably detailed description of the transaction or transactions by which the Acquiring Person acquired Beneficial Ownership of Common Shares aggregating 4.99% or more of the then outstanding Common Shares and the maximum number and percentage of Common Shares that the Acquiring Person proposes to acquire. The Board shall make a determination whether to grant an exemption in response to a Waiver Request as promptly as practicable (and, in any event, within 10 Business Days) after receipt thereof; provided, that the failure of the Board to make a determination within such period shall be deemed to constitute the denial by the Board of the Waiver Request. The Acquiring Person shall respond promptly to reasonable and appropriate requests for additional information from the Board and its advisors to assist the Board in making its determination. For purposes of considering the Waiver Request, any calculation of the number of Common Shares outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding Common Shares of which any Person is the Beneficial Owner, shall be made pursuant to and in accordance with Section 382 of the Code. The Board shall only grant an exemption for an Acquiring Person if the Board determines in its sole discretion that the acquisition of Beneficial Ownership of Common Shares by such Acquiring Person does not adversely impact in any material respect the time period in which the Company could use the Tax Benefits or limit or impair the availability to the Company of the Tax Benefits. Any exemption granted hereunder may be granted in whole or in part, and may be subject to limitations or conditions (including a requirement that such Acquiring Person agree that it will not acquire Beneficial Ownership of Common Shares in excess of the maximum number and percentage of shares

**approved by the Board), in each case as and to the extent the Board shall determine necessary or desirable to provide for the protection of the Tax Benefits. The facts and circumstances with respect to the Waiver Request, including whether to grant an exemption, shall be considered and evaluated by directors serving on the Board, or a duly constituted committee thereof, who are independent of the Company and such Acquiring Person and disinterested with respect to the Waiver Request, and the action of a majority of such independent and disinterested directors shall be deemed to be the determination of the Board for purposes of any exemption granted pursuant to this Section 25(b).”**

**E. The following is added as a new Section 36 of the Rights Agreement:**

**“Section 36. Determinations and Actions by the Board. Except as otherwise expressly provided herein, the Board has the exclusive power and authority to administer this Rights Agreement and to exercise all rights and powers specifically granted to the Board or to the Company hereunder, or as may be necessary or advisable in the administration of this Rights Agreement, including, without limitation, the right and power (a) to interpret the provisions of this Rights Agreement, and (b) to make all determinations deemed necessary or advisable for the administration of this Rights Agreement (including, without limitation, a determination to redeem or not redeem the Rights in accordance with Section 23 hereof, to exchange or not exchange the Rights in accordance with Section 24 hereof, and to amend or not amend this Rights Agreement in accordance with Section 27 hereof). All such actions, calculations, interpretations and determinations (including, for purposes of clause (ii) below, all omissions with respect to the foregoing) that are done or made by the Board shall be (i) be final, conclusive, and binding on the Company, the Rights Agent, the holders of the Rights and all other parties; and (ii) not subject the Board or any member thereof to any liability to the holders of the Rights.”**

**XII. Capitalized Terms. Capitalized terms used but not defined in this Amendment shall have the respective meanings given to them in the Rights Agreement.**

**XIII. Effect of Amendment. It is the intent of the Company and the Rights Agent that this Amendment constitutes an amendment of the Rights Agreement as contemplated by Section 27 thereof (which is being redesignated by this Amendment as Section 28). Except as expressly provided in this Amendment, the terms of the Rights Agreement remain in full force and effect. Unless the context clearly provides otherwise,**

**any reference to this “Agreement” or the “Rights Agreement” shall be deemed to be a reference to the Rights Agreement as amended hereby.**

**XIV. Benefits of this Amendment. Nothing in this Amendment shall be construed to give to any Person other than the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, the Common Shares) any legal or equitable right, remedy or claim under this Amendment; and this Amendment shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, the Common Shares).**

**XV. Severability. If any term, provision, covenant or restriction of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Amendment shall remain in full force and effect and shall in no way be affected, impaired or invalidated.**

**XVI. Governing Law. This Amendment shall be deemed to be a contract made under the laws of the State of New York (other than its conflicts of law provisions) and shall be governed by and construed in accordance with the laws of such State applicable to**



**contracts made and performed entirely within such State.**

**XVII. Counterparts. This Amendment may be executed in any number of counterparts, and each of such counterpart shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument. A signature to this Amendment transmitted electronically shall have the same authority, effect and enforceability as an original signature.**

**XVIII. Descriptive Headings. Descriptive headings of the several Sections of this Amendment are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.**

[Signature page follows.]

[Signature Page to First Amendment to Rights Agreement

Dated as of August 23, 2016

by and between Image Sensing Systems, Inc. and  
Continental Stock Transfer & Trust Company]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the day and year first above written.

Attest:

Image Sensing Systems, Inc.

By /s/ Todd C. Slawson

Name: Todd C. Slawson

Title: Director of Finance and Business Development

By: /s/ Richard A. Ehrich

Name: Richard A. Ehrich

Title: Interim Chief Financial Officer

Attest:

Continental Stock Transfer & Trust Company:

By: /s/ Margaret Villani

Name: Margaret Villani

Title: Vice President and Director of Client  
Administration

By: /s/ Stacy Aqui

Name: Stacy Aqui

Title: Vice President and Account Administrator

**Appendix C**

Image Sensing Systems, Inc.

and

Continental Stock Transfer & Trust Company

Rights Agreement

Dated as of June 6, 2013



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Exhibit A – Form of Designation of Series A Junior Participating Preferred Stock

Exhibit B – Form of Rights Certificate

Exhibit C – Summary of Rights to Purchase Shares of Series A Junior Participating Preferred Stock

## RIGHTS AGREEMENT

This Agreement, dated as of June 6, 2013, by and between Image Sensing Systems, Inc., a Minnesota corporation (the “Company”), and Continental Stock Transfer & Trust Company, as rights agent (the “Rights Agent”).

The Board of Directors of the Company (the “Board”) has authorized and declared a dividend of one preferred share purchase right (a “Right”) for each Common Share (as hereinafter defined) of the Company outstanding on June 17, 2013 (the “Record Date”), each Right representing the right to purchase one one-thousandth of a Preferred Share (as hereinafter defined), upon the terms and subject to the conditions herein set forth, and has further authorized and directed the issuance of one Right with respect to each Common Share that shall become outstanding between the Record Date and the earliest of the Distribution Date, the Redemption Date and the Final Expiration Date (as such terms are hereinafter defined).

Accordingly, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. Definitions. For purposes of this Agreement, the following terms have the meanings indicated:

(a) “Acquiring Person” means any Person who or which, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of 20% or more of the Common Shares of the Company then outstanding, but shall not include the Company, any Subsidiary of the Company, any employee benefit plan of the Company or any Subsidiary of the Company, or any entity holding Common Shares for or pursuant to the terms of any such plan; provided, however, that no Person who Beneficially Owns, as of the time of the public announcement of this Agreement, 20% or more of the Common Shares of the Company then outstanding shall become an Acquiring Person unless such Person shall, after the time of the public announcement of this Agreement, increase its Beneficial Ownership of the then outstanding Common Shares (other than as a result of an acquisition of Common Shares by the Company) to an amount equal to or greater than the greater of (x) 20% or (y) the sum of (i) the lowest Beneficial Ownership of such Person as a percentage of the outstanding Common Shares as of any time from and after the public announcement of this Agreement plus (ii) 5%. Notwithstanding the foregoing, no Person shall become an “Acquiring Person” as the result of an acquisition of Common Shares by the Company which, by reducing the number of Common Shares of the Company outstanding, increases the proportionate number of Common Shares of the Company Beneficially Owned by such Person to 20% or more of the Common Shares of the Company then outstanding; provided, however, that, if a Person shall become the Beneficial Owner of 20% or more of the Common Shares of the Company then outstanding by reason of share purchases by the Company and shall, after the public announcement of such share purchases by the Company, become the Beneficial Owner of any additional Common Shares of the Company, then such Person shall be deemed to be an “Acquiring Person.” Notwithstanding the foregoing, if the Board determines in good faith that a Person who would otherwise be an “Acquiring Person,” as defined pursuant to the foregoing provisions of this paragraph (a), has become such inadvertently, and such Person divests as promptly as practicable a sufficient number of Common Shares so that such Person would no longer be an “Acquiring Person,” as defined pursuant to the foregoing provisions of this paragraph (a), then such Person shall not be deemed to be an “Acquiring Person” for any purposes of this Agreement. Notwithstanding the foregoing, if a bona fide swaps dealer who would otherwise be an “Acquiring Person” has become so as a result of its actions in the ordinary course of its business that the Board determines, in its sole discretion, were taken without the intent or effect of evading or assisting any other Person to evade the purposes and intent of this Agreement, or otherwise seeking to control or influence the management or policies of the Company, then, and unless and until the Board shall otherwise determine, such Person shall not be deemed to be an “Acquiring Person” for any purposes of this Agreement.

(b) “Affiliate” shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act as in effect on the date of this Agreement.

(c) “Associate” shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act as in effect on the date of this Agreement.

