

(Address of principal executive offices)

(Zip Code)

(201) 996-9000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.01 per share **The NASDAQ Global Market**
(Title of class) **(Name of exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

The aggregate market value of the registrant’s common stock, par value \$0.01 per share (“Common Stock”), held by non-affiliates, computed by reference to the price at which the Common Stock was last sold as of June 30, 2016, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately \$59.6 million.

The number of shares of the registrant’s Common Stock outstanding as of March 24, 2017, was 14,083,967 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of Form 10-K
Portions of the Proxy Statement For the Registrant’s 2017 Annual Meeting of Stockholders	Part III

I.D. SYSTEMS, INC.

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PART I.

Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this Annual Report on Form 10-K of I.D. Systems, Inc. contains “forward-looking statements” (within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), which may include information concerning our beliefs, plans, objectives, goals, expectations, strategies, anticipations, assumptions, estimates, intentions, future events, future revenues or performance, capital expenditures and other information that is not historical information. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Many of these statements appear, in particular, under the headings “Business,” “Selected Financial Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K. When used in this report, the words “seek,” “estimate,” “expect,” “anticipate,” “project,” “plan,” “contemplate,” “continue,” “intend,” “believe” and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but there can be no assurance that we will realize our expectations or that our beliefs will prove to be correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements herein include, but are not limited, to:

future economic and business conditions;

the loss of any of our key customers or reduction in the purchase of our products by any such customers;

the failure of the markets for our products to continue to develop;

our inability to adequately protect our intellectual property;

the possibility that we may not be able to integrate successfully the business, operations and employees of acquired businesses;

the effects of competition from a wide variety of local, regional, national and other providers of wireless solutions;

changes in laws and regulations or changes in generally accepted accounting policies, rules and practices;

changes in technology or products, which may be more difficult or costly, or less effective, than anticipated; and

those risks and uncertainties set forth under the heading “Risk Factors” in Item 1A of this report.

There may be other factors of which we are currently unaware or which we currently deem immaterial that may cause our actual results to differ materially from the forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date they are made and are expressly qualified in their entirety by the cautionary statements included in this report. Except as may be required by law, we undertake no obligation to publicly update or revise any forward-looking statement to reflect events or circumstances occurring after the date they were made or to reflect the occurrence of unanticipated events, or otherwise.

Note Regarding Trademarks

I.D. Systems has, or has applied for, trademark protection for I.D. SYSTEMS® and Design, the I.D. SYSTEMS Logo®, VEHICLE ASSET COMMUNICATOR®, AVRAMP®, OPTI-KAN®, POWERFLEET®, SAFENAV®, POWERFLEET VISION®, POWERFLEET IQ, VERIWISE & Design®, VERIWISE IQ, and ASSET INTELLIGENCE®.

Item 1. Business

Overview

I.D. Systems, Inc. was incorporated in the State of Delaware in 1993. I.D. Systems, Inc. (together with its subsidiaries, “I.D. Systems,” the “Company,” “we,” “our” or “us”) develops, markets and sells wireless machine-to-machine (“M2M”) solutions for managing and securing high-value enterprise assets. These assets include industrial vehicles such as forklifts and 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 and software to address the needs of organizations to control, track, monitor and analyze their assets. Our solutions enable customers to achieve tangible economic benefits by making timely, informed decisions that increase the safety, security, revenue, 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 risks including unsafe activity, facility equipment and goods damage, operational costs and capital expenditures and to comply with certain safety regulations by accurately and reliably measuring and controlling fleet activity. This solution also enhances 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 application called I.D. Systems Analytics (“Analytics”), which is designed to provide a single, integrated view of asset activity across multiple locations, that provides enterprise-wide benchmarks and peer-industry comparisons for key performance indicators (“KPIs”) relating to the performance of managed assets. Analytics enables values for the KPIs to be calculated and used to identify cost benefit measurements which translate the KPI values into monetized metrics. We expect that our growing database from 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, as well as the data contained therein, 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.

We sell our solutions to both executive and division-level management within the enterprise. 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. Based on revenues for 2016, our top customers were Wal-Mart Stores, Inc. and the Ford Motor Company.

Our Solutions

We design and implement wireless M2M asset management solutions that deliver both site-level and enterprise-level return on investment for our customers. Our solutions can be targeted to either campus-based assets or “over-the-road” assets.

Industrial Fleet Asset Management

Our asset management solutions for campus-type assets incorporate 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 technological advantages that differentiate them from systems used for inventory, warehouse management and logistics tracking. For example, while inventory tracking systems rely on constant, continuous wireless connectivity to perform core functions, our systems require only periodic wireless communications, and our on-asset devices perform their core functions autonomously.

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

miniature wireless programmable computers attached to assets; these wireless devices may communicate via Wi-Fi, via the company’s proprietary IRF protocol, or via cellular link

Optional, IRF-based, fixed-position communication infrastructure consisting of network devices with two-way wireless communication capabilities and, optional IRF-based location-emitting beacons for enhanced indoor location calculation;

application-specific middleware servers, which are typically hosted in our data center, but may also be hosted on the customers’ local area network (LAN) or enterprise wide area network (WAN); and

proprietary end-user software, which is a user-friendly web application that provides visibility and control of the system database, and which is hosted at the same data center as the middleware

Each of these system elements can process and store 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 wireless range of any other system component or if the middleware is unavailable.

Our optional IRF infrastructure devices also independently process data and execute programmable application logic, in addition to linking monitored mobile asset data automatically to our system's middleware. The link to the system's middleware may leverage secure cellular communication, thereby permitting remotely-hosted server software without access to local IT infrastructure.

Our middleware applications populate the system's 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 PowerFleet® solution for industrial fleet management allows 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® system provides 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® also provides: contactless operator identification; automatic wireless data communications; motion/idle detection, 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 wide range of electronic driver identification technologies. 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 optional sensing elements to provide additional vehicle utilization data, including load detection data, battery data and activity meter data.

To analyze and benchmark vehicle utilization and operator productivity, our PowerFleet® system automatically records 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 operating cost savings through 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.

To help reduce fleet maintenance costs, our PowerFleet system can automate and enforce preventative maintenance scheduling by:

wirelessly uploading usage data from each vehicle;

defining various intervals and criteria for performing preventative maintenance;

automatically prioritizing maintenance events based on weighted, user-defined variables;

reporting in advance on vehicles with impending preventative maintenance events coming due;

automatically sending reminders to individual vehicles or operators via the system's text messaging module; and enabling remote lock-out of vehicles overdue for maintenance.

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 Newark Liberty International Airport for United Airlines and Chicago O'Hare International Airport and Dallas-Fort Worth International Airport for AMR Corporation (American Airlines and American Eagle Airlines).

Transportation Asset Management Solutions

Our mobile systems for managing remote, “over-the-road” assets are provided by our Asset Intelligence subsidiary. 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 cellular and satellite communications and web-based 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.

Our remote asset management systems consist of five principal elements:

- cellular or satellite communicators attached to assets;

- GPS receivers that provide latitude/longitude location fixes that are transmitted based on logic resident in the communicator;

- proprietary browser-based graphical user interface that provides visibility and two-way control of the system database (the data can also be transmitted to the customer via XML or web services data feed);

- patented power management intelligence to ensure reliable system performance in a power-starved environment; and

- several sensor types, including cargo, motion, light, and tire inflation, that provide additional status information for the remote asset.

To increase asset utilization, our VeriWise™ system can reduce the number of assets needed and/or increase the revenue generated per asset by:

- monitoring asset pool size based on user-defined requirements;

- generating dormancy reports to flag under-utilized assets;

- alerting the driver to the location of the closest empty asset, resulting in a more rapid pick-up; and

- providing trailer detention alerts when an asset has exceeded the time allotted for unloading.

To better control remote assets, our VeriWise™ system provides:

change in cargo status of an asset via our patented full-length cargo sensor;

geo-fencing that alerts the customer when an asset is approaching or leaving its destination; and

on-board intelligence utilizing a motion sensor and proprietary logic that identifies the beginning of a drive and the end of a drive.

To help improve asset and cargo security, our VeriWise™ system offers the following capabilities:

asset lockdown, which automatically sends an e-mail or text message to the customer when movement is detected outside of user-defined time periods;

emergency track functionality that can be enabled to track an asset at more frequent intervals if a theft condition is expected; and

geo-fencing, which can alert our customer when an asset enters a prohibited geography or location.

Rental Fleet Asset Management

Our car rental solution supports three key modes of operation: traditional, manned lot operations, such as at airports; remote, unmanned lots, such as designated street-level rental ‘pods’/parking spaces; and the emerging ‘rent anywhere’ model.

For traditional rental fleet management, our system 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.

Our solution for “car sharing” permits a rental car company to remotely control, track and monitor their rental vehicles wherever they are parked. Whether for traditional ‘pod-based’ rental or for the emerging rent-anywhere model, the system also (i) manages member reservations by smart phone or Internet, and (ii) 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 units deployed across the Northeast U.S. rental fleet of the Avis Budget Group, Inc. and are actively engaged in an expansion of that solution worldwide.

Analytics

PowerFleet IQ (for fleets of forklifts and other industrial trucks) and VeriWise IQ (for fleets of containers, trailers and other transportation assets) provide a holistic view of asset activity across an enterprise supply chain.

These cloud-based software applications provide a single, integrated view of industrial asset activity across multiple locations, generating enterprise-wide benchmarks, peer-industry comparisons, and deeper insights into asset operations. Analytics PowerFleet IQ and VeriWise IQ can enable management to make more informed, effective decisions, raise asset performance standards, increase productivity, reduce costs, and enhance safety.

Specifically, I.D. Systems Analytics PowerFleet IQ and VeriWise IQ allow users to:

Quantify best-practice enterprise benchmarks for industrial asset utilization and safety;

Reveal variations and inefficiencies in asset activity across both sites and geographic regions;

Identify opportunities to eliminate or reallocate assets, with full enterprise awareness, to reduce capital and operating costs;

Help balance asset mix and inform acquisition decisions;

Uncover activity trends over time to forecast asset requirements; and

Enable performance comparisons to broad, industry-specific benchmarks.

We look for Analytics and the data contained therein 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, although there can be no assurance if and to what extent Analytics will do so.

Growth Strategy

Our objective is to become a leading global provider of wireless solutions for managing and securing enterprise assets. To achieve this goal, we intend to:

Increase sales in existing markets to existing customers and pursue opportunities with new customers by:

maintaining a sales and marketing team that is focused on identifying, seizing and managing revenue opportunities, with the primary goal of expanding our customer base and achieving wider market penetration;

utilizing a performance services team and our Analytics software offering to (i) shorten our initial sales cycles by helping prospective customers identify and quantify benefits expected from our system, (ii) accelerate transitions from initial implementation to roll-out programs by helping customers achieve and prove expected system benefits, and (iii) build service revenue through long-term consultative engagements that help customers use our system to attain continuous improvements in their operations;

developing asset management-specific data analytics capabilities to differentiate our product offering, add value to our solutions for large enterprise customers, and produce incremental revenue at a high profit margin;

developing channel partners to provide new sales, marketing, distribution and support networks, especially for the basic version of our PowerFleet system, which is designed to be simple enough for industrial truck dealers to sell and install without relying on the Company's technical resources, and easier for the Company to support by hosting in the Company's data center; and

expanding our resources and activities internationally, especially in Europe and Asia, where we believe re-packaging, promoting and supporting our products represents a large growth opportunity.

Expand into new applications and markets for our technology by:

pursuing opportunities to integrate our system with computer hardware and software vendors, including original equipment manufacturers;

establishing relationships with global distributors to market and sell our system internationally; and

pursuing acquisitions of companies that we believe will enhance the functionality and broaden the applicability of our solutions.

Products and Services

We offer our customers integrated wireless solutions to control, monitor, track and analyze their enterprise assets. Our solutions are comprised of hardware and software, as well as hosting, maintenance, support and consulting services.

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

	Year Ended December 31,		
	2014	2015	2016
Industrial and rental fleet management	\$26,894,000	\$20,573,000	\$20,984,000
Transportation asset management	18,739,000	21,211,000	15,838,000
	\$45,633,000	\$41,784,000	\$36,822,000

Industrial Fleet Asset Management Products

On-Asset Hardware. With a variety of mounting and user-interface options, our on-asset hardware is designed to be installed quickly and easily and provide an autonomous means of asset control and monitoring. Our on-asset hardware:

contains an integrated computer, programmed with a product-specific application, and an advanced wireless transceiver with a communication range of up to approximately one-half mile;

controls equipment access with a variety of electronic interface options;

is compatible with most existing facility access security systems;

generates paperless electronic safety checklists via a built-in display and keypad;

wirelessly and automatically uploads and downloads data to and from other system components;

performs monitoring and control functions at all times, independent of RF or network connectivity; and

incorporates a multi-voltage power supply designed to mitigate electrical anomalies.

Wireless Communication. Many of our system deployments leverage an existing Wi-Fi network for real-time wireless data communication and location tracking. For areas where Wi-Fi is not practical, the system requires at least one fixed-position communication device, referred to as a Wireless Asset Manager, to link the mobile assets being monitored with the customer's computer network or to a remotely hosted server. Our Wireless Asset Managers conduct two-way RF communications with the assets being monitored and can communicate on a local area network, on a wide area network, or via cellular communications. The use of Wireless Asset Managers enables flexible system configuration options and scalability. A single Wireless Asset Manager is sufficient to operate an entire asset management system. For expanded, real-time data communication and location tracking, Wireless Asset Managers can be added incrementally as needed. Each of the wireless communication offerings also allows system settings and on-asset functionality to be changed without physically interfacing with on-asset hardware, which can save significant time and money.

Each of our Wireless Asset Managers:

incorporates an integrated computer, programmed with a product specific application, and an advanced wireless transceiver with a communication range of more than one-half mile;

accommodates an unlimited number of on-asset hardware devices;

automatically uploads and downloads data to and from other system components;

employs built-in self-diagnostic capabilities; and

is configurable to achieve a wide range of asset management goals.

Server Software. Each of our system deployments requires at least one installation of our server software, which automatically manages data communications between the system's database and either the Wireless Asset Managers or on-asset hardware. Our server software:

- is a set of Windows services;
- automatically processes data between our devices and system databases;
- communicates with Wireless Asset Managers to send and retrieve system data;
- automates event scheduling, including database archiving and diagnostic notifications;
- interfaces with certain existing external systems, including maintenance, timecard and training systems;
- supports remote control/management of event processes;
- automatically performs diagnostics on system components; and
- automatically e-mails event alerts and customizable reports.

Client Software. Our client software provides an intuitive, easy-to-use, user interface. The software is deployed as a web application. The software interfaces only with the system database, and 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. An unlimited number of clients can be used on a network at any given time.

Our client software:

- is able to show the location, status and inventory of vehicles - in real time and historically - in each area of a facility;
- allows real-time, two-way text communications, including broadcast text paging to all operators simultaneously;
- searches, sorts and analyzes assets by usage/motion time, idle time, location, status, group, maintenance condition and other parameters;
- displays and prints predefined and ad hoc reports; and
- allows remote access by management, customers and vendors through any Internet browser application.

Our vehicle management systems are available as either Company- or customer-hosted solutions to meet a wide range of customer needs and information technology requirements. Our Company-hosted solutions utilize I.D. Systems'

commercial colocation center.

Transportation Asset Management Products

On-Asset Hardware. We offer several hardware configurations to address different remote asset types (e.g., dry van trailers, refrigerated trailers, domestic containers, chassis, and railcars), as well as customer-specific requirements. Our on-asset hardware options contain:

an integrated computer programmed with a product-specific application, a cellular or satellite transceiver, and a GPS receiver;

solar panels and circuitry to maintain the charge of the on-asset device's battery pack;

either sealed lead acid or lithium battery packs to power the hardware when un-tethered from a power source; and

a wire harness to connect to an existing power source (e.g., on the tractor).

Client Website. The VeriWise Intelligence Portal (VIP) is a hosted website that provides Internet access to client asset information. Upon installation of the on-asset hardware, the customer is provided access to the VIP site where they can configure the hardware, establish user passwords, IDs, and access privileges. Our client website:

displays a user-configurable dashboard highlighting the enterprise's critical asset information;

has the ability to e-mail the dashboard to a distribution list at a time interval established by the client;

provides asset status and history, including location, landmark, and sensor information;

provides latitude/longitude location information for each asset based on reverse geocodes;

displays asset location on a geographic map;

generates user configurable reports that can be accessed via the website or e-mailed to a distribution list at a time interval established by the client;

allows the client to "ping" an asset to receive an updated location report; and

allows the client to set a unit(s) to "Emergency Track", which increases the reporting frequency for a specified time period.

Direct Data Feed. In addition to the asset information provided on the VIP website, we also offer a direct feed of the data to the customer via XML or web services. The feed complies with established industry conventions, such as TTIS (trailer tracking interface standard), to allow for easy integration into the client's legacy system or into third-party

software packages.

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Services

Hosting Services. We provide the use of our systems as a remotely hosted service, with the system server and application software residing in the Company's colocation center. This approach helps the Company reduce support costs and improve quality control. It separates the system from the restrictions of the customers' local IT networks, which helps reduce their system support efforts and makes it easier for them to receive the benefits of system enhancements and upgrades. Our hosting services are typically offered with extended maintenance and support services over a multi-year term of service, with automatic renewals following the end of the initial term.

Software as a Service. We provide system monitoring, help desk technical support, escalation procedure development, routine diagnostic data analysis and software updates services as part of the ongoing contract term. These services ensure deployed systems remain in optimal performance condition throughout the contract term and provide access to newly developed features and functions on an annual basis.

Maintenance Services. We provide a warranty on the hardware components of our system. During the warranty period, we either replace or repair defective hardware. We also make extended maintenance contracts available to customers and offer ongoing maintenance and support on a time and materials basis.

Rental Fleet Asset Management Products

On-Asset Hardware. Our next-generation on-asset hardware is installed quickly, easily and covertly into a vehicle's diagnostic port and provides an autonomous means of asset control and monitoring. Our on-asset hardware:

contains an integrated computer programmed with a product-specific application, a cellular transceiver, and a GPS receiver;

performs monitoring functions, such as fuel level, odometer, speed and key status at all times, independent of network connectivity;

controls vehicle access and door locks;

is compatible with most new-model motor vehicles; and

wirelessly and automatically uploads and downloads data to and from other system components.

Server Software. Our system deployment requires at least one installation of our server software, which automatically manages data communications between the system's databases and the on-asset hardware. Our server software:

is a set of Windows services;

automatically processes data between our devices and system databases;

communicates with on-asset hardware to send and retrieve system data;

interfaces with existing mobile applications, enabling end-customer vehicle control features;

interfaces with external systems, including billing, geo-location, maintenance, and fleet management systems;

automates event scheduling, including database archiving and diagnostic notifications;

automatically performs diagnostics on system components; and

automatically e-mails event alerts and customizable reports.

Our rental vehicle management systems are available as either Company- or customer-hosted solutions to meet our customers' needs and information technology requirements. Our Company-hosted solutions utilize I.D. Systems' commercial colocation center.

Customer Support and Consulting Services. We have developed a framework for the various phases of system training and support that offers our customers both structure and flexibility. Major training phases include hardware installation and troubleshooting, software installation and troubleshooting, “train-the-trainer” training on asset hardware operation, preliminary software user training, system administrator training, information technology issue training, ad hoc training during system launch and advanced software user training. Increasingly, training services are provided through scalable online interactive training tools. Support and consulting services are priced based on the extent of training that the customer requests.

To help our customers derive the most benefit from our system, we supply a broad range of documentation and support including videos, interactive online tools, hardware user guides, software manuals, vehicle installation overviews, troubleshooting guides, and issue escalation procedures.

We provide our consulting services both as a stand-alone service to study the potential benefits of implementing a wireless fleet management system and as part of the system implementation itself.

In some instances, customers prepay us for extended maintenance, support and consulting services. In those instances, the payment amount is recorded as deferred revenue and revenue is recognized over the service period.

New product development

In 2016, we improved our next generation vehicle management system on-vehicle platform, improved our product line of over-the-road asset management solutions and developed a next-generation rental vehicle management system as described below:

we expanded our fourth-generation of on-asset hardware for industrial vehicles, the VAC4, to additional sensing capabilities to cover more of the market need, further reduced power consumption, and improved the user interface for intuitiveness and repeatability without extensive on vehicle training. Remote reprogramming processes have been expanded to more of the code base, extending the ability for in-field hardware to be upgraded for new and improved features;

we expect our latest generation of VeriWise intermodal container tracking systems to help our customers maximize container fleet utilization and minimize container idle time by providing more accurate visibility of loading/unloading events and generating real-time data on load status throughout the shipment cycle;

we expect our latest generation of VeriWise intermodal chassis tracking systems to help our customers accurately bill for chassis rental and usage, and minimize chassis idle time by providing more accurate visibility of container

loading/unloading events and by generating real-time data throughout the shipment cycle;

we expect our latest generation of VeriWise cellular trailer tracking systems to provide our customers with a lower-cost option for dry van trailer tracking when satellite communication is not required; and

we expect our latest generation of RentalFleet system to provide a more ubiquitous vehicle rental management solution to satisfy the needs of both car rental companies and shared vehicle fleets.

Sales and Marketing

Our sales and marketing objective is to achieve broad market penetration, with an emphasis both on expanding business opportunities with existing customers and on securing new customers.

We market our systems directly to commercial and government organizations and through indirect sales channels, such as original equipment manufacturers and industrial equipment dealers. In addition, we are actively pursuing strategic relationships with key companies in our target markets - including complementary hardware and software vendors and service providers - to further penetrate these markets by embedding our products in the assets our systems monitor and integrating our solutions with other systems.

We sell our systems to both executive and division-level management within the enterprise. 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.

We offer our customers hosting services and lease financing to facilitate the acquisition of our equipment and services.

