

ID SYSTEMS INC  
Form 10-Q  
August 14, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended: June 30, 2014**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-15087**

**I.D. SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware** **22-3270799**  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

**123 Tice Boulevard**  
**Woodcliff Lake, New Jersey** **07677**  
(Address of principal executive offices) (Zip Code)

**(201) 996-9000**  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes**  **No**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes**  **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

**Large accelerated filer**  **Accelerated filer**  **Non-accelerated filer**  **Smaller reporting company**

**(Do not check if a smaller reporting company)**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). **Yes**  **No**

Edgar Filing: ID SYSTEMS INC - Form 10-Q

The number of shares of the registrant's common stock, \$0.01 par value per share, outstanding as of the close of business on August 8, 2014 was 12,274,831.

**INDEX**

**I.D. Systems, Inc. and Subsidiaries**

	Page
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Condensed Consolidated Balance Sheets as of December 31, 2013 and June 30, 2014 (unaudited)</u>	1
<u>Condensed Consolidated Statements of Operations (unaudited) - for the three and six months ended June 30, 2013 and 2014</u>	2
<u>Condensed Consolidated Statements of Comprehensive Loss (unaudited) - for the three and six months ended June 30, 2013 and 2014</u>	3
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity (unaudited) - for the six months ended June 30, 2014</u>	4
<u>Condensed Consolidated Statements of Cash Flows (unaudited) - for the six months ended June 30, 2013 and 2014</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	25
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	38
<b><u>Item 4. Controls and Procedures</u></b>	38
<b><u>PART II - OTHER INFORMATION</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	39
<b><u>Item 1A. Risk Factors</u></b>	39
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	39
<b><u>Item 6. Exhibits</u></b>	40
<b><u>Signatures</u></b>	41

**Exhibit 31.1**

**Exhibit 31.2**

**Exhibit 32**

**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****I.D. Systems, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets**

	December 31, 2013*	June 30, 2014 (Unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$6,582,000	\$7,109,000
Restricted cash	300,000	300,000
Investments - short term	4,090,000	2,850,000
Accounts receivable, net of allowance for doubtful accounts of \$955,000 and \$1,250,000 in 2013 and 2014, respectively	9,574,000	10,188,000
Financing receivables - current, net of allowance for doubtful accounts of \$-0- in 2013 and 2014	4,051,000	4,160,000
Inventory, net	5,156,000	4,732,000
Deferred costs - current	2,112,000	2,110,000
Prepaid expenses and other current assets	909,000	1,162,000
Deferred tax asset - current	63,000	-
<b>Total current assets</b>	<b>32,837,000</b>	<b>32,611,000</b>
Investments - long term	3,100,000	4,366,000
Financing receivables - less current portion	10,255,000	8,949,000
Deferred costs - less current portion	2,861,000	2,918,000
Fixed assets, net	2,239,000	1,955,000
Goodwill	1,837,000	1,837,000
Intangible assets, net	2,064,000	1,518,000
Other assets	322,000	325,000
	<b>\$55,515,000</b>	<b>\$54,479,000</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$6,264,000	\$8,072,000
Capital lease obligation - current	144,000	154,000
Deferred revenue - current	4,641,000	5,253,000

Edgar Filing: ID SYSTEMS INC - Form 10-Q

Total current liabilities	11,049,000	13,479,000
Capital lease obligation - less current portion	149,000	70,000
Deferred rent	330,000	323,000
Deferred revenue - less current portion	6,538,000	7,055,000
	18,066,000	20,927,000
Commitments and Contingencies (Note 21)		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock; authorized 5,000,000 shares, \$0.01 par value; none issued	-	-
Common stock; authorized 50,000,000 shares, \$0.01 par value; 12,835,000 and 12,887,000 shares issued at December 31, 2013 and June 30, 2014, respectively; shares outstanding, 12,196,000 and 12,224,000 at December 31, 2013 and June 30, 2014, respectively	123,000	123,000
Additional paid-in capital	104,479,000	105,169,000
Accumulated deficit	(63,601,000 )	(68,137,000 )
Accumulated other comprehensive income (loss)	(106,000 )	(20,000 )
Treasury stock; 639,000 shares and 663,000 shares at cost at December 31, 2013 and June 30, 2014, respectively	(3,446,000 )	(3,583,000 )
Total stockholders' equity	37,449,000	33,552,000
Total liabilities and stockholders' equity	\$55,515,000	\$54,479,000

\*Derived from audited balance sheet as of December 31, 2013

*See accompanying notes to unaudited condensed consolidated financial statements.*

**I.D. Systems, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations**

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2014	2013	2014
Revenue:				
Products	\$5,303,000	\$7,161,000	\$9,078,000	\$12,951,000
Services	4,067,000	4,252,000	8,306,000	8,198,000
	9,370,000	11,413,000	17,384,000	21,149,000
Cost of revenue:				
Cost of products	3,005,000	4,769,000	5,699,000	8,071,000
Cost of services	1,515,000	1,520,000	2,999,000	2,970,000
	4,520,000	6,289,000	8,698,000	11,041,000
Gross profit	4,850,000	5,124,000	8,686,000	10,108,000
Operating expenses:				
Selling, general and administrative expenses	5,595,000	5,651,000	11,111,000	12,471,000
Research and development expenses	1,123,000	1,343,000	2,263,000	2,493,000
	6,718,000	6,994,000	13,374,000	14,964,000
Loss from operations	(1,868,000 )	(1,870,000 )	(4,688,000 )	(4,856,000 )
Interest income	159,000	153,000	324,000	305,000
Other income, net	2,000	12,000	35,000	15,000
Net loss	\$(1,707,000 )	\$(1,705,000 )	\$(4,329,000 )	\$(4,536,000 )
Net loss per share - basic and diluted	\$ (0.14 )	\$ (0.14 )	\$ (0.36 )	\$ (0.38 )
Weighted average common shares outstanding - basic and diluted	11,887,000	12,089,000	11,863,000	12,054,000

*See accompanying notes to unaudited condensed consolidated financial statements.*



**I.D. Systems, Inc. and Subsidiaries****Condensed Consolidated Statements of Comprehensive Income (Loss)**

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Net loss	\$(1,707,000)	\$(1,705,000)	\$(4,329,000)	\$(4,536,000)
Other comprehensive (loss) income, net:				
Unrealized (loss) gain on investments	(65,000 )	9,000	(74,000 )	10,000
Reclassification of net realized investment (gains) losses included in net loss	4,000	-	(24,000 )	-
Foreign currency translation adjustment	(22,000 )	17,000	(86,000 )	76,000
Total other comprehensive loss	(83,000 )	26,000	(184,000 )	86,000
Comprehensive loss	\$(1,790,000)	\$(1,679,000)	\$(4,513,000)	\$(4,450,000)

*See accompanying notes to unaudited condensed consolidated financial statements.*

**I.D. Systems, Inc. and Subsidiaries****Condensed Consolidated Statement of Changes in Stockholders' Equity**

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Stockholders' Equity
Balance at December 31, 2013	12,835,000	\$ 123,000	\$ 104,479,000	\$(63,601,000)	\$(106,000)	\$(3,446,000)	\$37,449,000
Net loss	-	-	-	(4,536,000)	-	-	(4,536,000)
Foreign currency translation adjustment	-	-	-	-	76,000	-	76,000
Unrealized gain on investments	-	-	-	-	10,000	-	10,000
Shares issued pursuant to exercise of stock options	15,000	-	58,000	-	-	-	58,000
Issuance of restricted stock	109,000	-	-	-	-	-	-
Shares withheld pursuant to exercise of stock options and restricted stock	-	-	-	-	-	(137,000)	(137,000)
Forfeiture of restricted shares	(72,000)	-	-	-	-	-	-
Stock based compensation - restricted stock	-	-	314,000	-	-	-	314,000
Stock based compensation - options and performance shares	-	-	318,000	-	-	-	318,000
Balance at June 30, 2014	12,887,000	\$ 123,000	\$ 105,169,000	\$(68,137,000)	\$(20,000)	\$(3,583,000)	\$33,552,000

*See accompanying notes to unaudited condensed consolidated financial statements.*

**I.D. Systems, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows**

(Unaudited)

	Six Months Ended June 30,	
	2013	2014
Cash flows from operating activities:		
Net loss	\$(4,329,000)	\$(4,536,000)
Adjustments to reconcile net loss to cash used in operating activities:		
Bad debt expense	212,000	367,000
Proceeds from sale of New Jersey net operating loss carryforwards	662,000	63,000
Stock-based compensation expense	604,000	632,000
Depreciation and amortization	1,044,000	1,114,000
Inventory reserve	5,000	40,000
Other non-cash items	(7,000 )	13,000
Changes in:		
Accounts receivable	1,103,000	(974,000 )
Financing receivables	(546,000 )	1,207,000
Inventory	(581,000 )	384,000
Prepaid expenses and other assets	72,000	(256,000 )
Deferred costs	(164,000 )	(55,000 )
Deferred revenue	1,133,000	1,129,000
Accounts payable and accrued expenses	291,000	1,671,000
Net cash (used in) provided by operating activities	(501,000 )	799,000
Cash flows from investing activities:		
Expenditures for fixed assets including website development costs	(213,000 )	(284,000 )
Purchase of investments	(3,677,000)	(3,956,000)
Maturities of investments	6,267,000	3,921,000
Net cash provided by (used in) investing activities	2,377,000	(319,000 )
Cash flows from financing activities:		
Principal payments of capital lease obligation	-	(69,000 )
Proceeds from exercise of stock options	10,000	58,000
Net cash provided by (used in) financing activities	10,000	(11,000 )
Effect of foreign exchange rate changes on cash and cash equivalents	(239,000 )	58,000
Net increase (decrease) in cash and cash equivalents	1,647,000	527,000
Cash and cash equivalents - beginning of period	1,614,000	6,582,000
Cash and cash equivalents - end of period	\$3,261,000	\$7,109,000
Supplemental disclosure of cash flow information:		
Cash paid for:		
Taxes	-	-
Interest	-	17,000
Noncash activities:		

Edgar Filing: ID SYSTEMS INC - Form 10-Q

Unrealized gain (loss) on investments	\$ (98,000	) \$ 10,000
Shares withheld pursuant to stock issuance	\$ 202,000	\$ 137,000

*See accompanying notes to unaudited condensed consolidated financial statements.*

**I.D. Systems, Inc. and Subsidiaries**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**June 30, 2014**

**NOTE 1 - DESCRIPTION OF THE COMPANY AND BASIS OF PRESENTATION**

**Description of the Company**

I.D. Systems, Inc. and its subsidiaries (collectively, the “Company,” “we,” “our” or “us”) develop, market and sell wireless machine-to-machine (“M2M”) solutions for managing and securing high-value enterprise assets. These assets include industrial vehicles, such as forklifts, airport ground support equipment, rental vehicles and transportation assets, such as dry van trailers, refrigerated trailers, railcars and containers. The Company’s patented wireless asset management system addresses the needs of organizations to control, track, monitor and analyze their assets. Our cloud-based software tool called I.D. Systems Analytics (“Analytics”), is designed to provide a single, integrated view of asset activity across multiple locations, generating enterprise-wide benchmarks and peer-industry comparisons to provide an even deeper layer of insights into asset operations. Analytics determines key performance indicators (“KPIs”) relating to the performance of managed assets. The Company’s solutions enable customers to achieve tangible economic benefits by making timely, informed decisions that increase the safety, security, productivity and efficiency of their operations. The Company outsources its hardware manufacturing operations to contract manufacturers.

I.D. Systems, Inc. was incorporated in Delaware in 1993 and commenced operations in January 1994.

**Basis of Presentation**

The unaudited interim condensed consolidated financial statements include the accounts of I.D. Systems, Inc. and its wholly owned subsidiaries, Asset Intelligence, LLC (“AI”), I.D. Systems GmbH (“IDS GmbH”) and I.D. Systems (UK) Ltd (formerly Didbox Ltd.) (“IDS Ltd”) (collectively referred to as the “Company”). All material intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which

are considered necessary for a fair presentation of the consolidated financial position of the Company as of June 30, 2014, the consolidated results of its operations for the three- and six-month periods ended June 30, 2013 and 2014, the consolidated change in stockholders' equity for the six-month period ended June 30, 2014 and the consolidated cash flows for the six-month periods ended June 30, 2013 and 2014. The results of operations for the six-month period ended June 30, 2014 are not necessarily indicative of the operating results for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures for the year ended December 31, 2013 included in the Company's Annual Report on Form 10-K for the year then ended.