(d) A Person shall be deemed the “Beneficial Owner” of and shall be deemed to “Beneficially Own” any securities:

(i) which such Person or any of such Person’s Affiliates or Associates beneficially owns, directly or indirectly;

(ii) which such Person or any of such Person’s Affiliates or Associates has (A) the right or the obligation to acquire (whether such right is exercisable, or such obligation is required to be performed, immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities), or upon the exercise of conversion rights, exchange rights, rights (other than these Rights), warrants or options, or otherwise; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to Beneficially Own, securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person’s Affiliates or Associates until such tendered securities are accepted for purchase or exchange; or (B) the right to vote pursuant to any agreement, arrangement or understanding; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to Beneficially Own, any security if the agreement, arrangement or understanding to vote such security (1) arises solely from a revocable proxy or consent given to such Person in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations promulgated under the Exchange Act and (2) is not also then reportable on Schedule 13D under the Exchange Act (or any comparable or successor report);

(iii) which are beneficially owned, directly or indirectly, by any other Person with which such Person or any of such Person’s Affiliates or Associates has any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities) for the purpose of acquiring, holding, voting (except to the extent contemplated by the proviso to Section 1(d)(ii)(B) hereof) or disposing of any securities of the Company; or

(iv) which are beneficially owned, directly or indirectly, by a Counterparty (or any of such Counterparty's Affiliates or Associates) under any Derivatives Contract (without regard to any short or similar position under the same or any other Derivatives Contract) to which such Person or any of such Person's Affiliates or Associates is a Receiving Party (as such terms are defined in the immediately following paragraph); provided, however, that the number of Common Shares of the Company that a Person is deemed to Beneficially Own pursuant to this clause (iv) in connection with a particular Derivatives Contract shall not exceed the number of Notional Common Shares with respect to such Derivatives Contract; provided, further, that the number of securities beneficially owned by each Counterparty (including its Affiliates and Associates) under a Derivatives Contract shall for purposes of this clause (iv) be deemed to include all securities that are beneficially owned, directly or indirectly, by any other Counterparty (or any of such other Counterparty's Affiliates or Associates) under any Derivatives Contract to which such first Counterparty (or any of such first Counterparty's Affiliates or Associates) is a Receiving Party, with this proviso being applied to successive Counterparties as appropriate.

A "Derivatives Contract" is a contract between two parties (the "Receiving Party" and the "Counterparty") that is designed to produce economic benefits and risks to the Receiving Party that correspond substantially to the ownership by the Receiving Party of a number of Common Shares specified or referenced in such contract (the number corresponding to such economic benefits and risks, the "Notional Common Shares"), regardless of whether obligations under such contract are required or permitted to be settled through the delivery of cash, Common Shares or other property, without regard to any short position under the same or any other Derivative Contract. For the avoidance of doubt, interests in broad-based index options, broad-based index futures and broad-based publicly traded market baskets of stocks approved for trading by the appropriate federal governmental authority shall not be deemed to be Derivatives Contracts.

Notwithstanding anything in this definition of Beneficial Ownership to the contrary, the phrase "then outstanding," when used with reference to a Person's Beneficial Ownership of securities of the Company, shall mean the number of such securities then issued and outstanding together with the number of such securities not then actually issued and outstanding which are issuable by the Company and which such Person would be deemed to Beneficially Own hereunder.

(e) "Board" shall have the meaning set forth in the recitals.

(f) "Business Day" shall mean any day other than a Saturday, a Sunday, or a day on which banking institutions in St. Paul, Minnesota are authorized or obligated by law or executive order to close.

(g) "Close of Business" on any given date shall mean 5:00 P.M., Central time, on such date; provided, however, that, if such date is not a Business Day, it shall mean 5:00 P.M., Central time, on the next succeeding Business Day.



(h) “Common Shares” when used with reference to the Company shall mean the shares of common stock, par value \$0.01 per share, of the Company. “Common Shares” when used with reference to any Person other than the Company shall mean the capital stock (or equity interest) with the greatest voting power of such other Person or, if such other Person is a Subsidiary of another Person, the Person or Persons which ultimately control such first-mentioned Person.

(i) “Distribution Date” shall have the meaning set forth in Section 3(a) hereof.

(j) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

(k) “Exchange Ratio” shall have the meaning set forth in Section 24(a) hereof.

(l) “Final Expiration Date” shall mean the Close of Business on June 6, 2018.

(m) “NASDAQ” shall mean The NASDAQ Stock Market LLC.

(n) “Person” shall mean any individual, partnership, firm, corporation, limited liability company, association, trust, unincorporated organization or other entity, and shall include any successor (by merger or otherwise) of such entity, as well as any group under Rule 13d-5(b)(1) of the Exchange Act.

(o) “Preferred Shares” shall mean shares of Series A Junior Participating Preferred Stock, par value \$0.01 per share, of the Company having the rights and preferences set forth in the Form of Designation of Series A Junior Participating Preferred Stock attached to this Agreement as Exhibit A.

(p) “Purchase Price” shall have the meaning set forth in Section 4 hereof.

(q) “Record Date” shall have the meaning set forth in the second paragraph hereof.

(r) “Redemption Date” shall have the meaning set forth in Section 7(a) hereof.

(s) “Redemption Price” shall have the meaning set forth in Section 23(a) hereof.

(t) “Right” shall have the meaning set forth in the second paragraph hereof.

(u) “Rights Certificate” shall have the meaning set forth in Section 3(a) hereof.

(v) “Shares Acquisition Date” shall mean the first date of public announcement by the Company or an Acquiring Person that an Acquiring Person has become such.

(w) “Subsidiary” of any Person shall mean any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by such Person.

(x) “Summary of Rights” shall have the meaning set forth in Section 3(b) hereof.

(y) “Trading Day” shall have the meaning set forth in Section 11(d) hereof.

Section 2. Appointment of Rights Agent. The Company hereby appoints the Rights Agent to act as agent for the Company in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such co-Rights Agents as it may deem necessary or desirable, upon ten (10) days' prior written notice to the Rights Agent. The Rights Agent shall have no duty to supervise, and shall in no event be liable for the acts or omissions of, any such co-Rights Agent.

Section 3. Issue of Rights Certificates. (a) Until the tenth (10th) day after the Shares Acquisition Date (including any such date which is after the date of this Agreement and before the issuance of the Rights; the "Distribution Date"), (x) the Rights will be evidenced (subject to the provisions of Section 3(b) hereof) by the certificates for Common Shares of the Company registered in the names of the holders thereof (which certificates shall also be deemed to be Rights Certificates) and not by separate Rights Certificates, and (y) the right to receive Rights Certificates will be transferable only in connection with the transfer of Common Shares of the Company. As soon as practicable after the Distribution Date, the Company will prepare and execute, the Rights Agent will countersign, and the Company will send or cause to be sent (and the Rights Agent will, if requested, send) by first-class, insured, postage-prepaid mail, to each record holder of Common Shares of the Company as of the Close of Business on the Distribution Date, at the address of such holder shown on the records of the Company, a Rights Certificate, in substantially the form of Exhibit B hereto (a "Rights Certificate"), evidencing one Right for each Common Share of the Company so held, subject to adjustment as provided herein. As of the Distribution Date, the Rights will be evidenced solely by such Rights Certificates.

(b) On the Record Date, or as soon as practicable thereafter, the Company will send or cause to be sent (and the Rights Agent will, if requested, send) a copy of a Summary of Rights to Purchase Preferred Shares, in substantially the form of Exhibit C hereto (the "Summary of Rights"), by first-class, postage-prepaid mail, to each record holder of Common Shares of the Company as of the Close of Business on the Record Date, at the address of such holder shown on the records of the Company. With respect to certificates for Common Shares of the Company outstanding as of the Record Date, until the Distribution Date, the Rights will be evidenced by such certificates registered in the names of the holders thereof together with a copy of the Summary of Rights attached thereto. Until the Distribution Date (or the earlier of the Redemption Date or the Final Expiration Date), the surrender for transfer of any certificate for Common Shares of the Company outstanding on the Record Date, with or without a copy of the Summary of Rights attached thereto, shall also constitute the transfer of the Rights associated with the Common Shares of the Company represented thereby.

(c) Certificates for Common Shares which become outstanding (including, without limitation, reacquired Common Shares referred to in the last sentence of this paragraph (c)) after the Record Date but before the earliest of the Distribution Date, the Redemption Date or the Final Expiration Date shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

This certificate also evidences and entitles the holder hereof to certain rights as set forth in an Agreement between Image Sensing Systems, Inc. and Continental Stock Transfer & Trust Company dated as of June 6, 2013, as it may be amended from time to time (the "Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of Image Sensing Systems, Inc. Under certain circumstances, as set forth in the Agreement, such Rights (as defined in the Agreement) will be evidenced by separate certificates and will no longer be evidenced by this certificate. Image Sensing Systems, Inc. will mail to the holder of this certificate a copy of the Agreement without charge after receipt of a written request therefor. As set forth in the Agreement, Rights Beneficially Owned by any Person (as defined in the Agreement) who becomes an Acquiring Person (as defined in the Agreement) become null and void.