Customers

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

During the year ended December 31, 2016, we generated revenues of \$36.8 million with Wal-Mart Stores, Inc. accounting for 18% of our revenues. During the year ended December 31, 2015, we generated revenues of \$41.8 million with Wal-Mart Stores, Inc. accounting for 23% of our revenues. During the year ended December 31, 2014, we generated revenues of \$45.6 million with Wal-Mart Stores, Inc. and the Raymond Corporation, accounting for 16% and 14%, respectively, of our revenues.

The Company enters into master agreements with its customers in the normal course of its business. These agreements define the terms of any sales of products and/or services by the Company to the applicable customer, including, but not limited to, terms regarding payment, support services, termination and assignment rights. These agreements generally obligate the Company only when products or services are actually sold to the customer thereunder.

We strive to establish long-term relationships with our customers in order to maximize opportunities for new application development and increased sales.

Competition

The market for our solutions is rapidly evolving, highly competitive and fragmented. Our target markets are also subject to quickly changing product technologies, shifting customer needs, regulatory requirements and frequent introductions of new products and services. A significant number of companies have developed or are developing and marketing software and hardware for wireless products that currently compete or will compete directly with our solutions. We compete with organizations varying in size, including many small, start-up companies as well as large, well-capitalized organizations. While some of our competitors focus exclusively on providing wireless asset management solutions, many are involved in wireless technology as an extension of a broader business. Many of our larger competitors are able to dedicate extensive financial resources to the research and development and deployment of wireless solutions. As government and commercial entities expand the use of wireless technologies, we expect that competition will continue to increase within our target markets.

We attempt to distinguish ourselves from our competitors by focusing on three primary applications: (i) industrial fleet management, (ii) rental fleet management, and (iii) remote transportation asset management. This focus has enabled us to direct product development efforts specifically suited for our target markets. Our on-asset devices are designed to operate independently of other system components, allowing for continuous asset control and data gathering even when the asset is out of wireless communication range. We believe that our proprietary technology as well as our experience in designing and developing products for our target markets distinguishes us within these markets.

In each of our markets, we encounter different competitors due to the dynamics of each market. In the industrial fleet management market, we are not aware of any competitors that can provide the precise capabilities of our systems due to our intellectual property and proprietary solutions; however, competitors do provide similar solutions that seek to address the same customer needs that our products address. Those companies include both emerging companies with limited operating histories, such TotalTrax Inc., and SpeedShield Technologies and companies with longer operating histories, greater name recognition and/or significantly greater financial, technical and marketing resources than ours, such as Crown Equipment Corp.

In the rental fleet management market, our solutions for traditional airport-based rental fleet management compete primarily against existing handheld devices, which are used widely by vehicle rental companies. Currently, the principal handheld device providers we compete against include Motorola and Intermec which was acquired by Honeywell International Inc. Our solutions for remote, decentralized rental fleet management compete primarily with companies in the car sharing market such as Hertz, Enterprise, Zipcar and City Car Share. Large system integrators and several of the national cellular wireless providers have started to offer solutions, which package third party hardware, firmware and software, that compete with our solutions. In the markets for both types of rental fleet solutions, our competitive position is differentiated by our patented product offering - a fully automated, readily installed, and cost-effective car rental system.

In the remote transportation asset management market, we compete against several established competitors, including Omnitrac, LLC, SkyBitz, Inc., Orbcomm Inc. and Spireon, Inc. We attempt to differentiate our solutions in this segment by offering a choice of communication mode (satellite or cellular), patented battery management technology, sensor options, and installation configurations (dry van trailers, domestic containers, flatbed trailers, covered hopper and tanker railcars, and chassis).

Research and Development

Our research and development team has expertise in areas such as software and firmware development, database design and data analytics, wireless communications, mechanical and electrical engineering, and both product and project management. In addition, we utilize external contractors to supplement our team in the areas of software development, digital design, and product testing.

We spent \$6.6 million, \$4.6 million, and \$4.5 million for research and development during the years ended December 31, 2014, 2015, and 2016, respectively.

Generally, our research and development efforts are focused on: simplifying the implementation, support and utilization of our systems; reducing the cost of our systems; increasing the reliability of our products; expanding the functionality of our systems to meet customer and market requirements; applying new advances in technology to enhance existing products; and building further competitive advantages through our intellectual property portfolio.

In 2016, we focused our research and development investments in several key areas:

improving the reliability and performance of our next-generation vehicle management system platform, the VAC4, which simplifies installation and support requirements, in order to stimulate more widespread use of our technology on a broader range of equipment; we added more and improved our sensing capabilities to cover more of the market need, further reduced power consumption, and improved the user interface for intuitiveness and repeatability without extensive on vehicle training. Remote reprogramming processes have been expanded to more of the code base, extending the ability for in-field hardware to be upgraded for new and improved features;

improving business intelligence and data analytics tools to quantify and simplify customer benefit achievement, within a single deployed facility, across an enterprise and throughout an industry;

improving the reliability and performance of our product line of over-the-road asset management solutions, including products tailored towards dry van trailers, intermodal containers and chassis;

the development of our next-generation rental car management system, including a new in-vehicle hardware and firmware platform, and an improved, more scalable software solution;

the development of a new version of our end-user software designed to increase the performance, stability and user experience associated with each of our software solutions; and

the continued development of specific features and data interfaces for our solutions to meet the individual requirements of large customers.

Specifically in 2016, we transitioned to our next generation vehicle management system on-vehicle platform and improved our product line of over-the-road asset management solutions, as described below:

we increased the performance and reliability of our fourth-generation on-vehicle device, the VAC4, which we expect to provide benefits to both the Company (primarily through lower costs, easier installation, integration with our hosted service offering, and expanded functional capabilities) and end users (including a simpler, universal interface with multiple vehicle types, reduced installation time, compatibility with a wider range of driver ID cards, a larger display for vehicle operators, and enhancements to the content and style of the information displayed); we also upgraded our core processor and firmware platform to simplify ongoing development, testing and upgrade, as well as improve development quality and timeliness;

we increased the performance and reliability of three new transportation asset management products, the GSM-D400, an intermodal container tracking system, the GSM-D150, an intermodal chassis tracking device, and the GSM-D300, a dry van management system with an advanced cargo sensor, which enables customers to perform full-function asset monitoring with either satellite or cellular communications;

we developed and delivered our next-generation motor-vehicle asset communicator, tailored to the needs of both on-lot and off-lot car rental – and for the connected car market in general, including a new electro-mechanical design, new firmware and new, more scalable software platform; and

we improved the enterprise analysis and data drill-down capabilities of our Analytics platform for multi-site, multi-region customers.

Intellectual Property

Patents

We attempt to protect our technology and products through a variety of intellectual property protections, including the pursuit of patent protection in the United States and certain foreign jurisdictions. Because of the differences in patent laws and laws concerning proprietary rights, the extent of protection provided by U.S. patents or proprietary rights owned by us may differ from that of their foreign counterparts. Where strategically appropriate, we will attempt to pursue suspected violators of our patents and, whenever possible, monetize our intellectual property.

I.D. Systems has built a portfolio of patents and patent applications relating to various aspects of its technology and products. As of March 22, 2017, the I.D. Systems patent portfolio includes 24 U.S. patents, 4 pending U.S. patent applications, 1 pending foreign patent application, and 1 foreign patent. With the timely payment of all maintenance fees, the U.S. patents have expiration dates falling between 2019 and 2034. I.D. Systems also has foreign patents and pending applications relating to its wireless asset management system, and pending applications relating to its new connected car product and new features added to our vehicle management system. No single patent or patent family is considered material to the I.D. Systems business.

I.D. Systems' subsidiary, Asset Intelligence LLC ("AI"), also utilizes patents to protect aspects of its intellectual property assets. The AI patent portfolio focuses on methods, systems, and devices for managing mobile assets and reducing power consumption in mobile assets. As of March 22, 2017, the AI patent portfolio includes 25 U.S. patents and 1 pending U.S. patent applications. With timely payments of all maintenance fees, the granted U.S. patents have expiration dates falling between 2017 and 2034. No single patent or family of patents is considered material to the AI business.

Trademarks

We have, or have applied for, trademark protection for I.D. SYSTEMS® and Design, the I.D. SYSTEMS Logo®, VEHICLE ASSET COMMUNICATOR®, AVRAMP®, POWERFLEET®, SAFENAV®, POWERFLEET VISION®, POWERFLEET IQ, VERIWISE & Design®, VERIWISE IQ, and ASSET INTELLIGENCE®.

We attempt to avoid infringing known proprietary rights of third parties in our product development and sales efforts. However, it is difficult to proceed with certainty in a rapidly evolving technological environment in which there may be numerous patent applications pending, many of which are confidential at the time of the application filing, with regard to similar technologies. If we were to discover that our products violate third-party proprietary rights, we may not be able to:

obtain licenses to continue offering such products without substantial reengineering;

reengineer our products successfully to avoid infringement;

obtain licenses on commercially reasonable terms, if at all; or

litigate an alleged infringement successfully or settle without substantial expense and damage awards.

Any claims against us relating to the infringement of third-party proprietary rights, even if without merit, could result in the expenditure of significant financial and managerial resources or in injunctions preventing us from distributing certain products. Such claims could materially adversely affect our business, financial condition and results of operations.

Our software products are susceptible to unauthorized copying and uses that may go undetected, and policing such unauthorized use is difficult. In general, our efforts to protect our intellectual property rights through patent, copyright, trademark and trade secret laws and contractual safeguards may not be effective to prevent misappropriation of our technology, or to prevent the development and design by others of products or technologies similar to, or competitive with, those developed by us. Our failure or inability to protect our proprietary rights could materially and adversely affect our business, financial condition and results of operations.

Manufacturing

We outsource our hardware manufacturing operations to contract manufacturers. This strategy enables us to focus on our core competencies - designing hardware and software systems and delivering solutions to customers - and avoid investing in capital-intensive electronics manufacturing infrastructure. Outsourcing also provides us with the ability to ramp up deliveries to meet increases in demand without increasing fixed expenses.

Our manufacturers are responsible for obtaining the necessary components and supplies to manufacture our products. While components and supplies are generally available from a variety of sources, manufacturers generally depend on a limited number of suppliers. In the past, unexpected demand for communication products has caused worldwide shortages of certain electronic parts and allocation of such parts by suppliers that had an adverse impact on the ability of manufacturers to deliver products as well as on the cost of producing such products.

Due to the general availability of manufacturers for our products, we do not believe that the loss of any of our manufacturers would have a long-term material adverse effect on our business, although there could be a short-term adverse effect on our business.

We generally attempt to maintain sufficient inventory to meet customer demand for products, as well as to meet anticipated sales levels. If our product mix changes in unanticipated ways, or if sales for particular products do not materialize as anticipated, we may have excess inventory or inventory that becomes obsolete. In such cases, our operating results could be negatively affected.

Government Regulations

The use of radio emissions is subject to regulation in the United States by various federal agencies, including the Federal Communications Commission, or FCC, and the Occupational Safety and Health Administration, or OSHA. Various state agencies also have promulgated regulations which concern the use of lasers and radio/electromagnetic emissions standards.

Regulatory changes in the United States and other countries in which we may operate in the future could require modifications to some of our products in order for us to continue manufacturing and marketing our products in those areas.

Our products intentionally transmit radio signals, including narrow band and spread spectrum signals, as part of their normal operation. We have obtained certification from the FCC for our products that require certification. Users of these products in the United States do not require any license from the FCC to use or operate our products. To market and sell our integrated wireless solutions in the European Union, we also utilize unlicensed radio spectra, and have obtained the required European Norm (EN) certifications.

In addition, some of our operations use substances regulated under various federal, state and local laws governing the environment and worker health and safety, including those governing the discharge of pollutants into the ground, air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. Certain of our products are subject to various federal, state and local laws governing chemical substances in electronic products.

The adoption of unfavorable regulations, or unfavorable interpretations of existing regulations by courts or regulatory bodies, could require us to incur significant compliance costs, cause the development of the affected markets to become impractical or otherwise adversely affect our ability to produce or market our products.

Employees

As of March 15, 2017, we had 100 full-time employees, including 9 employees based in Germany and the United Kingdom. Of our 100 total employees, 25 were engaged in customer service, 17 in product development (which includes engineering), 3 in new product management, 12 in operations, 27 in sales and marketing, 4 in information technology and 12 in executive, administration and finance. We believe that our relationships with our employees are good.

Available Information

Our primary website is www.id-systems.com. We make available on this website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish such information to, the Securities and Exchange Commission ("SEC"). We also make available on this website, free of charge, our Code of Ethics for Senior Financial Officers, which applies to our principal executive officer, principal financial officer and principal accounting officer.

Item 1A. Risk Factors

In addition to the other information contained in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating the Company's business. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. Additional risks not presently known to the Company or that the Company currently deems immaterial may also adversely affect our business, financial condition or results of operations.

We have incurred significant losses and have a substantial accumulated deficit. If we cannot achieve profitability, the market price of our common stock could decline significantly.

As of December 31, 2016, we had cash, cash equivalents and marketable securities of \$6.9 million and working capital of \$10.1 million. Our primary sources of cash are cash flows from operating activities, our holdings of cash, cash equivalents and investments and available borrowing capacity under our revolving credit facility. To date, we have not generated sufficient revenue solely from operating activities to fund our operations.

We incurred net losses of approximately \$11.6 million, \$10.0 million and \$6.4 million for the years ended December 31, 2014, 2015 and 2016, respectively, and have incurred additional net losses since inception. At December 31, 2016, we had an accumulated deficit of approximately \$91.5 million. Our ability to increase our revenues from the sale of our products will depend on our ability to successfully implement our growth strategy and the continued expansion of our markets. If our revenues do not grow or if our operating expenses continue to increase, we may not be able to become profitable and the market price of our common stock could decline.

We may not be able to successfully execute our strategic initiatives or meet our long-term financial goals.

We have been engaged in strategic initiatives to refocus on our core business to maximize long-term stockholder value, to improve our cost structure and efficiency and to increase our selling efforts and developing new business. We cannot provide any assurance that we will be able to successfully execute these or other strategic initiatives or that we will be able to execute these initiatives on our expected timetable. We may not be successful in refocusing our core business and obtaining operational efficiencies or replacing revenues lost as a result of these strategic initiatives.

We may need to obtain additional capital to fund our operations that could have negative consequences on our business.

We may require additional capital in the future to develop and commercialize additional products and technologies or take advantage of other opportunities that may arise, including potential acquisitions. We may seek to raise the necessary funds through public or private equity offerings, debt financings, additional operating improvements, asset sales or strategic alliances and licensing arrangements. To the extent we raise additional capital by issuing equity securities, our existing stockholders may experience substantial dilution. In addition, we may be required to relinquish rights to our technologies or systems, or grant licenses on terms that are not favorable to us in order to raise additional funds through strategic alliance, joint venture and licensing arrangements. We cannot provide assurance that the additional sources of funds will be available, or if available, would have reasonable terms. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate one or more of our development programs, and our business, financial condition, results of operations and stock price could be materially and adversely affected.

We are highly dependent upon sales of our wireless asset management system to a few customers. The loss of any of these customers, or any material reduction in the amount of our products they purchase, could materially and adversely affect our financial condition and results of operations.

During the year ended December 31, 2016, we generated revenues of \$36.8 million with Wal-Mart Stores, Inc. accounting for 18% of our revenues. During the year ended December 31, 2015, we generated revenues of \$41.8 million with Wal-Mart Stores, Inc. accounting for 23% of our revenues. During the year ended December 31, 2014, we generated revenues of \$45.6 million with Wal-Mart Stores, Inc. and the Raymond Corporation, accounting for 16% and 14%, respectively, of our revenues. The loss of these customers or any material reduction in the amount of our products that these customers purchase, or 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.

If the market for our technology does not develop or become sustainable, expands more slowly than we expect or becomes saturated, our revenues will decline and our financial condition and results of operations could be materially and adversely affected.

Our success is highly dependent on the continued market acceptance of our wireless asset management system. The market for our wireless products and services is new and rapidly evolving. If the market for our products and services does not become sustainable, or becomes saturated with competing products or services, our revenues will decline and our financial condition and results of operations could be materially and adversely affected.

If we are unable to keep up with rapid technological change, we may be unable to meet the needs of our customers, which could materially and adversely affect our financial condition and results of operations and reduce our ability to grow our market share.

Our market is characterized by rapid technological change and frequent new product announcements. Significant technological changes could render our existing technology obsolete. We are active in the research and development of new products and technologies and in enhancing our current products. However, research and development in our industry is complex and filled with uncertainty. For example, it is common for research and development projects to encounter delays due to unforeseen problems, resulting in low initial volume production, fewer product features than originally considered desirable and higher production costs than initially budgeted, any of which may result in lost market opportunities. In addition, these new products may not adequately meet the requirements of the marketplace and may not achieve any significant degree of market acceptance. If our efforts do not lead to the successful development, marketing and release of new products that respond to technological developments or changing customer needs and preferences, our revenues and market share could be materially and adversely affected. We may expend a significant amount of resources in unsuccessful research and development efforts. In addition, new products or enhancements by our competitors may cause customers to defer or forego purchases of our products. Any of the foregoing could materially and adversely affect our financial condition and results of operations and reduce our ability to grow our market share.

We may incur additional charges for excess and obsolete inventory, which could adversely affect our cost of sales and gross profit.

While we strive to effectively manage our inventory, due to rapidly changing technology, and uneven customer demand, product cycles tend to be short and the value of our inventory may be adversely affected by changes in technology that affect our ability to sell the products in our inventory. If we do not effectively forecast and manage our inventory, we may need to write off inventory as excess or obsolete, which in turn, can adversely affect our cost of sales and gross profit.

We have previously experienced, and may in the future experience, reductions in sales of older generation products as customers delay or defer purchases in anticipation of new product introductions. The reserves we have established for potential losses due to obsolete inventory may, however, prove to be inadequate and may give rise to additional charges for obsolete or excess inventory.

The long and variable sales cycles for our solutions may cause our revenues and operating results to vary significantly from quarter to quarter or year to year, which could adversely affect the market price of our common stock.

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.

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.

We rely significantly on channel partners to sell our products, and disruptions to, or our failure to develop and manage our channel partners would harm our business.

Recruiting and retaining qualified channel partners and training them in our technology and product offerings requires significant time and resources. In order to develop and expand our distribution channel, we must continue to scale and improve our processes and procedures that support our channel, including investment in systems and training. Those processes and procedures may become increasingly complex and difficult to manage as we grow our organization. We have no minimum purchase commitments from any of our channel partners, and our contracts with these channel partners do not prohibit them from offering products or services that compete with ours. Our competitors may provide incentives to existing and potential channel partners to favor their products or to prevent or reduce sales of our products. Our channel partners may choose not to offer our products exclusively or at all. Establishing relationships with channel partners who have a history of selling our competitors' products may also prove to be difficult. Our failure to establish and maintain successful relationships with channel partners would harm our business and operating results.

If we are unable to protect our intellectual property rights, our financial condition and results of operations could be materially and adversely affected.

We rely on a combination of patents, copyrights, trademarks, trade secrets and contractual measures to protect our intellectual property rights. Third parties may seek to challenge, invalidate, circumvent or render unenforceable any patents or proprietary rights owned by us. If such challenges are successful, our business will be materially and adversely affected.

Our employees, consultants and advisors enter into confidentiality agreements with us that prohibit the disclosure or use of our confidential information. We also have entered into confidentiality agreements to protect our confidential information delivered to third parties for research and other purposes. Despite these efforts, we cannot assure you that we will be able to effectively enforce these agreements or our confidential information will not be disclosed, that others will not independently develop substantially equivalent confidential information and techniques or otherwise gain access to our confidential information or that we can meaningfully protect our confidential information.

Disputes may arise in the future with respect to the ownership of rights to any technology developed with advisors or collaborators. These and other possible disagreements could lead to delays in the collaborative research, development or commercialization of our systems, or could require or result in costly and time-consuming litigation that may not be decided in our favor. Any such event could materially and adversely affect our financial condition and results of operations.

Policing the unauthorized use of our intellectual property is difficult, and we cannot assure you that the steps we have taken will prevent unauthorized use of our technology or other intellectual property, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. Accordingly, we may not be able to protect our proprietary rights against unauthorized third party copying or use. If we are unsuccessful in protecting our intellectual property, we may lose any technological advantages we have over competitors and our financial condition and results of operations could be materially and adversely affected.

We may become involved in an intellectual property dispute that could subject us to significant liability, divert the time and attention of our management and prevent us from selling our products, any of which could materially and adversely affect our financial condition and results of operations.

In recent years, there has been significant litigation in the United States and internationally involving claims of alleged infringement of patents and other intellectual property rights. Litigation may be necessary to enforce our intellectual property rights, defend ourselves against alleged infringement and determine the scope and validity of our intellectual property rights.

Any such litigation, whether or not successful, could result in substantial costs, divert the time and attention of our management and prevent us from selling our products. If a claim of patent infringement was decided against us, we could be required to, among other things:

pay substantial damages to the party making such claim;

stop selling, making, having made or using products or services that incorporate the challenged intellectual property;

obtain from the holder of the infringed intellectual property right a license to sell, make or use the relevant technology, which license may not be available on commercially reasonable terms, or at all; or

redesign those products or services that incorporate such intellectual property.

The failure to obtain the necessary licenses or other rights could preclude the sale, manufacture or distribution of our products and could materially and adversely affect our financial condition and results of operations.

The U.S. government's right to use technology developed by us with government funds could limit our intellectual property rights.

We have developed, and may in the future develop, improvements to our technology that are funded in part by the U.S. government. As a result, we do not have the right to prohibit the U.S. government from using certain technologies developed by us with such government funds or to prohibit third parties from using those technologies to provide products and services at the request of the U.S. government. Although such government rights do not affect our ownership of the technology developed using such funds, the U.S. government has the right to royalty-free use of technologies that we have developed under such contracts. We are free to commercially exploit those government-funded technologies and may assert our intellectual property rights to seek to block other non-government users thereof, but there is no assurance we can successfully do so.

We rely on subcontractors to manufacture and deliver our products. Any quality or performance failures by our subcontractors or changes in their financial condition could disrupt our ability to supply quality products to our customers in a timely manner, resulting in business interruptions, increased costs, claims for damages, reputation damage and reduced revenue.