Certain amounts in the prior period's condensed consolidated financial statements have been reclassified for comparative purposes.

**NOTE 2 - SIGNIFICANT TRANSACTION - AVIS BUDGET GROUP INC.**

In connection with the Master Agreement (as defined below), the Company entered into a Purchase Agreement (the "Purchase Agreement"), dated as of August 22, 2011 (the "Effective Date"), with Avis Budget Group, Inc. ("Avis Budget Group"), pursuant to which Avis Budget Group purchased from the Company, for an aggregate purchase price of \$4,604,500 (or \$4.60 per share, which price was based on the average closing price of our common stock for the twenty trading days prior to the Effective Date), (i) 1,000,000 shares (the "Shares") of the Company's common stock, and (ii) a warrant (the "Warrant") to purchase up to an aggregate of 600,000 shares of our common stock (the "Warrant Shares"). The Company issued the Shares in 2011 from treasury stock, reflecting the cost of such shares on a specific identification basis.

The Warrant has an exercise price of \$10.00 per share of common stock. The Warrant is exercisable (i) with respect to 100,000 of the Warrant Shares, at any time after the Effective Date and on or before the fifth (5th) anniversary thereof, and (ii) with respect to 500,000 of the Warrant Shares, at any time on or after the date (if any) on which Avis Budget Car Rental, LLC ("ABCR"), a subsidiary of Avis Budget Group and the Avis entity that is the counterparty under the Master Agreement described below, executes and delivers to the Company SOW#2 (which is described below), and on or before the fifth (5th) anniversary of the Effective Date. The fair value of the Warrant for 100,000 shares of approximately \$137,000 was recorded as a sales incentive in the Condensed Consolidated Statement of Operations in the third quarter of 2011. The Company has not recognized the impact of the remaining 500,000 shares underlying the Warrant in the Condensed Consolidated Statement of Operations, as it is considered contingently issued as of June 30, 2014. See Note 11 to the Unaudited Condensed Consolidated Financial Statements for additional information.

Also on the Effective Date, the Company and ABCR entered into a Master Software License, Information Technology Services and Equipment Purchase Agreement (the “Master Agreement”) for the Company’s system relating to radio frequency identification (RFID) enabled rental car management and virtual location rental (collectively, the “System”). The order was placed pursuant to a statement of work (“SOW”) issued under the Master Agreement and related agreements with ABCR.

The Master Agreement governs the terms and conditions of the sales and license, and orders for hardware and for other related services will be contained in SOWs issued pursuant to the Master Agreement. The term of the Master Agreement continues until six (6) months after the termination or expiration of the last SOW under the Master Agreement.

ABCR hosts the System. As part of the Master Agreement, the Company also will provide ABCR with services for ongoing maintenance and support of the System (the “Maintenance Services”) for a period of 60 months from installation of the equipment. ABCR has the option to renew the period for twelve (12) months upon its expiry, and then after such 12-month period, the period can continue on a month-to-month basis (during which ABCR can terminate the period) for up to 48 additional months.

Under the terms of SOW#1, which was executed and delivered by ABCR on the Effective Date concurrent with the execution and delivery of the Master Agreement, ABCR has agreed to pay not less than \$14,000,000 to the Company for the System and Maintenance Services, which covers 25,000 units, which relates to a limited subset of ABCR’s total fleet during this initial phase of the Master Agreement. During the fourth quarter of 2011, the Company delivered the first 5,000 units under SOW#1 and recognized approximately \$1.7 million in product revenue and a sales-type lease receivable. The Company delivered the remaining 20,000 units under SOW#1 during the third quarter of 2012 and recognized approximately \$6.9 million in product revenue and a sales-type lease receivable.

Under the terms of SOW#1, the Company is entitled to issue sixty (60) monthly invoices of up to \$286,100 for the 30,000 units delivered under SOW#1 and a pilot agreement entered into between the Company and ABCR in 2009. In the event that ABCR terminates SOW#1, then ABCR would be liable to the Company for the net present value of all future remaining charges under SOW#1 at a negotiated discount rate per annum, with the payment due on the effective date of termination.

ABCR also has an option to proceed with Statement of Work 2 (“SOW#2”), pursuant to which the Company would sell to ABCR additional units. In the event ABCR purchases such additional units, then ABCR affiliates and franchisees will have the right to enter into agreements with the Company to purchase the System on substantially the same terms and conditions as are in the Master Agreement. The term of SOW#2 is sixty (60) months.



The Master Agreement provided for a period of exclusivity (the "Exclusivity Period") commencing on the Effective Date and ending twelve (12) months after delivery of the 5,000th new unit pursuant to SOW#1. The Company and ABCR amended the Master Agreement to extend the Exclusivity Period, which was then scheduled to expire on July 31, 2013, to September 30, 2013. Although the Exclusivity Period expired, the Company and ABCR continue to negotiate for the expansion of the deployment across a larger segment of ABCR's global fleet; however, there can be no assurance that they will enter into a definitive agreement.

The Master Agreement may be terminated by ABCR for cause (which is generally the Company's material breach of its obligations under the Master Agreement), for convenience (subject to the termination fee detailed in the Master Agreement), upon a material adverse change to the Company (as defined in the Master Agreement), or for intellectual property infringement. The Company does not have the right to unilaterally terminate the Master Agreement. In the event that ABCR terminates SOW#1, then ABCR would be liable to the Company for the net present value of all future remaining charges under SOW#1 at a negotiated discount rate per annum, with the payment due on the effective date of termination.

### **NOTE 3 - CASH AND CASH EQUIVALENTS**

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents unless they are legally or contractually restricted. The Company's cash and cash equivalent balances exceed Federal Deposit Insurance Corporation (FDIC) limits.

### **NOTE 4 - USE OF ESTIMATES**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company continually evaluates estimates used in the preparation of the financial statements for reasonableness. The most significant estimates relate to stock-based compensation arrangements, measurements of fair value, realization of deferred tax assets, the impairment of tangible and intangible assets, inventory reserves, allowance for doubtful accounts, warranty reserves and deferred revenue and costs. Actual results could differ from those estimates.

### **NOTE 5 - INVESTMENTS**

The Company's investments include debt securities, U.S. Treasury Notes, government and state agency bonds, mutual funds, corporate bonds and commercial paper, which are classified as either available for sale, held to maturity or trading, depending on management's investment intentions relating to these securities. As of June 30, 2013 and 2014, all of the Company's investments are classified as available for sale. Available for sale securities are measured at fair value based on quoted market values of the securities, with the unrealized gain and (losses) reported as comprehensive income or (loss). For the three- and six-month periods ended June 30, 2013, the Company reported unrealized loss of \$(65,000) and \$(74,000), respectively, and for the three- and six-month periods ended June 30, 2014, the Company reported unrealized gain of \$9,000 and \$10,000, respectively, on available for sale securities in total comprehensive loss. Realized gains and losses from the sale of available for sale securities are determined on a specific-identification basis. The Company has classified as short-term those securities that mature within one year and mutual funds. All other securities are classified as long-term.

The following table summarizes the estimated fair value of investment securities designated as available for sale, excluding investment in mutual funds of \$1,414,000, classified by the contractual maturity date of the security as of June 30, 2014:

Edgar Filing: ID SYSTEMS INC - Form 10-Q

Fair Value

Due within one year	\$1,436,000
Due one year through three years	4,366,000
Due after three years	-
	\$5,802,000

Edgar Filing: ID SYSTEMS INC - Form 10-Q

The cost, gross unrealized gains (losses) and fair value of available for sale securities by major security types as of December 31, 2013 and June 30, 2014 are as follows:

June 30, 2014	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investments - short term				
Available for sale				
Mutual funds	\$ 1,414,000	-	-	\$ 1,414,000
Corporate bonds and commercial paper	1,074,000	4,000	(7,000 )	1,071,000
Government agency bonds	365,000	-	-	365,000
Total investments - short term	2,853,000	4,000	(7,000 )	2,850,000
Marketable securities - long term				
Available for sale				
U.S. Treasury Notes	2,576,000	1,000	-	2,577,000
Government agency bonds	661,000	-	(1,000 )	660,000
Corporate bonds and commercial paper	1,125,000	5,000	(1,000 )	1,129,000
Total investments - long term	4,362,000	6,000	(2,000 )	4,366,000
Total investments	\$ 7,215,000	\$ 10,000	\$ (9,000 )	\$ 7,216,000
December 31, 2013	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investments - short term				
Available for sale				
Government agency bonds	\$ 419,000	\$ -	\$ -	\$ 419,000
Mutual funds	1,386,000	-	(4,000 )	1,382,000
Corporate bonds and commercial paper	590,000	1,000	(1,000 )	590,000
U.S. Treasury Notes	1,697,000	2,000	-	1,699,000
Total available for sale - short term	4,092,000	3,000	(5,000 )	4,090,000
Investments - long term				
Available for sale				
U.S. Treasury Notes	930,000	-	(4,000 )	926,000
Government agency bonds	612,000	-	(7,000 )	605,000
Corporate bonds and commercial paper	1,565,000	5,000	(1,000 )	1,569,000
Total available for sale - long term	3,107,000	5,000	(12,000 )	3,100,000
Total investments	\$ 7,199,000	\$ 8,000	\$ (17,000 )	\$ 7,190,000



The Company utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those levels:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity's estimates of market participants' assumptions.

At June 30, 2014, all of the Company's investments are classified as Level 1 for fair value measurements.

## NOTE 6 - REVENUE RECOGNITION

The Company's revenue is derived from: (i) sales of our industrial and rental fleet wireless asset management systems and services, which includes training and technical support; (ii) sales of our transportation asset management systems and spare parts sold to customers (for which title transfers on the date of customer receipt) and from the related communication services under contracts that generally provide for service over periods ranging from one to five years; (iii) post-contract maintenance and support agreements; and (iv) periodically, from leasing arrangements.

Our industrial and rental fleet wireless asset management systems consist of on-asset hardware, communication infrastructure and software. Revenue derived from the sale of our industrial and rental fleet wireless asset management systems is allocated to each element based upon vendor specific objective evidence (VSOE) of the selling price of the element. VSOE of the selling price is based upon the price charged when the element is sold separately. Revenue is recognized as each element is earned based on the selling price of each element based on VSOE, and when there are no undelivered elements that are essential to the functionality of the delivered elements. The Company's system is typically implemented by the customer or a third party and, as a result, revenue is recognized when title and risk of loss passes to the customer, which usually is upon delivery of the system, persuasive evidence of an arrangement exists, sales price is fixed and determinable, collectability is reasonably assured and contractual obligations have been satisfied. In some instances, we are also responsible for providing installation services. The additional installation services, which could be performed by third parties, are considered another element in a multi-element deliverable and revenue for installation services is recognized at the time the installation is provided. Training and technical support revenue are recognized at time of performance.

The Company recognizes revenues from the sale of remote transportation asset management systems and spare parts when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured. These criteria include requirements that the delivery of future products or services under the arrangement is not required for the delivered items to serve their intended purpose. The Company has determined that the revenue derived from the sale of transportation asset management systems does not have stand-alone value to the customer separate from the communication services provided and, therefore, the arrangements constitute a single unit of accounting. Under the applicable accounting guidance, all of the Company's billings for equipment and the related cost are deferred, recorded, and classified as a current and long-term liability and a current and long-term asset, respectively. Deferred revenue and cost are recognized over the service contract life, beginning at the time that a customer acknowledges acceptance of the equipment and service. The customer service contracts typically range from one to five years. The Company amortized and recognized \$752,000 and \$1,474,000 of deferred equipment revenue during the three- and six-month periods ended June 30, 2013, respectively, and \$905,000 and \$1,811,000 during the three- and six-month periods ended June 30, 2014, respectively.