With respect to such certificates containing the foregoing legend, until the Distribution Date, the Rights associated with the Common Shares of the Company represented by such certificates shall be evidenced by such certificates alone, and the surrender for transfer of any such certificate shall also constitute the transfer of the Rights associated with the Common Shares of the Company represented thereby. If the Company purchases or acquires any Common Shares of the Company after the Record Date but before the Distribution Date, any Rights associated with such Common Shares of the Company shall be deemed cancelled and retired so that the Company shall not be entitled to exercise any Rights associated with the Common Shares of the Company which are no longer outstanding. Notwithstanding this Section 3(c), the omission of a legend shall not affect the enforceability of any part of this Rights Agreement or the rights of any holder of the Rights.

Section 4. Form of Rights Certificates. The Rights Certificates (and the forms of election to purchase Preferred Shares and of the assignment to be printed on the reverse thereof) shall be substantially the same as Exhibit B hereto, and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any applicable law or with any applicable rule or regulation made pursuant thereto or with any applicable rule or regulation of any stock exchange or the Financial Industry Regulatory Authority, or to conform to usage. Subject to the provisions of Section 22 of this Agreement, the Rights Certificates shall entitle the holders thereof to purchase such number of one one-thousandths of a Preferred Share as shall be set forth therein at the price per one one-thousandth of a Preferred Share set forth therein (the "Purchase Price"), but the number of such one one-thousandths of a Preferred Share and the Purchase Price shall be subject to adjustment as provided herein.

Section 5. Countersignature and Registration. The Rights Certificates shall be executed on behalf of the Company by its Chairman of the Board, its President and Chief Executive Officer, or its Chief Financial Officer, either manually or by facsimile signature, shall bear no seal, and shall be attested by the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature. The Rights Certificates shall be countersigned, either manually or by facsimile signature, by the Rights Agent and shall not be valid for any purpose unless countersigned. In case any officer of the Company who shall have signed any of the Rights Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Rights Certificates, nevertheless, may be countersigned by the Rights Agent and issued and delivered by the Company with the same force and effect as though the individual who signed such Rights Certificates had not ceased to be such officer of the Company; and any Rights Certificate may be signed on behalf of the Company by any individual who, at the actual date of the execution of such Rights Certificate, shall be a proper officer of the Company to sign such Rights Certificate, although at the date of the execution of this Agreement any such individual was not such an officer.

Following the Distribution Date, the Rights Agent will keep or cause to be kept, at its principal office, books for registration and transfer of the Rights Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of the Rights Certificates, the number of Rights evidenced on its face by each of the Rights Certificates and the date of each of the Rights Certificates.

Section 6. Transfer, Split Up, Combination and Exchange of Rights Certificates; Mutilated, Destroyed, Lost or Stolen Rights Certificates. Subject to the provisions of Section 14 hereof, at any time after the Close of Business on the Distribution Date, and at or before the Close of Business on the earlier of the Redemption Date or the Final Expiration Date, any Rights Certificate or Rights Certificates (other than Rights Certificates representing Rights that have become void pursuant to Section 11(a)(ii) hereof or that have been exchanged pursuant to Section 24 hereof) may be transferred, split up, combined or exchanged for another Rights Certificate or Rights Certificates entitling the registered holder to purchase a like number of one one-thousandths of a Preferred Share as the Rights Certificate or Rights Certificates surrendered then entitled such holder to purchase. Any registered holder desiring to transfer, split up, combine or exchange any Rights Certificate or Rights Certificates shall make such request in writing delivered to the Rights Agent, and shall surrender the Rights Certificate or Rights Certificates to be transferred, split up, combined or exchanged at the principal office of the Rights Agent. The Rights Agent then shall countersign and deliver to the Person entitled thereto a Rights Certificate or Rights Certificates, as the case may be, as so requested. The Company may require payment of a sum sufficient to cover any tax or charge that may be imposed in connection with any transfer, split up, combination or exchange of Rights Certificates.

Upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Rights Certificate, and, in case of the loss, theft or destruction, of indemnity or security reasonably satisfactory to them, and, at the Company's request, reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Rights Certificate if mutilated, the Company will make and deliver a new Rights Certificate of like tenor to the Rights Agent for delivery to the registered holder in lieu of the Rights Certificate so lost, stolen, destroyed or mutilated.

Notwithstanding any other provisions hereof, the Company and the Rights Agent may amend this Rights Agreement to provide for uncertificated Rights in addition to or in place of Rights evidenced by Rights Certificates.

Section 7. Exercise of Rights; Purchase Price; Expiration Date of Rights. (a) The registered holder of any Rights Certificate may exercise the Rights evidenced thereby (except as otherwise provided herein), in whole or in part, at any time after the Distribution Date, upon surrender of the Rights Certificate, with the form of election to purchase on the reverse side thereof duly executed, to the Rights Agent at the principal office of the Rights Agent, together with payment of the Purchase Price for each one one-thousandth of a Preferred Share as to which the Rights are exercised, at or before the earliest of (i) the Final Expiration Date, (ii) the time at which the Rights are redeemed as provided in Section 23 hereof (the "Redemption Date"), or (iii) the time at which such Rights are exchanged as provided in Section 24 hereof.

(b) The Purchase Price for each one one-thousandth of a Preferred Share purchasable pursuant to the exercise of a Right shall initially be \$25.00 and shall be subject to adjustment from time to time as provided in Section 11 or Section 13 hereof, and shall be payable in lawful money of the United States of America in accordance with paragraph (c) below.

(c) Upon receipt of a Rights Certificate representing exercisable Rights, with the form of election to purchase duly executed, accompanied by payment of the Purchase Price for the shares to be purchased and an amount equal to any applicable transfer tax required to be paid by the holder of such Rights Certificate in accordance with Section 9 hereof by certified check or cashier's check payable to the order of the Rights Agent, the Rights Agent shall thereupon promptly (i) (A) requisition from any transfer agent of the Preferred Shares certificates for the number of Preferred Shares to be purchased, and the Company hereby irrevocably authorizes any such transfer agent to comply with all such requests, or (B) requisition from the depository agent depository receipts representing such number of one one-thousandths of a Preferred Share as are to be purchased (in which case certificates for the Preferred Shares represented by such receipts shall be deposited by the transfer agent of the Preferred Shares with such depository agent), and the Company hereby directs such depository agent to comply with such request; (ii) when appropriate, requisition from the Company the amount of cash to be paid in lieu of issuance of fractional shares in accordance with Section 14 hereof; (iii) after receipt of such certificates or depository receipts, cause the same to be delivered to or upon the order of the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder; and (iv) when appropriate, after receipt, deliver such cash to or upon the order of the registered holder of such Rights Certificate.

(d) If the registered holder of any Rights Certificate shall exercise fewer than all the Rights evidenced thereby, a new Rights Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent to the registered holder of such Rights Certificate or to such holder's duly authorized assigns, subject to the provisions of Section 14 hereof.

Section 8. Cancellation and Destruction of Rights Certificates. All Rights Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or to any of its agents, be delivered to the Rights Agent for cancellation or in cancelled form or, if surrendered to the Rights Agent, shall be cancelled by it, and no Rights Certificates shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any other Rights Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all cancelled Rights Certificates to the Company or shall, at the written request of the Company, destroy such cancelled Rights Certificates, and, in such case, shall deliver a certificate of destruction thereof to the Company.

Section 9. Availability of Preferred Shares. The Company covenants and agrees that it will cause to be reserved and kept available out of its authorized and unissued Preferred Shares or any Preferred Shares held in its treasury the number of Preferred Shares that will be sufficient to permit the exercise in full of all outstanding Rights in accordance with Section 7 hereof. The Company covenants and agrees that it will take all such action as may be necessary to ensure that all Preferred Shares delivered upon exercise of Rights shall, at the time of delivery of the certificates for such Preferred Shares (subject to payment of the Purchase Price), be duly and validly authorized and issued and fully paid and nonassessable shares.

The Company further covenants and agrees that it will pay when due and payable any and all federal and state transfer taxes and charges which may be payable in respect of the issuance or delivery of the Rights Certificates or of any Preferred Shares upon the exercise of Rights. The Company shall not, however, be required to pay any transfer tax which may be payable in respect of any transfer or delivery of Rights Certificates to a Person other than, or the issuance or delivery of certificates or depositary receipts for the Preferred Shares in a name other than that of, the registered holder of the Rights Certificate evidencing Rights surrendered for exercise or to issue or to deliver any certificates or depositary receipts for Preferred Shares upon the exercise of any Rights until any such tax shall have been paid (any such tax being payable by the holder of such Rights Certificate at the time of surrender) or until it has been established to the Company's reasonable satisfaction that no such tax is due.

Section 10. Preferred Shares Record Date. Each Person in whose name any certificate for Preferred Shares is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Preferred Shares represented thereby on, and such certificate shall be dated, the date upon which the Rights Certificate evidencing such Rights was duly surrendered and payment of the Purchase Price (and any applicable transfer taxes) was made; provided, however, that, if the date of such surrender and payment is a date upon which the Preferred Shares transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding Business Day on which the Preferred Shares transfer books of the Company are open. Before the exercise of the Rights evidenced thereby, the holder of a Rights Certificate shall not be entitled to any rights of a holder of Preferred Shares for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. Adjustment of Purchase Price, Number of Shares or Number of Rights. The Purchase Price, the number of Preferred Shares covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a) (i) If the Company shall at any time after the date of this Agreement (A) declare a dividend on the Preferred Shares payable in Preferred Shares, (B) subdivide the outstanding Preferred Shares, (C) combine the outstanding Preferred Shares into a smaller number of Preferred Shares or (D) issue any shares of its capital stock in a reclassification of the Preferred Shares (including any such reclassification in connection with a share exchange, consolidation or merger in which the Company is the continuing or surviving corporation), except as otherwise provided in this Section 11(a), the Purchase Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification, and the number and kind of shares of capital stock issuable on such date, shall be proportionately adjusted so that the holder of any Right exercised after such time shall be entitled to receive the aggregate number and kind of shares of capital stock which, if such Right had been exercised immediately before such date and at a time when the Preferred Shares transfer books of the Company were open, such holder would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification; provided, however, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of one Right.