In order to meet the requirements under our customer contracts, we rely on subcontractors to manufacture and deliver our products to our customers. Any quality or performance failures by our subcontractors or changes in their financial or business condition could disrupt our ability to supply quality products to our customers in a timely manner. If we are unable to fulfill orders from our customers in a timely manner, we could experience business interruptions, increased costs, damage to our reputation and loss of our customers. In addition, we may be subject to claims from our customers for failing to meet our contractual obligations. Although we have several sources for production, the inability to provide our products to our customers in a timely manner could result in the loss of customers and our revenues could be materially reduced. In addition, there is great competition for the most qualified and competent subcontractors. If we are unable to hire qualified subcontractors, the quality of our services and products could decline. Furthermore, third-party manufacturers in the electronic component industry are consolidating. The consolidation of third-party manufacturers may give remaining manufacturers greater leverage to increase the prices that they charge, thereby increasing our manufacturing costs. If this were to occur and we are unable to pass the increased costs onto our customers, our profitability could be materially and adversely affected.

Our manufacturers rely on a limited number of suppliers for several significant components and raw materials used in our products. If we or our manufacturers are unable to obtain these components or raw materials on a timely basis, we will be unable to meet our customers' orders, which could reduce our revenues, subject us to claims for damages and adversely affect our relationships with our customers.

We rely on a limited number of suppliers for the components and raw materials used in our products. Although there are many suppliers for most of our component parts and raw materials, we are dependent on a limited number of

suppliers for many of our significant components and raw materials. This reliance involves a number of significant risks, including:

unavailability of materials and interruptions in delivery of components and raw materials from our suppliers, which could result in manufacturing delays; and

fluctuations in the quality and price of components and raw materials.

We currently do not have any long-term or exclusive purchase commitments with any of our suppliers. In addition, our suppliers may enter into exclusive arrangements with our competitors, be acquired by our competitors, or stop selling their products or components to us on commercially reasonable terms or at all. We may not be able to develop alternative sources for the components and raw materials. Even if alternate suppliers are available to us or our manufacturers, identifying them is often difficult and time consuming. If we or our manufacturers are unable to obtain an ample supply of product or raw materials from our existing suppliers or alternative sources of supply, we may be unable to satisfy our customers' orders, which could reduce our revenues, subject us to claims for damages and adversely affect our relationships with our customers.

The industry in which we operate is highly competitive, and competitive pressures from existing and new companies could have a material adverse effect on our financial condition and results of operations.

The industry in which we operate is highly competitive and influenced by the following:

- advances in technology;
- new product introductions;
- evolving industry standards;
- product improvements;
- rapidly changing customer needs;
- intellectual property invention and protection;
- marketing and distribution capabilities;
- ability to attract and retain highly skilled professionals;
- competition from highly capitalized companies;
- entrance of new competitors;
- ability of customers to invest in information technology; and
- price competition.

The products marketed by us and our competitors are becoming more complex. As the technological and functional capabilities of future products increase, these products may begin to compete with products being offered by traditional computer, network and communications industry participants that have substantially greater financial, technical, marketing and manufacturing resources than we do.

Although we are not aware of any current competitors that provide the precise capabilities of our systems, we are aware of competitors that offer similar approaches to address the customer needs that our products address. Those companies include both emerging companies with limited operating histories, such as TotalTrax, Inc., and SpeedShield Technologies and companies with longer operating histories, greater name recognition and/or significantly greater financial, technical and marketing resources than ours, such as Crown Equipment Corp.

In the rental fleet management market, our solutions for traditional airport-based rental fleet management compete primarily against existing handheld devices, which are used widely by vehicle rental companies. Currently, the principal handheld device providers we compete against include Motorola and Intermec which was acquired by Honeywell International Inc. Our solutions for remote, decentralized rental fleet management compete primarily with companies in the car sharing market such as Hertz, Enterprise, Zipcar and City Car Share. Large system integrators and several of the national cellular wireless providers have started to offer solutions, which package third party hardware, firmware and software, that compete with our solutions. In the markets for both types of rental fleet solutions, our competitive position is differentiated by our patented car rental system.

In the remote transportation asset management market, we compete against several established competitors, including Omnitrac, LLC, SkyBitz, Inc., Orbcomm Inc. and Spireon, Inc. We attempt to differentiate our solutions in this segment by offering a choice of communication mode (satellite or cellular), patented battery management technology, sensor options, and installation configurations (dry van trailers, domestic containers, flatbed trailers, covered hopper and tanker railcars, and chassis).

If we do not keep pace with product and technology advances, including the development of superior products by our competitors, or if we are unable to otherwise compete successfully against our competitors, there could be a material adverse effect on our competitive position, revenues and prospects for growth. As a result, our financial condition and results of operations could be materially and adversely affected.

The federal government or independent standards organizations may implement significant regulations or standards that could adversely affect our ability to produce or market our products.

Our products transmit radio frequency waves, the transmission of which is governed by the rules and regulations of the FCC, as well as other federal and state agencies. Our ability to design, develop and sell our products will continue to be subject to these rules and regulations for the foreseeable future. In addition, our products and services may become subject to independent industry standards. The implementation of unfavorable regulations or industry standards, or unfavorable interpretations of existing regulations by courts or regulatory bodies, could require us to incur significant compliance costs, cause the development of the affected products to become impractical or otherwise adversely affect our ability to produce or market our products. The adoption of new industry standards applicable to our products may require us to engage in rapid product development efforts that would cause us to incur higher expenses than we anticipated. In some circumstances, we may not be able to comply with such standards, which could materially and adversely affect our ability to generate revenues through the sale of our products.

Because our products are complex, they may have undetected errors or failures when they are introduced, which could seriously harm our business, and our product liability insurance may not adequately protect us.

Technical products like ours often contain undetected errors or failures when first introduced. Despite our efforts to eliminate these flaws, there still may be errors or failures in our products, even after the commencement of commercial shipments. We provide a warranty reserve at the time of shipment, which may not be sufficient to cover actual repair costs. Because our products are used in business-critical applications, we could be subject to product liability claims if our systems fail to perform as intended. Even unsuccessful claims against us could result in costly litigation and the diversion of management's time and resources and could damage our reputation and impair the marketability of our systems. Although we maintain insurance, there are no assurances that:

our insurance will provide adequate coverage against potential liabilities if our products cause harm or fail to perform as promised; or

adequate product liability insurance will continue to be available to us in the future on commercially reasonable terms or at all.

If our insurance is insufficient to pay any product liability claims, our financial condition and results of operations could be materially and adversely affected. In addition, any such claims could permanently injure our reputation and customer relationships.

We may be subject to breaches of our information technology systems, which could damage our reputation, vendor, and customer relationships, and our customers' access to our services.

Our business operations require that we use and store sensitive data, including intellectual property and proprietary business information in our secure data centers and on our networks. We face a number of threats to our data centers and networks in the form of unauthorized access, security breaches and other system disruptions. It is critical to our business strategy that our infrastructure remains secure and is perceived by customers and partners to be secure. We require user names and passwords in order to access our information technology systems. We also use encryption and authentication technologies to secure the transmission and storage of data. Despite our security measures, our information technology systems may be vulnerable to attacks by hackers or other disruptive problems. Any such security breach may compromise information used or stored on our networks and may result in significant data losses or theft of our, our customers', or our business partners' intellectual property or proprietary business information. A cybersecurity breach could negatively affect our reputation by adversely affecting the market's perception of the security or reliability of our products or services. In addition, a cyber attack could result in other negative consequences, including remediation costs, disruption of internal operations, increased cybersecurity protection costs, lost revenues or litigation, which could have a material adverse effect on our business, results of operations and financial condition.

Our ability to utilize net operating loss carry-forwards may be limited.

The Company has U.S. net operating loss carry-forwards ("NOLs") that expire through 2036. Section 382 of the Internal Revenue Code imposes an annual limitation on a corporation's ability to utilize NOLs if it experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50% over a three-year period. Ownership changes in our stock, some of which are outside of our control, could result in a limitation in our ability to use our NOLs to offset future taxable income, could cause U.S. Federal income taxes to be paid earlier than otherwise would be paid if such limitation were not in effect and could cause such NOLs to expire unused, reducing or eliminating the benefit of such NOLs.

If we lose our executive officers, or are unable to recruit additional personnel, our ability to manage our business could be materially and adversely affected.

We are dependent on the continued employment and performance of our executive officers. We currently do not have employment agreements with any of our executive officers. Like other companies in our industry, we face intense competition for qualified personnel. Many of our competitors have greater resources than we have to hire qualified personnel. Accordingly, if we are not successful in attracting or retaining qualified personnel in the future, our ability to manage our business could be materially and adversely affected.

Our senior credit facility restricts our ability to engage in certain transactions and may impair our ability to respond to changing business and economic conditions.

On December 18, 2015, we entered into a loan and security agreement (the “Revolver”) with Siena Lending Group LLC (the “Lender”), which provides a senior revolving credit facility in an aggregate principal amount of up to \$7.5 million and a maturity date of December 18, 2017 (which date may be accelerated in certain cases). As of December 31, 2016, we had approximately \$3.0 million outstanding under the Revolver.

The Revolver requires us to satisfy various covenants, including financial covenants regarding liquidity and negative covenants that restrict our ability to engage in certain transactions without the consent of the Lender. These restrictions include, among other things, limitations on our ability and the ability of our subsidiaries to:

- incur additional debt;
- create liens on assets to secure debt;
- make certain investments;
- pay or declare dividends or other restricted payments;
- merge or consolidate with another company;
- transfer, sell or otherwise dispose of assets; and
- enter into transactions with affiliates.

These restrictions and covenants could have adverse consequences for investors, including the consequences of our need to use a portion of our cash flow from operations for debt service, rather than for our operations, restrictions on our ability to incur additional debt financing for future working capital or capital expenditures, a lesser ability for us to take advantage of significant business opportunities, such as acquisition opportunities, and our inability to react to market conditions by selling lesser-performing assets.

In addition, a default, amendment or waiver to our credit facility to avoid a default may result in higher rates of interest and could impact our ability to obtain additional borrowings. Finally, debt incurred under our credit facility bears interest at variable rates. Any increase in interest expense could reduce the funds available for operations.

Extension of credit under our existing agreement is permitted based on a borrowing base, which is an agreed percentage of eligible accounts receivable and lease receivables, less required reserves and outstanding borrowings. If the amount or quality of our accounts receivable and lease receivables deteriorates, then our ability to borrow under the credit facility will be directly affected.

If we do not adequately anticipate and respond to the risks inherent in growing our business internationally, our operating results and the market price of our common stock could be materially and adversely affected.

To date, we have not generated significant revenues outside of North America. As part of our growth strategy, we are seeking ways to expand our operations outside of North America by establishing offices in the United Kingdom and Germany and developing relationships with global distributors to market and sell our systems internationally. For example, as of March 15, 2017, we had four employees in Germany and five in the United Kingdom who market and sell our systems in Europe. There are a number of risks inherent in doing business in international markets, including:

unexpected legal or regulatory changes;

unfavorable political or economic factors;

less developed infrastructure;

difficulties in recruiting and retaining personnel, and managing international operations;

fluctuations in foreign currency exchange rates;

lack of sufficient protection for intellectual property rights; and

potentially adverse tax consequences.

If we do not adequately anticipate and respond to the risks inherent in international operations, our operating results and the market price of our common stock could be materially and adversely affected. In addition, although we intend to expand our business outside of North America, there are risks associated with conducting an international operation, including the risks listed above, and such expansion may not be successful or have a positive effect on, and could materially and adversely affect, our financial condition and results of operations.

We provide no assurance that we will be able to successfully integrate any businesses, products, technologies or personnel that we have acquired or might acquire in the future.

We may, from time to time, continue to consider investments in or acquisitions of complementary companies, products or technologies. In the event of any future acquisitions, we could:

issue stock that would dilute our current stockholders' percentage ownership;

incur debt;

assume liabilities;

incur expenses related to the impairment of goodwill; or

incur large and immediate write-offs.

We may not be able to identify suitable acquisition candidates, and if we do identify suitable candidates, we may not be able to make these acquisitions on acceptable terms, or at all.

Our operation of any acquired business will also involve numerous risks, including:

problems integrating the acquired operations, personnel, technologies or products;

unanticipated costs;

diversion of management's time and attention from our core businesses;

adverse effects on existing business relationships with suppliers and customers;

risks associated with entering markets in which we have no or limited prior experience;
and

potential loss of key employees, particularly those of acquired companies.

In addition, if we make changes to our business strategy or if external conditions adversely affect our business operations, we may be required to record an impairment charge for goodwill or intangibles, which would lead to decreased assets and reduced net operating performance.

The concentration of common stock ownership among our executive officers and directors could limit the ability of other stockholders of the Company to influence the outcome of corporate transactions or other matters submitted for stockholder approval.

As of March 23, 2017, our executive officers and directors beneficially owned, in the aggregate, 6% of our outstanding common stock, not including 529,000 shares of common stock that our executive officers and directors may acquire upon the exercise of outstanding options or if they otherwise acquire additional shares of common stock in the future. As a result, our officers and directors may have the ability to influence the outcome of all corporate actions requiring stockholder approval, irrespective of how our other stockholders may vote, including the following actions:

the election of directors;

adoption of stock option or other equity incentive compensation plans;

the amendment of our organizational documents; and

the approval of certain mergers and other significant corporate transactions, including a sale of substantially all of our assets.

The unpredictability of our quarterly operating results could adversely affect the market price of our common stock.

Our revenues and operating results may vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control, and any of which could adversely affect the market price of our common stock. The main factors that may affect us include the following:

variations in the sales of our products to our significant customers;

variations in the mix of products and services provided by us;

the timing and completion of initial programs and larger or enterprise-wide purchases of our products by our customers;

the length and variability of the sales cycle for our products;

the timing and size of sales;

changes in market and economic conditions, including fluctuations in demand for our products; and

announcements of new products by our competitors.

As a result of these and other factors, revenues for any quarter are subject to significant variation that could adversely affect the market price for our common stock.

Future sales of our common stock, including sales of our common stock acquired upon the exercise of outstanding options, may cause the market price of our common stock to decline.

The market price of our common stock could decline as a result of sales by our existing stockholders of shares of common stock in the market, or sales of our common stock acquired upon the exercise of outstanding options, or the perception that these sales could occur. These sales also may make it more difficult for us to sell equity securities at a time and price that we deem appropriate.

We have 14,083,967 shares of common stock outstanding as of March 24, 2017, of which 13,207,261 shares are freely transferable without restriction, and 876,706 shares are held by our officers and directors and, as such, are subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144 under the Securities Act. In addition, as of December 31, 2016, options to purchase 1,243,000 shares of our common stock were issued and

outstanding, of which 822,000 were vested. The remaining options will vest ratably over a five-year period measured from the date of grant. The weighted-average exercise price of the vested stock options is \$5.07. We also may issue additional shares of stock in connection with our business, including in connection with acquisitions, and may grant additional stock options to our employees, officers, directors and consultants under our stock option plans or warrants to third parties. If a significant portion of these shares of common stock were sold in the public market, the market value of our common stock could be adversely affected.

Interest rate fluctuations may adversely affect our income and results of operations.

As of December 31, 2016, we had cash, cash equivalents and investments of \$6.9 million. In a declining interest rate environment, reinvestment typically occurs at less favorable market rates, negatively impacting future investment income. Accordingly, interest rate fluctuations may adversely affect our income and results of operations.

We provide financing to our customers for the purchase of our products, which may increase our credit risks in the event of a deterioration in a customer's financial condition or in global credit conditions.

We sell our products to a wide range of customers in the commercial and governmental sectors. We provide financing to customers for a portion of such sales which could be in the form of notes or leases receivable over two to five years. Although these customers are extended credit terms which are approved by us internally, our business could be materially and adversely affected in the event of a deterioration of the financial condition of one or more of our customers that results in such customers' inability to repay us. This risk may increase during a general economic downturn affecting a large number of our customers or a widespread deterioration in global credit conditions, and in the event our customers do not adequately manage their businesses or properly disclose their financial condition.

Our cash and cash equivalents could be adversely affected by a downturn in the financial and credit markets.

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 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 our cash and cash equivalents 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 deteriorate.

Goodwill impairment or intangible impairment charges may affect our results of operations in the future.

We test goodwill for impairment on an annual basis and more often if events occur or circumstances change that would likely reduce the fair value of a reporting unit to an amount below its carrying value. We also test for other possible acquisition intangible impairments if events occur or circumstances change that would indicate that the carrying amount of such intangible may not be recoverable. Any resulting impairment loss would be a non-cash charge and may have a material adverse impact on our results of operations in any future period in which we record a charge.

Long-lived assets with determinable useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such charges could have a material adverse effect on our results of operations in the period in which they are recorded.

Declines in general economic conditions could result in decreased demand for our products and services, which would adversely affect our business, financial condition and results of operations.

Our results of operations are affected by the levels of business activities of our customers, which can be affected by economic conditions in the United States and globally. During periods of economic downturns, our customers may decrease their demand for wireless technology solutions, as well as the maintenance, support and consulting services we provide. This slowdown may have an adverse effect on the wireless solutions industry in general and on demand for our products and services, but the magnitude of that impact is uncertain. Our future growth is dependent, in part, upon the demand for our products and services. Prolonged weakness in the economy may cause business enterprises to delay or cancel wireless solutions projects, reduce their overall wireless solutions budgets and/or reduce or cancel orders for our services. This, in turn, may lead to longer sales cycles, delays in purchase decisions, and payment and collection issues, and may also result in price pressures, causing us to realize lower revenues and operating margins. Additionally, if our customers cancel or delay their wireless solutions initiatives, our business, financial condition and results of operations could be materially and adversely affected.

Provisions of Delaware law or our charter documents could delay or prevent an acquisition of the Company, even if the acquisition would be beneficial to our stockholders, and could make it more difficult for our stockholders to change the Company's management.

Section 203 of the Delaware General Corporation Law prohibits us from engaging in a business combination with any of our interested stockholders for three years after such stockholder became an interested stockholder unless certain specified conditions are met. As a result, these provisions and Delaware law could limit the price that investors are willing to pay in the future for shares of our common stock.

In addition, provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. This is because these provisions may prevent or frustrate attempts by stockholders to replace or remove our current management or members of our Board of Directors. These provisions, among other things:

permit our Board of Directors to issue, without further action by our stockholders, up to 5,000,000 shares of preferred stock, with any rights, preferences and privileges as they may designate, including the right to approve an acquisition or other change in control;

provide that special meetings of stockholders may be called only by (i) our Board of Directors pursuant to a resolution adopted by a majority of the entire Board of Directors, either upon motion of a director or upon written request by the holders of at least 50% of the voting power of all the shares of our capital stock entitled to vote in the election of directors, voting as a single class, or (ii) our Chairman of the Board or our President; and

require the affirmative vote of at least 75% of the voting power of all the shares of our capital stock entitled to vote in the election of directors, voting as a single class, to amend or repeal the provisions outlined above dealing with meetings of stockholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our executive and I.D. Systems administrative offices are located in Woodcliff Lake, New Jersey. In May 2010, we entered into a lease for this facility, consisting of approximately 21,400 square feet, which expires on February 28, 2021. The rent is approximately \$37,000 per month.

Our Asset Intelligence administrative offices are located in Plano, Texas. In April 2015, we entered into a lease for this facility, consisting of approximately 11,482 square feet, which expires February 28, 2021. The rent is approximately \$22,000 per month.

We believe that our existing facilities are adequate for our existing needs.

Item 3. Legal Proceedings

In the ordinary course of its business, the Company is at times subject to various legal proceedings. The Company is not currently a party to any material legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

PART II.**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**Market Information.

Our common stock is traded on the NASDAQ Global Market under the symbol “IDSY.” The following table sets forth the high and low sales price for our common stock on the NASDAQ Global Market for each fiscal quarter during the years ended December 31, 2015 and 2016.

Quarter Ended	High	Low
2016		
March 31, 2016	\$4.80	\$3.75
June 30, 2016	5.39	4.19
September 30, 2016	5.43	4.26
December 31, 2016	5.59	4.63
2015		
March 31, 2015	\$7.48	\$5.84
June 30, 2015	7.25	5.87
September 30, 2015	6.52	3.07
December 31, 2015	4.70	3.01

Performance Graph.

The following graph shows a five-year comparison of cumulative total shareholder return for (i) the Company, (ii) the NASDAQ Market Index, and (iii) the Morningstar Communication Equipment Index (the “Morningstar Index”).

The graph assumes that \$100 was invested in each of the Company’s common stock, the NASDAQ Market Index and the Morningstar Index on December 31, 2011, and that any dividends were reinvested. Data points on the graph are annual. Note that historic stock price performance is not necessarily indicative of future stock price performance. The following graph and related information shall not be deemed “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to

the extent that we specifically incorporate it by reference into such filing.

COMPANY/INDEX/MARKET	Fiscal Year Ended					
	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
I.D. Systems, Inc.	\$ 100.00	\$ 123.04	\$ 122.41	\$ 141.44	\$ 97.25	\$ 114.59
NASDAQ Market Index	100.00	117.45	164.57	188.84	201.98	219.89
Morningstar Industry Index ⁽¹⁾	100.00	108.95	138.93	151.15	136.45	150.13

Morningstar, Inc. reconstituted the Morningstar Communication Equipment Index in the second half of 2010. As a (1) result of such reconstitution, historical returns have been recalculated to reflect the updated composition of that industry index.

Prepared by Zacks Investment Research, Inc.

Index Data: Copyright NASDAQ OMX, Inc. Copyright Morningstar, Inc.

Holders.

As of March 23, 2017, there were 18 holders of record of our common stock.

Dividends.

We have never paid a cash dividend on our common stock and do not expect to pay a cash dividend in the near future. We currently intend to retain future earnings, if any, to finance our operations and expand our business. Any future determination to pay cash dividends will be at the discretion of our Board of Directors and will depend upon our financial condition, operating results, capital requirements and any other factors our Board of Directors deems relevant. In addition, our senior credit facility (described in Item 7 of Part II of this Annual Report on Form 10-K under the caption “Capital Requirements”) restricts our ability to pay dividends.

