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ID SYSTEMS INC
Form 10QSB
August 10, 2001

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended: June 30, 2001

or

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

For the transition period from _____ to _____

Commission File Number: 1-15087

I.D. SYSTEMS, INC.

(Exact name of small business issuer as specified in its charter)

DELAWARE

22-3270799

(State or other jurisdiction or incorporation or organization) (I.R.S. Employer Identification

ONE UNIVERSITY PLAZA, HACKENSACK, NEW JERSEY 07601

(Address of principal executive offices) (Zip Code)

(201) 670-9000

(Issuer's telephone number)

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

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

Yes X

No

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

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

Yes

No

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 APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the Registrant's Common Stock, \$0.01 par value, as of the close of business on July 19, 2001 was 5,844,625.

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I.D. SYSTEMS, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

I.D. SYSTEMS, INC.
 CONDENSED BALANCE SHEETS

	DECEMBER 31, 2000	JUN (UN
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 3,085,000	
Investments	5,588,000	

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Accounts receivable (net of allowance of \$48,000)	297,000
Unbilled receivables	349,000
Inventory	748,000
Income taxes receivable	111,000
Prepaid expenses and other assets	125,000

Total current assets 10,303,000

Fixed assets, net	632,000
Other assets	146,000

\$ 11,081,000

LIABILITIES

Accounts payable	\$ 699,000
Capital lease obligations	14,000
Income taxes payable	8,000

Total current liabilities 721,000

Capital lease obligations	18,000
Deferred rent	19,000

758,000

STOCKHOLDERS' EQUITY

Preferred Stock; authorized 5,000,000 shares, \$0.01 par value; none issued	
Common Stock, authorized 15,000,000 shares, \$0.01 par value; issued and outstanding 5,720,000 shares and 5,842,000 shares, respectively	57,000
Additional paid in capital	15,558,000
Accumulated deficit	(5,292,000)
Treasury stock; 40,178 shares at cost	

10,323,000

\$ 11,081,000

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

THREE MONTHS ENDED
JUNE 30,

2000 2001

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Revenues	\$ 313,000	\$ 137,000	\$
Cost of Revenues	165,000	99,000	
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Gross Profit	148,000	38,000	
Selling, general and administrative expenses	988,000	765,000	
Research and development expenses	306,000	271,000	
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Loss from operations	(1,146,000)	(998,000)	(1)
Interest income	191,000	80,000	
Interest expense	(2,000)	(1,000)	
<hr/>			
NET LOSS	\$ (957,000)	\$ (919,000)	\$ (1)
<hr/>			
NET LOSS PER SHARE - BASIC AND DILUTED	\$ (0.17)	\$ (0.16)	
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WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED LOSS PER SHARE	5,720,000	5,838,000	
<hr/>			

SEE ACCOMPANYING NOTES

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

	SIX MONTHS ENDED JUNE 30,	
	2000	2001
	<hr/>	<hr/>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,500,000)	\$ (1,749,000)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	49,000	80,000
Deferred taxes	12,000	1,000
Deferred rent expense	(35,000)	1,000
Changes in:		
Accounts receivable	682,000	2,000
Unbilled receivables	194,000	25,000
Inventory	(291,000)	(123,000)
Prepaid expenses and other assets	110,000	4,000
Income taxes payable	(6,000)	(8,000)
Accounts payable	(232,000)	(554,000)
	<hr/>	<hr/>
Net cash used in operating activities	(1,017,000)	(2,016,000)
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CASH FLOWS FROM INVESTING ACTIVITIES:		

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Purchase of fixed assets	(351,000)	(7
Purchases of investments	(3,049,000)	(6,245
Maturities and sales of investments	6,005,000	8,15
Amortization of debt discount	(20,000)	(25
Net cash provided by investing activities	2,585,000	1,88
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of lease obligations	(7,000)	(7
Proceeds from exercise of stock options	4,000	2
Net cash (used in) provided by financing activities	(3,000)	1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,565,000	(120
Cash and cash equivalents - beginning of period	7,021,000	3,08
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$8,586,000	\$2,96
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES		
Treasury shares received as payment for exercise of stock options		\$ 113

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I.D. SYSTEMS, INC.

Notes to Condensed Financial Statements
June 30, 2001

NOTE A - BASIS OF REPORTING

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the financial position of I.D. Systems, Inc. (the "Company") as of June 30, 2001, the results of its operations for the six-month and three-month periods ended June 30, 2000 and 2001 and cash flows for the six-month periods ended June 30, 2000 and 2001. The results of operations for the six-month and three-month periods ended June 30, 2001 are not necessarily indicative of the operating results for the full year. It is suggested that these financial statements be read in conjunction with the financial statements and related disclosures for the year ended December 31, 2000 included in the Company's Annual Report.