XVIII. Descriptive Headings. Descriptive headings of the several Sections of this Amendment are inserted for convenience.



(ii) Subject to Section 24 hereof, if any Person becomes an Acquiring Person, each holder of a Right shall thereafter have a right to receive, upon exercise thereof at a price equal to the then current Purchase Price multiplied by the number of one one-thousandths of a Preferred Share for which a Right is then exercisable, in accordance with the terms of this Agreement and in lieu of Preferred Shares, such number of Common Shares of the Company as shall equal the result obtained by (A) multiplying the then current Purchase Price by the number of one one-thousandths of a Preferred Share for which a Right is then exercisable and dividing that product by (B) 50% of the then current per share market price of the Common Shares of the Company (determined pursuant to Section 11(d) hereof) on the date of the occurrence of such event. If any Person shall become an Acquiring Person and the Rights shall then be outstanding, the Company shall not take any action which would eliminate or diminish the benefits intended to be afforded by the Rights.

From and after the occurrence of such event, any Rights that are or were acquired or Beneficially Owned by any Acquiring Person (or any Associate or Affiliate of such Acquiring Person) shall be null and void without any further action, and any holder of such Rights shall thereafter have no right to exercise such Rights under any provision of this Agreement or otherwise. Neither the Company nor the Rights Agent shall have liability to any holder of Rights Certificates or other Person as a result of its failure to make any determinations with respect to an Acquiring Person or its Affiliates, Associates or transferees hereunder. No Rights Certificate shall be issued pursuant to Section 3 hereof that represents Rights Beneficially Owned by an Acquiring Person whose Rights would be void pursuant to the preceding sentence or any Associate or Affiliate thereof; no Rights Certificate shall be issued at any time upon the transfer of any Rights to an Acquiring Person whose Rights would be void pursuant to the preceding sentence or any Associate or Affiliate thereof or to any nominee of such Acquiring Person, Associate or Affiliate or with respect to any Common Shares otherwise deemed to be Beneficially Owned by any of the foregoing; and any Rights Certificate delivered to the Rights Agent for transfer to an Acquiring Person or other Person whose Rights would be void pursuant to the preceding sentence shall be cancelled.

(iii) If there are not a sufficient number of Common Shares issued but not outstanding or authorized but unissued to permit the exercise in full of the Rights in accordance with subparagraph (ii) above, the Company shall take all such action as may be necessary to authorize additional Common Shares for issuance upon exercise of the Rights. If the Company shall, after a good faith effort, be unable to take all such action as may be necessary to authorize such number of additional Common Shares, the Company shall substitute, for each Common Share that would otherwise be issuable upon exercise of a Right, a number of Preferred Shares or fraction thereof such that the current per share market price of one Preferred Share multiplied by such number or fraction is equal to the current per share market price of one Common Share as of the date of issuance of such Preferred Shares or fraction thereof.



(b) If the Company shall fix a record date for the issuance of rights, options or warrants to all holders of Preferred Shares entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Preferred Shares (or shares having the same rights, privileges and preferences as the Preferred Shares (“equivalent preferred shares”)) or securities convertible into Preferred Shares or equivalent preferred shares at a price per Preferred Share or equivalent preferred share (or having a conversion price per share, if a security convertible into Preferred Shares or equivalent preferred shares) less than the then current per share market price of the Preferred Shares (as defined in Section 11(d)) on such record date, the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately before such record date by a fraction, the numerator of which shall be the number of Preferred Shares outstanding on such record date plus the number of Preferred Shares which the aggregate offering price of the total number of Preferred Shares and/or equivalent preferred shares so to be offered (and/or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such current market price and the denominator of which shall be the number of Preferred Shares outstanding on such record date plus the number of additional Preferred Shares and/or equivalent preferred shares to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible); provided, however, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of one Right. In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and holders of the Rights. Preferred Shares owned by or held for the account of the Company or any Subsidiary of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed; and, if such rights, options or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(c) If the Company shall fix a record date for the making of a distribution to all holders of the Preferred Shares (including any such distribution made in connection with a share exchange, consolidation or merger in which the Company is the continuing or surviving corporation) of evidences of indebtedness or assets (other than a regular quarterly cash dividend or a dividend payable in Preferred Shares) or subscription rights or warrants (excluding those referred to in Section 11(b) hereof), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately before such record date by a fraction, the numerator of which shall be the then-current per share market price of the Preferred Shares on such record date, less the fair market value (as determined in good faith by the Board, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and holders of the Rights) of the portion of the assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to one Preferred Share and the denominator of which shall be such then-current per share market price of the Preferred Shares on such record date; provided, however, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company to be issued upon exercise of one Right. Such adjustments shall be made successively whenever such a record date is fixed; and, in the event that such distribution is not so made, the Purchase Price shall again be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(d) (i) For the purpose of any computation hereunder, the “current per share market price” of any security (a “Security” for the purpose of this Section 11(d)(i)) on any date shall be deemed to be the average of the daily closing prices per share of such Security for the thirty (30) consecutive Trading Days immediately before such date; provided, however, that, if the current per share market price of the Security is determined during a period following the announcement by the issuer of such Security of (A) a dividend or distribution on such Security payable in shares of such Security or Securities convertible into such shares, or (B) any subdivision, combination or reclassification of such Security and before the expiration of thirty (30) Trading Days after the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, then, and in each such case, the current per share market price shall be appropriately adjusted to reflect the current market price per share equivalent of such Security. The closing price for each day shall be the last sale price, regular way, reported at or before 4:00 P.M. Eastern time or, in case no such sale takes place on such day, the average of the bid and asked prices, regular way, reported as of 4:00 P.M. Eastern time, in either case, as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the NASDAQ or, if the Security is not listed or admitted to trading on the NASDAQ, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Security is listed or admitted to trading or, if the Security is not listed or admitted to trading on any national securities exchange, the last quoted price reported at or before 4:00 P.M. Eastern time or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported as of 4:00 P.M. Eastern time by NASDAQ or such other system then in use, or, if on any such date the Security is not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Security selected by the Board. The term “Trading Day” shall mean a day on which the principal national securities exchange on which the Security is listed or admitted to trading is open for the transaction of business, or, if the Security is not listed or admitted to trading on any national securities exchange, a Business Day.

(ii) For the purpose of any computation hereunder, the “current per share market price” of the Preferred Shares shall be determined in accordance with the method set forth in Section 11(d)(i). If the Preferred Shares are not publicly traded, the “current per share market price” of the Preferred Shares shall be conclusively deemed to be the current per share market price of the Common Shares of the Company as determined pursuant to Section 11(d)(i) hereof (appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof), multiplied by one thousand. If neither the Company’s Common Shares nor the Preferred Shares are publicly held or so listed or traded, “current per share market price” shall mean the fair value per share as determined in good faith by the Board, whose determination shall be described in a statement filed with the Rights Agent.

(e) No adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Purchase Price; provided, however, that any adjustments which by reason of this Section 11(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest one ten-millionth of a Preferred Share or one ten-thousandth of any other share or Security as the case may be. Notwithstanding the first sentence of this Section 11(e), any adjustment required by this Section 11 shall be made no later than the earlier of (i) three years from the date of the transaction which requires such adjustment or (ii) the date of the expiration of the right to exercise any Rights.

(f) If, as a result of an adjustment made pursuant to Section 11(a) hereof, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock of the Company other than Preferred Shares, thereafter the number of such other shares so receivable upon exercise of any Right shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Preferred Shares contained in Section 11(a) through (c) hereof, inclusive, and the provisions of Sections 7, 9, 10 and 13 hereof with respect to the Preferred Shares shall apply on like terms to any such other shares.

(g) All Rights originally issued by the Company subsequent to any adjustment made to the Purchase Price hereunder shall evidence the right to purchase, at the adjusted Purchase Price, the number of one one-thousandths of a Preferred Share purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(h) Unless the Company shall have exercised its election as provided in Section 11(i) hereof, upon each adjustment of the Purchase Price as a result of the calculations made in Sections 11(b) and (c) hereof, each Right outstanding immediately before the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of one one-thousandths of a Preferred Share (calculated to the nearest ten-millionth of a Preferred Share) obtained by (A) multiplying (x) the number of one one-thousandths of a share covered by a Right immediately before this adjustment by (y) the Purchase Price in effect immediately before such adjustment of the Purchase Price and (B) dividing the product so obtained by the Purchase Price in effect immediately after such adjustment of the Purchase Price.