Sales of Unregistered Securities.

None.

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 December 31, 2016. As the table indicates, the Company did not make any share repurchases

during the quarterly period ended December 31, 2016.

ISSUER PURCHASES OF EQUITY SECURITIES

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
October 1, 2016 - October 31, 2016	-	-	-	\$ 1,660,000
November 1, 2016 - November 30, 2016	-	-	-	1,660,000
December 1, 2016 - December 31, 2016	6,000	(1) \$ 4.94	-	1,660,000
Total	6,000	\$ 4.94	-	\$ 1,660,000

(1) Represents shares of common stock withheld to satisfy minimum tax withholding obligations in connection with the vesting of restricted stock during December 2016.

In addition, on May 3, 2007, the Company previously had announced that its Board of Directors had authorized the repurchase of issued and outstanding shares of our common stock having an aggregate value of up to \$10,000,000 pursuant to a share repurchase program (the “2007 Repurchase Program”). The 2007 Repurchase Program was terminated by the Board of Directors in March 2012. Prior to such termination, the Company had purchased approximately 1,075,000 shares of its common stock in open market transactions under the 2007 Repurchase Program for an aggregate purchase price of approximately \$9,970,000, or an average cost of \$9.27 per share. The repurchases were funded from the Company’s working capital, and the amount and timing of such repurchases depended upon the price and availability of shares, general market conditions and the availability of cash, as determined at the discretion of our management.

Item 6. Selected Financial Data

The following table sets forth selected financial data for each of the five years ended December 31, 2016 derived from our audited financial statements. You should read the information in the table below together with the section of this Annual Report on Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," which discusses the 2014, 2015 and 2016 fiscal years, and our financial statements and related notes and the other financial data included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2012	2013	2014	2015	2016
Statement of Operations Data:					
Revenues	\$44,635,000	\$39,946,000	\$45,633,000	\$41,784,000	\$36,822,000
Cost of revenues	21,705,000	22,036,000	25,627,000	24,761,000	18,528,000
Gross profit	22,930,000	17,910,000	20,006,000	17,023,000	18,294,000
Operating expenses:					
Selling, general and administrative expenses	22,409,000	21,769,000	25,094,000	22,750,000	20,126,000
Research and development expenses	4,341,000	4,389,000	6,649,000	4,556,000	4,536,000
Loss on settlement of finance receivable	-	-	441,000	-	-
Loss from operations	(3,820,000)	(8,248,000)	(12,178,000)	(10,283,000)	(6,368,000)
Interest income	507,000	635,000	595,000	360,000	285,000
Interest expense	-	-	(29,000)	(18,000)	(293,000)
Other income (loss), net	59,000	51,000	37,000	(11,000)	6,000
Net loss before income taxes	(3,254,000)	(7,562,000)	(11,575,000)	(9,952,000)	(6,370,000)
Income tax benefit - sale of NJ net operating losses	662,000	63,000	-	-	-
Net loss	\$(2,592,000)	\$(7,499,000)	\$(11,575,000)	\$(9,952,000)	\$(6,370,000)
Net loss per share - basic and diluted	\$(0.22)	\$(0.63)	\$(0.96)	\$(0.79)	\$(0.49)
Weighted average common shares outstanding - basic and diluted	11,744,000	11,912,000	12,098,000	12,614,000	12,984,000
Balance Sheet Data (at end of period):					
Cash and cash equivalents	\$1,914,000	\$6,882,000	\$6,277,000	\$4,793,000	\$5,277,000
Investments	13,858,000	7,190,000	7,315,000	1,598,000	1,614,000

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Total assets	60,566,000	55,515,000	52,486,000	44,428,000	44,246,000
Long term debt	-	293,000	149,000	-	-
Total stockholders' equity	44,027,000	37,449,000	27,255,000	20,570,000	16,002,000

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist you in understanding our financial condition and results of operations and should be read in conjunction with the financial statements and related notes included elsewhere in this Annual Report on Form 10-K. Many of the amounts and percentages in this section have been rounded for convenience of presentation, but actual recorded amounts have been used in computations. Accordingly, some information may appear not to compute accurately.

Overview

I.D. Systems, Inc. (“IDS”, and together with its subsidiaries, “I.D. Systems,” the “Company,” “we,” “our,” or “us”) develops, markets and sells wireless machine-to-machine (“M2M”) solutions for managing and securing high-value enterprise assets. These assets include industrial vehicles, such as forklifts and airport ground support equipment; rental vehicles; and transportation assets, such as dry van trailers, refrigerated trailers, railcars and containers. Our patented wireless asset management 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 our customers to achieve tangible economic benefits by making timely, informed decisions that increase the safety, security, revenue, 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 risks including unsafe activity, facility equipment and goods damage, operational costs and capital expenditures and to comply with certain safety regulations by accurately and reliably measuring and controlling fleet activity. This solution also enhances 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 allows rental car companies to generate higher revenue by more accurately tracking vehicle data, such as fuel consumption and odometer readings, and improve customer service by expediting the rental and return processes. In addition, our wireless solution for “carsharing” enables rental car companies to establish a network of vehicles positioned strategically around cities for use by their members, control vehicles remotely, manage member reservations by phone or Internet, and charge members for vehicle use by the hour.

We sell our system 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, aerospace and defense, homeland security, and vehicle rental.

We have incurred net losses of approximately \$11.6 million, \$10.0 million and \$6.4 million for the years ended December 31, 2014, 2015 and 2016, respectively, and have incurred additional net losses since inception. As of December 31, 2016, we had cash, cash equivalents and marketable securities of \$6.9 million, working capital of \$10.1 million, and an accumulated deficit of \$91.5 million. Our primary sources of cash are cash flows from operating activities and the Company's holdings of cash, cash equivalents and investments and available borrowing capacity under our revolving credit facility in an aggregate principal amount of up to \$7.5 million of which approximately \$3.0 million was outstanding as of December 31, 2016. To date, the Company has not generated sufficient revenue solely from operating activities to fund our operations.

During the year ended December 31, 2016, we generated revenues of \$36.8 million with Wal-Mart Stores, Inc. accounting for 18% of our revenues. During the year ended December 31, 2015, we generated revenues of \$41.8 million with Wal-Mart Stores, Inc. accounting for 23% of our revenues. During the year ended December 31, 2014, we generated revenues of \$45.6 million with Wal-Mart Stores, Inc. and the Raymond Corporation accounting for 16% and 14%, respectively, of our revenues.

In 2016, we improved our next generation vehicle management system on-vehicle platform, improved our product line of over-the-road asset management solutions and developed a next-generation rental vehicle management system as described below:

we expanded our fourth-generation of on-asset hardware for industrial vehicles, the VAC4, to additional sensing capabilities to cover more of the market need, further reduced power consumption, and improved the user interface for intuitiveness and repeatability without extensive on vehicle training. Remote reprogramming processes have been expanded to more of the code base, extending the ability for in-field hardware to be upgraded for new and improved

we expect our latest generation of VeriWise intermodal container tracking systems to help our customers maximize container fleet utilization and minimize container idle time by providing more accurate visibility of loading/unloading events and generating real-time data on load status throughout the shipment cycle;

we expect our latest generation of VeriWise intermodal chassis tracking systems to help our customers accurately bill for chassis rental and usage, and minimize chassis idle time by providing more accurate visibility of container loading/unloading events and by generating real-time data throughout the shipment cycle;

we expect our latest generation of VeriWise cellular trailer tracking systems to provide our customers with a lower-cost option for dry van trailer tracking when satellite communication is not required; and

we expect our latest generation of RentalFleet system to provide a more ubiquitous vehicle rental management solution to satisfy the needs of both car rental companies and shared vehicle fleets.

The Company entered into a Separation and General Release Agreement (the “Ellis Separation Agreement”) with Norman L. Ellis, its former Chief Operating Officer, on December 16, 2016 and Amendment No. 2 to Severance Agreement (together with the Ellis Separation Agreement, the “Separation Agreements”) with Kenneth Ehrman, its former Chief Executive Officer, on December 20, 2016. Under the terms of the Separation Agreements, the Company recognized severance costs of \$637,000 which are included in selling, general and administrative expenses. In addition, a pro-rata portion of Mr. Ehrman’s unvested stock options and restricted stock were partially vested based on the number of months elapsed since the date of grant as compared to the scheduled vesting date. Due to the modification of the terms of the stock option and restricted stock agreements, the Company recognized a \$(26,000) reduction of stock-based compensation expense which is included in the stock option and restricted stock stock-based compensation expense.

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.

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 revenues and results of operations to vary significantly and unexpectedly from quarter to quarter.

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

Critical Accounting Policies and Estimates

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States in the preparation of our financial statements. Our significant accounting policies are described in Note 2 to our consolidated financial statements included in this Annual Report on Form 10-K. Certain accounting policies involve significant judgments and assumptions by our management that can have a material impact on the carrying value of certain assets and liabilities. We consider such accounting policies to be our critical accounting policies. The judgments and assumptions used by our management in these critical accounting policies are based on historical experience and other factors that our management believes to be reasonable under the circumstances. Because of the nature of these judgments and assumptions, actual results could differ significantly from these judgments and estimates, which could have a material impact on the carrying values of our assets and liabilities and our results of operations. Our critical accounting policies are described below.

Revenue Recognition

We derive revenue 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, hosting and support agreements; and (iv) periodically, leasing arrangements.

Our industrial and rental fleet wireless asset management systems consist of on-asset hardware, communication infrastructure, software, and hosting infrastructure. 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 fair value of the element. VSOE of the fair value 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 upon 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 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.

We recognize 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 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.

Spare parts sales are reflected in product revenues and recognized on the date of customer receipt of the part. Revenue from remote asset monitoring equipment activation fees are deferred and amortized over the life of the contract.

We also enter into post-contract maintenance, hosting and support agreements for our wireless asset management systems. Revenue is recognized over the service period and the cost of providing these services is expensed as incurred. Deferred revenue also includes prepayment of extended maintenance, hosting and support contracts.

Under certain customer contracts, we invoice 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, we recognize 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.

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 consolidated statements of operations.

Financing Receivables

Notes receivable relate to interest-bearing product financing arrangements that exceed one year and are recorded at face value. Interest income is recognized over the life of the note. Amounts collected on notes receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. Unearned income is amortized to interest income over the life of the notes using the effective-interest method.

We also derive revenue under leasing arrangements. The 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 future minimum lease payments. Revenue is deferred and recognized over the service contract, as described above. Maintenance revenue is recognized monthly over the lease term. Interest income is recognized monthly over the lease term using the effective-interest method.

The allowance for uncollectable minimum lease payments represents our best estimate of the amount of credit losses in the existing notes and sales-type lease receivable. The allowance 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. We consider our 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 years ended December 31, 2014, 2015 and 2016. We do 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/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. We resume accrual of interest when it is probable that we will collect the remaining principal and interest of an impaired note/lease. Notes and leases become past due based on how recently payments have been received.

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.

Inventory valuation reserves are established in order to report inventories at the lower of cost or market value in the consolidated balance sheet. The determination of inventory valuation reserves requires management to make estimates and judgments on the future salability of inventories. Valuation reserves for obsolete and slow-moving inventory are estimated based on assumptions of future sales forecasts, product life cycle expectations, the impact of new product introductions, production requirements, and specific identification of items, such as product discontinuance or engineering/material changes and by comparing the inventory levels to historical usage rates.

Stock-Based Compensation

We account for stock-based employee compensation for all share-based payments, including grants of stock options, as an operating expense, based on their fair values on the grant date. The Company recorded stock-based compensation expense of \$1,334,000, \$1,609,000 and \$1,658,000 for the years ended December 31, 2014, 2015 and 2016, respectively.

We estimate the fair value of share-based payment awards on the grant date using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in our consolidated statement of operations. We estimate forfeitures at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The estimate is based on our historical rates of forfeitures. Estimated forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets and would be charged to earnings.

Goodwill and Other Intangible Assets

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill and intangible assets deemed to have indefinite lives are not amortized. Intangible assets are amortized over their estimated useful lives unless the lives are determined to be indefinite. Intangible assets are carried at cost, less accumulated amortization and impairment charges. Intangible assets consist of trademarks and trade names, patents, customer relationships and other intangible assets. We test goodwill and other intangible assets annually, or when a triggering event occurs between annual impairment tests, to determine if impairment exists and if the use of indefinite lives is currently applicable.

Product Warranties

We provide a one-year warranty on our products. Estimated future warranty costs are accrued in the period that the related revenue is recognized. These estimates are derived from historical data and trends of product reliability and costs of repairing and replacing defective products.

Income taxes

We use the asset and liability method of accounting for deferred income taxes. Deferred income taxes are measured by applying enacted statutory rates to net operating loss carryforwards and to the differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets are reduced, if necessary, by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. At December 31, 2015 and 2016, we had a valuation allowance on all of our deferred tax assets.

Fair Value Measurements

In determining fair value of financial instruments, we utilize 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 participant assumptions.

Results of Operations

The following table sets forth certain items related to our statement of operations as a percentage of revenues for the periods indicated and should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. A detailed discussion of the material changes in our operating results is set forth below.

	Year Ended December 31,		
	2014	2015	2016
Revenues:			
Products	62.2 %	58.7 %	58.0 %
Services	37.8	41.3	42.0

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	100.0	100.0	100.0
Cost of revenues:			
Cost of products	42.6	43.1	38.1
Cost of services	13.5	16.1	12.2
Total gross profit	43.9	40.8	49.7
Selling, general and administrative expenses	55.0	54.4	54.7
Research and development expenses	14.6	10.9	12.3
Loss on settlement of finance receivable	1.0	-	-
Loss from operations	(26.7)	(24.5)	(17.3)
Interest income	1.2	0.8	0.8
Interest expense	-	-	(0.8)
Other income (loss), net	0.1	-	-
Loss before income taxes	(25.4)	(23.7)	(17.3)
Net loss	(25.4)%	(23.7)%	(17.3)%

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

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

	Year Ended December 31,	
	2015	2016
Product revenue:		
Industrial and rental fleet management	\$ 13,201,000	\$ 14,299,000
Transportation asset management	11,330,000	7,067,000
	24,531,000	21,366,000
Services revenue:		
Industrial and rental fleet management	7,372,000	6,685,000
Transportation asset management	9,881,000	8,771,000
	17,253,000	15,456,000
	\$ 41,784,000	\$ 36,822,000

REVENUES. Revenues decreased by approximately \$5.0 million, or 11.9%, to \$36.8 million in 2016 from \$41.8 million in 2015. The decrease in revenue is attributable to decrease in total transportation asset management revenue of approximately \$5.4 million to \$15.8 million in 2016 from \$21.2 million in 2015, partially offset by an increase in total industrial and rental fleet management revenue of approximately \$0.4 million to \$21.0 million in 2016 from \$20.6 million in 2015.

Revenues from products decreased by approximately \$3.2 million, or 12.9%, to \$21.4 million in 2016 from \$24.5 million in 2015. Transportation asset management product revenue decreased by approximately \$4.3 million to \$7.1 million in 2016 from \$11.3 million in 2015. The decrease in transportation asset management product revenue resulted principally from decreased product revenue of approximately \$0.5 million to Ashley Distribution Services, Ltd. and spare parts sales of approximately \$2.9 million to Wal-Mart Stores, Inc and \$1.0 million to Knight Transportation Inc. Industrial and rental fleet management product revenue increased by approximately \$1.1 million to \$14.3 million in 2016 from \$13.2 million in 2015. The increase in industrial and rental fleet management product revenue resulted principally from increased product sales of approximately \$1.4 million to Ford Motor Company and \$1.1 million to the General Motors Company partially offset by decreased product sales of approximately \$0.7 million to the Raymond Corporation and \$0.5 million to Procter & Gamble.

Revenues from services decreased by approximately \$1.8 million, or 10.4%, to \$15.5 million in 2016 from \$17.3 million in 2015. Industrial and rental fleet management service revenue decreased by approximately \$0.7 million to \$6.7 million in 2016 from \$7.4 million in 2015, principally due to decreased service revenue of approximately \$0.7

million from Avis Budget, Inc. Transportation asset management service revenue decreased by approximately \$1.1 million to \$8.8 million in 2016 from \$9.9 million in 2015 principally due to a decrease in the number of active units and the revenue per active unit from contract renewals.

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

	Year Ended December 31,	
	2015	2016
Cost of products:		
Industrial and rental fleet management	\$8,889,000	\$8,541,000
Transportation asset management	9,129,000	5,495,000
	18,018,000	14,036,000
Cost of services:		
Industrial and rental fleet management	3,675,000	1,950,000
Transportation asset management	3,068,000	2,542,000
	6,743,000	4,492,000
	\$24,761,000	\$18,528,000

COST OF REVENUES. Cost of revenues decreased by approximately \$6.2 million, or 25.2%, to \$18.5 million in 2016 from \$24.8 million for the same period in 2015. The decrease is principally attributable to decreases in cost of products and services in 2016. Gross profit was \$18.3 million in 2016 compared to \$17.0 million for the same period in 2015. As a percentage of revenues, gross profit increased to 49.7% in 2016 from 40.8% in 2015.

Cost of products decreased by approximately \$4.0 million, or 22.1%, to \$14.0 million in 2016 from \$18.0 million in the same period in 2015. Gross profit for products was \$7.3 million in 2016 compared to \$6.5 million in 2015. The increase in gross profit was attributable to an increase of approximately \$1.4 million in the industrial and rental fleet management gross profit to \$5.8 million in 2016 from \$4.3 million in 2015. The transportation asset management gross profit decreased approximately \$0.6 million to \$1.6 million in 2016 from \$2.2 million in 2015. As a percentage of product revenues, gross profit increased to 34.3% in 2016 from 26.6% in 2015. The increase in gross profit as a percentage of product revenue was due to an increase in the industrial and rental fleet management gross profit percentage to 40.3% in 2016 from 32.7% in 2015, which was principally due to improved customer pricing. The transportation asset management product revenue gross profit percentage increased to 22.2% in 2016 from 19.4% in 2015 principally from a decrease in spare parts sales which have a lower gross margin.

Cost of services decreased by approximately \$2.3 million, or 33.4%, to \$4.5 million in 2016 from \$6.7 million in 2015. Gross profit for services was \$11.0 million in 2016 compared to \$10.5 million in 2015. The increase in gross profit was attributable to an increase of approximately \$1.0 million in the industrial and rental fleet management gross profit to \$4.7 million in 2016 from \$3.7 million in 2015, partially offset by a decrease in the transportation asset management gross profit of approximately \$0.6 million to \$6.2 million in 2016 from \$6.8 million in 2015. As a percentage of service revenues, gross profit increased to 70.9% in 2016 from 60.9% in 2015. The increase in gross profit as a percentage of service revenue was principally due to an increase in the industrial and rental fleet management gross profit percentage to 70.8% in 2016 from 50.1% in 2015 and an increase in the transportation asset management gross profit percentage to 71.0% in 2016 from 69.0% in 2015. The increase in the industrial and rental fleet management gross profit percentage was principally due to a decrease in installation expenses. The increase in transportation asset management gross profit percentage was principally due to a decrease in communication expenses.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased by approximately \$2.6 million, or 11.5%, to \$20.1 million in 2016 compared to \$22.8 million in the same period in 2015. The decrease was principally from the reduction in workforce and other cost-cutting measures implemented in the second half of 2015 and a \$0.6 million decrease in professional fees from an unconsummated strategic initiative in 2015, partially offset by \$0.4 million increase in severance costs related to the Company's executive management change in December 2016, and \$0.4 million increase in foreign currency translation losses. As a percentage of revenues, selling, general and administrative expenses increased to 54.7% in 2016 from 54.4% in the same period in 2015, primarily due to the decrease in revenues from 2016 to 2015.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses of approximately \$4.5 million in 2016 remained generally consistent with research and development expenses in 2015. As a percentage of revenues,

research and development expenses increased to 12.3% in 2016 from 10.9% in the same period in 2015, primarily due to the decrease in revenues from 2016 to 2015.

INTEREST INCOME. Interest income decreased by \$57,000, or 16.7%, to \$285,000 in 2016 from \$342,000 in the same period in 2015 principally due to a decrease in interest income from financing receivables.

INTEREST EXPENSE, Interest expense increased to approximately \$293,000 in 2016 from \$-0- in the same period in 2015, principally due to an increase in interest expense from the revolving credit facility.

NET LOSS. Net loss was \$6.4 million, or \$(0.49) per basic and diluted share, for 2016 as compared to net loss of \$10.0 million, or \$(0.79) per basic and diluted share, for the same period in 2015. The decrease in the net loss was due primarily to the reasons described above.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

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

	Year Ended December 31,	
	2014	2015
Product revenue:		
Industrial and rental fleet management	\$20,374,000	\$13,201,000
Transportation asset management	8,029,000	11,330,000
	28,403,000	24,531,000
Services revenue:		
Industrial and rental fleet management	6,520,000	7,372,000
Transportation asset management	10,710,000	9,881,000
	17,230,000	17,253,000
	\$45,633,000	\$41,784,000

REVENUES. Revenues decreased by approximately \$3.8 million, or 8.4%, to \$41.8 million in 2015 from \$45.6 million in 2014. The decrease in revenue is attributable to decrease in total industrial and rental fleet management revenue of approximately \$6.3 million to \$20.6 million in 2015 from \$26.9 million in 2014 partially offset by an increase in total transportation asset management revenue of approximately \$2.5 million to \$21.2 million in 2015 from \$18.7 million in 2014.

