

ID SYSTEMS INC
Form 10-Q
May 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2012

or

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

For the transition period from _____ to _____

Commission File Number: 001-15087

I.D. SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: ID SYSTEMS INC - Form 10-Q

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

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

(201) 996-9000

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer ☐ **Accelerated filer** ☐ **Non-accelerated filer** ☒ **Smaller reporting company** ☐
(Do not check if a smaller reporting company)

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

The number of shares of the registrant's common stock, \$0.01 par value per share, outstanding as of the close of business on May 14, 2012 was 12,131,655.

INDEX

I.D. Systems, Inc. and Subsidiaries

	Page
 PART I — FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of December 31, 2011 and March 31, 2012 (unaudited)	1
Condensed Consolidated Statements of Operations (unaudited) — for the three months ended March 31, 2011 and 2012	2
Condensed Consolidated Statements of Comprehensive Loss (unaudited) — for the three months ended March 31, 2011 and 2012	3
Condensed Consolidated Statement of Changes in Stockholders' Equity (unaudited) — for the three months ended March 31, 2012	4
Condensed Consolidated Statements of Cash Flows (unaudited) — for the three months ended March 31, 2011 and 2012	5
Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures About Market Risk	32
Item 4. Controls and Procedures	32
 PART II — OTHER INFORMATION	
Item 1. Legal Proceedings	33
Item 1A. Risk Factors	33
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 6. Exhibits	35
Signatures	36

Exhibit 31.1

Exhibit 31.2

Exhibit 32

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

	December 31, 2011*	March 31, 2012 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$8,386,000	\$4,726,000
Restricted cash	300,000	300,000
Investments - short term	6,904,000	7,975,000
Accounts receivable, net of allowance for doubtful accounts of \$366,000 and \$415,000 in 2011 and 2012, respectively	7,947,000	9,382,000
Notes and sales-type lease receivables - current, net of allowance for doubtful accounts of \$-0- and \$-0- in 2011 and 2012, respectively	1,217,000	1,161,000
Inventory, net	8,114,000	7,460,000
Deferred costs - current	1,950,000	1,817,000
Prepaid expenses and other current assets	2,192,000	1,055,000
Deferred tax asset - current	390,000	-
Total current assets	37,400,000	33,876,000
Investments -long term	9,779,000	8,087,000
Notes and sales-type lease receivable - less current portion	4,101,000	4,978,000
Deferred costs - less current portion	1,916,000	2,073,000
Fixed assets, net	3,092,000	2,999,000
Goodwill	1,837,000	1,837,000
Intangible assets, net	4,399,000	4,107,000
Other assets	307,000	307,000
	\$62,831,000	\$58,264,000
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$9,482,000	\$4,930,000
Deferred revenue - current	3,090,000	4,186,000

Edgar Filing: ID SYSTEMS INC - Form 10-Q

Total current liabilities	12,572,000	9,116,000
Deferred rent	327,000	346,000
Deferred revenue - less current portion	4,332,000	4,496,000
	17,231,000	13,958,000
Commitments and Contingencies (Note 22)		
STOCKHOLDERS' EQUITY		
Preferred stock; authorized 5,000,000 shares, \$0.01 par value; none issued	-	-
Common stock; authorized 50,000,000 shares, \$0.01 par value; 12,546,000 and 12,639,000 shares issued at December 31, 2011 and March 31, 2012, respectively; shares outstanding, 12,055,000 and 12,128,000 at December 31, 2011 and March 31, 2012, respectively	121,000	121,000
Additional paid-in capital	101,766,000	102,124,000
Accumulated deficit	(53,510,000)	(55,157,000)
Accumulated other comprehensive income	(49,000)	56,000
	48,328,000	47,144,000
Treasury stock; 491,000 shares and 511,000 shares at cost at December 31, 2011 and March 31, 2012, respectively	(2,728,000)	(2,838,000)
Total stockholders' equity	45,600,000	44,306,000
Total liabilities and stockholders' equity	\$62,831,000	\$58,264,000

*Derived from audited balance sheet as of December 31, 2011

See accompanying notes to condensed consolidated financial statements.

I.D. Systems, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended March 31,	
	2011	2012
Revenue:		
Products	\$3,804,000	\$5,711,000
Services	4,030,000	4,101,000
	7,834,000	9,812,000
Cost of revenue:		
Cost of products	2,181,000	3,463,000
Cost of services	1,492,000	1,403,000
	3,673,000	4,866,000
Gross profit	4,161,000	4,946,000
Operating expenses:		
Selling, general and administrative expenses	5,095,000	5,589,000
Research and development expenses	906,000	1,114,000
	6,001,000	6,703,000
Loss from operations	(1,840,000)	(1,757,000)
Interest income	47,000	89,000
Other income, net	28,000	21,000
Net loss	\$(1,765,000)	\$(1,647,000)
Net loss per share – basic and diluted	\$(0.16)	\$(0.14)
Weighted average common shares outstanding – basic and diluted	10,913,000	11,720,000

See accompanying notes to condensed consolidated financial statements.

I.D. Systems, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Loss

(Unaudited)

	Three Months Ended March 31,	
	2011	2012
Net loss	\$(1,765,000)	\$(1,647,000)
Other comprehensive income:		
Unrealized (loss) gain on investments	(10,000)	63,000
Foreign currency translation adjustment	62,000	42,000
Total other comprehensive income	52,000	105,000
Comprehensive loss	\$(1,713,000)	\$(1,542,000)

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Stockholders' Equity
Balance at December 31, 2011	12,546,000	\$ 121,000	\$ 101,766,000	\$(53,510,000)	\$(49,000)	\$(2,728,000)	\$ 45,600,000
Net loss				(1,647,000)			(1,647,000)
Comprehensive gain— unrealized	-	-	-	-	63,000	-	63,000
gain on investments							
Foreign currency translation adjustment	-	-	-	-	42,000	-	42,000
Shares issued pursuant to exercise of stock options	27,000	-	105,000				105,000
Issuance of restricted stock	66,000	-	-	-	-	-	-
Shares withheld pursuant to exercise of stock option and restricted stock						(110,000)	(110,000)
Stock based compensation - restricted stock	-	-	96,000	-	-	-	96,000
Stock based compensation - options and performance shares	-	-	157,000	-	-	-	157,000
	12,639,000	\$ 121,000	\$ 102,124,000	\$(55,157,000)	\$ 56,000	\$(2,838,000)	\$ 44,306,000

Balance at
March 31, 2012
(Unaudited)

See accompanying notes to condensed consolidated financial statements.

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

(Unaudited)

	Three Months Ended March 31,	
	2011	2012
Cash flows from operating activities:		
Net loss	\$(1,765,000)	\$(1,647,000)
Adjustments to reconcile net loss to cash used in operating activities:		
Bad debt expense	73,000	49,000
Proceeds from sale of New Jersey net operating loss carryforwards	-	390,000
Stock-based compensation expense	308,000	253,000
Depreciation and amortization	605,000	554,000
Deferred rent expense	81,000	19,000
Changes in:		
Accounts receivable	1,367,000	(1,406,000)
Note and lease receivable	(28,000)	(821,000)
Inventory	(422,000)	654,000
Prepaid expenses and other assets	(1,025,000)	1,137,000
Deferred costs	(509,000)	(24,000)
Deferred revenue	261,000	1,260,000
Accounts payable and accrued expenses	(914,000)	(4,552,000)
Net cash used in operating activities	(1,968,000)	(4,134,000)
Cash flows from investing activities:		
Expenditures for fixed assets including website development costs	(55,000)	(168,000)
Purchase of investments	(984,000)	(29,000)
Maturities of investments	-	712,000
Net cash (used in) provided by investing activities	(1,039,000)	515,000
Cash flows from financing activities:		
Proceeds from exercise of stock options	35,000	7,000
Purchase of treasury shares	(412,000)	-
Net cash (used in) provided by financing activities	(377,000)	7,000
Effect of foreign exchange rate changes on cash and cash equivalents	(58,000)	(48,000)
Net decrease in cash and cash equivalents	(3,442,000)	(3,660,000)
Cash and cash equivalents — beginning of period	14,491,000	8,386,000
Cash and cash equivalents — end of period	\$11,049,000	\$4,726,000
Supplemental disclosure of cash flow information:		
Cash paid for:		
Taxes	-	-
Interest	\$-	-
Noncash activities:		
Unrealized (loss) gain on investments	\$(10,000)	\$63,000

Edgar Filing: ID SYSTEMS INC - Form 10-Q

Shares withheld pursuant to stock issuance	\$47,000	\$110,000
--	----------	-----------

See accompanying notes to condensed consolidated financial statements.