(i) The Company may elect, on or after the date of any adjustment of the Purchase Price, to adjust the number of Rights in substitution for any adjustment in the number of one one-thousandths of a Preferred Share purchasable upon the exercise of a Right. Each of the Rights outstanding after such adjustment of the number of Rights shall be exercisable for the number of one one-thousandths of a Preferred Share for which a Right was exercisable immediately before such adjustment. Each Right held of record before such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest one ten-thousandth) obtained by dividing the Purchase Price in effect immediately before adjustment of the Purchase Price by the Purchase Price in effect immediately after adjustment of the Purchase Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the Purchase Price is adjusted or any day thereafter, but, if the Rights Certificates have been issued, shall be at least ten (10) days later than the date of the public announcement. If Rights Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(i), the Company shall, as promptly as practicable, cause to be distributed to holders of record of Rights Certificates on such record date Rights Certificates evidencing, subject to Section 14 hereof, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Rights Certificates held by such holders before the date of adjustment, and upon surrender thereof, if required by the Company, new Rights Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Rights Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein, and shall be registered in the names of the holders of record of Rights Certificates on the record date specified in the public announcement.



(j) Irrespective of any adjustment or change in the Purchase Price or in the number of one one-thousandths of a Preferred Share issuable upon the exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to express the Purchase Price and the number of one one-thousandths of a Preferred Share which were expressed in the initial Rights Certificates issued hereunder.

(k) Before taking any action that would cause an adjustment reducing the Purchase Price below one one-thousandth of the then par value, if any, of the Preferred Shares issuable upon exercise of the Rights, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and nonassessable Preferred Shares at such adjusted Purchase Price.

(l) In any case in which this Section 11 shall require that an adjustment in the Purchase Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event the issuing to the holder of any Right exercised after such record date of the Preferred Shares and other capital stock or securities of the Company, if any, issuable upon such exercise over and above the Preferred Shares and other capital stock or securities of the Company, if any, issuable upon such exercise on the basis of the Purchase Price in effect before such adjustment; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares upon the occurrence of the event requiring such adjustment.

(m) Anything in this Section 11 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Purchase Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that it, in its sole discretion, shall determine to be advisable in order that any consolidation or subdivision of the Preferred Shares, issuance wholly for cash of any Preferred Shares at less than the current market price, issuance wholly for cash of Preferred Shares or securities which by their terms are convertible into or exchangeable for Preferred Shares, dividends on Preferred Shares payable in Preferred Shares or issuance of rights, options or warrants referred to in Section 11(b) hereof, hereafter made by the Company to holders of the Preferred Shares shall not be taxable to such shareholders.

(n) If, at any time after the date of this Agreement and before the Distribution Date, the Company shall (i) declare or pay any dividend on the Common Shares payable in Common Shares, or (ii) effect a subdivision, combination or consolidation of the Common Shares (by reclassification or otherwise than by payment of dividends in Common Shares) into a greater or lesser number of Common Shares, then, in any such case, (A) the number of one one-thousandths of a Preferred Share purchasable after such event upon proper exercise of each Right shall be determined by multiplying the number of one one-thousandths of a Preferred Share so purchasable immediately before such event by a fraction, the numerator of which is the number of Common Shares outstanding immediately before such event and the denominator of which is the number of Common Shares outstanding immediately after such event, and (B) each Common Share outstanding immediately after such event shall have issued with respect to it that number of Rights which each Common Share outstanding immediately before such event had issued with respect to it. The adjustments provided for in this Section 11(n) shall be made successively whenever such a dividend is declared or paid or such a subdivision, combination or consolidation is affected.

Section 12. Certificate of Adjusted Purchase Price or Number of Shares. Whenever an adjustment is made as provided in Section 11 or 13 hereof, the Company shall promptly (a) prepare a certificate setting forth such adjustment or describing such event and a brief statement of the facts accounting for such adjustment or describing such event, (b) file with the Rights Agent and with each transfer agent for the Common Shares or the Preferred Shares a copy of such certificate and (c) if such adjustment occurs at any time after the Distribution Date, mail a brief summary thereof to each holder of a Rights Certificate in accordance with Section 25 hereof.

Section 13. Consolidation, Merger or Sale or Transfer of Assets or Earning Power. If, directly or indirectly, at any time after a Person has become an Acquiring Person, (a) the Company shall effect a share exchange, consolidate with, or merge with and into, any other Person, (b) any Person shall effect a share exchange, consolidate with the Company, or merge with and into the Company and the Company shall be the continuing or surviving corporation of such share exchange or merger and, in connection with such merger, all or part of the Common Shares shall be changed into or exchanged for stock or other securities of any other Person (or the Company) or cash or any other property, or (c) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer), in one or more transactions, assets or earning power aggregating 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person other than the Company or one or more of its wholly-owned Subsidiaries, then, and in each such case, proper provision shall be made so that (i) each holder of a Right (except as otherwise provided herein) shall thereafter have the right to receive, upon the exercise thereof at a price equal to the then current Purchase Price multiplied by the number of one one-thousandths of a Preferred Share for which a Right is then exercisable, in accordance with the terms of this Agreement and in lieu of Preferred Shares, such number of Common Shares of such other Person (including the Company as successor thereto or as the surviving corporation) as shall equal the result obtained by (A) multiplying the then current Purchase Price by the number of one one-thousandths of a Preferred Share for which a Right is then exercisable and dividing that product by (B) 50% of the then current per share market price of the Common Shares of such other Person (determined pursuant to Section 11(d) hereof) on the date of consummation of such consolidation, merger, sale or transfer; (ii) the issuer of such Common Shares shall thereafter be liable for, and shall assume, by virtue of such consolidation, merger, sale or transfer, all the obligations and duties of the Company pursuant to this Agreement; (iii) the term "Company" shall thereafter be deemed to refer to such issuer; and (iv) such issuer shall take such steps (including, but not limited to, the reservation of a sufficient number of its Common Shares in accordance with Section 9 hereof) in connection with such consummation as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to the Common Shares of the Company thereafter deliverable upon the exercise of the Rights. The Company shall not consummate any such consolidation, merger, sale or transfer unless, prior thereto, the Company and such issuer shall have executed and delivered to the Rights Agent a supplemental agreement so providing. The Company shall not enter into any transaction of the kind referred to in this Section 13 if at the time of such transaction there are any rights, warrants, instruments or securities outstanding or any agreements or arrangements which, as a result of the consummation of such transaction, would eliminate or substantially diminish the benefits intended to be afforded by the Rights. The provisions of this Section 13 shall similarly apply to successive mergers, share exchanges, or consolidations or sales or other transfers.

Section 14. Fractional Rights and Fractional Shares. (a) The Company shall not be required to issue fractions of Rights or to distribute Rights Certificates which evidence fractional Rights. In lieu of such fractional Rights, there shall be paid to the registered holders of the Rights Certificates with regard to which such fractional Rights would otherwise be issuable an amount in cash equal to the same fraction of the current market value of a whole Right. For the purposes of this Section 14(a), the current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately before the date on which such fractional Rights would have been otherwise issuable. The closing price for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case, as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the NASDAQ or, if the Rights are not listed or admitted to trading on the NASDAQ, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Rights are listed or admitted to trading or, if the Rights are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by NASDAQ or such other system then in use or, if on any such date the Rights are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Rights selected by the Board. If on any such date no such market maker is making a market in the Rights, the fair value of the Rights on such date as determined in good faith by the Board shall be used.

(b) The Company shall not be required to issue fractions of Preferred Shares (other than fractions which are integral multiples of one one-thousandth of a Preferred Share) upon exercise of the Rights or to distribute certificates which evidence fractional Preferred Shares (other than fractions which are integral multiples of one one-thousandth of a Preferred Share). Fractions of Preferred Shares in integral multiples of one one-thousandth of a Preferred Share may, at the election of the Company, be evidenced by depositary receipts pursuant to an appropriate agreement between the Company and a depositary selected by it; provided that such agreement shall provide that the holders of such depositary receipts shall have all the rights, privileges and preferences to which they are entitled as Beneficial Owners of the Preferred Shares represented by such depositary receipts. In lieu of fractional Preferred Shares that are not integral multiples of one one-thousandth of a Preferred Share, the Company shall pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of one Preferred Share. For the purposes of this Section 14(b), the current market value of a Preferred Share shall be the closing price of a Preferred Share (as determined pursuant to the second sentence of Section 11(d)(i) hereof) for the Trading Day immediately before the date of such exercise.

(c) The holder of a Right, by the acceptance of the Right, expressly waives such holder's right to receive any fractional Rights or any fractional shares upon exercise of a Right (except as provided above).

Section 15. Rights of Action. All rights of action in respect of this Agreement, excepting the rights of action given to the Rights Agent under Section 18 hereof, are vested in the respective registered holders of the Rights Certificates (and, before the Distribution Date, the registered holders of the Common Shares); and any registered holder of any Rights Certificate (or, before the Distribution Date, of the Common Shares), without the consent of the Rights Agent or of the holder of any other Rights Certificate (or, before the Distribution Date, of the Common Shares), may, in such holder's own behalf and for such holder's own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, such holder's right to exercise the Rights evidenced by such Rights Certificate in the manner provided in such Rights Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement, and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of the obligations of any Person subject to, this Agreement.