Revenues from products decreased by approximately \$3.9 million, or 13.6%, to \$24.5 million in 2015 from \$28.4 million in 2014. Industrial and rental fleet management product revenue decreased by approximately \$7.2 million to \$13.2 million in 2015 from \$20.4 million in 2014. The decrease in industrial and rental fleet management product revenue resulted principally from decreased product sales of approximately \$3.2 million to the Raymond Corporation, \$0.8 million to the U.S. Postal Service, \$0.4 million to Ford Motor Company, \$0.4 million to Procter & Gamble and \$0.4 million to General Motors Company. Transportation asset management product revenue increased by approximately \$3.3 million to \$11.3 million in 2015 from \$8.0 million in 2014. The increase in transportation asset management product revenue resulted principally from increased product revenue of approximately \$0.5 million to U.S. Trailer Holdings LLC, \$0.5 million to Ashley Distribution Services, Ltd. and spare parts sales of approximately \$2.0 million to Wal-Mart Stores, Inc.

Revenues from services of \$17.3 million in 2015 remained generally consistent with 2014 revenues of \$17.2 million. Industrial and rental fleet management service revenue increased by approximately \$0.9 million to \$7.4 million in 2015 from \$6.5 million in 2014, principally due to an increase in revenue of approximately \$0.7 million from Avis

Budget, Inc. from a new development project. Transportation asset management service revenue decreased by approximately \$0.8 million to \$9.9 million in 2015 from \$10.7 million in 2014. The decrease in transportation asset management service revenue resulted principally from a decrease in the revenue per active unit.

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

	Year Ended December 31,	
	2014	2015
Cost of products:		
Industrial and rental fleet management	\$ 12,861,000	\$ 8,889,000
Transportation asset management	6,597,000	9,129,000
	19,458,000	18,018,000
Cost of services:		
Industrial and rental fleet management	2,970,000	3,675,000
Transportation asset management	3,199,000	3,068,000
	6,169,000	6,743,000
	\$ 25,627,000	\$ 24,761,000

COST OF REVENUES. Cost of revenues decreased by approximately \$0.9 million, or 3.4%, to \$24.8 million in 2015 from \$25.6 million for the same period in 2014. The decrease is principally attributable to a decrease in cost of products partially offset by an increase in cost of services in 2015. Gross profit was \$17.0 million in 2015 compared to \$20.0 million for the same period in 2014. As a percentage of revenues, gross profit decreased to 40.7% in 2015 from 43.8% in 2014.

Cost of products decreased by approximately \$1.4 million, or 7.4%, to \$18.0 million in 2015 from \$19.5 million in the same period in 2014. Gross profit for products was \$6.5 million in 2015 compared to \$8.9 million in 2014. The decrease in gross profit was attributable to a decrease of approximately \$3.2 million in the industrial and rental fleet management gross profit to \$4.3 million in 2015 from \$7.5 million in 2014. The transportation asset management gross profit increased approximately \$0.8 million to \$2.2 million in 2015 from \$1.4 million in 2014. As a percentage of product revenues, gross profit decreased to 26.6% in 2015 from 31.5% in 2014. 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 32.7% in 2015 from 36.9% in 2014, which was principally due to an increase in the number of units sold with lower unit product margins, which was principally due to the Company's transition to a new pricing model for VMS, that emphasizes multi-year service contracts and lower upfront hardware revenue and start-up costs for initial production of the Company's new generation of VMS devices. The transportation asset management product revenue gross profit percentage increased to 19.4% in 2015 from 17.8% in 2014, which was principally due to a decrease in warranty expense, partially offset by lower gross margin on spare parts sales.

Cost of services increased by approximately \$0.6 million, or 9.3%, to \$6.7 million in 2015 from \$6.2 million in 2014. Gross profit for services was \$10.5 million in 2015 compared to \$11.1 million in 2014. The transportation asset management gross profit decreased by approximately \$0.7 million to \$6.8 million in 2015 from \$7.5 million in 2014. The industrial and rental fleet management gross profit increased approximately \$0.1 million to \$3.7 million in 2015 from \$3.6 million in 2014. As a percentage of service revenues, gross profit decreased to 60.9% in 2015 from 64.2% in 2014. The decrease in gross profit as a percentage of service revenue was principally due to a decrease in the industrial and rental fleet management gross profit percentage to 50.1% in 2015 from 54.4% in 2014 and a decrease in the transportation asset management gross profit percentage to 69.0% in 2015 from 70.1% in 2014. The decrease in the industrial and rental fleet management gross profit margin was principally due to an increase in installation expenses. The decrease in transportation asset management gross profit margin was principally due to an increase in communication expenses.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased by approximately \$2.3 million, or 9.3%, to \$22.8 million in 2015 compared to \$25.1 million in the same period in 2014. The decrease was principally due to a decrease of approximate \$1.1 million in expenses related to the Company's executive management change that was incurred in 2014, a decrease of approximate \$1.5 million in intangibles amortization expense as some intangible assets became fully amortized, a decrease of approximately \$0.5 million in bad debt expense reserve from improved collections, partially offset by an increase of approximately \$0.5 million in stock-based compensation expense which was due to grants of restricted stock, \$0.3 million in severance costs from the reduction in work force, and \$0.3 million increase in professional fees, which was principally from an unconsummated strategic initiative. As a percentage of revenues, selling, general and administrative expenses decreased to 54.4% in 2015 from 55.0% in the same period in 2014, primarily due to the decrease in expenses noted

above partially offset by the decrease in revenue in 2015 in comparison to 2014.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses decreased by approximately \$2.1 million, or 31.5%, to \$4.6 million in 2015 compared to \$6.6 million in the same period in 2014 primarily from a reduction of product development expenses incurred in 2014 as a result of our I.D. Systems 2.0 initiative. As a percentage of revenues, research and development expenses decreased to 10.9% in 2015 from 14.6% in the same period in 2014, primarily due to the decrease in expenses noted above partially offset by the decrease in revenue in 2015 in comparison to 2014.

INTEREST INCOME. Interest income decreased by \$224,000, or 39.6%, to \$342,000 in 2015 from \$566,000 in the same period in 2014 principally due to a decrease in interest income from financing receivables from the early settlement of a finance receivable.

NET LOSS. Net loss was \$10.0 million, or \$(0.79) per basic and diluted share, for 2015 as compared to net loss of \$11.6 million, or \$(0.96) per basic and diluted share, for the same period in 2014. The increase in the net loss was due primarily to the reasons described above.

Liquidity and Capital Resources

Historically, 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. As of December 31, 2016, we had cash, cash equivalents and marketable securities of \$6.9 million and working capital of \$10.1 million, compared to cash, cash equivalents and marketable securities of \$6.4 million and working capital of \$14.1 million as of December 31, 2015.

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 expired in December 2015.

Capital Requirements

As of December 31, 2016, we had cash, cash equivalents and marketable securities of \$6.9 million and working capital of \$10.1 million. The Company's primary sources of cash are cash flows from operating activities and the Company's holdings of cash, cash equivalents and investments and available borrowing capacity under our revolving credit facility. To date, the Company has not generated sufficient revenue solely from operating activities to fund its operations.

We believe our available working capital, anticipated level of future revenues from the direct sales strategy which focuses on large enterprise customers and reducing inventory, expected cost savings from expense reduction initiatives implemented in the fourth quarter of 2016, the expected cash flows from operations and available borrowings under the revolving credit facility will provide sufficient funds to cover our capital requirements for at least the next twelve months.

On December 18, 2015 (the "Closing Date"), we and our wholly-owned subsidiary, Asset Intelligence, LLC ("Asset Intelligence") (collectively, the "Loan Parties"), entered into a loan and security agreement (the "Revolver") with Siena Lending Group LLC. As of December 31, 2016, there was approximately \$3.0 million outstanding under the Revolver.

The Revolver provides a revolving credit facility in an aggregate principal amount of up to \$7.5 million and a maturity date of December 18, 2017 (which date may be accelerated in certain cases). Outstanding indebtedness under the Revolver may be voluntarily prepaid at any time, in whole or in part, subject to payment of an early termination

premium equal to (i) 3% of the amount of such prepayment if prepayment occurs on or before December 18, 2016, or (ii) 1.5% of the amount of such prepayment if prepayment occurs after December 18, 2016 but on or before June 18, 2017, but no early termination premium is payable if prepayment occur after June 18, 2017. In addition, no early termination premium is payable if the Revolver is refinanced with Bank of America, N.A. I.D. Systems intends to use borrowings under the Revolver for a variety of purposes, including working capital and general corporate purposes.

The Company has an available borrowing base under the Revolver that is subject to reserves established at the lender's discretion of 85% of Eligible Accounts (as defined in the Revolver) and 75% of Eligible Lease Receivables (as defined in the Revolver) up to \$7.5 million under the Revolver. Eligible Accounts and Eligible Lease Receivables do not include certain receivables deemed ineligible by the lender.

Borrowings under the Revolver bear interest at a rate equal to the sum of 2.00% per annum plus the base rate as it is defined in the loan and security agreement governing the Revolver (the greater of (i) Prime Rate (ii) Federal Funds Rate plus 0.5%, or (iii) 3.25%). In addition, the Company is charged an unused line fee equal to 0.50% per annum on unused amounts of the revolving credit facility and a minimum borrowing fee equal to the excess, if any, of (i) interest which would have been payable in respect of each month if, at all time during such month, the principal balance of the Revolving Loans (as defined in the Revolver) was equal to \$2,000,000 over (ii) the actual interest payable in respect of such month on the Revolving Loans.

The Loan Parties guarantee the payment obligations under the Revolver. Any borrowings are further secured by (i) certain equity interests owned or held by the Loan Parties and 65% of the voting stock of all present and future foreign subsidiaries of the Loan Parties and (ii) substantially all of the tangible and intangible personal property and assets of the Loan Parties.

The Revolver contains a financial covenant regarding liquidity which requires the Loan Parties to maintain a minimum liquidity of (a) \$3,500,000 from the Closing Date through and including January 31, 2016 and (b) \$4,000,000 on February 1, 2016 or at any time thereafter. The Revolver also includes customary affirmative and negative covenants for credit facilities of this type, including limitations on our indebtedness, liens, investments, restricted payments, mergers and acquisitions, dispositions of assets, transactions with affiliates, ability to amend our organizational documents. Any failure to comply with such covenants could lead to an acceleration of our obligations under the Revolver.

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.

Operating Activities

Net cash used in operating activities was \$2.5 million for the year ended December 31, 2016, compared to net cash used in operating activities of \$6.9 million for the same period in 2015. The net cash used in operating activities for the year ended December 31, 2016 reflects a net loss of \$6.4 million and includes non-cash charges of \$1.7 million for stock-based compensation and \$0.7 million for depreciation and amortization expense. Changes in working capital items included:

- a decrease in accounts receivable of \$1.2 million;
- a decrease in inventory of \$3.0 million;
- an increase in deferred costs of \$3.8 million;
- an increase in deferred revenue of \$2.9 million;
- an increase in prepaid expenses and other assets of \$1.1 million;
- a decrease in financing receivables of \$0.8 million; and
- a decrease in accounts payable of \$1.9 million.

Net cash used in operating activities was \$6.9 million for the year ended December 31, 2015, compared to net cash used in operating activities of \$0.3 million for the same period in 2014, which included proceeds of \$5.4 million from the early settlement of a finance receivable. The net cash used in operating activities for the year ended December 31, 2015 reflects a net loss of \$10.0 million and includes non-cash charges of \$1.6 million for stock-based compensation, \$0.7 million for depreciation and amortization expense and \$0.3 million for bad debt expense. Changes in working capital items included:

- a decrease in accounts receivable of \$3.4 million;
- an increase in inventory of \$1.1 million;
- an increase in deferred costs of \$1.2 million;
- a decrease in accounts payable of \$1.2 million; and
- a decrease in financing receivables of \$0.9 million.

Investing Activities

Net cash used in investing activities was \$0.5 million for the year ended December 31, 2016, compared to net cash provided by investing activities was \$3.5 million for the same period in 2015. The change from the same period in 2015 was primarily due to a decrease in net proceeds from the sale and maturities of investments of \$5.7 million partially offset by a decrease in expenditures for fixed assets and website development costs of \$1.7 million from 2015.

Net cash provided by investing activities was \$3.5 million for the year ended December 31, 2015, compared to net cash used in investing activities of \$0.6 million for the same period in 2014. The change from the same period in 2014 was primarily due to an increase in net proceeds from the sale and maturities of investments of \$5.9 million, partially offset by an increase in expenditures for fixed assets and website development costs of \$1.8 million in 2015.

Financing Activities

Net cash provided by financing activities was \$3.1 million for the year ended December 31, 2016, compared to net cash provided by financing activities of \$1.9 million for the same period in 2015. The change from the same period in 2015 was primarily due to a decrease in proceeds from the exercise of stock options of \$1.9 million from 2015 partially offset by net borrowing of \$3.0 million from the revolving credit facility.

Net cash provided by financing activities was \$1.9 million for the year ended December 31, 2015, compared to net cash provided by financing activities of \$0.3 million for the same period in 2014. The change from the same period in 2014 was primarily due to an increase in proceeds from the exercise of stock options of \$1.5 million in 2015.

Contractual Obligations and Commitments

The following table summarizes our significant contractual obligations and commitments as of December 31, 2016:

	Payment due by Period				After 5 Years
	Total	Less than one year	1 to 3 years	3 to 5 years	
Operating leases	\$3,679,000	\$866,000	\$2,663,000	\$150,000	\$ -
Revolving credit facility	2,993,000	2,993,000	-	-	-

Purchase orders or contracts for the purchase of raw materials and other goods and services are not included in the table above. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. Although we have entered into contracts for services, the obligations under these contracts were not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

The expected timing or payment of obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on changes to agreed-upon amounts for some obligations.

Inflation

We believe our operations have not been and, in the foreseeable future, will not be, materially and adversely affected by inflation or changing prices.

Business Acquisitions

In addition to focusing on our core applications, we adapt our systems to meet our customers' broader asset management needs and seek opportunities to expand our solution offerings through strategic acquisitions. For example, in 2009 we acquired Didbox Ltd., a privately held, United Kingdom-based manufacturer and marketer of

vehicle operator identification systems, which provides us with a wider range of industrial vehicle management solutions and expands our base of operations in Europe.

In 2010, we entered into a purchase agreement with General Electric Capital Corporation and GE Asset Intelligence, LLC (“GEAI”), pursuant to which we acquired GEAI’s telematics business through the purchase of Asset Intelligence, LLC (“AI”). AI combines web-based software technologies with satellite and cellular communications to deliver data-driven telematics solutions for supply chain asset management. These solutions help secure and optimize the performance of trailers, railcars, containers, and the freight they carry, enabling shippers and carriers to maximize security and efficiency throughout their supply chains.

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, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Recently Issued Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-18 “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”), which requires the inclusion of restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU to the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”), which provides clarification on how companies present and classify certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 will be effective for fiscal periods beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. If an entity early adopts the amendments in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the impact of this ASU to the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments” which amends the guidance on measuring credit losses on financial assets held at amortized cost. The amendment is intended to address the issue that the previous “incurred loss” methodology was restrictive for an entity’s ability to record credit losses based on not yet meeting the “probable” threshold. The new language will require these assets to be valued at amortized cost presented at the net amount expected to be collected with a valuation provision. This update standard is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of this ASU to the consolidated financial statements.

In March 2016, the FASB issued No. ASU 2016-09, “Compensation - Stock Compensation” (Topic 718), which includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. This standard is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The Company is currently in the process of assessing the impact of this ASU on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842), which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. The revised guidance must be applied on a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The revised guidance

is effective for the Company beginning in the quarter ending March 31, 2019. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05 “Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement” which provides guidance on determining whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software by the customer. If a cloud computing arrangement does not contain a software license, it should be accounted for as a service contract by the customer. This guidance is effective for fiscal years beginning after December 15, 2015 and for interim periods within those fiscal years, with early adoption permitted. The adoption of this guidance did not have a material impact on the Company’s financial results.

In July 2015, the FASB issued ASU No. 2015-11 “Inventory (Topic 330): Simplifying the Measurement of Inventory” which requires entities to measure most inventory “at the lower of cost and net realizable value (“NRV”),” thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. Under the new guidance, inventory is “measured at the lower of cost and net realizable value,” which eliminates the need to determine replacement cost and evaluate whether it is above the ceiling (NRV) or below the floor (NRV less a normal profit margin). The guidance defines NRV as the “estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.” The guidance is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early application is permitted. The Company does not expect the impact of adopting this standard to have a material impact on the consolidated financial statements.

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. In July 2015, the FASB approved a deferral of the ASU effective date from annual and interim periods beginning after December 15, 2016 to annual and interim periods beginning after December 15, 2017, while allowing for early adoption for fiscal periods after December 15, 2016. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

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 adoption of this guidance did not have a material impact on the Company’s financial results.

In August 2014, the FASB issued ASU No. 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”), to provide guidance on management’s responsibility to evaluate whether there is substantial doubt about a company’s ability to continue as a going concern within one year after the date that the financial statements are issued. ASU 2014-15 also provides guidance for related footnote disclosures. ASU 2014-15 is effective for the Company beginning on January 1, 2016 with early adoption permitted. The adoption of this guidance did not have a material impact on the Company’s financial results.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the form of changes in corporate income tax rates, which risks are currently immaterial to us.

The Company has international operations, giving rise to exposure to market risks from changes in foreign exchange rates. The Company faces both translation and transaction risks related to foreign currency exchange. Our results of operations and cash flows are subject to fluctuations in the Euro and British Pound Sterling against the United States Dollar (“USD”). Our statement of operations and balance sheet accounts are also impacted by the re-measurement of non-functional currency transactions such as USD denominated intercompany loans, cash accounts held by our overseas subsidiaries, accounts receivable denominated in foreign currencies, and accounts payable denominated in foreign currencies. These exposures may change over time as business practices evolve and economic conditions change. Changes in foreign currency exchange rates could have an adverse impact on our financial results and cash flows.

For the years ended December 31, 2014, 2015 and 2016 revenues denominated in foreign currencies were approximately 10.0%, 3.9% and 5.8%, respectively. Cumulative foreign currency translation (losses) gains of \$(263,000), \$(140,000) and \$408,000 related to the Company’s German and United Kingdom subsidiaries is included in accumulated other comprehensive loss in the stockholders’ equity section of the consolidated balance sheet at December 31, 2014, 2015 and 2016, respectively. The aggregate foreign currency transaction exchange rate losses included in loss before income taxes were \$(56,000), \$(60,000) and \$(437,000) for the years ended December 31, 2014, 2015 and 2016, respectively.

We also are subject to market risk from changes in interest rates which could affect our future results of operations and financial condition. We have variable-rate debt with our revolving credit facility that is subject to interest rate volatility with a floor of 3%. A fluctuation of one percent in the interest rate relating to the credit facility’s outstanding balance as of December 31, 2016 which is subject to variable interest rate based on the Prime Rate or Federal Funds Rate would have an annual impact of approximately \$30,000 on the Company’s consolidated statement of operations. . We also are subject to market risks from changes in equity prices of equity securities we hold in our investment portfolio, which risks currently are immaterial to us. As of December 31, 2016, we had cash, cash equivalents and investments of \$6.9 million.

As of December 31, 2016, 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 our cash and cash equivalents 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 deteriorate.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

I.D. Systems, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of I.D. Systems, Inc. and Subsidiaries (the “Company”) as of December 31, 2015 and 2016, and the related consolidated statements of operations, comprehensive loss, changes in stockholders’ equity and cash flows for each of the years in the three-year period ended December 31, 2016. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedule “Schedule II- Valuation and Qualifying Accounts” for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of I.D. Systems, Inc. and Subsidiaries as of December 31, 2015 and 2016, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information stated therein.

/s/ EisnerAmper LLP

Iselin, New Jersey

March 29, 2017

I.D. SYSTEMS, INC. AND SUBSIDIARIES**Consolidated Balance Sheets**

	As of December 31,	
	2015	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$4,489,000	\$4,972,000
Restricted cash	304,000	305,000
Investments - short term	259,000	115,000
Accounts receivable, net of allowance for doubtful accounts of \$1,512,000 and \$341,000 in 2015 and 2016, respectively	10,901,000	9,585,000
Financing receivables - current, net of allowance for doubtful accounts of \$-0- in 2015 and 2016	1,950,000	1,766,000
Inventory, net	7,152,000	3,920,000
Deferred costs - current	3,310,000	3,750,000
Prepaid expenses and other current assets	2,263,000	3,495,000
Total current assets	30,628,000	27,908,000
Investments - long term	1,339,000	1,499,000
Financing receivables - less current portion	3,078,000	2,430,000
Deferred costs - less current portion	3,320,000	6,638,000
Fixed assets, net	3,119,000	3,075,000
Goodwill	1,837,000	1,837,000
Intangible assets, net	842,000	706,000
Other assets	265,000	153,000
	\$44,428,000	\$44,246,000
LIABILITIES		
Current liabilities:		
Short-term borrowings	\$-	\$2,993,000
Accounts payable and accrued expenses	9,173,000	7,622,000
Deferred revenue - current	7,383,000	7,197,000
Total current liabilities	16,556,000	17,812,000
Deferred rent	361,000	366,000
Deferred revenue - less current portion	6,941,000	10,066,000
	23,858,000	28,244,000
Commitments and Contingencies (Note 20)		
STOCKHOLDERS' EQUITY		

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Preferred stock; authorized 5,000,000 shares, \$0.01 par value; none issued	-	-
Common stock; authorized 50,000,000 shares, \$0.01 par value; 14,211,000 and 14,578,000 shares issued at December 31, 2015 and 2016, respectively; shares outstanding, 13,467,000 and 13,767,000 at December 31, 2015 and 2016, respectively	129,000	129,000
Additional paid-in capital	110,116,000	111,844,000
Accumulated deficit	(85,128,000)	(91,498,000)
Accumulated other comprehensive loss	(500,000)	(103,000)
Treasury stock; 744,000 and 811,000 common shares at cost at December 31, 2015 and 2016, respectively	(4,047,000)	(4,370,000)
Total stockholders' equity	20,570,000	16,002,000
Total liabilities and stockholders' equity	\$44,428,000	\$44,246,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I.D. SYSTEMS, INC. AND SUBSIDIARIES**Consolidated Statements of Operations**

	Year Ended December 31,		
	2014	2015	2016
Revenues:			
Products	\$28,403,000	\$24,531,000	\$21,366,000
Services	17,230,000	17,253,000	15,456,000
	45,633,000	41,784,000	36,822,000
Cost of Revenues:			
Cost of products	19,458,000	18,018,000	14,036,000
Cost of services	6,169,000	6,743,000	4,492,000
	25,627,000	24,761,000	18,528,000
Gross Profit	20,006,000	17,023,000	18,294,000
Operating expenses:			
Selling, general and administrative expenses	25,094,000	22,750,000	20,126,000
Research and development expenses	6,649,000	4,556,000	4,536,000
Loss on settlement of finance receivable	441,000	-	-
	32,184,000	27,306,000	24,662,000
Loss from operations	(12,178,000)	(10,283,000)	(6,368,000)
Interest income	566,000	342,000	285,000
Interest expense	-	-	(293,000)
Other income (expense), net	37,000	(11,000)	6,000
Net loss	\$(11,575,000)	\$(9,952,000)	\$(6,370,000)
Net loss per share - basic and diluted	\$(0.96)	\$(0.79)	\$(0.49)
Weighted average common shares outstanding - basic and diluted	12,098,000	12,614,000	12,984,000

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I.D. SYSTEMS, INC. AND SUBSIDIARIES**Consolidated Statements of Comprehensive Loss**

	Year Ended December 31,		
	2014	2015	2016
Net loss	\$(11,575,000)	\$(9,952,000)	\$(6,370,000)
Other comprehensive (loss) income, net:			
Unrealized loss on investments	(13,000)	(28,000)	(5,000)
Reclassification of net realized investment losses (gains) included in net loss	7,000	43,000	(6,000)
Foreign currency translation adjustment	(263,000)	(140,000)	408,000
Total other comprehensive (loss) income	(269,000)	(125,000)	397,000
Comprehensive loss	\$(11,844,000)	\$(10,077,000)	\$(5,973,000)

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I.D. SYSTEMS, INC. AND SUBSIDIARIES**Consolidated Statements 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 January 1, 2014	12,835,000	\$ 123,000	\$ 104,479,000	\$(63,601,000)	\$ (106,000)	\$(3,446,000)	\$ 37,449,000
Net loss	-	-	-	(11,575,000)	-	-	(11,575,000)
Foreign currency translation adjustment	-	-	-	-	(263,000)	-	(263,000)
Unrealized loss on investments	-	-	-	-	(6,000)	-	(6,000)
Shares issued pursuant to exercise of stock options	126,000	1,000	459,000	-	-	-	460,000
Shares withheld pursuant to exercise of stock options and restricted stock	-	-	-	-	-	(144,000)	(144,000)
Issuance of restricted stock	608,000	-	-	-	-	-	-
Forfeiture of restricted shares	(93,000)	-	-	-	-	-	-
Stock based compensation - restricted stock	-	-	787,000	-	-	-	787,000
Stock based compensation - options and performance shares	-	-	547,000	-	-	-	547,000
Balance at December 31, 2014	13,476,000	\$ 124,000	\$ 106,272,000	\$(75,176,000)	\$ (375,000)	\$(3,590,000)	\$ 27,255,000

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Net loss	-	-	-	(9,952,000)	-	-	(9,952,000)
Foreign currency translation adjustment	-	-	-	-	(140,000)	-	(140,000)
Unrealized loss on investments	-	-	-	-	15,000	-	15,000
Shares issued pursuant to exercise of stock options	568,000	5,000	2,235,000	-	-	-	2,240,000
Issuance of restricted stock	232,000	-	-	-	-	-	-
Forfeiture of restricted shares	(65,000)	-	-	-	-	-	-
Shares withheld pursuant to exercise of stock options and restricted stock	-	-	-	-	-	(457,000)	(457,000)
Stock based compensation - restricted stock	-	-	1,325,000	-	-	-	1,325,000
Stock based compensation - options and performance shares	-	-	284,000	-	-	-	284,000
Balance at December 31, 2015	14,211,000	\$ 129,000	\$ 110,116,000	\$(85,128,000)	\$(500,000)	\$(4,047,000)	\$ 20,570,000
Net loss	-	-	-	(6,370,000)	-	-	(6,370,000)
Foreign currency translation adjustment	-	-	-	-	408,000	-	408,000
Unrealized loss on investments	-	-	-	-	(11,000)	-	(11,000)
Shares issued pursuant to exercise of stock options	20,000	-	70,000	-	-	-	70,000
Issuance of restricted stock	566,000	-	-	-	-	-	-
Forfeiture of restricted shares	(219,000)	-	-	-	-	-	-
	-	-	-	-	-	(323,000)	(323,000)

Shares withheld
pursuant to
exercise of
stock options
and restricted
stock

Stock based compensation - restricted stock	-	-	908,000	-	-	-	908,000
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Stock based
compensation -
options and
performance
shares

-	-	750,000	-	-	-	750,000
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Balance at

December 31, 2016	14,578,000	\$ 129,000	\$ 111,844,000	\$(91,498,000)	\$(103,000)	\$(4,370,000)	\$ 16,002,000
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SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I.D. SYSTEMS, INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows**

	Year Ended December 31,		
	2014	2015	2016
Cash flows from operating activities:			
Net loss	\$(11,575,000)	\$(9,952,000)	\$(6,370,000)
Adjustments to reconcile net loss to cash used in operating activities:			
Inventory reserve	122,000	186,000	205,000
Stock based compensation expense	1,334,000	1,609,000	1,658,000
Depreciation and amortization	2,216,000	718,000	685,000
Bad debt expense	853,000	326,000	117,000
Loss on settlement of finance receivable	441,000	-	-
Proceeds from sale of New Jersey net operating loss carryforward	63,000	-	-
Other non-cash items	18,000	106,000	2,000
Changes in:			
Restricted cash	(3,000)	(1,000)	(1,000)
Accounts receivable	(6,293,000)	3,350,000	1,174,000
Proceeds from settlement of finance receivable	5,371,000	-	-
Financing receivables	2,535,000	943,000	832,000
Inventory	(1,218,000)	(1,086,000)	3,027,000
Prepaid expenses and other assets	(860,000)	(437,000)	(1,120,000)
Deferred costs	(491,000)	(1,166,000)	(3,758,000)
Deferred revenue	3,492,000	(347,000)	2,939,000
Accounts payable and accrued expenses	3,694,000	(1,151,000)	(1,874,000)
Net cash used in operating activities	(301,000)	(6,902,000)	(2,484,000)
Cash flows from investing activities:			
Capital expenditures	(410,000)	(2,182,000)	(505,000)
Purchases of investments	(5,357,000)	(2,754,000)	(956,000)
Proceeds from the sale and maturities of investments	5,187,000	8,434,000	932,000
Net cash (used in) provided by investing activities	(580,000)	3,498,000	(529,000)
Cash flows from financing activities:			
Borrowings under revolving credit facility	-	-	14,650,000
Repayments under revolving credit facility	-	-	(11,657,000)
Principal payments of capital lease obligation	(144,000)	(149,000)	-
Proceeds from exercise of stock options	460,000	2,006,000	70,000
Net cash provided by financing activities	316,000	1,857,000	3,063,000

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Effect of foreign exchange rate changes on cash and cash equivalents	(43,000)	62,000	433,000
Net (decrease) increase in cash and cash equivalents	(608,000)	(1,485,000)	483,000
Cash and cash equivalents - beginning of period	6,582,000	5,974,000	4,489,000
Cash and cash equivalents - end of period	\$5,974,000	\$4,489,000	\$4,972,000
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	\$29,000	\$18,000	\$175,000
Non-cash investing and financing activities include:			
Shares withheld pursuant to stock issuance	\$144,000	\$457,000	\$323,000
Unrealized (loss) gain on investments	\$(6,000)	\$15,000	\$(11,000)

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I.D. SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 and 2016

NOTE 1 - DESCRIPTION OF BUSINESS AND LIQUIDITY

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 application 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, revenue, 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.

As of December 31, 2016, we had cash, cash equivalents and marketable securities of \$6.9 million and working capital of \$10.1 million. The Company’s primary sources of cash are cash flows from operating activities and the Company’s holdings of cash, cash equivalents and investments and available borrowing capacity under our revolving credit facility. To date, the Company has not generated sufficient cash flows solely from operating activities to fund its operations.

We believe our available working capital, anticipated level of future revenues from the direct sales strategy which focuses on large enterprise customers and reducing inventory, expected cost savings from expense reduction initiatives implemented in the fourth quarter of 2016, the expected cash flows from operations and available borrowings under the revolving credit facility will provide sufficient funds to cover our capital requirements for at least the next twelve months.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[A] Principles of consolidation:

The 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”) (which, as noted above, are collectively referred to herein as the “Company”). All material intercompany balances and transactions have been eliminated in consolidation.

[B] Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“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.

[C] Cash and cash equivalents:

The Company considers all highly liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents unless they are legally or contractually restricted. The Company’s cash and cash equivalent balances generally exceed FDIC limits.

[D] Restricted cash:

Restricted cash at December 31, 2015 and 2016 consists of cash held in escrow for purchases from a vendor.

[E] Investments:

The Company's investments include debt securities, U.S. Treasury Notes, government and state agency bonds, corporate bonds, common stock 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. All of the Company's investments are currently 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). The Company has classified as short-term those securities that mature within one year and common stock, and all other securities are classified as long-term. Realized gains and losses from the sale of available for sale securities are determined on a specific-identification basis. Net realized gains and losses from the sale of investment securities available for sale are included in "other income" in the consolidated statement of operations. Dividend and interest income are recognized when earned.

[F] Accounts receivable:

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains reserves against its accounts receivable for potential losses. Allowances for uncollectible accounts are estimated based on the Company's periodic review of accounts receivable balances. In establishing the required allowance, management considers our customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts receivable are net of an allowance for doubtful accounts in the amount of \$1,512,000 and \$341,000 in 2015 and 2016, respectively. The Company does not have any off-balance sheet credit exposure related to its customers.

[G] Financing receivables:

Financing receivables include notes and sales-type lease receivables from the sale of the Company's products and services. Notes receivable relate to interest-bearing product financing arrangements that exceed one year and are recorded at face value. Interest income is recognized over the life of the note. Amounts collected on notes receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. Unearned income is amortized to interest income over the life of the notes using the effective-interest method.

The Company also derives revenue under leasing arrangements. 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 future minimum lease payments. Interest income is recognized monthly over the lease term using the effective-interest method.

The allowance for uncollectable minimum lease payments 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 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 our 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 years ended December 31, 2014, 2015 and 2016. 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/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/lease. Notes and leases become past due based on how recently payments have been received.

[H] 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, hosting and support agreements; and (iv) periodically, leasing arrangements.

Our industrial and rental fleet wireless asset management systems consist of on-asset hardware, communication infrastructure, software, and hosting infrastructure. 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 fair value of the element. VSOE of the fair value 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 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, hosting 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, hosting 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.

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 consolidated statements of operations.

[I] Deferred costs:

Deferred product costs consist of transportation asset management equipment costs deferred in accordance with our revenue recognition policy. The Company will continue to evaluate the realizability of the carrying amount of the deferred contract costs on a quarterly basis. To the extent the carrying value of the deferred contract costs exceed the contract revenue, an impairment loss will be recognized.

[J] 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.

Inventory valuation reserves are established in order to report inventories at the lower of cost or market value in the consolidated balance sheet. The determination of inventory valuation reserves requires management to make estimates and judgments on the future salability of inventories. Valuation reserves for obsolete and slow-moving inventory are estimated based on assumptions of future sales forecasts, product life cycle expectations, the impact of new product introductions, production requirements, and specific identification of items, such as product discontinuance or engineering/material changes and by comparing the inventory levels to historical usage rates.

[K] Fixed assets and depreciation:

Fixed assets are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases, or their estimated useful lives, whichever is shorter. For website development costs, the Company capitalizes costs incurred during the application development stage. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life, generally three years.

[L] Long-lived assets:

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets and would be charged to earnings. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

[M] Goodwill and other intangible assets:

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill and intangible assets deemed to have indefinite lives are not amortized. Intangible assets other than goodwill are amortized over their useful lives unless the lives are determined to be indefinite. Intangible assets are carried at cost, less accumulated amortization. Intangible assets consist of trademarks and trade name, patents, customer relationships and other intangible assets. The Company tests goodwill and other intangible assets annually, or when a triggering event occurs between annual impairment tests, to determine if impairment exists and if the use of indefinite lives is currently applicable. For purposes of the goodwill impairment test, the

Company's product lines are aggregated within one reporting unit. For the years ended December 31, 2014, 2015 and 2016, the Company has not incurred an impairment charge.

[N] Product warranties:

The Company typically provides a one-year warranty on its products. Estimated future warranty costs are accrued in the period that the related revenue is recognized. These estimates are derived from historical data and trends of product reliability and costs of repairing and replacing defective products.

[O] Research and development:

Research and development costs are charged to expense as incurred and consists primarily of salaries and related expenses, supplies and contractor costs. Research and development costs were \$6,649,000, \$4,556,000 and \$4,536,000 in 2014, 2015 and 2016, respectively.

[P] Patent costs:

Costs incurred in connection with acquiring patent rights are charged to expense as incurred.

[Q] Benefit plan:

The Company maintains a retirement plan under Section 401(k) of the Internal Revenue Code, which covers all eligible employees. All employees with U.S. source income are eligible to participate in the plan immediately upon employment. The Company did not make any contributions to the plan during the years ended December 31, 2014, 2015 and 2016.

[R] Rent expense:

Expense related to the Company's facilities leases is recorded on a straight-line basis over the respective lease terms. The difference between rent expense incurred and the amounts required to be paid in accordance with the lease term is recorded as deferred rent and is amortized over the lease term.

[S] Stock-based compensation:

The Company accounts for stock-based employee compensation for all share-based payments, including grants of stock options and restricted stock, as an operating expense based on their fair values on grant date. The Company recorded stock-based compensation expense of \$1,334,000, \$1,609,000 and \$1,658,000 for the years ended December 31, 2014, 2015 and 2016, respectively.

The Company estimates the fair value of share-based option awards on the grant date using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in the Company's consolidated statement of operations. The Company estimates forfeitures at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The estimate is based on the Company's historical rates of forfeitures. Estimated forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

[T] Income taxes:

The Company uses the asset and liability method of accounting for deferred income taxes. Deferred income taxes are measured by applying enacted statutory rates to net operating loss carryforwards and to the differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets are reduced, if

necessary, by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes uncertainty in income taxes in the financial statements using a recognition threshold and measurement attribute of a tax position taken or expected to be taken in a tax return. The Company applies the “more-likely-than-not” recognition threshold to all tax positions, commencing at the adoption date of the applicable accounting guidance, which resulted in no unrecognized tax benefits as of such date. Additionally, there have been no unrecognized tax benefits subsequent to adoption. The Company has opted to classify interest and penalties that would accrue according to the provisions of relevant tax law as selling, general, and administrative expenses, in the consolidated statement of operations. For the years ended December 31, 2014, 2015 and 2016, there was no such interest or penalty.

The Company files federal income tax returns and separate income tax returns in various states. For federal and certain states, the 2013 through 2016 tax years remain open for examination by the tax authorities under the normal three-year statute of limitations. For certain other states, the 2012 through 2016 tax years remain open for examination by the tax authorities under a four-year statute of limitations.

[U] Fair value of financial instruments:

Cash and cash equivalents and investments in securities are carried at fair value. The carrying value of financing receivables approximates fair value due to the interest rate implicit in the instruments approximating current market rates. The carrying value of accounts receivable, accounts payable and other liabilities approximates their fair values due to the short period to maturity of these instruments.

[V] Advertising and marketing expense:

Advertising and marketing costs are expensed as incurred. Advertising and marketing expense for the years ended December 31, 2014, 2015 and 2016 amounted to \$380,000, \$455,000 and \$510,000, respectively.

[W] Commitments and contingencies:

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

[X] Recently issued accounting pronouncements:

In November 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-18 “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”), which requires the inclusion of restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU to the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”), which provides clarification on how companies present and classify certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 will be effective for fiscal periods beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. If an entity early adopts the amendments in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the impact of this ASU to the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments” which amends the guidance on measuring credit losses on financial assets held at amortized cost. The amendment is intended to address the issue that the previous “incurred loss” methodology was restrictive for an entity’s ability to record credit losses based on not yet meeting the “probable” threshold. The new language will require these assets to be valued at amortized cost presented at the net amount expected to be collected with a valuation provision. This update standard is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of this ASU to the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation” (Topic 718), which includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. This standard is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The Company is currently in the process of assessing the impact of this ASU on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842), which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. The revised guidance must be applied on a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The revised guidance is effective for the Company beginning in the quarter ending March 31, 2019. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05 “Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement” which provides guidance on determining whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software by the customer. If a cloud computing arrangement does not contain a software license, it should be accounted for as a service contract by the customer. This guidance is effective for fiscal years beginning after December 15, 2015 and for interim periods within those fiscal years, with early

adoption permitted. The adoption of this guidance did not have a material impact on the Company's financial results.

In July 2015, the FASB issued ASU No. 2015-11 "Inventory (Topic 330): Simplifying the Measurement of Inventory" which requires entities to measure most inventory "at the lower of cost and net realizable value ("NRV")," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. Under the new guidance, inventory is "measured at the lower of cost and net realizable value," which eliminates the need to determine replacement cost and evaluate whether it is above the ceiling (NRV) or below the floor (NRV less a normal profit margin). The guidance defines NRV as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation." The guidance is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early application is permitted. The Company does not expect the impact of adopting this standard to have a material impact on the consolidated financial statements.

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. In July 2015, the FASB approved a deferral of the ASU effective date from annual and interim periods beginning after December 15, 2016 to annual and interim periods beginning after December 15, 2017, while allowing for early adoption for fiscal periods after December 15, 2016. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

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 adoption of this guidance did not have a material impact on the Company's financial results.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"), to provide guidance on management's responsibility to evaluate whether there is substantial doubt about a company's ability to continue as a going concern within one year after the date that the financial statements are issued. ASU 2014-15 also provides guidance for related footnote disclosures. ASU 2014-15 is effective for the Company beginning on January 1, 2016 with early adoption permitted. The adoption of this guidance did not have a material impact on the Company's financial results.

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Company's investments include debt securities, U.S. Treasury Notes, government and state agency bonds, corporate bonds, common stock 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 December 31, 2015 and 2016, all of the Company's investments are classified as available of 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 years ended December 31, 2014, 2015 and 2016, the Company reported unrealized losses of \$(13,000), \$(28,000) and \$(5,000), 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. All other securities are classified as long-term.

The following table summarizes the estimated fair value of investment securities designated as available for sale, classified by the contractual maturity date of the security as of December 31, 2016:

	Fair Value
Due within one year	\$115,000
Due one year through three years	1,301,000
Due after three years	198,000
	\$1,614,000

The cost, gross unrealized gains (losses) and fair value of available for sale, held-to-maturity and trading by major security type at December 31, 2015 and 2016 were as follows:

December 31, 2016	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investments - short term				
Available for sale				
U.S. Treasury Notes	\$40,000	-	-	\$40,000
Government agency bonds	50,000	-	-	50,000
Corporate bonds and commercial paper	25,000	-	-	25,000
Total investments - short term	115,000	-	-	115,000
Investments - long term				
Available for sale				
U.S. Treasury Notes	1,027,000	-	(7,000)	1,020,000
Government agency bonds	100,000	-	(1,000)	99,000
Corporate bonds and commercial paper	383,000	-	(3,000)	380,000
Total investments - long term	1,510,000	-	(11,000)	1,499,000
Total investments	\$1,625,000	\$ -	\$(11,000)	\$1,614,000

December 31, 2015	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investments - short term				
Available for sale				
Corporate bonds and commercial paper	\$ 101,000	-	-	\$ 101,000
U.S. Treasury Notes	100,000	-	-	100,000
Common stock	49,000	9,000	-	58,000
Total investments - short term	250,000	9,000	-	259,000
Marketable securities - long term				
Available for sale				
U.S. Treasury Notes	915,000	-	(6,000)	909,000
Government agency bonds	150,000	-	(1,000)	149,000
Corporate bonds and commercial paper	283,000	-	(2,000)	281,000
Total investments - long term	1,348,000	-	(9,000)	1,339,000
Total investments	\$ 1,598,000	\$ 9,000	\$ (9,000)	\$ 1,598,000

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 participant assumptions.

At December 31, 2015 and 2016, the Company's investments described above are classified as Level 1 for fair value measurement.

NOTE 4 - 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, hosting and support agreements; and (iv) periodically, leasing arrangements. Amounts invoiced to customers which are not recognized as revenue are classified as deferred revenue, and classified as short-term or long-term based upon the terms of future services to be delivered.

Deferred revenue consists of the following:

	December 31,	
	2015	2016
Deferred activation fees	\$466,000	\$385,000
Deferred revenue	489,000	230,000
Deferred maintenance and hosting revenue	3,377,000	3,049,000
Deferred remote asset management product revenue	9,992,000	13,599,000
	14,324,000	17,263,000
Less: Current portion	7,383,000	7,197,000
Deferred revenue - less current portion	\$6,941,000	\$10,066,000

During the years ended December 31, 2014, 2015 and 2016, the Company amortized deferred equipment revenue of \$3,720,000, \$5,373,000 and \$5,258,000, respectively, to product revenue.

In April 2015, we entered into a development project with Avis Budget Car Rental, LLC ("ABCR"), a subsidiary of Avis Budget Group. The Company recognized milestone revenue of \$750,000 and \$255,000 for the years ended December 31, 2015 and 2016, respectively, from the completion of milestones in accordance with the milestone method of revenue recognition. Milestone payments are recognized as revenue upon achievement of the milestone only if the following conditions are met: (i) there is substantive uncertainty at the date of entering into the arrangement that the milestone would be achieved; (ii) the milestone is commensurate with either the vendor's performance to achieve the milestone or the enhancement of the value of the delivered item by the vendor; (iii) the milestone relates solely to past performance; and (iv) be reasonable in relation to the effort expended to achieve the milestone.

NOTE 5 - 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,	
	2015	2016
Notes receivable	\$ 1,000	\$ -
Present value of sales-type lease receivable	5,027,000	4,196,000
	5,028,000	4,196,000
Less: Current portion		
Notes receivable	1,000	-
Present value of sales-type lease receivable	1,949,000	1,766,000
	1,950,000	1,766,000
Financing receivables - less current portion	\$ 3,078,000	\$ 2,430,000

Notes receivable relate to product financing arrangements that exceed one year and bear interest at approximately 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 Consolidated Statements of Cash Flows. Unearned interest income is amortized to interest income over the life of the notes using the effective-interest method. For the years ended December 31, 2015 and 2016, there were no sales of notes receivable.

On December 9, 2014, the Company entered into an agreement pursuant to which a finance receivable was converted into a one-time payment to the Company of approximately \$5.4 million in cash. The Company recognized a loss of approximately \$441,000 in the fourth quarter of 2014, reflecting a discount rate on the settlement of the finance receivable.

The present value of net investment in sales-type lease receivable is principally for three to five-year leases of the Company's product and is reflected net of unearned income of \$442,000 and \$293,000 at December 31, 2015 and 2016, respectively, discounted at 1% - 26%.

Scheduled maturities of minimum lease payments outstanding as of December 31, 2016 are as follows:

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Year ending December 31:

2017	\$1,766,000
2018	1,230,000
2019	671,000
2020	422,000
2021	107,000
	4,196,000
Less: Current portion	1,766,000
Total	\$2,430,000

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NOTE 6 - INVENTORIES

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. Inventory is shown net of valuation reserves of \$374,000 and \$208,000 at December 31, 2016, respectively.

Inventories consist of the following:

	December 31,	
	2015	2016
Components	\$2,762,000	\$1,183,000
Finished goods	4,390,000	2,737,000
	\$7,152,000	\$3,920,000

NOTE 7 - FIXED ASSETS

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

	December 31,	
	2015	2016
Equipment	\$1,659,000	\$1,678,000
Computer software and website development	5,398,000	5,874,000
Computer hardware	2,751,000	2,761,000
Furniture and fixtures	401,000	401,000
Automobiles	60,000	60,000
Leasehold improvements	181,000	181,000
	10,450,000	10,955,000
Accumulated depreciation and amortization	(7,331,000)	(7,880,000)
	\$3,119,000	\$3,075,000

The Company had expenditures of approximately \$1,909,000 and \$1,919,000 for computer equipment and software which had not been placed in service as of December 31, 2015 and 2016, respectively. Depreciation and amortization expense is not recorded for such assets until they are placed in service.

Depreciation and amortization expense for the years ended December 31, 2014, 2015 and 2016 was \$1,129,000, \$583,000 and \$549,000, respectively. This includes amortization of costs associated with computer software and website development for the years ended December 31, 2014, 2015 and 2016 of \$577,000, \$156,000 and \$165,000, respectively.

The Company capitalizes in fixed assets the costs of software development and website development. Specifically, the assets comprise an implementation of 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 \$1,909,000 and \$461,000 for such projects for the years ended December 31, 2015 and 2016, respectively. The Company placed in service \$-0- and \$450,000 for such projects for the years ended December 31, 2015 and 2016, respectively. The remaining software development and website development projects are expected to be placed in service during 2017.

NOTE 8 - INTANGIBLE ASSETS AND GOODWILL

The following table summarizes identifiable intangible assets of the Company, which include identifiable intangible assets from the acquisition of Didbox Ltd., PowerKey (the industrial vehicle monitoring products division of International Electronics, Inc. acquired by the Company in 2008) and AI as of December 31, 2015 and December 31, 2016:

	Useful Lives (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
December 31, 2016				
Amortized:				
Patents	11	\$ 1,489,000	\$ (948,000)	\$ 541,000
Unamortized:				
Customer list		104,000	-	104,000
Trademark and Tradename		61,000	-	61,000
		165,000	-	165,000
Total		\$ 1,654,000	\$ (948,000)	\$ 706,000

	Useful Lives (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
December 31, 2015				
Amortized:				
Patents	11	\$ 1,489,000	\$ (812,000)	\$ 677,000
Tradename	5	200,000	(200,000)	-
Non-competition agreement	3	234,000	(234,000)	-
Technology	5	50,000	(50,000)	-
Workforce	5	33,000	(33,000)	-
Customer relationships	5	4,499,000	(4,499,000)	-
		6,505,000	(5,828,000)	677,000

Unamortized:

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Customer list	104,000	-	104,000
Trademark and Tradename	61,000	-	61,000
	165,000	-	165,000
Total	\$6,670,000	\$(5,828,000)	\$842,000

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The Company tests the goodwill and other intangible assets on an annual basis in the fourth quarter or more frequently if the Company believes indicators of impairment exist. As of December 31, 2015 and 2016, the Company determined that no impairment existed to the goodwill, customer list and trademark and trade name of its acquired intangibles.

The Company also determined that the use of indefinite lives for the customer list and remaining trademark and trade name remains applicable at December 31, 2015 and 2016, as the Company expects to continue to derive future benefits from these intangible assets.

Amortization expense for the years ended December 31, 2014, 2015 and 2016 was \$1,087,000, \$135,000 and \$136,000, respectively. Estimated future amortization expense for each of the five succeeding fiscal years for these intangible assets is as follows:

Year ending December 31:

2017	135,000
2018	135,000
2019	135,000
2020	136,000
2021	-

There have been no changes in the carrying amount of goodwill from January 1, 2015 to December 31, 2016.

NOTE 9 - NET LOSS PER SHARE

	December 31,		
	2014	2015	2016
Basic and diluted loss per share			
Net loss	\$(11,575,000)	\$(9,952,000)	\$(6,370,000)
Weighted-average common shares outstanding - basic and diluted	12,098,000	12,614,000	12,984,000
Net loss per share - basic and diluted	\$(0.96)	\$(0.79)	\$(0.49)

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 share awards. For the years ended December 31, 2014, 2015 and 2016, 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 2,943,000, 1,887,000 and 1,896,000, respectively, would have been anti-dilutive.

NOTE 10 - STOCK-BASED COMPENSATION

The Company 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 1999 Stock Option Plan expired during 2009 and the Company cannot issue additional options under this plan.

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. There were 273,000 shares available for future issuance under the 2007 Equity Compensation Plan at December 31, 2016. The Company also adopted the 2009 Non-Employee Director Equity Compensation Plan, pursuant to which, as amended, the Company may grant options to purchase up to an aggregate of 600,000 shares of common stock. There were 34,000 shares available for future issuance under the 2009 Non-Employee Director Equity Compensation Plan at December 31, 2016. In June 2015, the Company adopted the 2015 Equity Compensation Plan (the “2015 Plan”) pursuant to which the Company may grant stock options, restricted stock and other equity-based awards with respect to up to an aggregate of 1,200,000 shares of common stock. There were 504,000 shares available for future issuance under the 2015 Plan at December 31, 2016. The plans are administered by the Compensation Committee of the Company’s Board of Directors (the “Compensation Committee”), 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.

On December 20, 2016, the Company and Kenneth Ehrman, its former Chief Executive Officer, entered into Amendment No. 2 to Severance Agreement, which amends the Severance Agreement dated September 22, 2009 (as amended, the “Ehrman Severance Agreement”). Under the terms of the Ehrman Severance Agreement, a pro-rata portion of Mr. Ehrman’s unvested stock options and restricted stock were partially vested based on the number of months elapsed since the date of grant as compared to the scheduled vesting date. Due to the modification of the terms of the stock option and restricted stock agreements, the Company recognized a \$(26,000) reduction of stock-based compensation expense which is included in the stock option and restricted stock stock-based compensation expense.

On March 21, 2014, the Company and Jeffrey M. Jagid, its former Chief Executive Officer, entered into a Separation and General Release Agreement (the “Jagid Separation Agreement”). Under the terms of the Jagid Separation Agreement, the vesting of Mr. Jagid’s unvested stock options and restricted stock were accelerated and the term to exercise the stock options was extended to fifteen (15) months from March 2, 2014, the date of Mr. Jagid’s separation. 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 in the second quarter of 2014 which is included in the stock option stock-based compensation expense.

[A] Stock options:

A summary of the status of the Company's stock options as of December 31, 2014, 2015 and 2016 and changes during the years then ended, is presented below:

	2014		2015		2016	
		Weighted		Weighted		Weighted
		-		-		-
		Average		Average		Average
	Number of	Exercise	Number of	Exercise	Number of	Exercise
	Shares	Price	Shares	Price	Shares	Price
Outstanding at beginning of year	2,790,000	\$ 7.25	2,209,000	\$ 6.84	1,212,000	\$ 6.94
Granted	290,000	5.54	-	-	395,000	4.75
Exercised	(126,000)	3.65	(568,000)	3.95	(20,000)	3.44
Forfeited or expired	(745,000)	8.41	(429,000)	10.36	(344,000)	11.36
Outstanding at end of year	2,209,000	\$ 6.84	1,212,000	\$ 6.94	1,243,000	\$ 5.08
Exercisable at end of year	1,620,000	\$ 7.31	904,000	\$ 7.40	822,000	\$ 5.07

The following table summarizes information about stock options at December 31, 2016:

Exercise Prices (\$)	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted - Average Contractual Life in Years	Weighted-Average Exercise Price	Number Outstanding	Weighted-Average Exercise Price
2.06 - 3.81	215,000	3	\$ 3.19	215,000	\$ 3.19
3.82 - 7.40	970,000	7	5.32	549,000	5.49
7.41 - 14.15	56,000	1	7.66	56,000	7.66
14.16 - 15.65	2,000	1	15.65	2,000	15.65
	1,243,000	6	\$ 5.08	822,000	\$ 5.07

As of December 31,
2016

	Weighted Average Remaining Aggregate Contractual Intrinsic Life in Value Years	
Options outstanding	\$748,000	6
Options exercisable	\$578,000	4

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:

	December 31,			
	2014		2015	2016
Expected volatility	44.4	%	-	43.6 %
Expected life of options	3.0 - 4.0 years		-	4.0 years
Risk free interest rate	1.2	%	-	1.27 %
Dividend yield	0	%	-	0 %
Weighted-average fair value of options granted during the year	\$1.91		\$ -	\$1.68

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.

For the years ended December 31, 2014, 2015 and 2016, the Company recorded \$540,000, \$282,000 and \$270,000, respectively, of stock-based compensation expense in connection with the stock option grants. The total intrinsic value of options exercised during the years ended December 31, 2014, 2015 and 2016 was \$276,000, \$1,524,000 and \$33,000, respectively.

The fair value of options vested during the years ended December 31, 2014, 2015 and 2016 was \$712,000, \$505,000 and \$280,000, respectively. As of December 31, 2016, there was \$649,000 of total unrecognized compensation costs 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 3.11 years.

[B] Restricted Stock Awards:

The Company grants restricted stock to employees, whereby the employees are contractually restricted from transferring the shares until they are vested. The stock is unvested at the time of grant and, upon vesting, there are no legal 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 the non-vested shares for the years ended December 31, 2014, 2015 and 2016 is as follows:

	Number of Non-vested Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2014	200,000	\$ 5.08
Granted	608,000	5.68
Vested	(99,000)	5.06
Forfeited	(93,000)	5.02
Non-vested at December 31, 2014	616,000	\$ 5.69
Granted	232,000	6.00
Vested	(210,000)	5.75
Forfeited	(63,000)	5.70
Non-vested at December 31, 2015	575,000	\$ 5.79
Granted	271,000	4.80
Vested	(272,000)	5.34
Forfeited	(182,000)	5.72
Non-vested at December 31, 2016	392,000	\$ 5.45

For the years ended December 31, 2014, 2015 and 2016, the Company recorded \$787,000, \$1,325,000 and \$908,000 respectively, of stock-based compensation expense in connection with the restricted stock grants. As of December 31, 2016, there was \$1,834,000 of total unrecognized compensation cost related to non-vested shares. That cost is expected to be recognized over a weighted-average period of 2.19 years.

[C] Performance Shares:

In June 2009, the Company granted performance shares to certain 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.

In January 2016, the Company granted performance shares to employees pursuant to the 2015 Plan. The shares are unvested at the time of grant and, upon vesting, there are no contractual restrictions on the shares. The vesting of the shares is subject to the achievement of performance goals during a two-year period from the date of issuance, with the ability to achieve prorated vesting of the shares during interim annual measurement periods. If the performance goals are not met, the performance shares will not vest and will automatically be returned to the plan. If the performance goals are met, then the shares will be issued to the employees. The fair value of each share is based on the Company's closing stock price on the date of the grant.

The following table summarizes the activity relating to the Company's performance shares for the years ended December 31, 2014, 2015 and 2016:

	Number of Non-vested Shares	Weighted- Average Grant Date Fair Value
Performance shares, non-vested, at January 1, 2014	34,000	\$ 0.38
Granted	-	-
Vested	-	-
Forfeited	(16,000)	0.38
Performance shares, non-vested, at December 31, 2014	18,000	\$ 0.38
Granted	-	-
Vested	-	-
Forfeited	(18,000)	0.38
Performance shares, non-vested, at December 31, 2015	-	-
Granted	295,000	\$ 4.07
Vested	-	-
Forfeited	(34,000)	4.07
Performance shares, non-vested, December 31, 2016	261,000	\$ 4.07

Stock-based compensation expense related to performance shares for years ended December 31, 2014 and 2015 was insignificant. The Company recorded stock-based compensation expense of \$480,000 for the year ended December 31, 2016, in connection with the performance share grants. As of December 31, 2016, there was \$528,000 of total unrecognized compensation cost related to non-vested performance shares. That cost is expected to be recognized over a weighted-average period of 1.05 years.

NOTE 11 - REVOLVING CREDIT FACILITY

On December 18, 2015 (the “Closing Date”), the Company and AI (collectively, the “Loan Parties”), entered into a loan and security agreement (the “Revolver”) with Siena Lending Group LLC. As of December 31, 2016, the Company had \$2,993,000 outstanding under the Revolver with availability of \$1,098,000.

The Revolver provides a revolving credit facility in an aggregate principal amount of up to \$7.5 million and a maturity date of December 18, 2017 (which date may be accelerated in certain cases). Outstanding indebtedness under the Revolver may be voluntarily prepaid at any time, in whole or in part, subject to payment of an early termination premium equal to (i) 3% of the amount of such prepayment if prepayment occurs on or before December 18, 2016, or (ii) 1.5% of the amount of such prepayment if prepayment occurs after December 18, 2016 but on or before June 18, 2017, but no early termination premium is payable if prepayment occur after June 18, 2017. In addition, no early termination premium is payable if the Revolver is refinanced with Bank of America, N.A. I.D. Systems intends to use borrowings under the Revolver for a variety of purposes, including working capital and general corporate purposes.

The Company has an available borrowing base subject to reserves established at the lender’s discretion of 85% of Eligible Accounts (as defined in the Revolver) and 75% of Eligible Lease Receivables (as defined in the Revolver) up to \$7.5 million under the Revolver. Eligible Accounts and Eligible Lease Receivables do not include certain receivables deemed ineligible by the lender.

Borrowings under the Revolver bear interest at a rate equal to the sum of 2.00% per annum plus the base rate as it is defined in the loan and security agreement governing the Revolver (the greater of (i) Prime Rate (ii) Federal Funds Rate plus 0.5%, or (iii) 3.25%), which was 5.75% at December 31, 2016. In addition, the Company is charged an unused line fee equal to 0.50% per annum on unused amounts of the revolving credit facility and a minimum borrowing fee equal to the excess, if any, of (i) interest which would have been payable in respect of each month if, at all time during such month, the principal balance of the Revolving Loans (as defined in the Revolver) was equal to \$2,000,000 over (ii) the actual interest payable in respect of such month on the Revolving Loans.

The Loan Parties guarantee the payment obligations under the Revolver. Any borrowings are further secured by (i) certain equity interests owned or held by the Loan Parties and 65% of the voting stock of all present and future foreign subsidiaries of the Loan Parties and (ii) substantially all of the tangible and intangible personal property and assets of the Loan Parties.

The Revolver contains a financial covenant regarding liquidity which requires the Loan Parties to maintain a minimum liquidity of (a) \$3,500,000 from the Closing Date through and including January 31, 2016 and (b) \$4,000,000 on February 1, 2016 or at any time thereafter. The Revolver also includes customary affirmative and

negative covenants for credit facilities of this type, including limitations on our indebtedness, liens, investments, restricted payments, mergers and acquisitions, dispositions of assets, transactions with affiliates, ability to amend our organizational documents. Any failure to comply with such covenants could lead to an acceleration of our obligations under the Revolver. The Company is in compliance with the covenants under the Revolver as of December 31, 2016.

NOTE 12 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	December 31,	
	2015	2016
Accounts payable	\$8,026,000	\$6,195,000
Accrued warranty	614,000	472,000
Accrued severance	-	609,000
Accrued compensation	418,000	297,000
Other current liabilities	115,000	49,000
	\$9,173,000	\$7,622,000

Included in accounts payable and accrued expenses at December 31, 2016 is accrued severance of \$609,000 to Kenneth Ehrman and Norman L. Ellis, the former Chief Executive Officer and Chief Operating Officer of the Company, respectively. The accrued severance was payable in equal monthly installments of approximately \$62,000.

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 Consolidated Balance Sheets as of December 31, 2015 and 2016.

The following table summarizes warranty activity during the years ended December 31, 2015 and 2016:

	Year Ended	
	2015	2016
Accrued warranty reserve, beginning of year	\$942,000	\$614,000
Accrual for product warranties issued	550,000	431,000
Product replacements and other warranty expenditures	(300,000)	(252,000)
Expiration of warranties	(578,000)	(321,000)
Accrued warranty reserve, end of period	\$614,000	\$472,000

NOTE 13 - CAPITAL LEASE OBLIGATION

In September 2013, the Company acquired certain computer equipment pursuant to a capital lease obligation. During the lease term which expired in December 2015, the Company was required to make monthly payments of approximately \$14,000, including interest at an annual rate of 12.82%.

NOTE 14 - CONCENTRATION OF CUSTOMERS

One customer accounted for 18% the Company's revenue during the year ended and as of December 31, 2016 and one customer accounted for 12% of the Company's accounts receivable as of December 31, 2016.

One customer accounted for 23% the Company's revenue during the year ended and as of December 31, 2015 and one customer accounted for 10% of the Company's accounts receivable as of December 31, 2015. One customer accounted for 11% of finance receivables as of December 31, 2015.

Two customers accounted for 16% and 14% of the Company's revenue during the year ended and as of December 31, 2014 and one of the customers and an additional customer accounted for 14% and 10%, respectively, of the Company's accounts receivable as of December 31, 2014. No customer accounted for 10% or greater of finance receivables as of December 31, 2014.

NOTE 15 - STOCKHOLDERS' EQUITY

[A] Preferred stock:

The Company is authorized to issue 5,000,000 shares of preferred stock, par value \$0.01 per share. The Company's Board of Directors has the authority to issue shares of preferred stock and to determine the price and terms of those shares. No shares of preferred stock are issued and outstanding.

[B] 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 years ended December 31, 2014 through 2016. As of December 31, 2016, 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.

[C] Shares withheld:

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During the year ended December 31, 2016, 67,000 shares 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 \$323,000.

During the year ended December 31, 2015, 80,000 shares 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 \$457,000.

During the year ended December 31, 2014, 25,000 shares 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 \$144,000.

NOTE 16 - ACCUMULATED OTHER COMPREHENSIVE INCOME (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 Consolidated Balance Sheets.

The accumulated balances for each classification of other comprehensive loss are as follows:

	Foreign currency items	Unrealized gain (losses) on investments	Accumulated other comprehensive income
Balance at January 1, 2014	\$(97,000)	\$ (9,000)	\$ (106,000)
Net current period change	(263,000)	(6,000)	(269,000)
Balance at December 31, 2014	(360,000)	\$ (15,000)	\$ (375,000)
Net current period change	(140,000)	15,000)	(125,000)
Balance at December 31, 2015	(500,000)	\$ -	(500,000)
Net current period change	408,000	(11,000)	397,000
Balance at December 31, 2016	\$(92,000)	\$ (11,000)	(103,000)

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 or loss in consolidated stockholders' equity. Net translation gains or losses resulting from the translation of foreign currency 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 \$(263,000), \$(140,000), \$408,000 at December 31, 2014, 2015 and 2016, respectively, which are included in comprehensive loss in the Consolidated Statement of Changes in Stockholders' Equity. Effective December 1, 2015, the intercompany transactions with IDS GmbH are not considered of a long-term investment nature and the effect of the exchange rate changes on the intercompany transactions are included selling, general and administrative expenses in the Consolidated Statement of Operations.

Gains and losses resulting from foreign currency transactions are included in determining net income or loss. Foreign currency transaction losses for the years ended December 31, 2014, 2015 and 2016 of \$(56,000), \$(60,000) and \$(437,000), respectively, are included in selling, general and administrative expenses in the Consolidated Statement of Operations.

NOTE 17 - INCOME TAXES

At December 31, 2016, the Company had an aggregate net operating loss carryforward of approximately \$74,502,000 for U.S. federal income tax purposes, of which \$7,848,000 relates to excess benefits from stock option exercises for which there were no compensation charges for financial reporting. The Company has not included this amount in deferred tax assets. At December 31, 2016, the Company had an aggregate net operating loss carryforward of approximately \$48,249,000 for state income tax purposes and a foreign net operating loss carryforward of approximately \$2,677,000. Substantially all of the net operating loss carryforwards expire from 2020 through 2036 for federal purposes and from 2017 through 2036 for state purposes. The net operating loss carryforwards may be limited to use in any particular year based on Internal Revenue Code (“IRC”) Section 382 related to change of ownership restrictions. Section 382 of the IRC imposes an annual limitation on the utilization of NOL carryforwards based on long-term bond rates and the value of the corporation at the time of a change in ownership as defined by Section 382 of the IRC. In addition, future stock issuances may subject the Company to further limitations on the utilization of its net operating loss carryforwards under the same Internal Revenue Code provision.

The Company has incurred research and development (“R&D”) expenses, a portion of which may qualify for R&D tax credits. The Company has not conducted an R&D credit study to quantify the amount of the credit and has not claimed any R&D tax credit on its Federal income tax returns. The Company may conduct such a study in future years and may establish the R&D credit carryforward for prior years. In such an event, the net operating loss carryforward for Federal income tax purposes would be correspondingly reduced by the amount of the credit.

At December 31, 2016, the Company has New Jersey net operating loss carryforwards (“NJ NOLs”) in the approximate amount of \$29,713,000 expiring through 2036, which are available to reduce future earnings which would otherwise be subject to state income tax. In 2013, the Company received approval for the sale of approximately \$10.3 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.

The Company has net deferred tax assets of approximately \$29,466,000 and \$31,753,000 at December 31, 2015 and 2016, respectively. The increase in the deferred tax asset is primarily attributable to the net operating losses. The Company had other temporary differences between financial and tax reporting for stock-based compensation, fixed asset depreciation expense, deferred revenue, deferred expenses, bad debt reserves, inventory reserves, warranty reserves and acquisition-related expenses.

The Company has elected to use the incremental approach for financial statement purposes. Under this approach, the Company will utilize net operating loss carryforwards before utilizing excess benefit from exercise of options during the current year. The Company has provided a valuation allowance against the full amount of its deferred tax asset. The valuation allowance was established because of the uncertainty of realization of the deferred tax assets due to lack

of sufficient history of generating taxable income. Realization is dependent upon generating sufficient taxable income prior to the expiration of the net operating loss carryforwards in future periods. The valuation allowance increased in 2014, 2015 and 2016 by \$3,845,000, \$4,148,000 and \$2,287,000, respectively.

Loss before income taxes consists of the following:

	Year Ended December 31,		
	2014	2015	2016
U.S. operations	\$(11,650,000)	\$(9,216,000)	\$(5,547,000)
Foreign operations	75,000	(736,000)	(823,000)
	\$(11,575,000)	\$(9,952,000)	\$(6,370,000)

The difference between income taxes at the statutory federal income tax rate and income taxes reported in the Consolidated Statements of Operations is attributable to the following:

	Year Ended December 31,		
	2014	2015	2016
Income tax benefit at the federal statutory rate	\$(3,936,000)	\$(3,384,000)	\$(2,166,000)
State and local income taxes, net of effect on federal taxes	(919,000)	(791,000)	(848,000)
Increase (decrease) in valuation allowance	3,845,000	4,148,000	2,287,000
Incentive stock options/forfeitures	331,000	(104,000)	624,000
Expiration and adjustment on sale of state net operating loss	564,000	-	-
Permanent differences and other	115,000	131,000	103,000
	\$-	\$-	\$-

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2015 and 2016 are presented below:

	December 31,	
	2015	2016
Deferred tax assets:		
Net operating loss carryforwards	\$22,865,000	\$25,999,000
Stock-based compensation	1,316,000	888,000
Deferred revenue	5,263,000	7,277,000
Intangibles, amortization	1,126,000	1,035,000
Inventories	273,000	178,000
Acquisition related expenses	342,000	328,000
Bad debt reserve	635,000	153,000
Other deductible temporary differences	481,000	693,000

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Total gross deferred tax assets	32,301,000	36,551,000
Less: Valuation allowance	(29,466,000)	(31,753,000)
	2,835,000	4,798,000
Deferred tax liabilities:		
Deferred expenses	(2,790,000)	(4,715,000)
Fixed assets, depreciation	(45,000)	(83,000)
	(2,835,000)	(4,798,000)
Net deferred tax assets	\$-	\$-

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NOTE 18 - WHOLLY OWNED FOREIGN SUBSIDIARIES

The financial statements of the Company's wholly owned German subsidiary, IDS GmbH, and United Kingdom subsidiary, 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 Consolidated Statement of Operations are as follows:

	Year Ended December 31,		
	2014	2015	2016
Net revenue	\$4,194,000	\$1,212,000	\$1,852,000
Net (loss) income	618,000	(303,000)	211,000

Total assets of IDS GmbH were \$2,549,000 and \$1,012,000 as of December 31, 2015 and 2016, 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 consolidated statement of operations are as follows:

	Year Ended December 31,		
	2014	2015	2016
Net revenue	\$380,000	\$434,000	\$296,000
Net loss	(543,000)	(433,000)	(612,000)

Total assets of IDS Ltd were \$1,317,000 and \$1,130,000 as of December 31, 2015 and 2016, respectively. IDS Ltd operates in a local currency environment using the British Pound as its functional currency.

NOTE 19 - REDUCTION IN WORK FORCE

The Company entered into a Separation and General Release Agreement (the “Ellis Separation Agreement”) with Norman L. Ellis, its former Chief Operating Officer, on December 16, 2016 and Amendment No. 2 to Severance Agreement (together with the Ellis Separation Agreement, the “Separation Agreements”) with Kenneth Ehrman, its former Chief Executive Officer, on December 20, 2016. Under the terms of the Separation Agreements, the Company recognized severance costs of \$637,000 which are included in selling, general and administrative expenses in the consolidated statement of operations for 2016.

On July 31, 2015, the Company eliminated 27 positions, representing approximately 20% of our total personnel. In order to earn a severance payment, affected employees were required to execute a general release agreement. Total severance costs incurred during the year ended December 31, 2015 were \$280,000, of which \$30,000 is included in research and development expenses and \$250,000 is included in selling, general and administrative expenses in the consolidated statement of operations for 2015. As of December 31, 2015, these costs have been paid.

NOTE 20 - COMMITMENTS AND CONTINGENCIES

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

[A] Contingencies:

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

[B] Severance agreements:

The Company entered into severance agreements with two 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, 15 or 18 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) an award of "Performance Shares" under the Restricted Stock Unit Award Agreement previously entered into between the Company and the executive.

The Company entered into the Ellis Separation Agreement on December 16, 2016 and amended the Ehrman Severance Agreement on December 20, 2016. Under the terms of the Separation Agreements, the Company recognized severance costs of \$637,000 which are included in selling, general and administrative expenses. In addition, a pro-rata portion of Mr. Ehrman's unvested stock options and restricted stock were partially vested based on the number of months elapsed since the date of grant as compared to the scheduled vesting date. Due to the modification of the terms of the stock option and restricted stock agreements, the Company recognized a \$(26,000) reduction of stock-based compensation expense which is included in the stock option and restricted stock stock-based compensation expense.

On March 21, 2014, the Company and Jeffrey M. Jagid, its former Chief Executive Officer, entered into the Jagid Separation Agreement. Under the terms of the Jagid 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 Mr. Jagid's unvested stock options and restricted stock were accelerated and the term to exercise the stock options was extended to fifteen (15) months from March 2, 2014, the date of Mr. Jagid's separation from the Company. 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.

[C] Operating leases:

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The office leases for the Company's executive offices in Woodcliff Lake, New Jersey and sales and administrative office in Plano, Texas, which expire in February 2021 also provide for escalations relating to increases in real estate taxes and certain operating expenses. In addition, the Company leases sales and administrative offices in Milton Keynes, United Kingdom and Dusseldorf, Germany. The Company's operating leases provide for minimum annual rental payments as follows:

Year Ending December 31,

2017	\$ 866,000
2018	882,000
2019	888,000
2020	893,000
2021	150,000
Thereafter	-
	\$3,679,000

Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Rental expense for operating leases was approximately \$805,000, \$860,000 and \$1,057,000 for the years ended December 31, 2014, 2015 and 2016, respectively.

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Cost of services	1,949,000	2,309,000	1,296,000	1,189,000
	7,172,000	5,800,000	6,225,000	5,564,000
Gross Profit	3,948,000	4,126,000	4,356,000	4,593,000
Selling, general and administrative expenses	6,769,000	6,225,000	5,207,000	4,549,000
Research and development expenses	1,229,000	1,120,000	1,114,000	1,093,000
Other income, net	105,000	77,000	70,000	79,000
Net loss	\$(3,945,000)	\$(3,142,000)	\$(1,895,000)	\$(970,000)
Net loss per share - basic and diluted	\$(0.32)	\$(0.25)	\$(0.15)	\$(0.08)

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of 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 December 31, 2016, 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.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness, as of December 31, 2016, of our internal control over financial reporting based on the framework in 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

Changes in Internal Control over Financial Reporting

There was no change in our system of internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the quarter ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

The Company incorporates by reference herein information to be set forth in its definitive proxy statement for its 2017 annual meeting of stockholders that is responsive to the information required with respect to this Item 10; provided, however, that such information shall not be incorporated herein:

if the information that is responsive to the information required with respect to this Item 10 is provided by means of an amendment to this Annual Report on Form 10-K filed with the SEC prior to the filing of such definitive proxy statement; or

if such proxy statement is not filed with the SEC within 120 days after the end of the Company's most recently completed fiscal year, in which case the Company will provide such information by means of an amendment to this Annual Report on Form 10-K filed with the SEC within such 120-day period.

Item 11. Executive Compensation

The Company incorporates by reference herein information to be set forth in its definitive proxy statement for its 2017 annual meeting of stockholders that is responsive to the information required with respect to this Item 11; provided, however, that such information shall not be incorporated herein:

if the information that is responsive to the information required with respect to this Item 11 is provided by means of an amendment to this Annual Report on Form 10-K filed with the SEC prior to the filing of such definitive proxy statement; or

if such proxy statement is not filed with the SEC within 120 days after the end of the Company's most recently completed fiscal year, in which case the Company will provide such information by means of an amendment to this Annual Report on Form 10-K filed with the SEC.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The Company incorporates by reference herein information to be set forth in its definitive proxy statement for its 2017 annual meeting of stockholders that is responsive to the information required with respect to this Item 12; provided,

however, that such information shall not be incorporated herein:

if the information that is responsive to the information required with respect to this Item 12 is provided by means of an amendment to this Annual Report on Form 10-K filed with the SEC prior to the filing of such definitive proxy statement; or

if such proxy statement is not filed with the SEC within 120 days after the end of the Company's most recently completed fiscal year, in which case the Company will provide such information by means of an amendment to this Annual Report on Form 10-K filed with the SEC within such 120-day period.

Securities Authorized for Issuance Under Equity Compensation Plans.

The following table provides certain information with respect to the Company's equity compensation plans in effect as of December 31, 2016:

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected under column (a)) (c)
Equity compensation plans approved by security holders (1)	1,176,000	\$ 5.07	811,000
Total	1,176,000	\$ 5.07	811,000

(1)

These plans consist of the Company's 1999 Stock Option Plan, 2007 Equity Compensation Plan, 2009 Non-Employee Director Equity Compensation Plan and 2015 Equity Compensation Plan, which were our only equity compensation plans under which awards were outstanding as of December 31, 2016. Each of our 1999 Stock Option Plan and 1999 Director Option Plan expired in 2009, and no additional awards may be granted thereunder.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The Company incorporates by reference herein information to be set forth in its definitive proxy statement for its 2017 annual meeting of stockholders that is responsive to the information required with respect to this Item 13; provided, however, that such information shall not be incorporated herein:

if the information that is responsive to the information required with respect to this Item 13 is provided by means of an amendment to this Annual Report on Form 10-K filed with the SEC prior to the filing of such definitive proxy statement; or

if such proxy statement is not filed with the SEC within 120 days after the end of the Company's most recently completed fiscal year, in which case the Company will provide such information by means of an amendment to this Annual Report on Form 10-K filed with the SEC within such 120-day period.

Item 14. Principal Accounting Fees and Services

The Company incorporates by reference herein information to be set forth in its definitive proxy statement for its 2017 annual meeting of stockholders that is responsive to the information required with respect to this Item 14; provided, however, that such information shall not be incorporated herein:

if the information that is responsive to the information required with respect to this Item 14 is provided by means of an amendment to this Annual Report on Form 10-K filed with the SEC prior to the filing of such definitive proxy statement; or

if such proxy statement is not filed with the SEC within 120 days after the end of the Company's most recently completed fiscal year, in which case the Company will provide such information by means of an amendment to this Annual Report on Form 10-K filed with the SEC within such 120-day period.

PART IV.

Item 15. Exhibits, Financial Statement Schedules

(a) List of Financial Statements, Financial Statement Schedules, and Exhibits.

(1) Financial Statements. The following financial statements of I.D. Systems, Inc. are included in Item 8 of Part II of this Annual Report on Form 10-K:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	52
<u>Consolidated Balance Sheets at December 31, 2015 and 2016</u>	53
<u>Consolidated Statements of Operations for the Years Ended December 31, 2014, 2015 and 2016</u>	54
<u>Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2014, 2015 and 2016</u>	55
<u>Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2014, 2015 and 2016</u>	56
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2014, 2015 and 2016</u>	57
<u>Notes to the Consolidated Financial Statements</u>	58

(2) Financial Statement Schedules.

Schedule II - Valuation and Qualifying Accounts

All other financial statement schedules are omitted from this Annual Report on Form 10-K, as they are not required or applicable or the required information is included in the financial statements or notes thereto.

(3) Exhibits. The following exhibits are filed with this Annual Report on Form 10-K or are incorporated herein by reference, as indicated.

2.1 Membership Interest Purchase Agreement, dated as of January 7, 2010, by and among I.D. Systems, Inc., General Electric Capital Corporation and GE Asset Intelligence, LLC (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on January 13, 2010).

3.1.1 Restated Certificate of Incorporation of I.D. Systems, Inc., as amended (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 28, 1999).

3.1.2 Certificate of Amendment to the Restated Certificate of Incorporation of I.D. Systems (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 of I.D. Systems, Inc. (File No. 333-144709) filed with the SEC on July 19, 2007).

3.1.3 Certificate of Correction to the Restated Certificate of Incorporation of I.D. Systems (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 of I.D. Systems, Inc. (File No. 333-144709) filed with the SEC on July 19, 2007).

3.1.4 Certificate of Designation for the Series A Junior Participating Preferred Stock (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on July 8, 2009).

3.1.5 Certificate of Amendment of Amended and Restated Certificate of Incorporation of I.D. Systems, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on June 25, 2015).

3.2.1 Restated By-Laws of I.D. Systems, Inc. (incorporated by reference to Exhibit 3.2 to Amendment No. 3 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 28, 1999).

3.2.2 Amendment No. 1 to Restated Bylaws of I.D. Systems, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on December 8, 2016).

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- 4.1 Specimen Certificate of I.D. Systems, Inc.'s Common Stock (incorporated by reference to Exhibit 4.1 to Amendment No. 3 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 28, 1999).
- 10.1 1995 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on April 23, 1999).*
- 10.2 1999 Stock Option Plan (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on April 23, 1999).*
- 10.3.1 1999 Director Option Plan (incorporated by reference to Exhibit 10.10 to Amendment No. 2 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 8, 1999).*
- 10.3.2 Amendment, dated March 15, 2012, to 1999 Director Option Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended March 31, 2012 (File No. 001-15087) filed with the SEC on May 14, 2012).*
- 10.4 I.D. Systems, Inc. 2007 Equity Compensation Plan, as amended (incorporated by reference to Exhibit 99.1 to the Registration Statement on Form S-8 of I.D. Systems, Inc. (File No. 333-185085) filed with the SEC on November 21, 2012).*
- 10.5.1 2009 Non-Employee Director Equity Compensation Plan (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on November 6, 2009).*
- 10.5.2 Amendment, dated March 16, 2012, to 2009 Non-Employee Director Equity Compensation Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended March 31, 2012 (File No. 001-15087) filed with the SEC on May 14, 2012).*
- 10.6 I.D. Systems, Inc. 2015 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on June 25, 2015).*
- 10.7 Severance Agreement, dated September 11, 2009, by and between I.D. Systems, Inc. and Jeffrey Jagid (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended September 30, 2009 (File No. 001-15087) filed with the SEC on November 6, 2009).*
- 10.8 Severance Agreement, dated September 11, 2009, by and between the Company and Ned Mavrommatis (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended September 30, 2009 (File No. 001-15087) filed with the SEC on November 6, 2009).*
- 10.9 Severance Agreement, dated September 11, 2009, by and between the Company and Kenneth Ehrman (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended September 30, 2009 (File No. 001-15087) filed with the SEC on November 6, 2009).*
- 10.10 Amendment to Severance Agreement, dated as of June 20, 2013, between I.D. Systems, Inc. and Kenneth Ehrman (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended June 30, 2013 (File No. 001-15087) filed with the SEC on August 14, 2013).*

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- 23.1 Consent of EisnerAmper LLP (filed herewith).
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*Management contract or compensatory plan or arrangement.

(b) Exhibits. The exhibits required by Item 601 of Regulation S-K are filed herewith or incorporated herein by reference. Please see the Index to Exhibits to this Annual Report on Form 10-K, which is incorporated into this Item 15(b) by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 29, 2017

I.D. SYSTEMS, INC.

By: */s/ Chris A. Wolfe*
 Chris A. Wolfe
 Chief Executive Officer
 (Principal Executive Officer)

By: */s/ Ned Mavrommatis*
 Ned Mavrommatis
 Chief Financial Officer
 (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report is signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<i>/s/ Chris A. Wolfe</i> Chris A. Wolfe	Chief Executive Officer (Principal Executive Officer)	March 29, 2017
<i>/s/ Ned Mavrommatis</i> Ned Mavrommatis	Chief Financial Officer (Principal Financial and Accounting Officer)	March 29, 2017
<i>/s/ Kenneth Brakebill</i> Kenneth Brakebill	Director	March 29, 2017
<i>/s/ Michael Brodsky</i> Michael Brodsky	Director	March 29, 2017
<i>/s/ Michael Casey</i> Michael Casey	Director	March 29, 2017

/s/ Ron Konezny
Ron Konezny

Director

March 29, 2017

I.D. SYSTEMS, INC. AND SUBSIDIARIES**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS****(In thousands)**

Description	Balance at Beginning Period	Charged to (Write-off)		Balance at End of Period
		Costs and Expenses	Other Additions Or (Deductions)	
Inventory reserve				
Year ended December 31, 2016	\$ 374	\$ 205	(371)	) \$ 208
Year ended December 31, 2015	\$ 1,424	\$ 186	(1,236)	) \$ 374
Year ended December 31, 2014	\$ 2,256	\$ 122	(954)	) \$ 1,424

Description	Balance at Beginning Period	Charged to (Write-off)		Balance at End of Period
		to Costs and Expenses	Other Additions Or (Deductions)	
Allowance for doubtful accounts				
Year ended December 31, 2016	\$ 1,512	\$ 117	(1,288)	) \$ 341
Year ended December 31, 2015	\$ 1,434	\$ 326	(248)	) \$ 1,512
Year ended December 31, 2014	\$ 955	\$ 853	(374)	) \$ 1,434

Description	Balance at Beginning Period	Charged to (Write-off)		Balance at End of Period
		to Costs and Expenses	Other Additions	

Or
(Deductions)

Warranty reserve

Year ended December 31, 2016	\$ 614	\$ 110	(252	)	\$ 472
Year ended December 31, 2015	\$ 942	\$ (28	)	(300	) \$ 614
Year ended December 31, 2014	\$ 522	\$ 638	(218	)	\$ 942

INDEX TO EXHIBITS

- 2.1 Membership Interest Purchase Agreement, dated as of January 7, 2010, by and among I.D. Systems, Inc., General Electric Capital Corporation and GE Asset Intelligence, LLC (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on January 13, 2010).
- 3.1.1 Restated Certificate of Incorporation of I.D. Systems, Inc., as amended (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 28, 1999).
- 3.1.2 Certificate of Amendment to the Restated Certificate of Incorporation of I.D. Systems (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 of I.D. Systems, Inc. (File No. 333-144709) filed with the SEC on July 19, 2007).
- 3.1.3 Certificate of Correction to the Restated Certificate of Incorporation of I.D. Systems (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 of I.D. Systems, Inc. (File No. 333-144709) filed with the SEC on July 19, 2007).
- 3.1.4 Certificate of Designation for the Series A Junior Participating Preferred Stock (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on July 8, 2009).
- 3.1.5 Certificate of Amendment of Amended and Restated Certificate of Incorporation of I.D. Systems, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on June 25, 2015).
- 3.2.1 Restated By-Laws of I.D. Systems, Inc. (incorporated by reference to Exhibit 3.2 to Amendment No. 3 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 28, 1999).
- 3.2.2 Amendment No. 1 to Restated Bylaws of I.D. Systems, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on December 8, 2016).
- 4.1 Specimen Certificate of I.D. Systems, Inc.'s Common Stock (incorporated by reference to Exhibit 4.1 to Amendment No. 3 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 28, 1999).
- 10.1 1995 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on April 23, 1999).*
- 10.2 1999 Stock Option Plan (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on April 23, 1999).*
- 10.3.1

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1999 Director Option Plan (incorporated by reference to Exhibit 10.10 to Amendment No. 2 to the Registration Statement on Form SB-2 of I.D. Systems, Inc. (File No. 333-76947) filed with the SEC on June 8, 1999).*

10.3.2 Amendment, dated March 15, 2012, to 1999 Director Option Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended March 31, 2012 (File No. 001-15087) filed with the SEC on May 14, 2012).*

10.4 I.D. Systems, Inc. 2007 Equity Compensation Plan, as amended (incorporated by reference to Exhibit 99.1 to the Registration Statement on Form S-8 of I.D. Systems, Inc. (File No. 333-185085) filed with the SEC on November 21, 2012).*

10.5.1 2009 Non-Employee Director Equity Compensation Plan (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on November 6, 2009).*

- 10.5.2 Amendment, dated March 16, 2012, to 2009 Non-Employee Director Equity Compensation Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended March 31, 2012 (File No. 001-15087) filed with the SEC on May 14, 2012).*
- 10.6 I.D. Systems, Inc. 2015 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on June 25, 2015).*
- 10.7 Severance Agreement, dated September 11, 2009, by and between I.D. Systems, Inc. and Jeffrey Jagid (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the fiscal quarter ended September 30, 2009 (File No. 001-15087) filed with the SEC on November 6, 2009).*
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