I.D. Systems, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2012

NOTE 1 — DESCRIPTION OF THE COMPANY AND BASIS OF PRESENTATION

Description of the Company

I.D. Systems, Inc. and its subsidiaries (the “Company,” “we,” “our” or “us”) develop, market and sell wireless solutions for managing and securing high-value enterprise assets. These assets include industrial vehicles, such as forklifts, airport ground support equipment, rental vehicles, and transportation assets, such as dry van trailers, refrigerated trailers, railcars and containers. Our patented systems utilize radio frequency identification (RFID), Wi-Fi, satellite or cellular communications, and sensor technology to address the needs of organizations to control, track, monitor and analyze their assets. The Company’s solutions enable customers to achieve tangible economic benefits by making timely, informed decisions that increase the safety, security, productivity and efficiency of their operations. The Company outsources its hardware manufacturing operations to contract manufacturers.

On January 7, 2010, the Company entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) with General Electric Capital Corporation (“GECC”) and GE Asset Intelligence, LLC (“GEAI”), pursuant to which the Company acquired GEAI’s telematics business (the “GEAI Business”) through the purchase of 100% of the membership interests of Asset Intelligence, LLC (“AI”), a newly formed, wholly owned subsidiary of GEAI into which substantially all of the assets, including intellectual property, and liabilities of the GEAI Business had been transferred immediately prior to the closing. Effective with the closing of the transaction, AI became a wholly owned subsidiary of the Company.

The Company operates in a single reportable segment, which consists of the I.D. Systems (“IDS”) industrial and rental fleet management and the AI transportation asset management product lines.

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

Basis of Presentation

The unaudited interim condensed consolidated financial statements include the accounts of I.D. Systems, Inc. and its wholly owned subsidiaries, Asset Intelligence, LLC (“AI”), I.D. Systems GmbH (“GmbH”) and I.D. Systems (UK) Ltd (formerly Didbox Ltd.) (“Didbox”) (collectively referred to as the “Company”). All material intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the consolidated financial position of the Company as of March 31, 2012, the consolidated results of its operations for the three-month periods ended March 31, 2011 and 2012, the consolidated change in stockholders’ equity for the three-month period ended March 31, 2012 and the consolidated cash flows for the three-month periods ended March 31, 2011 and 2012. The results of operations for the three-month period ended March 31, 2012 are not necessarily indicative of the operating results for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures for the year ended December 31, 2011 included in the Company’s Annual Report on Form 10-K for the year then ended. Certain prior year amounts have been reclassified to conform to the 2012 presentation.

NOTE 2 — SIGNIFICANT TRANSACTION

Avis Budget Group, Inc. Transaction

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

The Warrant has an exercise price of \$10.00 per share of common stock. The Warrant is exercisable (i) with respect to 100,000 of the Warrant Shares, at any time after the Effective Date and on or before the fifth (5th) anniversary thereof, and (ii) with respect to 500,000 of the Warrant Shares, at any time on or after the date (if any) on which Avis Budget Car Rental, LLC (“ABCR”), a subsidiary of Avis Budget Group and the Avis entity that is the counterparty under the Master Agreement described below, executes and delivers to the Company SOW#2 (which is described below), and on or before the fifth (5th) anniversary of the Effective Date. The fair value of the Warrant for 100,000 shares of approximately \$137,000 was recorded as a sales incentive in the Condensed Consolidated Statement of Operations in the third quarter of 2011. The Company has not recognized the impact of the remaining 500,000 shares underlying the Warrant in the Condensed Consolidated Statement of Operations as it is considered contingently issued at March 31, 2012. See Note 13 to the Unaudited Condensed Consolidated Financial Statements for additional information.

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

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

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

Under the terms of SOW#1, which was executed and delivered by ABCR on the Effective Date concurrent with the execution and delivery of the Master Agreement, ABCR has agreed to pay not less than \$14,000,000 to the Company for the System and Maintenance Services, which covers 25,000 units, which relates to a limited subset of ABCR’s total fleet during this initial phase of the Master Agreement. ABCR also has an option to proceed with Statement of Work 2 (“SOW#2”), pursuant to which the Company would sell to ABCR additional units. After ABCR purchases such additional units, then ABCR affiliates and franchisees will have the right to enter into agreements with the Company to purchase the System on substantially the same terms and conditions as are in the Master Agreement. The term of SOW#2 is sixty (60) months.

In 2009, the Company entered into a contract for a pilot agreement with ABCR pursuant to which the Company's rental fleet management system was implemented on a portion of the customer's fleet of vehicles. Concurrent with the execution of SOW#1, the contract for the pilot program was terminated and the payment terms for the vehicle management systems implemented under the pilot program were incorporated into SOW#1. Under the terms of SOW#1, the Company is entitled to issue sixty (60) monthly invoices of up to \$53,000 for active vehicle management systems installed under the former pilot program. In the event that ABCR terminates SOW#1, then ABCR would be liable to the Company for the net present value of all future remaining charges under SOW#1 at a negotiated discount rate per annum, with the payment due on the effective date of termination. As discussed in Note 8 to the Unaudited Condensed Consolidated Financial Statements, during the third quarter of 2011 the Company recognized the product revenue of approximately \$2.0 million for these pilot units at the present value of the fixed product portion of the monthly fee and cost of product of approximately \$1.1 million. The maintenance portion of the monthly invoices will be recognized as service income on a monthly basis. During the first quarter of 2012, the Company did not ship any units under SOW#1.

The Master Agreement provides for a period of exclusivity (the "Exclusivity Period") commencing on the Effective Date and ending twelve (12) months after delivery of the 5000th unit pursuant to SOW#1. Commencing on the effective date of SOW#2, the Exclusivity Period will continue (or resume, if the Exclusivity Period has elapsed by the effective date of SOW#2, provided that SOW#2 is executed within three (3) months of expiry, unless the Company has already entered into an agreement with another customer to sell the System) for a period of four (4) years. During the Exclusivity Period, the Company will not (i) sell the System to any ABCR Competitor (as defined in the Master Agreement) for the same purpose set forth in the Master Agreement, and/or (ii) market and/or engage in any sales discussions or negotiations regarding any sale of the System with any ABCR Competitor that is prohibited under clause (i) above.

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

NOTE 3 — CASH AND CASH EQUIVALENTS

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

NOTE 4 — USE OF ESTIMATES

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

NOTE 5 — INVESTMENTS

The Company's investments include debt securities, U.S. Treasury Notes, government and state agency bonds, mutual funds, corporate bonds and commercial paper, which are classified as either available for sale, held to maturity or trading, depending on management's investment intentions relating to these securities. Available for sale securities are measured at fair value based on quoted market values of the securities, with the unrealized gain and (losses) reported as comprehensive income or (loss). For the three-month periods ended March 31, 2011 and 2012, the Company reported unrealized (loss) gain of \$(10,000) and \$63,000, respectively, on available for sale securities in total comprehensive loss. Investments categorized as held to maturity are carried at amortized cost because the Company has both the intent and the ability to hold these investments until they mature. Realized gains and losses from the sale of available for sale securities are determined on a specific-identification basis. The Company has classified as short-term those securities that mature within one year and mutual funds. All other securities are classified as long-term.