Section 16. Agreement of Right Holders. Every holder of a Right, by accepting the same, consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) before the Distribution Date, the Rights will be transferable only in connection with the transfer of the Common Shares of the Company;

(b) after the Distribution Date, the Rights Certificates are transferable only on the registry books of the Rights Agent if surrendered at the principal office of the Rights Agent, duly endorsed or accompanied by a proper instrument of transfer; and

(c) the Company and the Rights Agent may deem and treat the Person in whose name the Rights Certificate (or, before the Distribution Date, the associated Common Shares certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Rights Certificate or the associated Common Shares certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary.



Section 17. Rights Certificate Holder Not Deemed a Shareholder. No holder, as such, of any Rights Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of the Preferred Shares or any other securities of the Company which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Rights Certificate be construed to confer upon the holder of any Rights Certificate, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in Section 25 hereof), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Rights Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. Concerning the Rights Agent. The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder, and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense incurred without gross negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability in the premises.

The Rights Agent shall be protected and shall incur no liability for, or in respect of any action taken, suffered or omitted by it in connection with, its administration of this Agreement in reliance upon any Rights Certificate or certificate for the Preferred Shares or Common Shares or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons, or otherwise upon the advice of counsel as set forth in Section 20 hereof.

Notwithstanding anything in this Agreement to the contrary, in no event will the Rights Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Rights Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

Section 19. Merger or Consolidation or Change of Name of Rights Agent. Any corporation into which the Rights Agent or any successor Rights Agent may be merged or with which it may effect a share exchange, be consolidated, or any Person resulting from any merger, share exchange, or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any Person succeeding to the stock transfer or corporate trust powers of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or document or any further act on the part of any of the parties hereto; provided that such Person would be eligible for appointment as a successor Rights Agent under the provisions of Section 21 hereof. In case at the time such successor Rights Agent shall succeed to the agency created by this Agreement, any of the Rights Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Rights Certificates so countersigned; and, in case at that time any of the Rights Certificates shall not have been countersigned, any successor Rights Agent may countersign such Rights Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and, in all such cases, such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

If at any time the name of the Rights Agent shall be changed and at such time any of the Rights Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and, in case at that time any of the Rights Certificates shall not have been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and, in all such cases, such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Rights Certificates, by their acceptance thereof, shall be bound:

(a) The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.

(b) Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company before taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by any one of the Chairman of the Board, the President and Chief Executive Officer, the Chief Financial Officer, the Secretary or any Assistant Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder to the Company and any other Person only for its own gross negligence, bad faith or willful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Rights Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Rights Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Rights Certificate; nor shall it be responsible for any change in the exercisability of the Rights (including the Rights becoming void pursuant to Section 11(a)(ii) hereof) or any adjustment in the terms of the Rights (including the manner, method or amount thereof) provided for in Sections 3, 11, 13, 23 or 24 hereof, or the ascertaining of the existence of facts that would require any such change or adjustment (except with respect to the exercise of Rights evidenced by Rights Certificates after receipt of a certificate pursuant to Section 12 describing such change or adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any Preferred Shares to be issued pursuant to this Agreement or any Rights Certificate or as to whether any Preferred Shares will, when issued, be validly authorized and issued, fully paid and nonassessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from any one of the Chairman of the Board, the President and Chief Executive Officer, the Chief Financial Officer, the Secretary or any Assistant Secretary of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered by it in good faith in accordance with instructions of any such officer or for any delay in acting while waiting for those instructions.

(h) The Rights Agent and any shareholder, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other Person.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, provided that reasonable care was exercised in the selection and continued employment thereof.

Section 21. Change of Rights Agent. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon thirty (30) days' notice in writing mailed to the Company and, if the Rights Agent or one of its Affiliates is not also the transfer agent for the Company, to each transfer agent of the Common Shares or Preferred Shares by registered or certified mail. If the transfer agency relationship in effect between the Company and the Rights Agent terminates, the Rights Agent will be deemed to have resigned automatically and be discharged from its duties under this Agreement as of the effective date of such termination, and the Company shall be responsible for sending any required notice. The Company may remove the Rights Agent or any successor Rights Agent (with or without cause) upon thirty (30) days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Shares or Preferred Shares by registered or certified mail, and to the holders of the Rights Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Rights Certificate (which holder shall, with such notice, submit such holder's Rights Certificate for inspection by the Company), then the registered holder of any Rights Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be either (a) a Person organized and doing business under the laws of the United States or of the State of New York (or of any other state of the United States so long as such corporation is authorized to do business as a banking institution in such state), in good standing which is authorized under such laws to exercise corporate trust or stock transfer powers and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$50 million or (b) an affiliate or direct or indirect wholly-owned Subsidiary of such Person or its wholly-owning parent. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Shares or Preferred Shares and mail a notice thereof in writing to the registered holders of the Rights Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Section 22. Issuance of New Rights Certificates. Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by the Board to reflect any adjustment or change in the Purchase Price and the number or kind or class of shares or other securities or property purchasable under the Rights Certificates made in accordance with the provisions of this Agreement.

Section 23. Redemption. (a) The Board may, at its option, at any time before such time as any Person becomes an Acquiring Person, redeem all but not less than all the then outstanding Rights at a redemption price of \$0.001 per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such redemption price being hereinafter referred to as the "Redemption Price"). The redemption of the Rights by the Board may be made effective at such time, on such basis and with such conditions as the Board, in its sole discretion, may establish.

(b) Immediately upon the action of the Board ordering the redemption of the Rights pursuant to paragraph (a) of this Section 23, and without any further action and without any notice, the right to exercise the Rights will terminate, and the only right thereafter of the holders of Rights shall be to receive the Redemption Price. The Company shall promptly give public notice of any such redemption; provided, however, that the failure to give, or any defect in, any such notice shall not affect the validity of such redemption. Within ten (10) days after such action of the Board ordering the redemption of the Rights, the Company shall mail a notice of redemption to all the holders of the then outstanding Rights at their last addresses as they appear upon the registry books of the Rights Agent or, before the Distribution Date, on the registry books of the transfer agent for the Common Shares. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made. Neither the Company nor any of its Affiliates or Associates may redeem, acquire or purchase for value any Rights at any time in any manner other than that specifically set forth in this Section 23 or in Section 24 hereof, and other than in connection with the purchase of Common Shares before the Distribution Date.

Section 24. Exchange. (a) The Board may, at its option, at any time after any Person becomes an Acquiring Person, exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become void pursuant to the provisions of Section 11(a)(ii) hereof) for Common Shares at an exchange ratio of one Common Share per Right, appropriately adjusted to reflect any adjustment in the number of Rights pursuant to Section 11(i) (such exchange ratio being hereinafter referred to as the "Exchange Ratio"). Notwithstanding the foregoing, the Board shall not be empowered to effect such exchange at any time after any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or any such Subsidiary, or any entity holding Common Shares for or pursuant to the terms of any such plan), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of 50% or more of the Common Shares of the Company then outstanding.

(b) Immediately upon the action of the Board ordering the exchange of any Rights pursuant to paragraph (a) of this Section 24, and without any further action and without any notice, the right to exercise such Rights shall terminate, and the only right thereafter of a holder of such Rights shall be to receive that number of Common Shares of the Company equal to the number of such Rights held by such holder multiplied by the Exchange Ratio. The Company shall promptly give public notice of any such exchange; provided, however, that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. The Company promptly shall mail a notice of any such exchange to all of the holders of such Rights at their last addresses as they appear upon the registry books of the Rights Agent. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of the Common Shares for Rights will be effected, and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be effected pro rata based on the number of Rights (other than Rights which have become void pursuant to the provisions of Section 11(a)(ii) hereof) held by each holder of Rights.

(c) If there shall not be sufficient Common Shares issued but not outstanding or authorized but unissued to permit any exchange of Rights as contemplated in accordance with this Section 24, the Company shall take all such action as may be necessary to authorize additional Common Shares for issuance upon exchange of the Rights. If the Company shall, after good faith effort, be unable to take all such action as may be necessary to authorize such additional Common Shares, the Company shall substitute, for each Common Share that would otherwise be issuable upon exchange of a Right, a number of Preferred Shares or fraction thereof such that the current per share market price of one Preferred Share multiplied by such number or fraction is equal to the current per share market price of one Common Share as of the date of issuance of such Preferred Shares or fraction thereof.

(d) The Company shall not be required to issue fractions of Common Shares or to distribute certificates which evidence fractional Common Shares. In lieu of such fractional Common Shares, the Company shall pay to the registered holders of the Rights Certificates with regard to which such fractional Common Shares would otherwise be issuable an amount in cash equal to the same fraction of the current market value of a whole Common Share. For the purposes of this paragraph (d), the current market value of a whole Common Share shall be the closing price of a Common Share (as determined pursuant to the second sentence of Section 11(d)(i) hereof) for the Trading Day immediately before the date of exchange pursuant to this Section 24.