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

Basic income (loss) per share is based on the weighted average number of common

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shares of outstanding during each period. Diluted income (loss) per share reflects the potential dilution assuming common shares were issued upon the exercise of outstanding options and warrants and the proceeds thereof were used to purchase outstanding common shares. For the three-month and six-month periods ended June 30, 2000 and 2001 the basic and diluted weighted average shares outstanding are the same since the effect from the potential exercise of outstanding stock options would have been anti-dilutive.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve a number of risks and uncertainties. The following are among the factors that could cause actual results to differ materially from the forward-looking statements: business conditions and growth in the wireless tracking industries, general economic conditions, lower than expected customer orders or variations in customer order patterns, competitive factors including increased competition, changes in product and service mix, and resource constraints encountered in developing new products. The forward-looking statements contained in this MD&A regarding industry trends, product development and liquidity and future business activities should be considered in light of these factors.

The Company was incorporated in August 1993 and began to derive revenues from its initial line of products in March 1995. Revenues are generated from design and engineering fees, as well as sales of its system. The Company's revenues to date have been derived from designing, developing and customizing the Company's system to each individual customer. The Company intends to generate additional revenues by selling software and hardware upgrades as well as on-going maintenance and support contracts to its existing customers.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED JUNE 30,		2001
	2000	2001	
Revenues	100.0 %	100.0 %	100.0 %
Cost of Revenues	52.7	72.3	72.3
Gross Profit	47.3	27.7	27.7
Selling, general and administrative expenses	315.6	558.4	558.4
Research and development expenses	97.8	197.8	197.8
Loss from operations	(366.1)	(728.5)	(728.5)

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Net interest income	60.4	57.7	
NET LOSS	(305.7) %	(670.8) %	(24

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THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS ENDED JUNE 30, 2000

REVENUES. Revenues were \$137,000 in the three months ended June 30, 2001 as compared to \$313,000 in the three months ended June 30, 2000. Revenues in the quarter ended June 30, 2001 were derived from the delivery and implementation of the Company's fleet tracking and management system pursuant to on-going pilot programs.

COST OF REVENUES. Cost of revenues were \$99,000 in the three months ended June 30, 2001 as compared to \$165,000 in the three months ended June 30, 2000. As a percentage of revenues, cost of revenues were 72.3% in the three months ended June 30, 2001 as compared to 52.7% in the three months ended June 30, 2000. This percentage increase was primarily attributable to production salaries representing a higher percentage of lower revenues. Gross profit was \$38,000 in the three months ended June 30, 2001 compared to \$148,000 in the three months ended June 30, 2000. As a percentage of revenues, gross profit decreased to 27.7% in the three months ended June 30, 2001 from 47.3% in the three months ended June 30, 2000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were \$765,000 in the three months ended June 30, 2001 as compared to \$988,000 in the three months ended June 30, 2000. This decrease was attributable to a decrease in payroll resulting from cost cutting efforts instituted during the first quarter of 2001. As a percentage of revenues, selling, general and administrative expenses increased to 558.4% in the three months ended June 30, 2001 from 315.6% in the three months ended June 30, 2000.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were \$271,000 in the three months ended June 30, 2001 as compared to \$306,000 in the three months ended June 30, 2000. This decrease was attributable to cost cutting efforts instituted during the first quarter of 2001. As a percentage of revenues, research and development expenses increased to 197.8% in the three months ended June 30, 2001 from 97.8% in the three months ended June 30, 2000.

NET INTEREST INCOME AND EXPENSE. Interest income was \$80,000 in the three months ended June 30, 2001 as compared to \$191,000 in the three months ended June 30, 2000. This decrease was attributable to larger average cash, cash equivalents and short-term investment balances in the three months ended June 30, 2000 as compared to the three months ended June 30, 2001.

Interest expense was \$1,000 in the three months ended June 30, 2001 as compared to \$2,000 in the three months ended June 30, 2000.

NET LOSS. Net loss was \$919,000 in the three months ended June 30, 2001 as compared to net loss of \$957,000 in the three-month period ended June 30, 2000. This was due primarily to the reasons described above.

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

REVENUES. Revenues were \$424,000 in the six months ended June 30, 2001 as compared to \$619,000 in the six months ended June 30, 2000. Revenues in the six

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month period ended June 30, 2001 were derived from the delivery and implementation of the Company's fleet tracking and management system pursuant to on-going pilot programs.