The following table summarizes the estimated fair value of investment securities designated as available for sale, excluding investment in mutual funds of \$4,626,000, classified by the contractual maturity date of the security as of March 31, 2012:

Edgar Filing: ID SYSTEMS INC - Form 10-Q

Fair Value

Due within one year	\$3,349,000
Due one year through three years	8,087,000
Due after three years	-
	\$11,436,000

The cost, gross unrealized gains (losses) and fair value of available for sale securities by major security types as of December 31, 2011 and March 31, 2012 are as follows:

March 31, 2012	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investments — short term				
Available for sale				
U.S. Treasury Notes	\$ 331,000	\$ 1,000	\$ -	\$ 332,000
Mutual funds	4,639,000	-	(13,000)	4,626,000
Corporate bonds and commercial paper	1,579,000	10,000	(4,000)	1,585,000
Government agency bonds	1,429,000	3,000	-	1,432,000
Total available for sale — short term	7,978,000	14,000	(17,000)	7,975,000
Marketable securities — long term				
Available for sale				
U.S. Treasury Notes	5,361,000	20,000	(3,000)	5,378,000
Government agency bonds	328,000	2,000	-	330,000
Corporate bonds and commercial paper	2,355,000	27,000	(3,000)	2,379,000
Total available for sale — long term	8,044,000	49,000	(6,000)	8,087,000
Total investments	\$ 16,022,000	\$ 63,000	\$ (23,000)	\$ 16,062,000

December 31, 2011	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investments - short term				
Available for sale				
Government agency bonds	\$ 1,347,000	\$ 2,000	\$ -	\$ 1,349,000
Mutual funds	4,614,000	-	(69,000)	4,545,000
Corporate bonds and commercial paper	669,000	10,000	(2,000)	677,000
U.S. Treasury Notes	332,000	1,000	-	333,000
Total available for sale - short term	6,962,000	13,000	(71,000)	6,904,000
Investments - long term				
Available for sale				
U.S. Treasury Notes	5,365,000	29,000	-	5,394,000
Government agency bonds	850,000	5,000	-	855,000
Corporate bonds and commercial paper	3,529,000	25,000	(24,000)	3,530,000
Total available for sale - long term	9,744,000	59,000	(24,000)	9,779,000
Total investments	\$ 16,706,000	\$ 72,000	\$ (95,000)	\$ 16,683,000

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

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

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

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

At March 31, 2012, the Company's investments described above are classified as Level 1 for fair value measurements.

NOTE 6 — REVENUE RECOGNITION

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

Our industrial and rental fleet wireless asset management systems consist of on-asset hardware, communication infrastructure and software. Revenue derived from the sale of our industrial and rental fleet wireless asset management systems is allocated to each element based upon vendor specific objective evidence (VSOE) of the 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 Company amortized \$479,000 and \$748,000 of deferred equipment revenue to product revenue during the three-month periods ended March 31, 2011 and 2012, respectively.

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

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

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

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

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

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

Deferred revenue consists of the following:

	December 31, 2011	March 31, 2012
Deferred activation fees	\$ 262,000	\$ 307,000
Deferred industrial equipment installation revenue	121,000	159,000
Deferred maintenance revenue	654,000	1,712,000
Deferred remote asset management product revenue	6,385,000	6,504,000
	7,422,000	8,682,000
Less: Current portion	3,090,000	4,186,000
Deferred revenue – less current portion	\$ 4,332,000	\$ 4,496,000

Under certain customer contracts, the Company invoices progress billings once certain milestones are met. The milestone terms vary by customer and can include the receipt of the customer purchase order, delivery, installation and launch. As the systems are delivered, and services are performed, and all of the criteria for revenue recognition are satisfied, the Company recognizes revenue. If the amount of revenue recognized for financial reporting purposes is greater than the amount invoiced, an unbilled receivable is recorded. If the amount invoiced is greater than the amount of revenue recognized for financial reporting purposes, deferred revenue is recorded. As of December 31, 2011 and March 31, 2012, unbilled receivables were \$110,000 and \$75,000, respectively, and are included in accounts receivable in the Condensed Consolidated Balance Sheets.

NOTE 7 — NOTES RECEIVABLE AND SALES-TYPE LEASE RECEIVABLE

Notes Receivable

Notes receivable of \$215,000 and \$181,000 at December 31, 2011 and March 31, 2012, respectively, relate to product financing arrangements that exceed one year and bear interest at approximately 8% - 10%. The notes receivable are collateralized by the equipment being financed. Amounts collected on the notes receivable are included in net cash provided by operating activities in the Condensed Consolidated Statements of Cash Flows. Unearned interest income is amortized to interest income over the life of the notes using the effective-interest method. There were no sales of notes receivables during the three-month periods ended March 31, 2011 and 2012. The revenue derived from the sale of monitoring equipment and the related costs are deferred. 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.

Notes receivable	\$ 181,000
Less: Current portion	106,000

Notes receivable - less current portion \$ 75,000

Sales-type Lease Receivable

The present value of net investment in sales-type lease receivable of \$5,103,000 and \$5,958,000 at December 31, 2011 and March 31, 2012, respectively, is principally for five-year leases of the Company's product, including \$3,658,000 and \$3,560,000 as of December 31, 2011 and March 31, 2012, respectively, from the Avis contract discussed in Note 2 to the Unaudited Condensed Consolidated Financial Statements, and is reflected net of unearned income of \$583,000 and \$677,000 at December 31, 2011 and March 31, 2012, respectively, discounted at 4% - 14%.

Scheduled maturities of minimum lease payments outstanding as of March 31, 2012 are as follows:

Year
ending
December
31:

April - December 2012	\$ 1,055,000
2013	1,400,000
2014	1,354,000
2015	1,142,000
2016	934,000
Thereafter	73,000

5,958,000

Less:
Current
portion

1,055,000

Sales-type
lease
receivable –
less
current
portion

\$4,903,000

NOTE 8 — DEFERRED COSTS

In 2009, the Company entered into a contract for a pilot program with ABCR, pursuant to which the Company's rental fleet management system was implemented on a portion of ABCR's fleet of vehicles. The term of the contract was for five years and ABCR was entitled to terminate the contract after 22 months, subject to a performance clause and early termination fees. As a result of the early termination clause, costs directly attributable to this contract, consisting principally of engineering and manufacturing costs, were being deferred until implementation of the system was completed. The deferred contract costs were charged to cost of product revenue in accordance with the cost recovery method, pursuant to which the deferred contract costs were reduced in each period by an amount equal to the product revenue recognized until all the capitalized costs were recovered, at which time the Company would recognize a gross profit, if any.

As described in Note 2 to the Unaudited Condensed Consolidated Financial Statements, concurrent with the execution of SOW#1 on August 22, 2011, the contract for the pilot program was terminated and payment terms for the vehicle management systems installed under the pilot program were incorporated into SOW#1. Under the terms of SOW#1, the Company is entitled to issue sixty (60) monthly invoices of up to \$53,000 for active vehicle management systems installed under the former pilot program. In the event that ABCR terminates SOW#1, then ABCR would be liable to the Company for the net present value of all future remaining charges under SOW#1 using the implicit rate in the lease, with the payment due on the effective date of termination. With the execution of SOW#1, the Company recognized the associated revenue, since the sales price for the vehicle management systems implemented under the former pilot program is fixed and determinable and collectability is reasonably assured. As a result of the change in contractual terms, which necessitated a new methodology of revenue recognition, during the third quarter of 2011, the Company recorded product revenue and a sales-type lease receivable for the net present value of the monthly product payments of approximately \$2.0 million and recognized the remaining deferred contract costs of approximately \$1.1 million to product cost of sales in the Condensed Consolidated Statement of Operations. The maintenance portion of the monthly invoices will be recognized as service income on a monthly basis.