The service revenue for our remote asset monitoring equipment relates to charges for monthly messaging usage and value-added features charges. The usage fee is a monthly fixed charge based on the expected utilization according to the rate plan chosen by the customer. Service revenue generally commences upon equipment installation and customer acceptance, and is recognized over the period such services are provided.

Revenue from remote asset monitoring equipment activation fees is deferred and amortized over the life of the contract.

Spare parts sales are reflected in product revenues and recognized on the date of customer receipt of the part.

The Company also derives revenue under leasing arrangements. Such arrangements provide for monthly payments covering the system sale, maintenance, support and interest. These arrangements meet the criteria to be accounted for as sales-type leases. Accordingly, an asset is established for the sales-type lease receivable at the present value of the expected lease payments and revenue is deferred and recognized over the service contract, as described above. Maintenance revenues and interest income are recognized monthly over the lease term.

The Company also enters into post-contract maintenance and support agreements for its wireless asset management systems. Revenue is recognized ratably over the service period and the cost of providing these services is expensed as incurred. Deferred revenue also includes prepayment of extended maintenance and support contracts.

Under certain customer contracts, the Company invoices progress billings once certain milestones are met. The milestone terms vary by customer and can include the receipt of the customer purchase order, delivery, installation and launch. As the systems are delivered, and services are performed, and all of the criteria for revenue recognition are satisfied, the Company recognizes revenue. If the amount of revenue recognized for financial reporting purposes is greater than the amount invoiced, an unbilled receivable is recorded. If the amount invoiced is greater than the amount of revenue recognized for financial reporting purposes, deferred revenue is recorded. As of December 31, 2013 and June 30, 2014, unbilled receivables were \$-0- and \$8,000, respectively.

Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the Condensed Consolidated Statements of Operations.



Deferred revenue consists of the following:

	December 31, 2013	June 30, 2014
Deferred activation fees	\$ 496,000	\$ 513,000
Deferred industrial equipment installation revenue	258,000	196,000
Deferred maintenance revenue	1,959,000	3,110,000
Deferred remote transportation asset management product revenue	8,466,000	8,489,000
	11,179,000	12,308,000
Less: Current portion	4,641,000	5,253,000
Deferred revenue - less current portion	\$ 6,538,000	\$ 7,055,000

#### **NOTE 7 - FINANCING RECEIVABLES**

Financing receivables include notes and sales-type lease receivables from the sale of the Company's products and services. Financing receivables consist of the following:

	December 31, 2013	June 30, 2014
Notes receivable	\$ 53,000	\$ 40,000
Sales-type lease receivable	14,253,000	13,069,000
Less: Allowance for credit losses	-	-
	14,306,000	13,109,000
Less: Current portion		
Notes receivable	25,000	26,000
Sales-type lease receivable	4,026,000	4,134,000
	4,051,000	4,160,000
Financing receivables - less current portion	\$ 10,255,000	\$ 8,949,000

Notes receivable relate to product financing arrangements that exceed one year and bear interest at approximately 8% - 10%. The notes receivable are collateralized by the equipment being financed. Amounts collected on the notes receivable are included in net cash provided by operating activities in the Condensed Consolidated Statements of Cash Flows. Unearned interest income is amortized to interest income over the life of the notes using the effective-interest method. There were no sales of notes receivable during the six-month periods ended June 30, 2013 and 2014.

The present value of net investment in sales-type lease receivable is principally for three to five-year leases of the Company's products and is reflected net of unearned income of \$1,169,000 and \$999,000 at December 31, 2013 and June 30, 2014, respectively, discounted at 2% - 29%.

The allowance for doubtful accounts represents the Company's best estimate of the amount of credit losses in the Company's existing notes and sales-type lease receivable. The allowance for doubtful accounts is determined on an individual note and lease basis if it is probable that the Company will not collect all principal and interest contractually due. The Company considers its customers' financial condition and historical payment patterns in determining the customers' probability of default. The impairment is measured based on the present value of expected future cash flows discounted at the note's effective interest rate. There were no impairment losses recognized for the three- and six-month-periods ended June 30, 2013 and 2014. The Company does not accrue interest when a note or lease is considered impaired. When the ultimate collectability of the principal balance of the impaired note or lease is in doubt, all cash receipts on impaired notes or leases are applied to reduce the principal amount of such notes or leases until the principal has been recovered and are recognized as interest income thereafter. Impairment losses are charged against the allowance and increases in the allowance are charged to bad debt expense. Notes and leases are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote. The Company resumes accrual of interest when it is probable that the Company will collect the remaining principal and interest of an impaired note or lease. Notes and leases become past due based on how recently payments have been received.

Scheduled maturities of sales-type lease minimum lease payments outstanding as of June 30, 2014 are as follows:

Year ending December 31:

July - December 2014	\$2,110,000
2015	3,980,000
2016	3,773,000
2017	2,484,000
2018	662,000
Thereafter	60,000
	13,069,000
Less: Current portion	4,134,000
Sales-type lease receivable - less current portion	\$8,935,000

#### **NOTE 8 - INVENTORY**

Inventory, which primarily consists of finished goods and components used in the Company's products, is stated at the lower of cost or market using the first-in first-out (FIFO) method.

Inventories consist of the following:

	December 31, 2013	June 30, 2014
Components	\$ 2,968,000	\$2,661,000
Finished goods	2,188,000	2,071,000
	\$ 5,156,000	\$4,732,000

**NOTE 9 - FIXED ASSETS**

Fixed assets are stated at cost, less accumulated depreciation and amortization, and are summarized as follows:

	December 31, 2013	June 30, 2014
Equipment	\$ 1,375,000	\$ 1,456,000
Computer software	3,319,000	3,407,000
Computer hardware	2,565,000	2,680,000
Furniture and fixtures	371,000	371,000
Automobiles	47,000	47,000
Leasehold improvements	181,000	181,000
	7,858,000	8,142,000
Accumulated depreciation and amortization	(5,619,000 )	(6,187,000)
	\$ 2,239,000	\$ 1,955,000

As of December 31, 2013, the Company had expenditures of approximately \$480,000, including \$305,000 under a capital lease, for computer equipment which had not been placed in service. Depreciation expense is not recorded for such assets until they are placed in service.

Assets acquired under a capital lease, net of accumulated amortization of \$28,000, were \$277,000 as of June 30, 2014. If the assets acquired under a capital lease transfer title at the end of the lease term or contain a bargain purchase option, the assets are amortized over their estimated useful lives; otherwise, the assets are amortized over the respective lease term. Amortization expense for assets under capital lease was \$-0- for the three- and six-months ended June 30, 2013 and \$15,000 and \$28,000, for the three- and six-months ended June 30, 2014, respectively.

Depreciation and amortization expense for the three- and six-month periods ended June 30, 2013 was \$252,000 and \$498,000, respectively, and for the three- and six-month periods ended June 30, 2014 was \$290,000 and \$568,000, respectively. This includes amortization of costs associated with computer software and website development for the three- and six-month periods ended June 30, 2013 of \$141,000 and \$283,000, respectively, and for the three- and six-month periods ended June 30, 2014 of \$145,000 and \$286,000, respectively.

The Company capitalizes in fixed assets the costs of software development and website development. Specifically, the assets comprise an implementation of Oracle Enterprise Resource Planning (ERP) software, enhancements to the VeriWise™ systems, and a customer interface website (which is the primary tool used to provide data to our

customers). The website employs updated web architecture and improved functionality and features, including, but not limited to, customization at the customer level, enhanced security features, custom virtual electronic geofencing of landmarks, global positioning system (GPS)-based remote mileage reporting, and richer mapping capabilities. The Company capitalized the costs incurred during the “development” and “enhancement” stages of the software and website development. Costs incurred during the “planning” and “post-implementation/operation” stages of development were expensed. The Company capitalized \$2,000 and \$89,000 for such projects for the six-month periods ended June 30, 2013 and 2014, respectively.

**NOTE 10 - INTANGIBLE ASSETS AND GOODWILL**

The following table summarizes identifiable intangible assets of the Company, which include identifiable intangible assets from the acquisition of IDS Ltd., PowerKey (the industrial vehicle monitoring products division of International Electronics, Inc. acquired by the Company in 2008) and AI as of December 31, 2013 and June 30, 2014:

June 30, 2014	Useful Lives (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:				
Patents	11	\$1,489,000	\$(609,000)	\$880,000
Tradename	5	200,000	(180,000)	20,000
Non-competition agreement	3	234,000	(234,000)	-
Technology	5	50,000	(47,000)	3,000
Workforce	5	33,000	(31,000)	2,000
Customer relationships	5	4,499,000	(4,051,000)	448,000
		6,505,000	(5,152,000)	1,353,000
Unamortized:				
Customer list		104,000	-	104,000
Trademark and Tradename		61,000	-	61,000
		165,000	-	165,000
Total		\$6,670,000	\$(5,152,000)	\$1,518,000

December 31, 2013	Useful Lives (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:				
Patents	11	\$1,489,000	\$(541,000)	\$948,000
Tradename	5	200,000	(160,000)	40,000
Non-competition agreement	3	234,000	(234,000)	-
Technology	5	50,000	(42,000)	8,000
Workforce	5	33,000	(28,000)	5,000
Customer relationships	5	4,499,000	(3,601,000)	898,000
		6,505,000	(4,606,000)	1,899,000
Unamortized:				

Edgar Filing: ID SYSTEMS INC - Form 10-Q

Customer list	104,000	-	104,000
Trademark and Tradename	61,000	-	61,000
	165,000	-	165,000
Total	\$6,670,000	\$(4,606,000 )	\$2,064,000

15



Amortization expense for the three- and six-month periods ended June 30, 2013 was \$253,000 and \$546,000, respectively, and for the three- and six-month periods ended June 30, 2014 was \$273,000 and \$546,000, respectively. Estimated future amortization expense for each of the five succeeding fiscal years for these intangible assets is as follows:

Year ending December 31:

July - December 2014	\$541,000
2015	135,000
2016	135,000
2017	135,000
2018	135,000

There have been no changes in the carrying amount of goodwill from January 1, 2014 to June 30, 2014.

## **NOTE 11 - STOCK-BASED COMPENSATION**

### **Stock Option Plans**

The Company adopted the 1995 Stock Option Plan, pursuant to which the Company had the right to grant options to purchase up to an aggregate of 1,250,000 shares of common stock. The Company also adopted the 1999 Stock Option Plan, pursuant to which the Company had the right to grant stock awards and options to purchase up to 2,813,000 shares of common stock. The Company also adopted the 1999 Director Option Plan, pursuant to which the Company had the right to grant options to purchase up to an aggregate of 600,000 shares of common stock. The 1995 Stock Option Plan and 1999 Stock and Director Option Plans expired and the Company cannot issue additional options under these plans.

The Company adopted the 2007 Equity Compensation Plan, pursuant to which, as amended, the Company may grant options to purchase up to an aggregate of 2,500,000 shares of common stock. The Company also adopted the 2009 Non-Employee Director Equity Compensation Plan, pursuant to which, as amended (the "2009 Director Plan"), the Company may grant options to purchase up to an aggregate of 600,000 shares of common stock. The plans are administered by the Compensation Committee of the Company's Board of Directors, which has the authority to determine, among other things, the term during which an option may be exercised (not more than 10 years), the exercise price of an option and the vesting provisions.

The Company recognizes all employee share-based payments in the statement of operations as an operating expense, based on their fair values on the applicable grant date. As a result, the Company recorded stock-based compensation expense of \$185,000 and \$324,000, respectively, for the three- and six-month periods ended June 30, 2013 and \$15,000 and \$314,000, respectively, for the three- and six-month periods ended June 30, 2014, in connection with awards made under the stock option plans.

On March 21, 2014, the Company and its former Chief Executive Officer (the “Former CEO”) entered into a Separation and General Release Agreement (the “Separation Agreement”). Under the terms of the Separation Agreement, the vesting of the Former CEO’s unvested stock options and restricted stock were accelerated and the term to exercise the stock options was extended to fifteen (15) months. Due to the modification of the terms of the stock option and restricted stock agreements, the Company recognized \$327,000 of additional stock-based compensation expense in the first quarter of 2014 which is included in the stock option and restricted stock stock-based compensation expense.