Section 25. Notice of Certain Events. (a) If the Company shall, at any time after the Distribution Date, propose to (i) pay any dividend payable in stock of any class to the holders of the Preferred Shares or to make any other distribution to the holders of the Preferred Shares (other than a regular quarterly cash dividend), (ii) offer to the holders of the Preferred Shares rights or warrants to subscribe for or to purchase any additional Preferred Shares or shares of stock of any class or any other securities, rights or options, (iii) effect any reclassification of the Preferred Shares (other than a reclassification involving only the subdivision of outstanding Preferred Shares), (iv) effect any share exchange, consolidation or merger into or with, or to effect any sale or other transfer (or to permit one or more of its Subsidiaries to effect any sale or other transfer), in one or more transactions, of 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to, any other Person, (v) effect the liquidation, dissolution or winding up of the Company, or (vi) declare or pay any dividend on the Common Shares payable in Common Shares or to effect a subdivision, combination or consolidation of the Common Shares (by reclassification or otherwise than by payment of dividends in Common Shares), then, in each such case, the Company shall give to each holder of a Rights Certificate, in accordance with Section 26 hereof, a notice of such proposed action, which shall specify the record date for the purposes of such stock dividend, or distribution of rights or warrants, or the date on which such share exchange, reclassification, consolidation, merger, sale, transfer, liquidation, dissolution, or winding up is to take place and the date of participation therein by the holders of the Common Shares and/or Preferred Shares, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (i) or (ii) above at least ten (10) days before the record date for determining holders of the Preferred Shares for purposes of such action, and, in the case of any such other action, at least ten (10) days before the date of the taking of such proposed action or the date of participation therein by the holders of the Common Shares and/or Preferred Shares, whichever shall be the earlier.

(b) If the event set forth in Section 11(a)(ii) hereof shall occur, then the Company shall, as soon as practicable thereafter, give to each holder of a Rights Certificate, in accordance with Section 26 hereof, a notice of the occurrence of such event, which notice shall describe such event and the consequences of such event to holders of Rights under Section 11(a)(ii) hereof.

Section 26. Notices. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Rights Certificate to or on the Company shall be sufficiently given or made if sent by overnight delivery service or first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

Image Sensing Systems, Inc.  
500 Spruce Tree Centre  
1600 University Avenue West  
St. Paul, MN 55104  
Attention: Corporate Secretary

Subject to the provisions of Section 21 hereof, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Rights Certificate to or on the Rights Agent shall be sufficiently given or made if sent by overnight delivery service or first-class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

Continental Stock Transfer & Trust Company  
17 Battery Place, 8th Floor  
New York, New York 10004  
Attention: Compliance Department

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Rights Certificate shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 27. Supplements and Amendments. The Company may and the Rights Agent shall, if the Company so directs, supplement or amend this Agreement without the approval of any holders of Rights Certificates in order to (a) cure any ambiguity; (b) correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein; or (c) change or supplement the provisions of this Agreement in any manner which the Company may deem necessary or desirable, any such supplement or amendment to be evidenced by a writing signed by the Company and the Rights Agent; provided, however, that from and after such time as any Person becomes an Acquiring Person, this Agreement shall not be amended in any manner which would adversely affect the interests of the holders of Rights. Notwithstanding the foregoing, the Rights Agent shall not be required to execute any such supplement or amendment which adversely affects its rights, duties, or obligations under this Agreement.

Section 28. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any Person other than the Company, the Rights Agent and the registered holders of the Rights Certificates (and, before the Distribution Date, the Common Shares) any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Rights Certificates (and, before the Distribution Date, the Common Shares).

Section 30. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

Section 31. Governing Law. This Agreement and each Rights Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of New York (other than its conflicts of law provisions) and shall be governed by and construed in accordance with the laws of such state applicable to contracts to be made and performed entirely within such state.

Section 32. Counterparts. This Agreement may be executed in any number of counterparts, and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument. A signature to this Agreement transmitted electronically or via facsimile shall have the same authority, effect, and enforceability as an original signature.

Section 33. Descriptive Headings. Descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 34. Force Majeure. Notwithstanding anything to the contrary contained herein, the Rights Agent shall not be liable for any delays or failures in performance resulting from acts beyond its reasonable control including, without limitation, acts of God, terrorist acts, shortage of supply, breakdowns or malfunctions, interruptions or malfunctions of computer facilities, or loss of data due to power failures or mechanical difficulties with information storage or retrieval systems, labor difficulties, war, or civil unrest.

[Signature page follows.]



[Signature Page to Rights Agreement

Dated as of June 6, 2013

by and between Image Sensing Systems, Inc. and  
Continental Stock Transfer & Trust Company]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and attested, all  
as of the day and year first above written.

Attest:

Image Sensing Systems, Inc.

By /s/ Richard A. Ehrich  
Name: Richard A. Ehrich  
Title: Controller

By /s/ Gregory R. L. Smith  
Name: Gregory R. L. Smith  
Title: Chief Financial Officer

Attest:

Continental Stock Transfer & Trust Company

By /s/ Monty Harry  
Name: Monty Harry  
Title: Vice President  
Senior Accounts Manager

By /s/ Margaret Villani  
Name: Margaret Villani  
Title: Vice President  
Senior Accounts Manager

Exhibit A

Form  
of  
Designation  
of  
Series A Junior Participating Preferred Stock  
of Image Sensing Systems, Inc.

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Designation  
of  
Series A Junior Participating Preferred Stock  
of  
Image Sensing Systems, Inc.

Section 1. Designation and Amount. Of the 5,000,000 shares of preferred stock, par value \$0.01 per share, which the Company is authorized to issue under its Articles of Incorporation, 50,000 of such shares shall be designated as “Series A Junior Participating Preferred Stock” (the “Series A Preferred Stock”). Such number of shares may be increased or decreased by resolution of the Board of Directors; provided that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Company convertible into Series A Preferred Stock.

Section 2. Dividends and Distributions.

(a) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders of Common Stock, par value \$0.01 per share (the “Common Stock”), of the Company, and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the last day of March, June, September and December in each year (each such date being referred to herein as a “Quarterly Dividend Payment Date”), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$1.00 or (b) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. If the Company shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then, in each such case, the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) The Company shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (a) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, if no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$1.00 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(a) Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the shareholders of the Company. If the Company shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) Except as otherwise provided herein, in any other Certificate of Designation creating a series of the Company's preferred stock or any similar stock, or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Company having general voting rights shall vote together as one class on all matters submitted to a vote of shareholders of the Company.

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(c) Except as set forth herein, or as otherwise provided by law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Certain Restrictions.

(a) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 are in arrears, thereafter, and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Company shall not:

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock, provided that the Company may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Company ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Company shall not permit any subsidiary of the Company to purchase or otherwise acquire for consideration any shares of stock of the Company unless the Company could, under paragraph (a) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of preferred stock and may be reissued as part of a new series of preferred stock subject to the conditions and restrictions on issuance set forth herein, in the Company's Articles of Incorporation, or in any other Certificate of Designation creating a series of preferred stock of the Company or any similar stock or as otherwise required by law.



Section 6. Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Company, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received \$1,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series A Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Company shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. In case the Company shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. If the Company shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption. The shares of Series A Preferred Stock shall not be redeemable.

Section 9. Rank. The Series A Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to all series of any other class of the Company's preferred stock.

Section 10. Amendment. The Articles of Incorporation of the Company shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock, voting together as a single class.

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Exhibit B

Form of Rights Certificate

Certificate No. R- \_\_\_\_\_ Rights  
NOT EXERCISABLE AFTER THE FINAL EXPIRATION DATE (AS DEFINED IN  
THE AGREEMENT) OR EARLIER IF REDEMPTION OR EXCHANGE OCCURS.  
THE RIGHTS ARE SUBJECT TO REDEMPTION AT \$0.001 PER RIGHT  
AND TO EXCHANGE ON THE TERMS SET FORTH IN THE AGREEMENT.

Rights Certificate

Image Sensing Systems, Inc.

This certifies that \_\_\_\_\_, or his, her or its registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Agreement, dated as of June 6, 2013 (the "Agreement"), by and between Image Sensing Systems, Inc., a Minnesota corporation (the "Company"), and Continental Stock Transfer & Trust Company (the "Rights Agent"), to purchase from the Company at any time after the Distribution Date (as such term is defined in the Agreement) and before 5:00 P.M., Eastern time, on the Final Expiration Date (as such term is defined in the Agreement) at the principal office of the Rights Agent, or at the office of its successor as Rights Agent, one one-thousandth of a fully paid non-assessable share of Series A Junior Participating Preferred Stock, par value \$0.01 per share, of the Company (the "Preferred Shares"), at a purchase price of \$25.00 per one one-thousandth of a Preferred Share (the "Purchase Price"), upon presentation and surrender of this Rights Certificate with the Form of Election to Purchase duly executed. The number of Rights evidenced by this Rights Certificate (and the number of one one-thousandths of a Preferred Share which may be purchased upon exercise hereof) set forth above, and the Purchase Price set forth above, are the number and Purchase Price as of June 17, 2013, based on the Preferred Shares as constituted at such date. As provided in the Agreement, the Purchase Price and the number of one one-thousandths of a Preferred Share which may be purchased upon the exercise of the Rights evidenced by this Rights Certificate are subject to modification and adjustment upon the happening of certain events.

This Rights Certificate is subject to all of the terms, provisions and conditions of the Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Rights Certificates. Copies of the Agreement are on file at the principal executive offices of the Company and the offices of the Rights Agent.