Prior to the change in contractual terms on August 22, 2011, and the resultant change in the revenue recognition methodology, the Company capitalized \$590,000 of such contract costs and amortized \$93,000 of such costs for the ABCR pilot program for the three-month period ended March 31, 2011.

Deferred product costs consist of transportation asset management equipment costs deferred in accordance with our revenue recognition policy (see Note 6 to the Unaudited Condensed Consolidated Financial Statements).

Deferred costs consist of the following:

	December 31, 2011	March 31, 2012
Deferred contract costs	\$ 9,000	\$-
Deferred product costs	3,857,000	3,890,000
	3,866,000	3,890,000
Less: Current portion	1,950,000	1,817,000
	\$ 1,916,000	\$ 2,073,000

NOTE 9 — INVENTORY

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

Inventories consist of the following:

	December 31, 2011	March 31, 2012
Components	\$ 5,075,000	\$4,452,000
Finished goods	3,039,000	3,008,000
	\$ 8,114,000	\$7,460,000

NOTE 10 — FIXED ASSETS

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

	December 31, 2011	March 31, 2012
Equipment	\$ 1,101,000	\$1,104,000
Computer software	3,234,000	3,303,000
Computer hardware	1,777,000	1,864,000
Furniture and fixtures	361,000	368,000
Automobiles	47,000	47,000
Leasehold improvements	295,000	171,000
	6,815,000	6,857,000
Accumulated depreciation and amortization	(3,723,000)	(3,858,000)
	\$ 3,092,000	\$2,999,000

Depreciation and amortization expense for the three-month periods ended March 31, 2011 and 2012 was \$311,000 and \$262,000, respectively. This includes amortization of costs associated with computer software and website development for the three-month periods ended March 31, 2011 and 2012 of \$155,000 and \$145,000, respectively.

The Company capitalizes in fixed assets the costs of software development and website development. Specifically, the assets comprise an implementation of Oracle Enterprise Resource Planning (ERP) software, enhancements to the VeriWise™ systems, and a customer interface website (which is the primary tool used to provide data to our customers). The website employs updated web architecture and improved functionality and features, including, but not limited to, customization at the customer level, enhanced security features, custom virtual electronic geofencing of landmarks, global positioning system (“GPS”)-based remote mileage reporting, and richer mapping capabilities. The Company capitalized the costs incurred during the “development” and “enhancement” stages of the software and website development. Costs incurred during the “planning” and “post-implementation/operation” stages of development were expensed. The Company capitalized \$55,000 and \$68,000 for such projects for the three-month periods ended March 31, 2011 and 2012, respectively.

NOTE 11 — INTANGIBLE ASSETS AND GOODWILL

The following table summarizes intangible assets arising from the AI acquisition and previous acquisitions by the Company (namely, the acquisitions of PowerKey and Didbox Ltd.) as of December 31, 2011 and March 31, 2012:

March 31, 2012	Useful Lives (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:				
Patents	11	\$1,489,000	\$ (305,000)	\$1,184,000
Tradename	5	200,000	(90,000)	110,000
Non-competition agreement	3	234,000	(176,000)	58,000
Technology	5	50,000	(24,000)	26,000
Workforce	5	33,000	(16,000)	17,000
Customer relationships	5	4,499,000	(2,026,000)	2,473,000
		6,505,000	(2,637,000)	3,868,000
Unamortized:				
Customer list		104,000	-	104,000
Trademark and Tradename		135,000	-	135,000
		239,000	-	239,000
Total		\$6,744,000	\$ (2,637,000)	\$4,107,000

December 31, 2011	Useful Lives (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:				
Patents	11	\$1,489,000	\$ (271,000)	\$1,218,000
Tradename	5	200,000	(80,000)	120,000
Non-competition agreement	3	234,000	(156,000)	78,000
Technology	5	50,000	(22,000)	28,000
Workforce	5	33,000	(14,000)	19,000
Customer relationships	5	4,499,000	(1,802,000)	2,697,000
		6,505,000	(2,345,000)	4,160,000
Unamortized:				
Customer list		104,000	-	104,000

Edgar Filing: ID SYSTEMS INC - Form 10-Q

Trademark and Tradename	135,000	-	135,000
	239,000	-	239,000
Total	\$6,744,000	\$ (2,345,000)	\$4,399,000

15

Amortization expense for the three-month periods ended March 31, 2011 and 2012 was \$294,000 and \$292,000, respectively. Future amortization expense for each of the five succeeding fiscal years for these intangible assets is as follows:

Year ending December 31:

April – December 2012	\$877,000
2013	1,091,000
2014	1,086,000
2015	135,000
2016	135,000

There have been no changes in the carrying amount of goodwill from January 1, 2012 to March 31, 2012.

NOTE 12 — NET LOSS PER SHARE OF COMMON STOCK

Net loss per share for the three-month periods ended March 31, 2011 and 2012 are as follows:

	Three Months Ended March 31,	
	2011	2012
Basic and diluted loss per share		
Net loss	\$(1,765,000)	\$(1,647,000)
Weighted-average shares outstanding	10,913,000	11,720,000
Basic and diluted net loss per share	\$(0.16)	\$(0.14)

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. For the three-month periods ended March 31, 2011 and 2012, the basic and diluted weighted-average shares outstanding are the same, since the effect from the potential exercise of outstanding stock options and restricted stock awards of 3,081,000 and 3,052,000, respectively, would have been anti-dilutive.

NOTE 13 — STOCK-BASED COMPENSATION

Stock Option Plans

The Company adopted the 1995 Stock Option Plan, pursuant to which the Company had the right to grant options to purchase up to an aggregate of 1,250,000 shares of common stock. The Company also adopted the 1999 Stock Option Plan, pursuant to which the Company had the right to grant stock awards and options to purchase up to 2,813,000 shares of common stock. The Company also adopted the 1999 Director Option Plan, pursuant to which the Company had the right to grant options to purchase up to an aggregate of 600,000 shares of common stock. The 1995 Stock Option Plan expired during 2005 and the 1999 Stock and Director Option Plans expired during 2009 and the Company cannot issue additional options under these plans.

The Company adopted the 2007 Equity Compensation Plan, pursuant to which the Company may grant options to purchase up to an aggregate of 2,000,000 shares of common stock. The Company also adopted the 2009 Non-Employee Director Equity Compensation Plan, pursuant to which the Company may grant options to purchase up to an aggregate of 600,000 shares of common stock. The plans are administered by the Compensation Committee of the Company's Board of Directors (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.

The Company recognizes all share-based payments in the statement of operations as an operating expense, based on their fair values on the applicable grant date. As a result, the Company recorded stock-based compensation expense of \$217,000 and \$147,000 for the three-month periods ended March 31, 2011 and 2012, respectively, in connection with awards made under the stock option plans.

The following table summarizes the activity relating to the Company's stock options for the three-month period ended March 31, 2012:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	2,462,000	\$ 7.41		
Granted	257,000	5.93		
Exercised	(27,000)	3.92		
Expired	-	-		
Forfeited	(56,000)	8.45		
Outstanding at end of period	2,636,000	\$ 7.28	6 years	\$2,884,000
Exercisable at end of period	1,416,000	\$ 10.03	4 years	\$517,000

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

	March 31, 2011	March 31, 2012
Expected volatility	54% - 57 %	44 %
Expected life of options	3 - 5 years	3 years
Risk free interest rate	2 %	1 %
Dividend yield	0 %	0 %
Weighted average fair value of options granted during the period	\$1.91	\$1.81

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

The fair value of options vested during the three-month periods ended March 31, 2011 and 2012 was \$330,000 and \$122,000, respectively. The total intrinsic value of options exercised during the three-month periods ended March 31, 2011 and 2012 was \$34,000 and \$46,000, respectively.