COST OF REVENUES. Cost of revenues were \$245,000 in the six months ended June 30, 2001 as compared to \$314,000 in the six months ended June 30, 2000. As a percentage of revenues, cost of revenues were 57.8% in the six months ended June 30, 2001 as compared to 50.7% in the six months ended June 30, 2000. This percentage increase was primarily attributable to production salaries

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representing a higher percentage of lower revenues. Gross profit was \$179,000 in the six months ended June 30, 2001 compared to \$305,000 in the six months ended June 30, 2000. As a percentage of revenues, gross profit decreased to 42.2% in the six months ended June 30, 2001 from 49.3% in the six months ended June 30, 2000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were \$1,536,000 in the six months ended June 30, 2001 as compared to \$1,572,000 in the six months ended June 30, 2000. This decrease was attributable to a decrease in payroll resulting from cost cutting efforts instituted during the first quarter of 2001. As a percentage of revenues, selling, general and administrative expenses increased to 362.3% in the six months ended June 30, 2001 from 253.9% in the six months ended June 30, 2000.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were \$587,000 in the six months ended June 30, 2001 as compared to \$602,000 in the six months ended June 30, 2000. This decrease was attributable to cost cutting efforts instituted during the first quarter of 2001. As a percentage of revenues, research and development expenses increased to 138.4% in the six months ended June 30, 2001 from 97.3% in the six months ended June 30, 2000.

NET INTEREST INCOME AND EXPENSE. Interest income was \$197,000 in the six months ended June 30, 2001 as compared to \$372,000 in the six months ended June 30, 2000. This decrease was attributable to larger average cash, cash equivalents and short-term investment balances in the six months ended June 30, 2000 as compared to the six months ended June 30, 2001.

Interest expense was \$2,000 in the six months ended June 30, 2001 as compared to \$3,000 in the six months ended June 30, 2000.

NET LOSS. Net loss was \$1,749,000 in the six months ended June 30, 2001 as compared to net loss of \$1,500,000 in the six-month period ended June 30, 2000. This was due primarily to the reasons described above.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2001, the Company had \$6,665,000 of cash, cash equivalents and short-term investments and \$7,962,000 of working capital as compared to \$8,673,000 and \$9,582,000, respectively, at December 31, 2000.

Net cash used in operating activities was \$2,016,000 for the six months ended June 30, 2001 as compared to net cash used in operating activities of \$1,017,000 for the six months ended June 30, 2000. Net cash used in operating activities in the six months ended June 30, 2001 was primarily due to the net loss of \$1,749,000, an increase in inventory of \$123,000 and a decrease in accounts payable of \$554,000, partially offset by a decrease in accounts and unbilled receivables of \$281,000. Net cash used in operating activities for the six months ended June 30, 2000 was primarily due to the net loss of \$1,500,000, an increase in inventory of \$291,000 and a decrease in accounts payable of

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\$232,000, partially offset by a decrease in accounts and unbilled receivables of \$876,000 and a decrease in prepaid expenses and other assets of \$110,000.

Net cash provided by investing activities for the six months ended June 30, 2001 was \$1,881,000 as compared to cash provided by investing activities of \$2,585,000 for the six months ended June 30, 2000. The cash provided by investing activities in the six months ended June 30, 2001 was primarily from maturities of short-term investments of \$8,158,000, partially offset by the purchase of investments of \$6,245,000 and the purchase of fixed assets of \$7,000. The cash provided by investing activities in the six months ended June 30, 2000 was primarily from maturities of short-term investments of \$6,005,000, partially offset by the purchase of investments of \$3,049,000 and the purchase of fixed assets of \$351,000.

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Net cash provided by financing activities for the six months ended June 30, 2001 was \$15,000 as compared to cash used in financing activities of \$3,000 for the three months ended June 30, 2000. The net cash provided by financing activities of \$15,000 for the six months ended June 30, 2001, resulted from \$22,000 of proceeds received from exercise of employee stock options, offset by \$7,000 paid for capital lease obligations. The cash used in financing activities for the six months ended June 30, 2000 was from payment of lease obligations of \$7,000 offset by proceeds from exercise of employee stock options of \$4,000.

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

RECENTLY ISSUED FINANCIAL STANDARDS

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

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

None

(b) Reports on Form 8-K:

The Company filed a current report on Form 8-K on April 19, 2001 under Item 5 regarding the inadvertent filing of a preliminary draft of the Company's annual report on Form 10-KSB for the fiscal year ended December 31, 2000 by the Company's filing agent. No financial statements were filed with such report.

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SIGNATURES

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

I.D. Systems, Inc.

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Dated: August 10, 2001

By: /s/ Jeffrey M. Jagid

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

Dated: August 10, 2001

By: /s/ Ned Mavrommatis

Ned Mavrommatis
Chief Financial Officer
(Principal Accounting Officer)