On April 4, 2014, each of Lawrence S. Burstein, Harold D. Copperman, Robert J. Farrell and Michael P. Monaco (collectively, the “Former Board Members”) informed the Company of their respective decisions not to stand for re-election to the Company’s board of directors (the “Board”) at the 2014 annual meeting of stockholders, which was held on June 20, 2014 (the “2014 Annual Meeting”). In connection with the Former Board Members’ departure, the vesting of certain options granted to the Former Board Members under the 2009 Director Plan was accelerated and the post termination exercise period was extended from a period of three (3) months to fifteen (15) months after the Former Board Members ceased to serve as members of the Board on June 20, 2014. Due to the modification of the terms of the stock options, the Company recognized \$49,000 of additional stock-based compensation expense for the three-month period ended June 30, 2014 which is included in the stock option stock-based compensation expense.

The following table summarizes the activity relating to the Company's stock options for the six-month period ended June 30, 2014:

	Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	2,790,000	\$ 7.25		
Granted	10,000	5.83		
Exercised	(15,000 )	3.87		
Expired	(373,000 )	6.70		
Forfeited	(149,000 )	5.24		
Outstanding at end of period	2,263,000	\$ 7.48	5 years	\$1,801,000
Exercisable at end of period	1,897,000	\$ 7.87	4 years	\$1,704,000

The fair value of each option grant on the date of grant is estimated using the Black-Scholes option-pricing model reflecting the following weighted-average assumptions:

	June 30, 2013		2014	
Expected volatility	44.7% - 54.8	%	<b>45.0</b>	%
Expected life of options	4.0 - 5.0 years		<b>4.0 years</b>	
Risk free interest rate	1	%	<b>1.3</b>	%
Dividend yield	0	%	<b>0</b>	%
Weighted average fair value of options granted during the period	\$2.22		<b>\$2.13</b>	

Expected volatility is based on historical volatility of the Company's common stock and the expected life of options is based on historical data with respect to employee exercise periods.

The fair value of options vested during the six-month periods ended June 30, 2013 and 2014 was \$504,000 and \$641,000, respectively. The total intrinsic value of options exercised during the six-month periods ended June 30, 2013 and 2014 was \$11,000 and \$30,000, respectively.

As of June 30, 2014, there was approximately \$539,000 of unrecognized compensation cost related to non-vested options granted under the Company's stock option plans. That cost is expected to be recognized over a weighted-average period of 2.76 years.

The Company estimates forfeitures at the time of valuation and reduces expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

## Restricted Stock

In 2006, the Company began granting restricted stock to employees, whereby the employees are contractually restricted from transferring the shares until they are vested. The stock is unvested stock at the time of grant and, upon vesting, there are no contractual restrictions on the stock. The fair value of each share is based on the Company's closing stock price on the date of the grant. A summary of all non-vested restricted stock for the six-month period ended June 30, 2014 is as follows:

	Number of Non-vested Shares	Weighted- Average Grant Date Fair Value
Restricted stock, non-vested, beginning of year	200,000	\$ 5.08
Granted	109,000	5.83
Vested	(95,000 )	5.03
Forfeited	(72,000 )	4.80
Restricted stock, non-vested, end of period	142,000	\$ 5.83

The Company recorded stock-based compensation expense of \$163,000 and \$273,000, respectively, for the three- and six-month periods ended June 30, 2013 and \$5,000 and \$314,000, respectively, for the three- and six-month periods ended June 30, 2014, in connection with restricted stock grants. As of June 30, 2014, there was \$589,000 of total unrecognized compensation cost related to non-vested shares. That cost is expected to be recognized over a weighted-average period of 1.66 years.

## Performance Shares

The Company grants performance shares to key employees pursuant to the 2007 Equity Compensation Plan, as amended. The issuance of the shares of the Company's common stock underlying the performance shares is subject to the achievement of stock price targets of the Company's common stock at the end of a three-year measurement period from the date of issuance, with the ability to achieve prorated performance shares during interim annual measurement periods. The annual measurement period is based on a trading day average of the Company's stock after the announcement of annual results. If the stock price performance triggers are not met, the performance shares will not vest and will automatically be returned to the plan. If the stock price performance triggers are met, then the shares will be issued to the employees. Under the applicable accounting guidance, stock compensation expense at the fair value of the shares expected to vest is recorded even if the aforementioned stock price targets are not met. Stock-based compensation expense related to these performance shares for the three- and six-month periods ended June 30, 2013 and 2014 was insignificant.

The following table summarizes the activity relating to the Company's performance shares for the six-month period ended June 30, 2014:

	Non-vested Shares
Performance shares, non-vested, beginning of year	34,000
Granted	-
Vested	-
Forfeited	(16,000 )
Performance shares, non-vested, end of period	18,000

## Warrants

In connection with the Purchase Agreement with Avis Budget Group, Inc. (“Avis Budget Group”) entered into on August 22, 2011 (the “Effective Date”), the Company issued and sold to Avis Budget Group a warrant (the “Warrant”) to purchase up to an aggregate of 600,000 shares of the Company’s common stock (collectively, the “Warrant Shares”) at an exercise price of \$ 10.00 per share of common stock. The Warrant is exercisable (i) with respect to 100,000 of the Warrant Shares, at any time after the Effective Date and on or before the fifth (5th) anniversary thereof, and (ii) with respect to 500,000 of the Warrant Shares, at any time on or after the date (if any) on which Avis Budget Car Rental, LLC, a Delaware limited liability company (“ABCR”) and the subsidiary of Avis Budget Group that is the counterparty under the Master Agreement (described in Note 2 to the Unaudited Condensed Consolidated Financial Statements), executes and delivers to the Company SOW#2 (as defined in the Master Agreement) and on or before the fifth (5th) anniversary of the Effective Date.

The Warrant may be exercised by means of a “cashless exercise” solely in the event that on the later of (i) the one-year anniversary of the Effective Date and (ii) the date on which the Warrant is exercised by the holder, the Company is eligible to file a registration statement on Form S-3 to register the Warrant Shares for resale by the holder and a re-sale registration statement on Form S-3 registering the Warrant Shares for resale by the holder is not then declared effective by the Securities and Exchange Commission (the “SEC”) and available for use by the holder. The Company has agreed to file such a registration statement (on Form S-3 only, or a successor thereto) within 30 days of the holder’s request therefor, and to have such registration statement declared effective within 90 days of such request, if there is no review by the Staff of the SEC, and within 120 days, if there has been a review by the Staff of the SEC. As of June 30, 2014, the Company has not yet been requested to file such a registration statement.

The exercise price of the Warrant and, in some cases, the number of shares of our common stock issuable upon exercise, are subject to adjustment in the case of stock splits, stock dividends, combinations of shares, similar recapitalization transactions and certain pro-rata distributions to holders of common stock. In the event of a fundamental transaction involving the Company, such as a merger, consolidation, sale of substantially all of the Company’s assets or similar reorganization or recapitalization, the holder will be entitled to receive, upon exercise of the Warrant, any securities or other consideration received by the holders of the Company’s common stock pursuant to such fundamental transaction.

The Company is required to reserve a sufficient number of shares of common stock for the purpose enabling the Company to issue the Warrant Shares pursuant to any exercise of the Warrants. As of June 30, 2014, the Company has sufficient shares reserved.

The fair value of the 100,000 Warrant Shares which vested on the Effective Date was recorded as reduction of product revenue during the third quarter of 2011. The remaining 500,000 Warrant Shares underlying the Warrant, which vest upon the execution of SOW#2, have not been valued at this time since the Company has not determined that it is

probable that SOW#2 will be executed and that the Warrant will become exercisable for these remaining 500,000 Warrant Shares. Since there is no penalty for failure to execute SOW#2, there is no performance commitment date and, therefore, there is no measurement date for these 500,000 Warrant Shares underlying the Warrant until SOW#2 is executed.

### **Shares withheld**

During the six-month periods ended June 30, 2013 and 2014, 38,000 and 24,000 shares, respectively of the Company's common stock were withheld to satisfy minimum tax withholding obligations in connection with the vesting of restricted shares and to pay the exercise price of stock options in the aggregate amount of \$202,000 and \$137,000, respectively.



**NOTE 12 - NET LOSS PER SHARE OF COMMON STOCK**

Net loss per share for the three- and six-month periods ended June 30, 2013 and 2014 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Basic and diluted loss per share				
Net loss	\$(1,707,000 )	\$(1,705,000 )	\$(4,329,000 )	\$(4,536,000 )
Weighted-average shares outstanding	11,887,000	12,089,000	11,863,000	12,054,000
Basic and diluted net loss per share	\$(0.14 )	\$(0.14 )	\$(0.36 )	\$(0.38 )

Basic loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution assuming common shares were issued upon the exercise of outstanding options and the proceeds thereof were used to purchase outstanding common shares. Dilutive potential common shares include outstanding stock options, warrants and restricted stock and performance shares awards. For the three- and six- month periods ended June 30, 2013, the basic and diluted weighted-average shares outstanding are the same, since the effect from the potential exercise of outstanding stock options, warrants and vesting of restricted stock and performance shares of 3,293,000 would have been anti-dilutive. For the three- and six-month periods ended June 30, 2014, the basic and diluted weighted-average shares outstanding are the same, since the effect from the potential exercise of outstanding stock options, warrants and vesting of restricted stock and performance shares of 2,523,000 would have been anti-dilutive. The warrants exercisable by Avis Budget Group upon ABCR's execution and delivery of SOW#2 also have no impact on diluted loss per share since they are considered unissued as of June 30, 2014.

**NOTE 13- ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consist of the following:

	December 31, 2013	June 30, 2014
Accounts payable	\$ 5,303,000	\$6,514,000
Accrued warranty	522,000	459,000
Accrued severance	100,000	301,000

Edgar Filing: ID SYSTEMS INC - Form 10-Q

Accrued compensation	172,000	632,000
Other current liabilities	167,000	166,000
	\$ 6,264,000	\$ 8,072,000

Included in accounts payable and accrued expenses at June 30, 2014 is accrued severance of \$301,000, in the aggregate, to the Company's Former Chief Executive Officer. The accrued severance is payable in equal monthly installments of approximately \$20,000.

The Company's products are warranted against defects in materials and workmanship for a period of 12 months from the date of acceptance of the product by the customer. The customers may purchase an extended warranty providing coverage up to a maximum of 60 months. A provision for estimated future warranty costs is recorded for expected or historical warranty matters related to equipment shipped and is included in accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets as of December 31, 2013 and June 30, 2014.

The following table summarizes warranty activity for the six-month periods ended June 30, 2013 and 2014:

	Six Months Ended	
	June 30, 2013	2014
Accrued warranty reserve, beginning of period	\$520,000	\$522,000
Accrual for product warranties issued	264,000	141,000
Product replacements and other warranty expenditures	(176,000)	(67,000 )
Expiration of warranties	(82,000 )	(137,000)
Accrued warranty reserve, end of period	\$526,000	\$459,000

#### NOTE 14 - CAPITAL LEASE OBLIGATION

On September 30, 2013, the Company entered into an equipment lease for computer equipment. The lease is payable in 24 monthly installments of approximately \$14,000, including interest at an annual rate of 12.82%. The term of the lease commenced in December 2013 and expires in December 2015. The Company has the option to purchase the equipment for \$1.00 at the end of the term of the lease.

Annual minimum lease payments under capital lease obligations are as follows:

Year ending December 31:

July - December 2014	\$87,000
2015	159,000
	246,000
Less: amount representing interest	(22,000 )
Total	\$224,000

#### NOTE 15 - INCOME TAXES

The Company accounts for income taxes under the asset and liability approach. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured

using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. As of June 30, 2014, the Company had provided a valuation allowance to fully reserve its net operating loss carryforwards and other items giving rise to deferred tax assets, primarily as a result of anticipated net losses for income tax purposes.

As of December 31, 2013, approximately \$10,338,000 of the Company's New Jersey loss carryforwards ("NJ NOLs") had been approved for future sale under a program of the New Jersey Economic Development Authority, which we refer to as the NJEDA. In order to realize these benefits, the Company must apply to the NJEDA each year and must meet various requirements for continuing eligibility. In addition, the program must continue to be funded by the State of New Jersey, and there are limitations based on the level of participation by other companies. Since specific sales transactions are subject to approval by the NJEDA, the Company recognizes the associated tax benefits in the financial statements as they are approved. As of December 31, 2013, the Company received approval for the sale of approximately \$10,338,000 million of NJ NOLs, subject to a 7.4% seller's allocation factor (\$760,000, net) for approximately \$63,000. As such, the Company reversed the valuation allowance related to these NJ NOLs in 2013. In January 2014, the Company received approximately \$63,000 in cash proceeds.

#### **NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

Cash and cash equivalents and investments in securities are carried at fair value. Financing receivables and capital lease obligation are carried at cost, which is not materially different than fair value. Accounts receivable, accounts payable and other liabilities approximate their fair values due to the short period to maturity of these instruments.

#### **NOTE 17 - CONCENTRATION OF CUSTOMERS**

Two customers accounted for 18% and 16% of the Company's revenue during the six-month period ended June 30, 2014. One customer accounted for 13% of the Company's accounts receivable as of June 30, 2014. One customer accounted for 51% of notes and sales-type lease receivables as of June 30, 2014.

Two customers accounted for 20% and 10% of the Company's revenue during the six-month period ended June 30, 2013. One customer accounted for 14% of the Company's accounts receivable as of June 30, 2013. One customer accounted for 61% of notes and sales-type lease receivables as June 30, 2013.

#### **NOTE 18 - STOCK REPURCHASE PROGRAM**

On November 3, 2010, the Company's Board of Directors authorized the repurchase of issued and outstanding shares of the Company's common stock having an aggregate value of up to \$ 3,000,000 pursuant to a share repurchase program. The repurchases under the share repurchase program are made from time to time in the open market or in privately negotiated transactions and are funded from the Company's working capital. The amount and timing of such repurchases is dependent upon the price and availability of shares, general market conditions and the availability of cash, as determined at the discretion of the Company's management. All shares of common stock repurchased under the Company's share repurchase program are held as treasury stock. The Company did not purchase any shares of its common stock under the share repurchase program during the six-month period ended June 30, 2014. As of June 30, 2014, the Company has purchased a total of approximately 310,000 shares of its common stock in open market transactions under the share repurchase program for an aggregate purchase price of approximately \$1,340,000, or an average cost of \$4.33 per share.

#### **NOTE 19 - ACCUMULATED OTHER COMPREHENSIVE LOSS**

Comprehensive loss includes net loss and unrealized gains or losses on available-for-sale investments and foreign currency translation gains and losses. Cumulative unrealized gains and losses on available-for-sale investments are reflected as accumulated other comprehensive loss in stockholders' equity on the Company's Condensed Consolidated Balance Sheets.

The accumulated balances for each classification of other comprehensive loss for the six-month period ended June 30, 2014 are as follows:

	Foreign currency items	Unrealized gain (losses) on investments	Accumulated other comprehensive income (loss)
Balance at January 1, 2014	\$(97,000)	\$ (9,000	) \$ (106,000 )
Net current period change	76,000	10,000	86,000
Balance at June 30, 2014	\$(21,000)	\$ 1,000	\$ (20,000 )

The accumulated balances for each classification of other comprehensive loss for the six-month period ended June 30, 2013 are as follows:

	Foreign currency items	Unrealized gain (losses) on investments	Accumulated other comprehensive income
Balance at January 1, 2013	\$(20,000 )	\$ 73,000	\$ 53,000
Net current period change	(86,000 )	(98,000 )	(184,000 )
Balance at June 30, 2013	\$(106,000)	\$ (25,000 )	\$ (131,000 )

Income and expense accounts of foreign operations are translated at actual or weighted-average exchange rates during the period. Assets and liabilities of foreign operations that operate in a local currency environment are translated to U.S. dollars at the exchange rates in effect at the balance sheet date. Translation gains or losses are reported as components of accumulated other comprehensive income/loss in consolidated stockholders' equity. Net translation gains or losses resulting from the translation of foreign financial statements and the effect of exchange rate changes on intercompany transactions of a long-term investment nature with IDS GmbH resulted in translation (losses) gains of \$(86,000) and \$76,000 for the six-month periods ended June 30, 2013 and 2014, respectively, which is included in comprehensive loss in the Consolidated Statement of Changes in Stockholders' Equity.

## NOTE 20 - WHOLLY OWNED FOREIGN SUBSIDIARIES

The financial statements of the Company's wholly owned German subsidiary, I.D. Systems GmbH ("IDS GmbH"), and United Kingdom subsidiary, I.D. Systems (UK) Ltd ("IDS Ltd"), are consolidated with the financial statements of I.D. Systems, Inc.

The net revenue and net loss for IDS GmbH included in the Condensed Consolidated Statement of Operations are as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2014	2013	2014
Net revenue	\$ 552,000	\$ 1,155,000	\$ 719,000	\$ 1,768,000
Net (loss) income	(23,000 )	226,000	(146,000 )	289,000

Total assets of IDS GmbH were \$1,701,000 and \$2,884,000 as of December 31, 2013 and June 30, 2014, respectively. IDS GmbH operates in a local currency environment using the Euro as its functional currency.

The net revenue and net loss for IDS Ltd included in the Condensed Consolidated Statement of Operations are as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2013	2014	2013	2014
Net revenue	\$ 323,000	\$ 72,000	\$ 393,000	\$ 172,000
Net income (loss)	1,000	(84,000 )	(171,000 )	(171,000 )

Total assets of IDS Ltd were \$2,200,000 and \$2,108,000 as of December 31, 2013 and June 30, 2014, respectively. IDS Ltd operates in a local currency environment using the British Pound as its functional currency.

Gains and losses resulting from foreign currency transactions are included in determining net income or loss. Foreign currency transactions gains (losses) for the three- and six-month periods ended June 30, 2013 of \$-0- and \$(29,000), respectively, and for the three- and six-month periods ended June 30, 2014 of \$29,000 and \$32,000, respectively, are included in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations.



## NOTE 21 - COMMITMENTS AND CONTINGENCIES

Except for normal operating leases, the Company is not currently subject to any material commitments.

### Contingencies

The Company is not currently subject to any material commitments or contingencies and legal proceedings, nor, to management's knowledge, is any material legal proceeding threatened against the Company.

### Severance agreements

The Company entered into severance agreements with three of its executive officers. The severance agreements, each of which is substantially identical in form, provide each executive with certain severance and change in control benefits upon the occurrence of a "Trigger Event," as defined in the severance agreements. As a condition to the Company's obligations under the severance agreements, each executive has executed and delivered to the Company a restrictive covenants agreement.

Under the terms of the severance agreements, in general, each executive is entitled to the following: (i) a cash payment at the rate of the executive's annual base salary as in effect immediately prior to the Trigger Event for a period of 12 or 15 months, depending on the executive, (ii) continued healthcare coverage during the severance period, (iii) partial accelerated vesting of the executive's previously granted stock options and restricted stock awards, and (iv) as applicable, an award of "Performance Shares" under the Restricted Stock Unit Award Agreement previously entered into between the Company and the executive.

On March 21, 2014, the Company and its former Chief Executive Officer (the "Former CEO") entered into a Separation and General Release Agreement (the "Separation Agreement"). Under the terms of the Separation Agreement, the Company recognized severance costs of \$523,000 in the first quarter of 2014 which are included in selling, general and administrative expenses. In addition, the vesting of the Former CEO's unvested stock options and restricted stock were accelerated and the term to exercise the stock options was extended to fifteen (15) months. Due to the modification of the terms of the stock option and restricted stock agreements, the Company recognized \$327,000 of additional stock-based compensation expense in the first quarter of 2014.

## NOTE 22 - RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This ASU relates to discontinued operations reporting for disposals of components of an entity that represent strategic shifts that have, or will have, a major effect on an entity's operations and financial results. The standard expands the disclosures for discontinued operations and requires new disclosures related to individually material disposals that do not meet the definition of a discontinued operation. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2014. The Company's adoption of this guidance is not expected to have a material impact on the Company's financial statements or disclosures.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606). This ASU is intended to clarify the principles for recognizing revenue by removing inconsistencies and weaknesses in revenue requirements; providing a more robust framework for addressing revenue issues; improving comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; and providing more useful information to users of financial statements through improved revenue disclosure requirements. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2016. Early application is not permitted. The Company is currently evaluating the impact of this ASU.

In June 2014, the FASB issued ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." This ASU requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition, and apply existing guidance under the Stock Compensation Topic of the ASC as it relates to awards with performance conditions that affect vesting to account for such awards. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2015. The Company is currently evaluating the impact of this ASU.

In July 2013, the FASB issued ASU 2013-11, "Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, an amendment to FASB Accounting Standards Codification Topic 740, Income Taxes" ("ASU 2013-11"). ASU 2013-11 clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. ASU 2013-11 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. The adoption of this guidance did not have a material impact on the Company's financial results.

In March 2013, the FASB issued ASU No. 2013-05, "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a

Foreign Entity or of an Investment in a Foreign Entity” (“ASU 2013-05”). ASU 2013-05 provides clarification regarding whether Subtopic 810-10, Consolidation - Overall, or Subtopic 830-30, Foreign Currency Matters - Translation of Financial Statements, applies to the release of cumulative translation adjustments into net income when a reporting entity either sells a part or all of its investment in a foreign entity or ceases to have a controlling financial interest in a subsidiary or group of assets that constitute a business within a foreign entity. ASU 2013-05 is effective prospectively for reporting periods beginning after December 15, 2013, with early adoption permitted. The adoption of this guidance did not have a material impact on the Company’s financial results.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis of the consolidated financial condition and results of operations of I.D. Systems, Inc. and its subsidiaries ("I.D. Systems", the "Company", "we", "our" or "us") should be read in conjunction with the consolidated financial statements and notes thereto appearing in Part I, Item 1, of this report. In the following discussions, most percentages and dollar amounts have been rounded to aid presentation, and, accordingly, all amounts are approximations.

### **Cautionary Note Regarding Forward-Looking Statements**

This report contains various forward-looking statements made pursuant to the safe harbor provisions under the Private Securities Litigation Reform Act of 1995 and information that is based on management's beliefs as well as assumptions made by, and information currently available to, management. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, the Company can give no assurance that such expectations will prove to be correct. When used in this report, the words "believe", "expect", "estimate", "project", "predict", "forecast", "plan", "anticipate", "target", "outlook", "envision", "intend", "seek", "may", "will", or "should", and similar words, or the negatives of those words, are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof, and should be aware that the Company's actual results could differ materially from those described in the forward-looking statements due to a number of factors, including, without limitation, business conditions and growth in the wireless tracking industries, general economic conditions, lower than expected customer orders or variations in customer order patterns, competitive factors including increased competition, changes in product and service mix, and resource constraints encountered in developing new products, and other factors described under "Risk Factors" set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and other filings with the Securities and Exchange Commission (the "SEC"). Any forward-looking statements should be considered in light of these factors. Unless otherwise required by law, the Company undertakes no obligation, and expressly disclaims any obligation, to update or publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, or otherwise.

The Company makes available through its Internet website, free of charge, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to such reports and other filings made by the Company with the SEC, as soon as practicable after the Company electronically files such reports and filings with the SEC. The Company's website address is [www.id-systems.com](http://www.id-systems.com). The information contained in the Company's website is not incorporated by reference into this report.

### **Overview**

We develop, market and sell wireless machine-to-machine (“M2M”) solutions for managing and securing high-value enterprise assets. These assets include industrial vehicles, such as forklifts, airport ground support equipment, rental vehicles, and transportation assets, such as dry van trailers, refrigerated trailers, railcars and containers. Our patented systems utilize radio frequency identification (RFID), Wi-Fi, satellite or cellular communications, and sensor technology to address the needs of organizations to control, track, monitor and analyze their assets. Our solutions enable customers to achieve tangible economic benefits by providing them with information to make timely, informed decisions that increase the safety, security, productivity and efficiency of their operations.