As of March 31, 2012, there was approximately \$1,378,000 of unrecognized compensation cost related to non-vested options granted under the Company's stock option plans. That cost is expected to be recognized over a weighted-average period of 2.45 years.

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

Restricted Stock

In 2006, the Company began granting restricted stock to employees, whereby the employees are contractually restricted from transferring the shares until they are vested. The stock is unvested stock at the time of grant and, upon vesting, there are no 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 all non-vested shares for the three-month period ended March 31, 2012 is as follows:

	Non-vested Shares	Weighted- Average Grant Date Fair Value
Non-vested, beginning of year	361,000	\$ 3.34
Granted	66,000	5.93
Vested	(11,000)	3.49
Forfeited	-	-
Non-vested, end of period	416,000	\$ 3.75

The Company recorded stock-based compensation expense of \$82,000 and \$96,000, respectively, for the three-month periods ended March 31, 2011 and 2012, respectively, in connection with restricted stock grants. As of March 31, 2012, there was \$858,000 of total unrecognized compensation cost related to non-vested shares. That cost is expected to be recognized over a weighted-average period of 1.92 years.

Performance Shares

The Company grants performance shares to key employees pursuant to the 2007 Equity Compensation Plan. The issuance of the shares of the Company's common stock underlying the performance shares is subject to the achievement of stock price targets of the Company's common stock at the end of a three-year measurement period from the date of issuance, with the ability to achieve prorated performance shares during interim annual measurement periods. The annual measurement period is based on a trading day average of the Company's stock after the announcement of annual results. If the stock price performance triggers are not met, the performance shares will not vest and will automatically be returned to the plan. If the stock price performance triggers are met, then the shares will be issued to the employees. Under the applicable accounting guidance, stock compensation expense at the fair value of

the shares expected to vest is recorded even if the aforementioned stock price targets are not met. Stock-based compensation expense related to these performance shares for the three-month periods ended March 31, 2011 and 2012 was insignificant.

	Non-vested Shares
Performance shares, non-vested, beginning of year	327,000
Granted	40,000
Vested	-
Forfeited	(233,000)
Performance shares, non-vested, end of period	134,000

Warrants

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

The Warrant may be exercised by means of a “cashless exercise” solely in the event that on the later of (i) the one-year anniversary of the Effective Date and (ii) the date on which the Warrant is exercised by the holder, the Company is eligible to file a registration statement on Form S-3 to register the Warrant Shares for resale by the holder and a re-sale registration statement on Form S-3 registering the Warrant Shares for resale by the holder is not then declared effective by the Securities and Exchange Commission (the “SEC”) and available for use by the holder. The Company has agreed to file such a registration statement (on Form S-3 only, or a successor thereto) within 30 days of the holder’s request therefor, and to have such registration statement declared effective within 90 days of such request, if there is no review by the Staff of the SEC, and within 120 days, if there has been a review by the Staff of the SEC. As of March 31, 2012, the Company has not yet been requested to file such a registration statement.

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

The Company is required to reserve a sufficient number of shares of common stock for the purpose enabling the Company to issue the Warrant Shares pursuant to any exercise of the Warrants. As of March 31, 2012, the Company has sufficient shares reserved.

The 100,000 Warrant Shares which vested on the Effective Date were valued at \$137,000 based on a Black-Scholes pricing model using the following assumptions: risk-free interest rate of 0.941%, expected life of 5 years, expected volatility of 54.6% and an expected dividend yield of 0.0%. The \$137,000 fair value was recorded as reduction of

product revenue pursuant to the applicable accounting guidance during the third quarter of 2011. The Company has determined that the warrants should be accounted for as an equity instrument.

The remaining 500,000 Warrant Shares underlying the Warrant, which vest upon the execution of SOW#2, have not been valued at this time since the Company has not determined that it is probable that SOW#2 will be executed and that the Warrant will become exercisable for these remaining 500,000 Warrant Shares. Since there is no penalty for failure to execute SOW#2, there is no performance commitment date and, therefore, there is no measurement date for these 500,000 Warrant Shares underlying the Warrant until SOW#2 is executed.

NOTE 14 — ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	December 31, 2011	March 31, 2012
Accounts payable	\$ 7,160,000	\$3,757,000
Accrued warranty	752,000	733,000
Accrued compensation	1,388,000	282,000
Other current liabilities	182,000	158,000
	\$ 9,482,000	\$4,930,000

The Company's products are warranted against defects in materials and workmanship for a period of 12 months from the date of acceptance of the product by the customer. The customers may purchase an extended warranty providing coverage up to a maximum of 60 months. A provision for estimated future warranty costs is recorded for expected or historical warranty matters related to equipment shipped and is included in accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets as of December 31, 2011 and March 31, 2012.

The following table summarizes warranty activity for the three-month periods ended March 31, 2011 and 2012:

	Three Months Ended March 31,	
	2011	2012
Accrued warranty reserve, beginning of period	\$2,069,000	\$752,000
Accrual for product warranties issued	51,000	27,000
Product replacements and other warranty expenditures	(268,000)	(39,000)
Expiration of warranties	(59,000)	(7,000)
Accrued warranty reserve, end of period	\$1,793,000	\$733,000

NOTE 15 — INCOME TAXES

The Company accounts for income taxes under the asset and liability approach. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. As of March 31, 2012, the Company had provided a valuation allowance to fully reserve its net operating loss carryforwards and other items giving rise to deferred tax assets, primarily as a result of anticipated net losses for income tax purposes.

As of December 31, 2011, approximately \$12,000,000 of the Company's New Jersey loss carryforwards ("NJ NOLs") had been approved for future sale under a program of the New Jersey Economic Development Authority, which we refer to as the NJEDA. In order to realize these benefits, we must apply to the NJEDA each year and must meet various requirements for continuing eligibility. In addition, the program must continue to be funded by the State of New Jersey, and there are limitations based on the level of participation by other companies. Since specific sales transactions are subject to approval by the NJEDA, we recognize the associated tax benefits in the financial statements as they are approved. As of December 31, 2011, the Company received approval for the sale of approximately \$11.9 million of NJ NOLs, subject to a 39.6% seller's allocation factor (\$4.7 million, net) for approximately \$390,000. As such, the Company reversed the valuation allowance related to these NJ NOLs in 2011. In February 2012, the Company sold NJ tax benefits for approximately \$390,000.

NOTE 16 — FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTE 17 — CONCENTRATION OF CUSTOMERS

Two customers accounted for 19% and 10%, respectively, of the Company's revenue and 21%, and 17% respectively, of the Company's accounts receivable during the three-month period ended and as of March 31, 2012. One customer accounted for 58% of notes and sales-type lease receivables as of March 31, 2012.

Two customers accounted for 20% and 12%, respectively, of the Company's revenue and 17%, and 3% respectively, of the Company's accounts receivable during the three-month period ended and as of March 31, 2011.

NOTE 18 — STOCK REPURCHASE PROGRAM

On November 3, 2010, the Company's Board of Directors authorized the repurchase of issued and outstanding shares of the Company's common stock having an aggregate value of up to \$3,000,000 pursuant to a share repurchase program. The repurchases under the share repurchase program are made from time to time in the open market or in privately negotiated transactions and are funded from the Company's working capital. The amount and timing of such repurchases will be 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 three-month period ended March 31, 2012. As of March 31, 2012, the Company has purchased a total of approximately 265,000 shares of its common stock in open market transactions under the share repurchase program for an aggregate purchase price of approximately \$1,148,000, or an average cost of \$4.33 per share.