This Rights Certificate, with or without other Rights Certificates, upon surrender at the principal office of the Rights Agent, may be exchanged for another Rights Certificate or Rights Certificates of like tenor and date evidencing Rights entitling the holder to purchase a like aggregate number of Preferred Shares as the Rights evidenced by the Rights Certificate or Rights Certificates surrendered shall have entitled such holder to purchase. If this Rights Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

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Subject to the provisions of the Agreement, the Rights evidenced by this Rights Certificate (i) may be redeemed by the Company at a redemption price of \$0.001 per Right or (ii) may be exchanged in whole or in part for Preferred Shares or shares of the Company's Common Stock, par value \$0.01 per share.

No fractional Preferred Shares will be issued upon the exercise of any Right or Rights evidenced hereby (other than fractions which are integral multiples of one one-thousandth of a Preferred Share, which may, at the election of the Company, be evidenced by depositary receipts), but, in lieu thereof, a cash payment will be made, as provided in the Agreement.

No holder of this Rights Certificate shall be entitled to vote or receive dividends or be deemed for any purpose the holder of the Preferred Shares or of any other securities of the Company which may at any time be issuable on the exercise hereof, nor shall anything contained in the Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in the Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Rights Certificate shall have been exercised as provided in the Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Company. Dated as of \_\_\_\_\_, \_\_\_\_.

Image Sensing Systems, Inc.

Continental Stock Transfer & Trust Company

By  
Name:  
Title:

By  
Name:  
Title:

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Form of Reverse Side of Rights Certificate

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Rights Certificate.)

FOR VALUE RECEIVED \_\_\_\_\_ hereby sells, assigns and transfers unto \_\_\_\_\_ (Please print name and address of transferee) this Rights Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney, to transfer the within Rights Certificate on the books of the within-named Company, with full power of substitution.

Dated:

Signature

Signature Guaranteed:

Signatures must be guaranteed by a member or participant in the Securities Transfer Agent Medallion Program, the New York Stock Exchange Medallion Signature Program, or the Stock Exchange Medallion Program.

The undersigned hereby certifies that the Rights evidenced by this Rights Certificate are not Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof (as defined in the Agreement).

Signature

Form of Reverse Side of Rights Certificate – continued

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FORM OF ELECTION TO PURCHASE

(To be executed if holder desires to exercise Rights represented by the Rights Certificate.)

To: Image Sensing Systems, Inc.

The undersigned hereby irrevocably elects to exercise \_\_\_\_\_ Rights represented by this Rights Certificate to purchase the Preferred Shares issuable upon the exercise of such Rights and requests that certificates for such Preferred Shares be issued in the name of:

Please insert social security  
or other identifying number

(Please print name and address)'

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance remaining of such Rights shall be registered in the name of and delivered to:

Please insert social security  
or other identifying number

(Please print name and address)'

Dated:

Signature

Signature Guaranteed:

Signatures must be guaranteed by a member or participant in the Securities Transfer Agent Medallion Program, the New York Stock Exchange Medallion Signature Program, or the Stock Exchange Medallion Program.

The undersigned hereby certifies that the Rights evidenced by this Rights Certificate are not Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof (as defined in the Agreement).

Signature



NOTICE

The signature in the Form of Assignment or Form of Election to Purchase, as the case may be, must conform to the name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.

If the certification set forth above in the Form of Assignment or the Form of Election to Purchase, as the case may be, is not completed, the Company and the Rights Agent will deem the Beneficial Owner of the Rights evidenced by this Rights Certificate to be an Acquiring Person or an Affiliate or Associate thereof (as defined in the Agreement) and such Assignment or Election to Purchase will not be honored.

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Exhibit C

SUMMARY OF RIGHTS TO PURCHASE  
PREFERRED SHARES

Introduction

Effective June 6, 2013, the Board of Directors of our Company, Image Sensing Systems, Inc., a Minnesota corporation, declared a dividend of one preferred share purchase right (a “Right”) for each outstanding share of the Company’s common stock, par value \$0.01 per share. The dividend is payable on June 17, 2013 to the shareholders of record on such date.

Our Board has adopted this Rights Agreement to protect shareholders from coercive or otherwise unfair takeover tactics. In general terms, it works by imposing a significant penalty upon any person or group which acquires 20% or more of our outstanding common stock without the approval of our Board. The Rights Agreement should not interfere with any merger or other business combination approved by our Board.

For those interested in the specific terms of the Rights Agreement as made between our Company and Continental Stock Transfer & Trust Company, as the Rights Agent, effective as of June 6, 2013, we are providing the following summary description. Please note, however, that this description is only a summary, and it is not complete, and it should be read together with the entire Rights Agreement, which has been filed with the Securities and Exchange Commission as an exhibit to a Current Report on Form 8-K dated June 6, 2013 filed by our Company with the Securities and Exchange Commission. A copy of the agreement is available free of charge from our Company.

The Rights. Effective June 6, 2013, our Board authorized the issuance of a Right with respect to each outstanding share of common stock, which Rights will be issued on June 17, 2013, which is the record date for the determination of holders of common stock entitled to the Rights. The Rights will initially trade with, and will be inseparable from, the common stock. The Rights are evidenced only by certificates that represent shares of common stock. New Rights will accompany any new shares of common stock we issue after June 17, 2013 until the Distribution Date described below.

Exercise Price. Each Right will allow its holder to purchase from our Company one one-thousandth of a share of Series A Junior Participating Preferred Stock (“Preferred Shares”) for \$25.00, once the Rights become exercisable. This portion of a Preferred Share will give the shareholder approximately the same dividend, voting and liquidation rights as would one share of common stock. Before exercise, the Right does not give its holder any dividend, voting or liquidation rights.

Exercisability. The Rights will not be exercisable until 10 days after the public announcement that a person or group has become an “Acquiring Person” by obtaining beneficial ownership of 20% or more of our outstanding common stock. Certain synthetic interests in securities created by derivative positions — whether or not such interests are considered to be ownership of the underlying common stock or are reportable for purposes of Rule 13d-1 under the Securities Exchange Act of 1934 — are treated as beneficial ownership of the number of shares of the Company’s common stock equivalent to the economic exposure created by the derivative position, to the extent actual shares of the Company’s common stock are directly or indirectly held by counterparties to the derivatives contracts. Swaps dealers unassociated with any control intent or intent to evade the purposes of the Rights Plan are excepted from such imputed beneficial ownership.





We refer to the date when the Rights become exercisable as the “Distribution Date.” Until that date, the common stock certificates will also evidence the Rights, and any transfer of shares of common stock will constitute a transfer of Rights. After that date, the Rights will separate from the common stock and be evidenced by book-entry credits or by Rights certificates that we will mail to all eligible holders of common stock. Any Rights held by an Acquiring Person are void and may not be exercised.

#### Consequences of a Person or Group Becoming an Acquiring Person.

**Flip In.** If a person or group becomes an Acquiring Person, all holders of Rights except the Acquiring Person may, for \$25.00, purchase shares of our common stock with a market value of \$50.00, based on the market price of the common stock before such acquisition.

**Flip Over.** If our Company is later acquired in a merger or similar transaction after the Rights Distribution Date, all holders of Rights except the Acquiring Person may, for \$25.00, purchase shares of the acquiring corporation with a market value of \$50.00 based on the market price of the acquiring corporation’s stock before such merger.

**Notional Shares.** Shares held by Affiliates and Associates of an Acquiring Person, and Notional Shares held by counterparties to a Derivatives Contract with an Acquiring Person, will be deemed to be beneficially owned by the Acquiring Person.

**Expiration.** The Rights will expire on the Close of Business on June 6, 2018 unless earlier exchanged or redeemed by the Company.

**Redemption.** Our Board may redeem the Rights for \$0.001 per Right at any time before any person or group becomes an Acquiring Person. If our Board redeems any Rights, it must redeem all of the Rights. Once the Rights are redeemed, the only right of the holders of Rights will be to receive the redemption price of \$0.001 per Right. The redemption price will be adjusted if we have a stock split or stock dividends of our common stock.

**Exchange.** After a person or group becomes an Acquiring Person, but before an Acquiring Person owns 50% or more of our outstanding common stock, our Board may extinguish the Rights by exchanging one share of common stock or an equivalent security for each Right, other than Rights held by the Acquiring Person.

**Anti-Dilution Provisions.** Our Board may adjust the purchase price of the Preferred Shares, the number of Preferred Shares issuable and the number of outstanding Rights to prevent dilution that may occur from a stock dividend, a stock split, a reclassification of the Preferred Shares or common stock. No adjustments to the Exercise Price of less than 1% will be made.

Amendments. The terms of the Rights Agreement may be amended by our Board without the consent of the holders of the Rights. After a person or group becomes an Acquiring Person, our Board may not amend the agreement in a way that adversely affects holders of the Rights.

Preferred Share Provisions. Each one one-thousandth of a Preferred Share, if issued:

- will not be redeemable;
  - will entitle holders to quarterly dividend payments of \$0.001 per share, or an amount equal to the dividend paid on one share of common stock, whichever is greater;
  - will entitle holders upon liquidation either to receive \$1.00 per share or an amount equal to the payment made on one share of common stock, whichever is greater;
  - will have the same voting power as one share of common stock; and
  - if shares of our common stock are exchanged via merger, consolidation, or a similar transaction, will entitle holders to a per share payment equal to the payment made on one share of common stock.
- The value of one one-thousandth interest in a Preferred Share should approximate the value of one share of the Company's common stock.