We have focused our business activities on three primary applications: (i) industrial fleet management, (ii) transportation asset management, and (iii) rental fleet management. Our solution for industrial fleet management allows our customers to reduce operating costs and capital expenditures and to comply with certain safety regulations by accurately and reliably measuring and controlling fleet activity. This solution also helps enhance security at industrial facilities and areas of critical infrastructure, such as airports, by controlling access to, and restricting the use of, vehicles and equipment. Our solution for transportation asset management allows our customers to increase revenue per asset deployed, reduce fleet size, and improve the monitoring and control of sensitive cargo. Our solution for rental fleet management assists rental car companies in generating higher revenue by more accurately tracking vehicle data, such as fuel consumption and odometer readings, and improving customer service by expediting the rental and return processes. In addition, our wireless solution for “car sharing” enables rental car companies to establish a network of vehicles positioned strategically around cities or on corporate campuses, control vehicles remotely, manage member reservations by smart phone or Internet, and charge members for vehicle use by the hour.

To provide an even deeper layer of insights into asset operations, we have developed a cloud-based software tool called I.D. Systems Analytics (“Analytics”), which is designed to provide a single, integrated view of asset activity across multiple locations, generating enterprise-wide benchmarks and peer-industry comparisons. Analytics determines key performance indicators (“KPIs”) relating to the performance of managed assets. Values for the KPIs may then be calculated and used to identify cost benefit measurements which translate the KPI values into monetized metrics. Analytics can enable management to make more informed, effective decisions, raise asset performance standards, increase productivity, reduce costs, and enhance safety. Specifically, Analytics (i) quantifies best-practice enterprise benchmarks for industrial asset utilization and safety; (ii) reveals variations and inefficiencies in asset activity across both sites and geographic regions; (iii) identifies opportunities to eliminate or reallocate assets, with full enterprise awareness, to reduce capital and operating costs; (iv) helps balance asset mix and inform acquisition decisions (v) uncovers activity trends over time to forecast asset requirements; and (vi) enables performance comparisons to broad, industry-specific benchmarks. We expect that our growing database of monitored assets will allow us to create industry benchmarks that can be used to tell our customers how they are performing compared to their peers. We look for Analytics to make a growing contribution to revenue, further differentiate and add value to our solutions, and help keep us at the forefront of the wireless asset management markets we serve.

During the first quarter of 2014, we implemented a new growth strategy. Accordingly, we have launched an initiative called ‘I.D. Systems 2.0’, which includes: a detailed review of customer requirements to accelerate enterprise adoption of our solutions; a transformation of our implementation approach to create more scalable and higher-quality processes in support of multiple simultaneous customer rollouts; a Six Sigma analysis of our internal process controls and quality management aimed at continuous improvement; and an acceleration of the engineering projects already on our product roadmap to help expedite revenue growth. We have budgeted approximately \$2.5 million in support of I.D. Systems 2.0, which we expect to be completed by the end of 2014; however, there can be no assurance as to when we will realize the results from this initiative, if at all. For the three-month period ended June 30, 2014, we incurred approximately \$233,000 of expense in support of I.D. Systems 2.0.

We sell our solutions to both executive and division-level management. Typically, our initial system deployment serves as a basis for potential expansion across the customer’s organization. We work closely with customers to help maximize the utilization and benefits of our system and demonstrate the value of enterprise-wide deployments. Post-implementation, we consult with our customers to further extend and customize the benefits to the enterprise by delivering enhanced analytics capabilities.

We market and sell our solutions to a wide range of customers in the commercial and government sectors. Our customers operate in diverse markets, such as automotive manufacturing, heavy industry, retail and wholesale distribution, transportation, aviation, aerospace and defense, homeland security and vehicle rental.

## **Our Solutions**

We design and implement wireless M2M asset management solutions that are intended to deliver an enterprise-level return on investment for our customers. Our solutions can be categorized as either closed-loop systems for managing campus-based assets, or mobile systems for managing remote, “over-the-road” assets.

### **Closed-Loop, Campus-Based Asset Management Solutions**

Our campus-based asset management solutions incorporate short range wireless devices that provide on-board control, location tracking and data processing for enterprise assets, to provide real-time visibility of, and two-way communications with, such assets. These systems provide architectural and functional advantages that differentiate them from systems used for inventory and logistics tracking. For example, while inventory tracking systems rely on constant, continuous radio frequency (RF) connectivity to perform core functions, our systems require only periodic RF communications, and our on-asset devices perform their core functions autonomously.

Our campus-based asset management system consists of three principal elements:

- miniature wireless programmable computers attached to assets;

- fixed-position communication infrastructure consisting of network devices with two-way RF capabilities, RF-based location-emitting beacons and application-specific network servers; and

- proprietary software, which is a user-friendly, browser-based graphical user interface that provides visibility and control of the system database, and which is hosted either at the local installation site or at I.D. Systems’ commercial data center.

Each of these system elements processes and stores information independently to create a unique, patented system of “distributed intelligence,” which mitigates the risk that a single point of failure could compromise system integrity or data and asset security. Our on-asset hardware stores and processes information locally so that it can autonomously and automatically control the asset and monitor asset activity regardless of the status or availability of other system components. Our on-asset hardware performs its functions even when outside the RF range of any other system component or if the facility computer network is unavailable. Our communication infrastructure independently processes data and executes programmable application logic, in addition to linking monitored mobile asset data automatically to our system’s database. The link to the system’s database may leverage secure cellular communication, thereby permitting remotely-hosted server software without access to local IT infrastructure. Our server software populates the database and is designed to mitigate the effects of any computer outages that could affect real-time availability of the database. Finally, our client software interfaces only with the database, not directly with our communication infrastructure or on-asset hardware, which restricts access to, and limits corruption of, system information and minimizes network bandwidth usage.





Our campus-based asset management solutions focus on two primary applications: (i) industrial fleet management and (ii) rental fleet management. In addition to focusing on these core applications, we have adapted, and intend to continue to adapt, our wireless solutions to meet our customers' broader asset management needs.

### ***Industrial Fleet Management***

Our PowerFleet®, PowerBox and didBOX solutions for industrial fleet management allow fleet operators to reduce operating costs and capital expenditures, comply with certain safety regulations and enhance security.

To help improve fleet safety and security, our PowerFleet®, PowerBox and didBOX systems provide vehicle operator access control to ensure that only trained and authorized personnel are able to use equipment, and impact sensing to assign responsibility for abusive driving.

PowerFleet® and PowerBox also provide: electronic operator identification; automatic wireless data communications; electronic vehicle inspection checklists for paperless compliance with governmental safety regulations; automatic reporting of emerging vehicle safety issues; automatic on-vehicle intervention, such as disabling equipment, in response to user-definable safety and security parameters; and remote vehicle deactivation capabilities, allowing a vehicle to be shut down manually or automatically under user-defined conditions.

In addition, our PowerFleet® system is compatible with a variety of electronic driver identification technologies and can communicate using the customer's Wi-Fi network. PowerFleet® also provides indoor and outdoor vehicle/operator visibility through a combination of global positioning system (GPS) and RFID technologies, and geo-fencing to restrict vehicles from operating in prohibited areas or issue alerts upon unauthorized entry to such areas. PowerFleet® also supports additional optional sensing elements to provide additional vehicle utilization data.

To analyze and benchmark vehicle utilization and operator productivity, our PowerFleet® and PowerBox systems automatically record a wide range of activity and enable detailed performance comparisons to help management make informed decisions about vehicle and manpower allocations. This can lead to fleet and personnel reductions as well as increases in productivity. The PowerFleet® system also provides real-time and historical visibility of vehicle movements and other advanced asset management options.

The PowerFleet® system also enables maintenance personnel to locate and retrieve vehicles due for service via the system's optional graphical viewer software, and can provide automatic data feeds to our customers' existing enterprise maintenance software systems.

A specialized application of our solution in the industrial fleet management and security market is vehicle security, particularly at airports, seaports and other areas of critical infrastructure. The Aviation and Transportation Security Act of 2001 mandates security for aircraft servicing equipment, including aircraft tow tractors, baggage tugs, cargo loaders, catering vehicles and fuel trucks. The airport market-specific version of our system is called AvRamp®, referencing the aviation industry and the ramp area at airports in which aircraft servicing equipment operates. To date, the most significant commercial deployment of the AvRamp system has been on fleets of aircraft ground support equipment at Chicago O’Hare International Airport and Dallas-Fort Worth International Airport for AMR Corporation (American Airlines and American Eagle Airlines).

### ***Rental Fleet Management***

Our solution for traditional rental fleet management is designed both to enhance the consumer’s rental experience and benefit the rental company by providing information that can be used to increase revenues, reduce costs and improve customer service. Our rental fleet management system automatically uploads vehicle identification number, mileage and fuel data as a vehicle enters and exits the rental lot, which can significantly expedite the rental and return processes for travelers and provide the rental company with more timely inventory status, more accurate billing data that can generate higher fuel-related revenue, and an opportunity to utilize customer service personnel for more productive activities, such as inspecting vehicles for damage and helping customers with luggage.

In addition, we provide a wireless solution for the relatively new concept of “car sharing”, whereby a rental car company (i) positions vehicles strategically around cities, universities and corporate campuses for shared use by its members, (ii) remotely controls the vehicles, (iii) manages member reservations by smart phone or Internet, and (iv) charges members for vehicle use by the hour. The entire process - from remotely controlling the car door locks to tracking car mileage and fuel consumption to billing for the transaction - is automatically conducted by an integration of wireless vehicle management technology and the rental company’s fleet management software. We currently have approximately 30,000 units deployed across the Northeast U.S. and Canada rental fleet of the Avis Budget Group, Inc.

## Remote, “Over-the-road” Transportation Asset Management Solutions

Our mobile systems for managing remote, “over-the-road” assets are provided by our Asset Intelligence subsidiary. AI combines web-based software technologies with satellite and cellular communications to deliver data-driven telematics solutions for supply chain asset management. These systems provide mobile-asset tracking and condition-monitoring solutions to meet the transportation market’s desire for greater visibility, safety, security, and productivity throughout global supply chains. By leveraging a combination of satellite and cellular wireless communications and Web data management technologies, the Asset Intelligence VeriWise™ product family provides shippers and carriers with tools to better manage their trailer and container fleets, freight transport operations, and maintenance controls. VeriWise™ systems enable quick access to actionable intelligence that results in better utilization, control, and security of our customers’ freight-carrying assets.

AI’s VeriWise™ product platform provides comprehensive real-time data for faster, more informed decision-making in multiple supply chain applications. Key components of this platform include:

• **Asset Optimization**-combining web-based asset visibility and advanced telemetry data to monitor the condition of fleet assets, streamline asset deployment, optimize utilization, and maximize return on investment.

• **Cold Chain Management**-maintaining the condition and quality of temperature-sensitive cargo from point A to point B, and all the points in between.

• **Fleet Maintenance**-utilizing sensor technologies, real-time data and a wealth of transportation maintenance knowledge to help control maintenance costs, improve preventative maintenance practices, increase asset up-time, extend asset life, and reduce overall cost of ownership.

• **Fuel Management**-monitoring key factors in fuel consumption, such as tire pressure and engine idle time, to help optimize fuel performance and reduce transportation costs.

• **Security & Safety**-protecting valuable assets and cargo throughout the supply chain.

## Risks to Our Business

During the six-month period ended June 30, 2014, we generated revenues of \$21.1 million, and Wal-Mart Stores, Inc. and the Raymond Corporation accounted for 18% and 16% of our revenues, respectively. During the six-month period ended June 30, 2013, we generated revenues of \$17.4 million, and Wal-Mart Stores, Inc. and the Raymond Corporation accounted for 20% and 10% of our revenues, respectively.

We are highly dependent upon sales of our system to a few customers. The loss of any of these key customers, or any material reduction in the amount of our products they purchase during a particular period, could materially and adversely affect our revenues for such period. Conversely, a material increase in the amount of our products purchased by a key customer (or customers) during a particular period could result in a significant increase in our revenues for such period, and such increased revenues may not recur in subsequent periods. Some of these key customers, as well as other customers of the Company, operate in markets that have suffered business downturns in the past few years or may so suffer in the future, particularly in light of the current global economic downturn, and any material adverse change in the financial condition of such customers could materially and adversely affect our financial condition and results of operations. If we are unable to replace such revenue from existing or new customers, the market price of our common stock could decline significantly.