In addition, on May 3, 2007, the Company 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 Company did not purchase any shares of its common stock under the 2007 Repurchase Program during the three-month period ended March 31, 2012. As of March 31, 2012, the Company had purchased a total of 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. The 2007 Repurchase Program was terminated by the Board of Directors in March 2012.

NOTE 19 — COMPREHENSIVE LOSS

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

	Foreign currency translation gains (losses)	Unrealized gain (losses) on investments	Accumulated other comprehensive income
Balance at January 1, 2012	\$ (26,000)	\$ (23,000)	\$ (49,000)
Net current period change	42,000	63,000	105,000

Balance at March 31, 2012 \$ 16,000 \$ 40,000 \$ 56,000

NOTE 20 — WHOLLY OWNED FOREIGN SUBSIDIARIES

In May 2009, the Company formed an entity in Germany called I.D. Systems, GmbH (“GmbH”). This foreign entity is wholly owned by I.D. Systems, Inc. The GmbH financial statements are consolidated with the financial statements of I.D. Systems, Inc.

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

	For the Three Months Ended March 31,	
	2011	2012
Net revenue	\$ 249,000	\$ 444,000
Net (loss) income	(65,000)	32,000

Total assets of GmbH were \$1,761,000 and \$1,895,000 as of December 31, 2011 and March 31, 2012, respectively. The GmbH operates in a local currency environment using the Euro as its functional currency.

In October 2009, the Company acquired Didbox Ltd. (currently known as I.D. Systems (UK) Ltd) (“Didbox”). This foreign entity is wholly owned by I.D. Systems, Inc. and is headquartered in the United Kingdom. The Didbox financial statements are consolidated with the financial statements of I.D. Systems, Inc. as of the effective date of the acquisition.

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

	For the Three Months Ended March 31,	
	2011	2012
Net revenue	\$ 177,000	\$ 432,000
Net (loss) income	(2,000)	101,000

Total assets of Didbox were \$810,000 and \$1,034,000 as of December 31, 2011 and March 31, 2012, respectively. Didbox operates in a local currency environment using the British Pound as its functional currency.

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, with the related translation gains or losses reported as components of accumulated other comprehensive income/loss in consolidated stockholders’ equity. Net exchange gains or losses resulting from the translation of foreign financial statements and the effect of exchange rate changes on intercompany transactions of a long-term investment nature with the GmbH resulted in translation gain of \$62,000 and \$42,000 for the three-month periods ended March 31, 2011 and 2012, respectively, which is included in comprehensive loss in the consolidated statement of changes in stockholders’ equity.

Gains and losses resulting from foreign currency transactions are included in determining net income or loss. Foreign currency transactions gains for the three-month periods ended March 31, 2011 and 2012 of \$19,000 and \$13,000, respectively, are included as an offset to selling, general and administrative expenses in the Condensed Consolidated Statement of Operations.

NOTE 21 — RIGHTS AGREEMENT

In July 2009, the Company amended its Amended and Restated Certificate of Incorporation in order to create a new series of preferred stock, to be designated the Series A Junior Participating Preferred Stock (hereafter referred to as "Preferred Stock"). Shareholders of the Preferred Stock will be entitled to certain minimum quarterly dividend rights, voting rights, and liquidation preferences. Because of the nature of the Series A Preferred Stock's dividend, liquidation and voting rights, the value of a share of Preferred Stock is expected to approximate the value of one share of the Company's common stock.

In July 2009, the Company entered into a shareholder rights plan (the "Rights Plan"), under which the Board of Directors authorized and declared and paid a dividend of one Right for each share of the Company's common stock outstanding as of July 13, 2009. Each Right entitles the registered holder of the Right to purchase from the Company 1/1,000th (subject to prospective anti-dilution adjustments) of a share of Preferred Stock of the Company at a purchase price of \$19.47 (a "Right"). The Rights Plan has a three-year term which expires in July 2012, with the possibility of two separate three-year renewals. Until a Right is exercised or exchanged in accordance with the provisions of the rights agreement governing the Rights Plan, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote for the election of directors or upon any matter submitted to stockholders of the Company or to receive dividends or subscription rights. The Rights were registered with the SEC in July 2009.

NOTE 22 — COMMITMENTS AND CONTINGENCIES

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

Contingencies

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

Severance agreements

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

Under the terms of the severance agreements, in general, each executive is entitled to the following: (i) a cash payment at the rate of the executive's annual base salary as in effect immediately prior to the Trigger Event for a period of 12 or 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) as applicable, an award of "Performance Shares" under the Restricted Stock Unit Award Agreement previously entered into between the Company and the executive.

NOTE 23 — RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "Fair Value Measurement." This ASU clarifies the concepts related to highest and best use and valuation premise, blockage factors and other premiums and discounts, the fair value measurement of financial instruments held in a portfolio and of those instruments classified as a component of shareholders' equity. The guidance includes enhanced disclosure requirements about recurring Level 3 fair value measurements, transfers in and out of Levels 1 and 2, the use of nonfinancial assets, and the level in the fair value hierarchy of assets and liabilities not recorded at

fair value. The provisions of this ASU are effective prospectively for interim and annual periods beginning on or after December 15, 2011. Early application is prohibited. The adoption of this guidance did not have a material effect on the Company's consolidated financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income". This ASU addresses the presentation of comprehensive income and provides entities with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions of this ASU, which are effective for the first interim or annual period beginning on or after December 15, 2011, do not change the items that must be reported in other comprehensive income. The adoption of this guidance did not have a material effect on the Company's consolidated financial position or results of operations.

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

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

Cautionary Note Regarding Forward-Looking Statements

This report contains various forward-looking statements made pursuant to the safe harbor provisions under the Private Securities Litigation Reform Act of 1995 and information that is based on management's beliefs as well as assumptions made by, and information currently available to, management. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, the Company can give no assurance that such expectations will prove to be correct. When used in this report, the words "believe," "expect," "estimate," "project," "predict," "forecast," "plan," "anticipate," "target," "outlook," "envision," "intend," "seek," "may," "will," or "should," and similar words, or the negatives of those words, are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof, and should be aware that the Company's actual results could differ materially from those described in the forward-looking statements due to a number of factors, including, without limitation, business conditions and growth in the wireless tracking industries, general economic conditions, lower than expected customer orders or variations in customer order patterns, competitive factors including increased competition, changes in product and service mix, and resource constraints encountered in developing new products, and other factors described under "Risk Factors" set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and other filings with the Securities and Exchange Commission (the "SEC"). Any forward-looking statements should be considered in light of these factors. Unless otherwise required by law, the Company undertakes no obligation, and expressly disclaims any obligation, to update or publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, or otherwise.

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

Overview

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

We have focused our business activities on three primary applications: (i) industrial fleet management, (ii) transportation asset management, and (iii) rental fleet management. Our solution for industrial fleet management allows our customers to reduce operating costs and capital expenditures and to comply with certain safety regulations by accurately and reliably measuring and controlling fleet activity. This solution also 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 “carsharing” 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 smartphone or Internet, and charge members for vehicle use by the hour.

In addition to focusing on these 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. In 2009, for example, 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. On January 7, 2010, we acquired the Asset Intelligence business unit of the General Electric Company, which provides trailer, railcar, and container tracking solutions for manufacturers, retailers, shippers and freight transportation providers, through the acquisition of Asset Intelligence, LLC (“Asset Intelligence” or “AI”), which became our wholly owned subsidiary following the acquisition. We believe that the Asset Intelligence business complements the Company’s existing businesses, as the focus of Asset Intelligence on trucking, rail, and intermodal applications significantly expands the scope of assets addressed by the Company’s product solutions. The web and mobile communications technologies of Asset Intelligence also complement I.D. Systems’ portfolio of wireless asset management patents. In addition, the acquisition has provided the Company with access to a broader base of customers.

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.

AI's VeriWise™ product platform provides comprehensive real-time data for faster, more informed decision-making in multiple supply chain applications:

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

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

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

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

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

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

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

Risks to Our Business

During the three-month period ended March 31, 2012, we generated revenues of \$9.8 million, and Wal-Mart Stores, Inc. and Toyota Engineering & Manufacturing North America, Inc. accounted for 19% and 10% of our revenues, respectively. During the three months ended March 31, 2011, we generated revenues of \$7.8 million, and Wal-Mart Stores, Inc. and the Raymond Corporation accounted for 20% and 13% of our revenues, respectively.

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

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

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

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

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

Additional risks and uncertainties to which we are subject are described under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011.

Critical Accounting Policies

For the three months ended March 31, 2012, there were no significant changes to the Company’s critical accounting policies as identified in its Annual Report on Form 10-K for the year ended December 31, 2011.

Results of Operations

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

	Three Months Ended March 31,			
	2011		2012	
Revenue:				
Products	48.6	%	58.2	%
Services	51.4		41.8	
	100.0		100.0	
Cost of revenue:				
Cost of products	27.8		35.3	
Cost of services	19.0		14.3	
	46.8		49.6	
Gross profit	53.2		50.4	
Operating expenses:				
Selling, general and administrative expenses	65.0		57.0	
Research and development expenses	11.6		11.4	
	76.6		68.4	
Loss from operations	(23.4)	(18.0)
Interest income, net	0.6		0.9	
Other income	0.4		0.2	
Net loss	(22.4)%	(16.9)%

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

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

	Three Months Ended March 31,	
	2011	2012
Product revenue:		
Industrial and rental fleet management	\$3,057,000	\$4,113,000
Transportation asset management	747,000	1,598,000
	3,804,000	5,711,000
Services revenue:		
Industrial and rental fleet management	910,000	1,192,000
Transportation asset management	3,120,000	2,909,000
	4,030,000	4,101,000
	\$7,834,000	\$9,812,000

REVENUES. Revenues increased by \$2.0 million, or 25.2%, to \$9.8 million in the three months ended March 31, 2012 from \$7.8 million in the same period in 2011. The increase in revenue is principally attributable to an increase in total industrial and rental fleet management revenue of \$1.3 million to \$5.3 million in 2012 from \$4.0 million in 2011 and an increase in total transportation asset management revenue of \$0.6 million to \$4.5 million in 2012 from \$3.9 million in 2011.

Revenues from products increased by \$1.9 million, or 50.1%, to \$5.7 million in the three months ended March 31, 2012 from \$3.8 million in the same period in 2011. Industrial and rental fleet management product revenue increased by \$1.0 million to \$4.1 million in 2012 from \$3.1 million in 2011. Transportation asset management product revenue increased by \$0.9 million to \$1.6 million in 2012 from \$0.7 million in 2011. The increase in industrial and rental fleet management product revenue of \$1.0 million resulted principally from increased product sales to Toyota Engineering & Manufacturing North America, Inc. of approximately \$1.0 million. The increase in transportation asset management product revenue of \$0.9 million resulted principally from increased product sales to Pine Leasing, Inc. of approximately \$0.3 million.

Revenues from services increased by \$0.1 million, or 1.8%, to \$4.1 million in the three months ended March 31, 2012 from \$4.0 million in the same period in 2011. Industrial and rental fleet management service revenue increased \$0.3 million to \$1.2 million in 2012 from \$0.9 million in 2011 principally due to an increase in revenue from the U.S. Postal Service. Transportation asset management service revenue decreased \$0.2 million to \$2.9 million in 2012 from \$3.1 million in 2011.

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

	Three Months Ended March 31,	
	2011	2012
Cost of products:		
Industrial and rental fleet management	\$ 1,631,000	\$ 1,996,000
Transportation asset management	550,000	1,467,000
	2,181,000	3,463,000
Cost of services:		
Industrial and rental fleet management	421,000	452,000
Transportation asset management	1,071,000	951,000
	1,492,000	1,403,000
	\$ 3,673,000	\$ 4,866,000

COST OF REVENUES. Cost of revenues increased by \$1.2 million, or 32.5%, to \$4.9 million in the three months ended March 31, 2012 from \$3.7 million for the same period in 2011. The increase is principally attributable to an increase in product revenue in 2012. Gross profit was \$4.9 million in 2012 compared to \$4.2 million in 2011. As a percentage of revenues, gross profit decreased to 50.4% in 2012 from 53.1% in 2011.

Cost of products increased by \$1.3 million, or 58.8%, to \$3.5 million in the three months ended March 31, 2012 from \$2.2 million in the same period in 2011. Gross profit for products was \$2.2 million in 2012 compared to \$1.6 million in 2011. The increase in gross profit was attributable to a \$0.7 million increase in the industrial and rental fleet management gross profit to \$2.1 million in 2012 from \$1.4 million in 2011, offset by a \$0.1 million decrease in the transportation asset management gross profit to \$0.1 million in 2012 from \$0.2 million in 2011. As a percentage of product revenues, gross profit decreased to 39.4% in 2012 from 42.7% in 2011. The decrease in gross profit as a percent of product revenue was due to transportation asset management product revenue contributing a lower gross profit percentage of 8.2% in 2012 from 26.4% in 2011, principally due to increased installation expenses for a customer partially offset by an increase in the industrial and rental fleet management gross profit percentage to 51.5% in 2012 from 46.6% in 2011, which was principally due to an increase in product revenue with fixed costs remaining constant, driving the margin higher and improved product margins in the first quarter of 2012.

Cost of services decreased by \$0.1 million, or 6.0%, to \$1.4 million, in the three months ended March 31, 2012 from \$1.5 million in the same period in 2011. Gross profit for services was \$2.7 million in 2012 compared to \$2.5 million in 2011. The increase in gross profit was attributable to a \$0.3 million increase in the industrial and rental fleet management gross profit to \$0.7 million in 2012 from \$0.5 million in 2011 offset by a decrease in the transportation asset management gross profit of \$0.1 million to \$1.9 million in 2012 from \$2.0 million in 2011. As a percentage of service revenues, gross profit increased to 65.8% in 2012 from 63.0% in 2011. The increase in gross profit as a percent of service revenue was due to an increase in the industrial and rental fleet management gross profit percentage to 62.1% in 2012 from 53.7% in 2011 and an increase in the transportation asset management gross profit percentage to 67.3% in 2012 from 65.7% in 2011. The increase in the industrial and rental fleet management gross profit margin was principally due to an increase in service revenue with fixed costs remaining constant, driving the margin higher.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased by \$0.5 million, or 9.7%, to \$5.6 million in the three months ended March 31, 2012 compared to \$5.1 million in the same period in 2011, due primarily to an increase in payroll-related and stock-based compensation expense of \$0.3 million. As a percentage of revenues, selling, general and administrative expenses decreased to 57.0% in the three months ended March 31, 2012 from 65.0% in the same period in 2011, primarily due to the increase in revenue in 2012.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased by \$0.2 million, or 23.0%, to \$1.1 million in the three months ended March 31, 2012 from \$0.9 million in the same period in 2011, due primarily to an increase in payroll-related and stock-based compensation expense of \$0.2 million. As a percentage of revenues, research and development expenses decreased to 11.4% in the three months ended March 31, 2012 from 11.6% in the same period in 2011, primarily due to the increase in revenues in 2012.

INTEREST INCOME. Interest income increased by \$42,000, or 89.4%, to \$89,000 in the three months ended March 31, 2012 from \$47,000 in the same period in 2011. This increase was attributable primarily to increased interest income from notes and lease receivables.

OTHER INCOME/EXPENSE. Other income of \$21,000 in the three months ended March 31, 2012 decreased \$7,000 from other income of \$28,000 in the same period in 2011. Other income for the three months ended March 31, 2012 consists principally of investment income.

NET LOSS. Net loss was \$1.6 million, or \$(0.14) per basic and diluted share, for the three months ended March 31, 2012 as compared to net loss of \$1.8 million, or \$(0.16) per basic and diluted share, for the same period in 2011. The decrease in the net loss was due primarily to the reasons described above.

Liquidity and Capital Resources

Historically, except for our line of credit borrowing of \$12.9 million in the first quarter of 2009, 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 and warrants. In addition, pursuant to the terms of a Purchase Agreement entered into with Avis Budget Group, Inc. (“Avis Budget Group”) on August 22, 2011, for aggregate proceeds of \$4,604,500 (or \$4.60 per share, which price was based on the average closing price of the Company’s common stock for the twenty trading days prior to the execution date of the Purchase Agreement), the Company issued and sold to Avis Budget Group (i) 1,000,000 shares of the Company’s common stock, and (ii) a warrant (the “Warrant”) to purchase up to an aggregate of 600,000 shares of our common stock (the “Warrant Shares”). The Warrant is immediately exercisable with respect to 100,000 Warrant Shares and will become exercisable for the remaining 500,000 Warrant Shares upon execution of SOW#2 associated with the Master Agreement entered into by the Company and Avis Budget Car Rental, LLC, a subsidiary of Avis Budget Group. As of March 31, 2012, we had cash and marketable securities of \$21.1 million and working capital of \$24.8 million, compared to cash and marketable securities of \$25.4 million and working capital of \$24.8 million as of December 31, 2011.

Operating Activities

Net cash used in operating activities was \$4.1 million for the three-month period ended March 31, 2012, compared to net cash used in operating activities of \$2.0 million for the same period in 2011. The net cash used in operating activities for the three-month period ended March 31, 2012 reflects a net loss of \$1.6 million and includes non-cash charges of \$0.3 million for stock-based compensation and \$0.6 million for depreciation and amortization expense. Changes in working capital items included:

- an increase in accounts receivable of \$1.4 million;

- an increase in notes and lease receivables of \$0.8 million;

- a decrease in inventory of \$0.7 million;

- a decrease in prepaid expenses and other asset of \$1.1 million;

- an increase in deferred revenue of \$1.3 million; and

a decrease in accounts payable and accrued expenses of \$4.6 million, primarily due to the timing of payments to our vendors and accrued compensation.

Investing Activities

Net cash provided by investing activities was \$0.5 million for three-month period ended March 31, 2012, compared to net cash used in investing activities of \$1.0 million for the same period in 2011. Net cash provided by investing activities in 2011 consisted principally of the net redemption of investments of \$0.7 million. The change from the same period in 2011 was primarily due to net purchases of investments of \$1.0 million in 2011.

Financing Activities

Net cash provided by financing activities was \$7,000 for the three-month period ended March 31, 2012, compared to net cash used in financing activities of \$0.4 million for the same period in 2011. The change from the same period in 2011 was primarily due to \$0.4 million used for the repurchase of shares under our share repurchase program in 2011.

Capital Requirements

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

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

As of March 31, 2012, there have been no material changes in contractual obligations as disclosed under the caption “Contractual Obligations and Commitments” in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Inflation

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

Impact of Recently Issued Accounting Pronouncements

The Company is subject to recently issued accounting standards, accounting guidance and disclosure requirements. For a description of these new accounting standards, see Note 23 (entitled “RECENT ACCOUNTING PRONOUNCEMENTS”) of the Notes to our Condensed Consolidated Financial Statements contained in Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risk from changes in interest rates, which could affect our future results of operations and financial condition. We manage our exposure to these risks through our regular operating and financing activities. As of March 31, 2012, we had cash, cash equivalents and marketable securities of \$21.1 million.

Our cash and cash equivalents consist of cash, money market funds, and short-term investments with original maturities of three months or less. As of March 31, 2012, the carrying value of our cash and cash equivalents approximated fair value. In a declining interest rate environment, as short-term investments mature, reinvestment occurs at less favorable market rates, negatively impacting future investment income. We maintain our cash and cash equivalents with major financial institutions; however, our cash and cash equivalent balances with these institutions exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. While we monitor on a systematic basis the cash and cash equivalent balances in our operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit funds fails or is subject to other adverse conditions in the financial or credit markets. To date, we have experienced no loss of principal or lack of access to our invested cash or cash equivalents; however, we can provide no assurance that access to our invested cash and cash equivalents will not be affected if the financial institutions in which we hold our cash and cash equivalents fail or the financial and credit markets continue to deteriorate.

Item 4. Controls And Procedures

a. Disclosure controls and procedures.

During the quarter ended March 31, 2012, our management, including the principal executive officer and principal financial officer, evaluated our 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")) related to the recording, processing, summarization and reporting of information in our reports that we file with the Securities and Exchange Commission ("SEC"). These disclosure controls and procedures have been designed to ensure that material information relating to us, including our subsidiaries, is made known to our management, including these officers, by other of our employees, and that this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. 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 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. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Based on their evaluation as of March 31, 2012, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective as of March 31, 2012 to reasonably ensure that the 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 SEC rules and forms and that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

b. Changes in internal controls over financial reporting.

We reviewed our internal control over financial reporting at March 31, 2012. There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 5. Other Information

None

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of its business, the Company is at times subject to various legal proceedings. As of May 14, 2012, the Company was not a party to any material legal proceedings.

Additional information on the Company's commitments and contingencies can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Item 1A. Risk Factors

In addition to the other information set forth in Part 1, "Item 2. Risks to Our Business" of this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors," in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, as such factors could materially affect the Company's business, financial condition, and future results. In the three months ended March 31, 2012, there were no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K. The risks described in the Annual Report on Form 10-K are not the only risks that the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems to be immaterial, also may have a material adverse impact on the Company's business, financial condition, or results of operations.

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

Purchases of Equity Securities by the Issuer

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

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

The following table describes the Company's share repurchase activity for each month of the quarterly period ended March 31, 2012. As the table indicates, the Company did not make any share repurchases during the quarterly period ended March 31, 2012.

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
January 1, 2012 – January 31, 2012	-	\$ -	-	\$ 1,852,000
February 1, 2012 – February 29, 2012	-	-	-	\$ 1,852,000
March 1, 2012 – March 31, 2012	-	-	-	\$ 1,852,000
Total	-	\$ -	-	\$ 1,852,000

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 Company did not purchase any shares of its common stock under the 2007 Repurchase Program during the quarterly period ended March 31, 2012. As of March 31, 2012, 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. 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. The 2007 Repurchase Program was terminated by the Board of Directors in March 2012.

Item 6. Exhibits

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

Exhibits:

Exhibit Number	Description
10.1	Amendment, dated March 15, 2012, to 1999 Director Option Plan (filed herewith).
10.2	Amendment, dated March 16, 2012, to 2009 Non-Employee Director Equity Compensation Plan (filed herewith).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

* Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of any registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections.

Signatures

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

I.D. SYSTEMS, INC.

Dated: May 14, 2012 By: /s/ Jeffrey M. Jagid
Jeffrey M. Jagid
Chief Executive Officer
(Principal Executive Officer)

Dated: May 14, 2012 By: /s/ Ned Mavrommatis
Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)

INDEX TO EXHIBITS

Exhibit

Description

Number

10.1	Amendment, dated March 15, 2012, to 1999 Director Option Plan (filed herewith).
10.2	Amendment, dated March 16, 2012, to 2009 Non-Employee Director Equity Compensation Plan (filed herewith).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

* Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of any registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections.