ID SYSTEMS INC
Form 10QSB
May 17, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended: March 31, 2004

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: 1-15087

I.D. SYSTEMS, INC.
(Exact name of small business issuer as specified in its charter)

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

ONE UNIVERSITY PLAZA, HACKENSACK, NEW JERSEY	07601
(Address of principal executive offices)	(Zip Code)

(201) 996-9000
(Issuer's telephone number)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period) that the issuer was required to file such reports, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDING DURING THE PRECEDING FIVE YEARS

Check whether the issuer filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes ___ No ___

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the Issuer's Common Stock, $0.01 par value, as of the close of business on May 10, 2004 was 7,238,746.

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I.D. SYSTEMS, INC.

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

I.D. SYSTEMS, INC.
CONDENSED BALANCE SHEETS

	Dece
ASSETS	
Cash and cash equivalents	
Investments	
Accounts receivable, net	
Inventory	
Investment in sales type leases	

Interest receivable
Officer loan
Prepaid expenses and other current assets

Total current assets
Investments
Fixed assets, net
Investment in sales type leases
Officer loan
Deferred contract costs
Other assets

LIABILITIES
Accounts payable and accrued expenses
Long term debt - current portion
Line of credit
Deferred revenue

Total current liabilities
Long term debt
Deferred revenue
Deferred rent

STOCKHOLDERS' EQUITY
Preferred stock; authorized 5,000,000 shares, $.01 par value; none issued
Common stock; authorized 15,000,000 shares, $.01 par value; issued and outstanding 7,097,000 shares and 7,231,000 shares
Additional paid-in capital
Treasury stock; 40,000 shares at cost
Accumulated deficit

See accompanying notes

I.D. SYSTEMS, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2004

Revenues	$ 1,609,000	$ 2,705,000
Cost of Revenues	755,000	1,255,000
Gross Profit	854,000	1,450,000
Selling, general and administrative expenses	1,083,000	1,273,000
Research and development expenses	232,000	155,000
Income (loss) from operations	(461,000)	22,000
Interest income	86,000	54,000
Interest expense	(10,000)	(18,000)
Other income	--	37,000
NET INCOME (LOSS)	$ (385,000)	$ 95,000
NET INCOME (LOSS) PER SHARE - BASIC	$ (0.06)	$ 0.01
NET INCOME (LOSS) PER SHARE - DILUTED	$ (0.06)	$ 0.01
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING- BASIC	6,804,000	7,170,000
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING- DILUTED	6,804,000	8,114,000

See accompanying notes 2

I.D. SYSTEMS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	THREE MONTHS ENDED MARCH 31, 2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (385,000)	$ 95,000
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	13,000	59,000
Deferred rent expense	5,000	6,000
Deferred revenues		(21,000)
Bad debt expense	2,000	--
Changes in:		
Accounts receivable	(148,000)	(850,000)
Inventory	398,000	(17,000)
Prepaid expenses and other assets	77,000	41,000
Investment in sale type leases	(500,000)	9,000

Installment receivable - non-current portion	49,000	--
Deferred contract costs	(63,000)	(28,000)
Accounts payable and accrued expenses	(689,000)	90,000
Net cash used in operating activities	(1,241,000)	(616,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(17,000)	(75,000)
Purchases of investments	(1,165,000)	(386,000)
Increase in interest receivable	(24,000)	(8,000)
Maturities of investments	574,000	550,000
Amortization of (discount) premium on investments	38,000	42,000
Officer loan	2,000	3,000
Net cash (used in) provided by investing activities	(592,000)	126,000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from term loan	1,000,000	--
Repayment of term loan	(29,000)	(46,000)
Proceeds from exercise of stock options	23,000	332,000
Net cash provided by financing activities	994,000	286,000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(839,000)	(204,000)
Cash and cash equivalents - beginning of period	3,758,000	3,179,000
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 2,919,000	$ 2,975,000

See accompanying notes

I.D. SYSTEMS, INC.

Notes to Condensed Financial Statements
March 31, 2004

NOTE A - BASIS OF REPORTING

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America 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 financial position of I.D. Systems, Inc. (the "Company") as of March 31, 2004, the results of its operations for the three-month periods ended March 31, 2003 and 2004 and cash flows for the three-month periods ended March 31, 2003 and 2004. The results of operations for the three-month period ended March 31, 2004 are not necessarily indicative of the operating results for the full year. It is suggested that these financial statements be read in conjunction with the financial statements and related disclosures for the year ended December 31, 2003 included in the Company's Annual Report.

NOTE B - NET INCOME (LOSS) PER SHARE OF COMMON STOCK

Basic income (loss) per share is based on the weighted average number of common shares outstanding during each period. Diluted income (loss) per share reflects the potential dilution assuming common shares were issued upon the exercise of outstanding options and warrants and the proceeds thereof were used to purchase outstanding common shares. For the three-month period ended March 31, 2003, the basic and diluted weighted average shares outstanding are the same since the effect from the potential exercise of outstanding stock options would have been anti-dilutive.

NOTE C - REVENUE RECOGNITION

The Company's revenues are derived from contracts with multiple element arrangements, which include the Company's system, training and technical support. Revenues are recognized as each element is earned based on the relative fair value of each element 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 passes to the customer, which usually is upon delivery of the system, provided all other revenue recognition criteria are met. Training and technical support revenues are generally recognized at time of performance.

The Company also enters into post-contract maintenance and support agreements. Revenue is recognized over the service period and the cost of providing these services is expensed as incurred.

The Company also derives revenues under leasing arrangements. Such arrangements provide for monthly payments covering the system sale, maintenance and interest. These arrangements meet the criteria to be accounted for as sales-type leases pursuant to Statement of Financial Accounting Standards No. 13, "Accounting for Leases". Accordingly, the system sale is recognized upon delivery of the system, provided all other revenue recognition criteria are met. Upon the recognition of revenue, an asset is established for the "investment in sales-type leases". Maintenance revenue and interest income are recognized monthly over the lease term.

NOTE D - STOCK-BASED COMPENSATION

The Company accounts for stock-based employee compensation under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123,

"Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which was released in December 2002 as an amendment of SFAS No. 123. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all awards.

THREE MONTHS

	2003
Reported net income (loss)	$ (385,000)
Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	0
Stock-based employee compensation determined under the fair value based method, net of related tax effects	(140,000)
Pro forma net loss	$ (525,000)
Loss per share (basic and diluted):	
As reported	$(0.06)
Pro forma	$(0.08)

NOTE E - LONG TERM DEBT

In January 2003, the Company closed on a five-year term loan for $1,000,000 with a financial institution. Interest at the 30-day LIBOR plus 1.75% and principal are payable monthly. To hedge the loan's floating interest expense the Company entered into an interest rate swap contemporaneously with the closing of the loan and fixed the rate of interest at 5.28% for the five-year term.

NOTE F - LINE OF CREDIT

The Company has a working capital line of credit, with maximum borrowings of $500,000. Interest at the 30 day LIBOR Market Index Rate (1.2% at December 31, 2003) plus 1.75% is payable monthly. At March 31, 2004, the Company owed $137,000 under this line of credit. Outstanding principal amounts are payable by May 23, 2004.

NOTE G - DEFERRED CONTRACT COSTS

During 2003, the Company entered into a contract with a customer pursuant to which the Company's system will be implemented on a portion of the customer's fleet of vehicles. The Company will be entitled to issue sixty monthly invoices of up to $40,000 per month, each of which is contingent upon certain conditions being met. Costs directly attributable to this contract, consisting principally of engineering and manufacturing costs, are being deferred until implementation of the system is completed. The capitalized costs will be charged to cost of revenue in accordance with the cost recovery method, pursuant to which the capitalized contract costs will be reduced in each period by an amount equal to the revenue recognized until all of the capitalized costs are written off. As of March 31, 2004, the Company capitalized $703,000 of such contract costs and expects to incur additional costs until the installation is complete. The Company will continue to evaluate the carrying amount of the capitalized contract costs for potential impairment.

NOTE H - CONCENTRATION OF CUSTOMERS

Three customers accounted for 45%, 20% and 16%, respectively, of the Company's revenue during the three month period ended March 31, 2004. The same customers accounted for 40%, 11% and 14%, respectively, of the Company's accounts receivable as of March 31, 2004.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial condition and results of operations of I.D. Systems should be read in conjunction with I.D. Systems' financial statements and notes thereto appearing elsewhere herein.

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve a number of risks and uncertainties. The following are among the factors that could cause actual results to differ materially from the forward-looking statements: 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. The forward-looking statements contained in this MD&A regarding industry trends, product development and liquidity and future business activities should be considered in light of these factors.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2004
Revenues	100.0%	100.0%
Cost of Revenues	46.9	46.4
Gross Profit	53.1	53.6
Selling, general and administrative expenses	67.3	47.1
Research and development expenses	14.4	5.7
Income (loss) from operations	(28.6)	0.8
Net interest income	4.7	1.3
Other Income	--	1.4
NET INCOME (LOSS)	(23.9)%	3.5%

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THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO THREE MONTHS ENDED MARCH 31, 2003

REVENUES. Revenues were $2,705,000 in the three months ended March 31, 2004 compared to $1,609,000 in the three months ended March 31, 2003. The increase in revenues in the quarter ended March 31, 2004 is attributable primarily to continued customer acceptance and market penetration of the Company's patented Wireless Asset Net(TM) system for tracking and managing fleets of industrial equipment.

COST OF REVENUES. Cost of revenues were $1,255,000 in the three months ended March 31, 2004 compared to $755,000 in the three months ended March 31, 2003. As a percentage of revenues, cost of revenues were 46.4% in the three months ended

March 31, 2004 as compared to 46.9% in the three months ended March 31, 2003. Gross profit was $1,450,000 in the three months ended March 31, 2004 compared to $854,000 in the three months ended March 31, 2003. As a percentage of revenues, gross profit increased to 53.6% in the three months ended March 31, 2004 from 53.1% in the three months ended March 31, 2003.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were $1,273,000 in the three months ended March 31, 2004 compared to $1,083,000 in the three months ended March 31, 2003. This increase was primarily attributable to an increase in sales and marketing and customer service, payroll expenses. As a percentage of revenues, selling, general and administrative expenses decreased to 47.1% in the three months ended March 31, 2004 from 67.3% in the three months ended March 31, 2003 as a result of the increase in revenues.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were $155,000 in the three months ended March 31, 2004 compared to $232,000 in the three months ended March 31, 2003. This decrease was attributable to the fact that an increased percentage of the Company's research and development expenses for the period ended March 31, 2004 were funded by a customer. That portion is included in cost of sales for the period ended March 31, 2004. As a percentage of revenues, research and development expenses decreased to 5.7% in the three months ended March 31, 2004 from 14.4% in the three months ended March 31, 2003.

NET INTEREST INCOME AND EXPENSE.
Interest income was $54,000 in the three months ended March 31, 2004 as compared to $86,000 in the three months ended March 31, 2003. This decrease is attributable to the assignment of certain sales type leases to a third-party leasing company. During the three month period ended March 31, 2003, the Company earned interest income in connection with sales type lease arrangements. The Company invests in investment grade commercial paper and corporate bonds, which are classified as held to maturity.

Interest expense was $18,000 in the three months ended March 31, 2004 as compared to $10,000 in the three months ended March 31, 2003. This increase is attributable to the Company's working capital line of credit and its five-year term loan.

OTHER INCOME. Other income of $37,000 in the three-month period ended March 31, 2004 reflects rental income from a sublease arrangement.

NET INCOME (LOSS). Net income was $95,000 in the three months ended March 31, 2004 as compared to net loss of $385,000 in the three-month period ended March 31, 2003. This was due primarily to the reasons described above.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2004, the Company had $8,208,000 of cash, cash equivalents and investments and $8,758,000 of working capital as compared to $8,618,000 and $8,180,000, respectively, at December 31, 2003.

Net cash used in operating activities for the three months ended March 31, 2004 was $616,000 as compared to net cash used in operating activities of $1,241,000 for the three months ended March 31, 2003. Net cash used in operating activities in the three months ended March 31, 2004 was due to an increase in accounts receivable of $850,000 offset by net income of $95,000, depreciation and amortization of $59,000 and an increase in accounts payable and accrued expenses of $90,000. Net cash used in operating activities in the three months ended March 31, 2003 was due to a net loss of $385,000, an increase in accounts receivable of $148,000, an increase in investment in sales type leases of $500,000 and a decrease in accounts payable and accrued expenses of $689,000, offset by a decrease in inventory of $398,000.

Net cash provided by investing activities for the three months ended March 31, 2004 was $126,000 as compared to net cash used in investing activities for the three months ended March 31, 2003 of $592,000. Net cash provided by investing activities in the three months ended March 31, 2004 was primarily from maturities of investments of $550,000 partially offset by purchases of investments of $386,000 and purchases of fixed assets of $75,000. Net cash used in investing activities in the three months ended March 31, 2003 was primarily from purchases of investments of $1,165,000 partially offset by maturities of investments of $574,000.

Net cash provided by financing activities for the three months ended March 31, 2004 was $286,000 as compared to net cash provided by financing activities of $994,000 for the three months ended March 31, 2003. Net cash provided by financing activities in the three months ended March 31, 2004 was from the proceeds received in connection with the exercise of employee stock options of $332,000, offset by repayments of the five-year term loan of $46,000. Net cash provided by financing activities in the three months ended March 31, 2003 was from the proceeds of $1,000,000 received in connection with obtaining a five-year term loan, partially offset by repayments of the five-year term loan of $29,000.

The Company believes it has sufficient cash, cash equivalents and investments for the next twelve months of operations.

The Company believes its operations have not been and, in the foreseeable future, will not be materially adversely affected by inflation or changing prices.

RECENTLY ISSUED FINANCIAL STANDARDS

The Company believes that recently issued financial standards will not have a significant impact on our results of operations, financial position or cash flows.

ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including our principal executive officer and the principal financial officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, the Company's principal executive officer and principal financial officer concluded as of the Evaluation Date that the Company's disclosure controls and procedures were effective such that the material information required to be included in our Securities and Exchange Commission ("SEC") reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to the Company.

Additionally, there were no significant changes in the Company's internal control over financial reporting or in other factors that occurred during this quarter that could materially affect, or is reasonably likely to materially affect the Company's internal control over financial reporting. We have not identified any significant deficiencies or material weaknesses in our internal control over financial reporting, and therefore there were no corrective actions taken.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed during the quarter ended March 31, 2004.

SIGNATURE

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

I.D. Systems, Inc.

Dated: May 10, 2004 By: /s/ Jeffrey M. Jagid

Jeffrey M. Jagid
Chief Executive Officer
(Principal Executive Officer)

Dated: May 10, 2004 By: /s/ Ned Mavrommatis

Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)