We expect that many customers who utilize our solutions will do so as part of a large-scale deployment of these solutions across multiple or all divisions of their organizations. A customer's decision to deploy our solutions throughout its organization will involve a significant commitment of its resources. Accordingly, initial implementations may precede any decision to deploy our solutions enterprise-wide. Throughout this sales cycle, we may spend considerable time and expense educating and providing information to prospective customers about the benefits of our solutions, and there can be no assurance that our solutions will be deployed on a wider scale by the customer.

The timing of the deployment of our solutions may vary widely and will depend on the specific deployment plan of each customer, the complexity of the customer's organization and the difficulty of such deployment. Customers with substantial or complex organizations may deploy our solutions in large increments on a periodic basis. Accordingly, we may receive purchase orders for significant dollar amounts on an irregular and unpredictable basis. Because of our limited operating history and the nature of our business, we cannot predict the timing or size of these sales and deployment cycles. Long sales cycles, as well as our expectation that customers will tend to place large orders sporadically with short lead times, may cause our revenue and results of operations to vary significantly and unexpectedly from quarter to quarter. These variations could materially and adversely affect the market price of our common stock.

Our ability to increase our revenues and generate net income will depend on a number of factors, including, for example, our ability to:

- increase sales of products and services to our existing customers;
- convert our initial programs into larger or enterprise-wide purchases by our customers;
- increase market acceptance and penetration of our products; and
- develop and commercialize new products and technologies.

Additional risks and uncertainties to which we are subject are described under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013.

**Critical Accounting Policies**

For the six-month period ended June 30, 2014, there were no significant changes to the Company's critical accounting policies as identified in our Annual Report on Form 10-K for the year ended December 31, 2013.

**Results of Operations**

The following table sets forth, for the periods indicated, certain operating information expressed as a percentage of revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Revenue:				
Products	56.6 %	62.7 %	52.2 %	61.2 %
Services	43.4	37.3	47.8	38.8
	100.0	100.0	100.0	100.0
Cost of revenues:				
Cost of products	32.1	41.8	32.8	38.2
Cost of services	16.2	13.3	17.3	14.0
Total gross profit	51.7	44.9	49.9	47.8
Operating expenses:				
Selling, general and administrative expenses	59.7	49.5	63.9	59.0
Research and development expenses	12.0	11.8	13.0	11.8
	71.7	61.3	76.9	70.8
Loss from operations	(20.0 )	(16.4 )	(27.0 )	(23.0 )
Interest income, net	1.7	1.3	1.9	1.4
Other income	-	0.1	0.2	0.1
Net loss	(18.3 )%	(15.0 )%	(24.9 )%	(21.5 )%

**Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013**

The following table sets forth our revenues by product line for the periods indicated:

	Three Months Ended June 30,	
	2013	2014
Product revenue:		
Industrial and rental fleet management	\$3,683,000	\$5,348,000
Transportation asset management	1,620,000	1,813,000
	5,303,000	7,161,000
Services revenue:		
Industrial and rental fleet management	1,241,000	1,494,000
Transportation asset management	2,826,000	2,758,000
	4,067,000	4,252,000
	\$9,370,000	\$11,413,000

*REVENUES.* Revenues increased by approximately \$2.0 million, or 21.8%, to \$11.4 million in the three months ended June 30, 2014 from \$9.4 million in the same period in 2013. The increase in revenue is attributable to an increase in total industrial and rental fleet management revenue of approximately \$1.9 million to \$6.8 million in 2014 from \$4.9 million in 2013 and an increase in total transportation asset management revenue of approximately \$0.1 million to \$4.6 million in 2014 from \$4.5 million in 2013.

Revenues from products increased by approximately \$1.9 million, or 35.0%, to \$7.2 million in the three months ended June 30, 2014 from \$5.3 million in the same period in 2013. Industrial and rental fleet management product revenue increased by approximately \$1.6 million to \$5.3 million in 2014 from \$3.7 million in 2013. The increase in industrial and rental fleet management product revenue resulted principally from increased product sales of approximately \$0.8 million to the Raymond Corporation, \$0.5 million to General Motors Company and \$0.6 million to Procter & Gamble (China) Sales Co., Ltd. Transportation asset management product revenue increased by approximately \$0.2 million to \$1.8 million in 2014 from \$1.6 million in 2013. The increase in transportation asset management product revenue resulted principally from increased product sales of approximately \$0.2 million to Wal-Mart Stores, Inc.

Revenues from services increased by \$0.2 million, or 4.5%, to \$4.3 million in the three months ended June 30, 2014 from \$4.1 million in the same period in 2013. Industrial and rental fleet management service revenue increased by approximately \$0.3 million to \$1.5 million in 2014 from \$1.2 million in 2013 principally from an increase in service



revenue of approximately \$0.1 million to Wal-Mart Stores, Inc. Transportation asset management service revenue decreased by approximately \$0.1 million to \$2.7 million in 2014 from \$2.8 million in 2013 principally due to a slight decrease in the number of active units in service.

The following table sets forth our cost of revenues by product line for the periods indicated:

	Three Months Ended	
	June 30,	
	2013	2014
Cost of products:		
Industrial and rental fleet management	\$2,001,000	\$3,493,000
Transportation asset management	1,004,000	1,276,000
	3,005,000	4,769,000
Cost of services:		
Industrial and rental fleet management	652,000	665,000
Transportation asset management	863,000	855,000
	1,515,000	1,520,000
	\$4,520,000	\$6,289,000

*COST OF REVENUES.* Cost of revenues increased by \$1.8 million, or 39.1%, to \$6.3 million in the three months ended June 30, 2014 from \$4.5 million for the same period in 2013. The increase is principally attributable to an increase in product revenue in 2014. Gross profit was \$5.1 million in three months ended June 30, 2014 compared to \$4.9 million for the same period in 2013. As a percentage of revenues, gross profit decreased to 44.9% in 2014 from 51.7% in 2013.

Cost of products increased by \$1.8 million, or 58.7%, to \$4.8 million in the three months ended June 30, 2014 from \$3.0 million in the same period in 2013. Gross profit for products was \$2.4 million in 2014 compared to \$2.3 million in 2013. The increase in gross profit was attributable to a \$0.2 million increase in the industrial and rental fleet management gross profit to \$1.9 million in 2014 from \$1.7 million in 2013 partially offset by a decrease in the transportation asset management gross profit of \$0.1 million to \$0.5 million in 2014 from \$0.6 million in 2013. As a percentage of product revenues, gross profit decreased to 33.4% in 2014 from 43.3% in 2013. The decrease in gross profit as a percentage of product revenue was due to a decrease in the industrial and rental fleet management gross profit percentage to 34.7% in 2014 from 45.7% in 2013, which was principally due to an increase in revenue from our channel partners which have a lower gross margin. The transportation asset management product revenue gross profit percentage decreased to 29.6% in 2014 from 38.0% in 2013 principally due to an increase in the warranty expense.

Cost of services of approximately \$1.5 million in the three months ended June 30, 2014 remained consistent with the cost of services in the same period in 2013. Gross profit for services was \$2.7 million in 2014 compared to \$2.6 million in 2013. The industrial and rental fleet management gross profit increased by approximately \$0.2 million to \$0.8 million in 2014 from \$0.6 million in 2013. The transportation asset management gross profit decreased by approximately \$0.1 million to \$1.9 million in 2014 from \$2.0 million in 2013. As a percentage of service revenues, gross profit increased to 64.3% in 2014 from 62.8% in 2013. The increase in gross profit as a percentage of service revenue was due to an increase in the industrial and rental fleet management gross profit percentage to 55.5% in 2014 from 47.5% in 2013. The transportation asset management gross profit percentage of 69.0% in 2014 remained generally consistent with the gross profit percentage of 69.5% in the same period in 2013. The increase in the industrial and rental fleet management gross profit margin was principally due to a decrease in communication and installation expenses.

*SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.* Selling, general and administrative expenses increased by approximately \$0.1 million, or 1.0%, to \$5.7 million in the three months ended June 30, 2014 compared to \$5.6 million in the same period in 2013, primarily due to an increase of approximately \$0.1 million in recruiting expense and \$0.3 million in incentive compensation due to the increase in revenue partially offset by a decrease of \$0.3 million in stock compensation expense from the forfeiture of stock options and restricted stock by former executives and former members of the Company's Board of Directors. As a percentage of revenues, selling, general and administrative expenses decreased to 49.5% in the three months ended June 30, 2014 from 59.7% in the same period in 2013, primarily due to the increase in revenue in 2014.

*RESEARCH AND DEVELOPMENT EXPENSES.* Research and development expenses increased by approximately \$0.2 million, or 19.6%, to \$1.3 million in the three months ended June 30, 2014 compared to \$1.1 million in the same

period in 2013, primarily due to product development expenses incurred under our I.D. Systems 2.0 initiative to accelerate the development of our next generation vehicle and transportation asset management systems. As a percentage of revenues, research and development expenses decreased to 11.8% in the three months ended June 30, 2014 from 12.0% in the same period in 2013, primarily due to the increase in revenues in 2014.

*INTEREST INCOME.* Net interest income decreased by \$6,000, or 3.8%, to \$153,000 in the three months ended June 30, 2014 from \$159,000 in the same period in 2013 principally from an increase in interest expense from the capital lease obligation.

*NET LOSS.* Net loss of \$1.7 million, or \$(0.14) per basic and diluted share, for the three months ended June 30, 2014 remained generally consistent with the net loss of \$1.7 million, or \$(0.14) per basic and diluted share, for the same period in 2013.

**Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013**

The following table sets forth our revenues by product line for the periods indicated:

	Six Months Ended June 30,	
	2013	2014
Product revenue:		
Industrial and rental fleet management	\$6,122,000	\$9,374,000
Transportation asset management	2,956,000	3,577,000
	9,078,000	12,951,000
Services revenue:		
Industrial and rental fleet management	2,606,000	2,778,000
Transportation asset management	5,700,000	5,420,000
	8,306,000	8,198,000
	\$17,384,000	\$21,149,000

*REVENUES.* Revenues increased by approximately \$3.7 million, or 21.7%, to \$21.1 million in the six months ended June 30, 2014 from \$17.4 million in the same period in 2013. The increase in revenue is attributable to an increase in total industrial and rental fleet management revenue of approximately \$3.5 million to \$12.2 million in 2014 from \$8.7 million in 2013 and an increase in total transportation asset management revenue of approximately \$0.3 million to \$9.0 million in 2014 from \$8.7 million in 2013.

Revenues from products increased by approximately \$3.9 million, or 42.7%, to \$13.0 million in the six months ended June 30, 2014 from \$9.1 million in the same period in 2013. Industrial and rental fleet management product revenue increased by approximately \$3.3 million to \$9.4 million in 2014 from \$6.1 million in 2013. The increase in industrial and rental fleet management product revenue resulted principally from increased product sales of approximately \$1.4 million to the Raymond Corporation, \$0.8 million to the U.S. Postal Service, \$0.5 million to General Motors Company and \$0.6 million to Procter & Gamble (China) Sales Co., Ltd. Transportation asset management product revenue increased by approximately \$0.6 million to \$3.6 million in 2014 from \$3.0 million in 2013. The increase in transportation asset management product revenue resulted principally from increased product sales of approximately \$0.3 million to Wal-Mart Stores, Inc and \$0.2 million to Knight Transportation, Inc.

Revenues from services decreased by \$0.1 million, or 1.3%, to \$8.2 million in the six months ended June 30, 2014 from \$8.3 million in the same period in 2013. Industrial and rental fleet management service revenue increased by approximately \$0.2 million to \$2.8 million in 2014 from \$2.6 million in 2013 principally from an increase in service revenue of approximately \$0.2 million to the Raymond Corporation. Transportation asset management service

Edgar Filing: ID SYSTEMS INC - Form 10-Q

revenue decreased by approximately \$0.3 million to \$5.4 million in 2014 from \$5.7 million in 2013 principally due to a decrease in the number of active units in service.

The following table sets forth our cost of revenues by product line for the periods indicated:

	Six Months Ended	
	June 30,	
	2013	2014
Cost of products:		
Industrial and rental fleet management	\$3,497,000	\$5,777,000
Transportation asset management	2,202,000	2,294,000
	5,699,000	8,071,000
Cost of services:		
Industrial and rental fleet management	1,261,000	1,312,000
Transportation asset management	1,738,000	1,658,000
	2,999,000	2,970,000
	\$8,698,000	\$11,041,000

*COST OF REVENUES.* Cost of revenues increased by \$2.3 million, or 26.9%, to \$11.0 million in the six months ended June 30, 2014 from \$8.7 million for the same period in 2013. The increase is principally attributable to an increase in product revenue in 2014. Gross profit was \$10.1 million in the six months ended June 30, 2014 compared to \$8.7 million for the same period in 2013. As a percentage of revenues, gross profit decreased to 47.8% in 2014 from 50.0% in 2013.

Cost of products increased by \$2.4 million, or 41.6%, to \$8.1 million in the six months ended June 30, 2014 from \$5.7 million in the same period in 2013. Gross profit for products was \$4.9 million in 2014 compared to \$3.4 million in 2013. The increase in gross profit was attributable to a \$1.0 million increase in the industrial and rental fleet management gross profit to \$3.6 million in 2014 from \$2.6 million in 2013 and an increase in the transportation asset management gross profit of \$0.5 million to \$1.3 million in 2014 from \$0.8 million in 2013. As a percentage of product revenues, gross profit increased to 37.7% in 2014 from 37.2% in 2013. The increase in gross profit as a percentage of product revenue was due to an increase in the transportation asset management gross profit percentage to 35.9% in 2014 from 25.5% in 2013, which was principally due to improved margins on spare parts and a decrease in the warranty expense. The industrial and rental fleet management gross profit percentage decreased to 38.4% in 2014 from 42.9% in 2013 principally due to an increase in revenue from our channel partners which have a lower gross margin.

Cost of services of approximately \$3.0 million in the six months ended June 30, 2014 remained consistent with the cost of services in the same period in 2013. Gross profit for services was approximately \$5.2 million in 2014 compared to \$5.3 million 2013. The industrial and rental fleet management gross profit increased by approximately \$0.1 million to \$1.5 million in 2014 from \$1.3 million in 2013. The transportation asset management gross profit decreased by approximately \$0.2 million to \$3.8 million in 2014 from \$4.0 million in 2013. As a percentage of service revenues, gross profit of 63.8% in 2014 remained generally consistent with the gross profit of 63.9% in 2013.

*SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.* Selling, general and administrative expenses increased by approximately \$1.4 million, or 12.2%, to \$12.5 million in the six months ended June 30, 2014 compared to \$11.1 million in the same period in 2013, due primarily to \$1.1 million in expenses related to the Company's executive management change in March 2014 and \$0.6 million increase in incentive compensation due to the increase in revenue. As a percentage of revenues, selling, general and administrative expenses decreased to 59.0% in the six months ended June 30, 2014 from 63.9% in the same period in 2013, primarily due to the increase in revenue in 2014.

*RESEARCH AND DEVELOPMENT EXPENSES.* Research and development expenses increased by approximately \$0.2 million, or 10.2%, to \$2.5 million in the six months ended June 30, 2014 compared to \$2.3 million in the same period in 2013, primarily due to product development expenses incurred under our I.D. Systems 2.0 initiative to accelerate the development of our next generation vehicle and transportation asset management systems. As a percentage of revenues, research and development expenses decreased to 11.8% in the six months ended June 30, 2014 from 13.0% in the same period in 2013, primarily due to the increase in revenues in 2014.

*INTEREST INCOME.* Net interest income decreased by \$19,000, or 5.9%, to \$305,000 in the six months ended June 30, 2014 from \$324,000 in the same period in 2013 principally from an increase in interest expense from the capital lease obligation.

*NET LOSS.* Net loss was \$4.5 million, or \$(0.38) per basic and diluted share, for the six months ended June 30, 2014 as compared to net loss of \$4.3 million, or \$(0.36) per basic and diluted share, for the same period in 2013. The increase in the net loss was due primarily to the reasons described above.

### ***Capital Requirements***

We believe that with the cash and investments on hand, we will have sufficient funds available to cover our working capital requirements for at least the next 12 months.

Our capital requirements depend on a variety of factors, including, but not limited to, the length of the sales cycle, the rate of increase or decrease in our existing business base, the success, timing, and amount of investment required to bring new products to market, revenue growth or decline and potential acquisitions. Failure to generate positive cash flow from operations will have a material adverse effect on our business, financial condition and results of operations. We may determine in the future that we require additional funds to meet our long-term strategic objectives, including for the completion of potential acquisitions. Any additional equity financing may be dilutive to stockholders, and debt financing, if available, may involve significant restrictive covenants, and we cannot assure you that such financing will be extended on terms acceptable to us, or at all.

### ***Operating Activities***

Net cash provided by operating activities was \$0.8 million for the six-month period ended June 30, 2014, compared to net cash used in operating activities of \$0.5 million for the same period in 2013. The net cash used in operating activities for the six-month period ended June 30, 2014 reflects a net loss of \$4.5 million and includes non-cash charges of \$0.6 million for stock-based compensation and \$1.1 million for depreciation and amortization expense. Changes in working capital items included:

- an increase in accounts receivable of \$0.9 million;
- a decrease in financing receivables of \$1.2 million;
- an increase in deferred revenue of \$1.1 million; and
- an increase in accounts payable and accrued expenses of \$1.7 million, primarily due to the timing of payments to our vendors and an increase in accrued compensation and severance.

### ***Investing Activities***



Net cash used in investing activities was \$0.3 million for six-month period ended June 30, 2014, compared to net cash provided investing activities of \$2.4 million for the same period in 2013. The change from the same period in 2013 was primarily due to an increase in net maturities of investments of \$2.6 million in 2013.

***Financing Activities***

Net cash used in financing activities was \$11,000 for the six-month period ended June 30, 2014, compared to net cash provided by financing activities of \$10,000 for the same period in 2013.

## **Liquidity and Capital Resources**

Historically, except for our line of credit borrowing of \$12.9 million in the first quarter of 2009 (which was repaid in full in July 2010), our capital requirements have been funded primarily from the net proceeds from the issuance of our securities, including any issuances of our common stock upon the exercise of options. In addition, on August 22, 2011, we received approximately \$4.6 million from Avis Budget Group from the sale of 1,000,000 shares of the Company's common stock, and a warrant to purchase up to 600,000 shares of our common stock. The warrant is immediately exercisable with respect to 100,000 shares and will become exercisable for the remaining 500,000 shares upon execution of SOW#2 under the Master Agreement entered into by the Company and Avis Budget Car Rental, LLC, a subsidiary of Avis Budget Group, Inc. As of June 30, 2014, we had cash, cash equivalents and marketable securities of \$14.6million and working capital of \$19.1 million, compared to cash, cash equivalents and marketable securities of \$14.1 million and working capital of \$21.8 million as of December 31, 2013.

On April 1, 2013, the Company filed a shelf registration statement on Form S-3 with the SEC. Pursuant to the registration statement, which was declared effective by the SEC on May 2, 2013, the Company may offer to the public from time to time, in one or more offerings, up to \$60 million of its securities, which may include common stock, preferred stock, debt securities, subscription rights, warrants and units, or any combination of the foregoing, at prices and on terms to be determined at the time of any offering. The specific terms of any future offering will be determined at the time of the offering and described in a prospectus supplement that will be filed with the SEC in connection with such offering.

On September 30, 2013, the Company entered into an equipment lease for computer equipment. The lease is payable in 24 monthly installments of approximately \$14,000, including interest at an annual rate of 12.82%. The term of the lease commenced in December 2013 and expires in December 2015. The Company has the option to purchase the equipment for \$1.00 at the end of the term of the lease.

## **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

## **Contractual Obligations**

As of June 30, 2014, there have been no material changes in contractual obligations as disclosed under the caption “Contractual Obligations and Commitments” in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

### **Inflation**

Inflation has not had, nor is it expected to have, a material impact on our consolidated financial results.

### **Impact of Recently Issued Accounting Pronouncements**

The Company is subject to recently issued accounting standards, accounting guidance and disclosure requirements. For a description of these new accounting standards, see Note 22 (entitled “RECENT ACCOUNTING PRONOUNCEMENTS”) of the Notes to our Unaudited Condensed Consolidated Financial Statements contained in Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to market risk from changes in interest rates, which could affect our future results of operations and financial condition. We manage our exposure to these risks through our regular operating and financing activities. As of June 30, 2014, we had cash, cash equivalents and marketable securities of \$14.6 million.

Our cash and cash equivalents consist of cash, money market funds, and short-term investments with original maturities of three months or less. As of June 30, 2014, the carrying value of our cash and cash equivalents approximated fair value. In a declining interest rate environment, as short-term investments mature, reinvestment occurs at less favorable market rates, negatively impacting future investment income. We maintain our cash and cash equivalents with major financial institutions; however, our cash and cash equivalent balances with these institutions exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. While we monitor on a systematic basis the cash and cash equivalent balances in our operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit funds fails or is subject to other adverse conditions in the financial or credit markets. To date, we have experienced no loss of principal or lack of access to our invested cash or cash equivalents; however, we can provide no assurance that access to our invested cash and cash equivalents will not be affected if the financial institutions in which we hold our cash and cash equivalents fail or the financial and credit markets continue to deteriorate.

### **Item 4. Controls and Procedures**

#### **a. Disclosure controls and procedures.**

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the “SEC”). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

As of June 30, 2014, we carried out an evaluation, with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

**b. Changes in internal control over financial reporting.**

We reviewed our internal control over financial reporting at June 30, 2014. There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

In the ordinary course of its business, the Company is at times subject to various legal proceedings. As of August 14, 2014, the Company was not a party to any material legal proceedings.

Additional information on the Company's commitments and contingencies can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

### **Item 1A. Risk Factors**

In addition to the other information set forth under the heading "Risks to Our Business" in Part 1, Item 2 of this report, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors," in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as such factors could materially affect the Company's business, financial condition, and future results. In the three months ended June 30, 2014, there were no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K. The risks described in the Annual Report on Form 10-K are not the only risks that the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems to be immaterial, also may have a material adverse impact on the Company's business, financial condition, or results of operations.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

#### Purchases of Equity Securities by the Issuer

On November 4, 2010, the Company announced that its Board of Directors authorized the repurchase of issued and outstanding shares of the Company's common stock having an aggregate value of up to \$3,000,000 pursuant to a share repurchase program. The repurchases under the share repurchase program are made from time to time in the open market or in privately negotiated transactions and are funded from the Company's working capital. The amount and timing of such repurchases is dependent upon the price and availability of shares, general market conditions and the availability of cash, as determined at the discretion of the Company's management. All shares of common stock repurchased under the Company's share repurchase program are held as treasury stock (until such time, if ever, that

they are re-issued by the Company). The share repurchase program does not have an expiration date, and the Company may discontinue or suspend the share repurchase program at any time.

The following table provides information regarding our common stock repurchases under our publicly announced share repurchase program and shares withheld for taxes due upon vesting of restricted stock for each month of the quarterly period ended June 30, 2014. As the table indicates, the Company did not make any share repurchases under the share repurchase program during the quarterly period ended June 30, 2014.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2014 - April 30, 2014		-	-	\$ 1,660,000
May 1, 2014 - May 31, 2014	-	-	-	1,660,000
June 1, 2014 - June 30, 2014	8,000	(1) \$ 5.76	-	1,660,000
Total	8,000	\$ 5.76	-	\$ 1,660,000

(1) Includes 8,000 shares of common stock withheld for taxes due upon vesting of restricted stock awards during June 2014.

**Item 6. Exhibits**

The following exhibits are filed with this Quarterly Report on Form 10-Q:

**Exhibits:**

<b>Exhibit Number</b>	<b>Description</b>
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. §1305 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema Document.**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.**

\* Furnished herewith.

\*\* Furnished herewith. The Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of any registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections.



**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

I.D. SYSTEMS, INC.

Date: August 14, 2014 By: /s/ Kenneth S. Ehrman  
Kenneth S. Ehrman  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 14, 2014 By: /s/ Ned Mavrommatis  
Ned Mavrommatis  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

## INDEX TO EXHIBITS

<b>Exhibit Number</b>	<b>Description</b>
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. §1305 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema Document.**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.**

\* Furnished herewith.

\*\* Furnished herewith. The Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of any registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections.