ID SYSTEMS INC
Form 10QSB
August 14, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB

(Mark One)

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

For the quarterly period ended: June 30, 2002

or

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

For the transition period from ______________________ to______________________

Commission File Number: 1-15087

I.D. SYSTEMS, INC.

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

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

One University Plaza, Hackensack, New Jersey	07601
(Address of principal executive offices)	(Zip Code)

(201) 670-9000

(Issuer's telephone number)

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

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

Yes X No _

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

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

Yes X No _

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the Registrant's Common Stock, $0.01 par value, as of the close of business on August 8, 2002 was 6,798,722.

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PART I - FINANCIAL INFORMATION

ITEM 1. Condensed Financial Statements

I.D. Systems, Inc.
Condensed Balance Sheets

	December 31, 2001	June 30,2002 (Unaudited)
Assets		
Cash and cash equivalents	$ 2,426,000	$ 4,986,000
Investments	3,039,000	2,237,000
Accounts receivable	234,000	622,000
Inventory	844,000	1,036,000

Investment in sales type leases		64,000
Prepaid expenses and other current assets	111,000	229,000
Total current assets	6,654,000	9,174,000
Investments		2,586,000
Fixed assets, net	540,000	576,000
Investment in sales type leases		226,000
Other assets	117,000	153,000
	$ 7,311,000	$ 12,715,000
Liabilities		
Accounts payable and accrued expenses	$ 574,000	$ 772,000
Capital lease obligations	10,000	4,000
Other current liabilities	100,000	100,000
Total current liabilities	684,000	876,000
Deferred rent	42,000	54,000
Other liabilities	100,000	50,000
	826,000	980,000
Stockholders' equity		
Preferred Stock; authorized 5,000,000 shares, $0.01 par value; none issued		
Common Stock, authorized 15,000,000 shares, $0.01 par value; issued and outstanding 5,866,000 shares and 6,799,000 shares, respectively	59,000	68,000
Additional paid in capital	15,739,000	22,042,000
Treasury stock; 40,178 shares at cost	(113,000)	(113,000)
Accumulated deficit	(9,200,000)	(10,262,000)
	6,485,000	11,735,000
	$ 7,311,000	$ 12,715,000

See Accompanying Notes

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I.D. Systems, Inc.
Condensed Statements of Operations

(Unaudited)

	Three months ended June 30,		Six months ended June 30	
	2001	2002	2001	2002
Revenues	$ 137,000	$1,178,000	$ 424,000	$ 2,009,00
Cost of Revenues	99,000	593,000	245,000	968,00

Gross Profit	38,000	585,000	179,000	1,041,00
Selling, general and administrative expenses	765,000	814,000	1,536,000	1,697,00
Research and development expenses	271,000	271,000	587,000	551,00
Loss from operations	(998,000)	(500,000)	(1,944,000)	(1,207,00
Interest income	80,000	95,000	197,000	146,00
Interest expense	(1,000)		(2,000)	(1,00
Net loss	$ (919,000)	$ (405,000)	$(1,749,000)	$(1,062,00
Net loss per share - basic and diluted	$ (0.16)	$ (0.06)	$ (0.30)	$ (0.1
Weghted average common shares outstanding - basic and diluted loss per share	5,838,000	6,797,000	5,829,000	6,622,00

See Accompanying Notes

I.D. Systems, Inc.
Condensed Statements of Cash Flows
(Unaudited)

	Six months ended June 30, 2001	2002
Cash flows from operating activities:		
Net loss	$(1,749,000)	$(1,062,00
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	80,000	91,00
Deferred rent expense	12,000	12,00
Changes in:		
Accounts receivable	28,000	(388,00
Unbilled receivables	253,000	
Inventory	(123,000)	(192,00
Prepaid expenses and other assets	45,000	(154,00
Investment in sales type leases		(290,00
Other liabilities		(50,00
Income taxes payable	(8,000)	
Accounts payable	(554,000)	198,00
Net cash used in operating activities	(2,016,000)	(1,835,00
Cash flows from investing activities:		
Purchase of fixed assets	(7,000)	(127,00
Purchase of investments	(6,245,000)	(4,702,00
Accrued interest receivable		(87,00

Maturities of investments	8,158,000	3,039,00
Amortization of (discount) premium on investments	(25,000)	(34,00
Net cash provided by (used in) investing activities	1,881,000	(1,911,00
Cash flows from financing activities:		
Payment of lease obligations	(7,000)	(6,00
Proceeds from exercise of stock options	22,000	169,00
Net proceeds from private placement		6,143,00
Net cash provided by financing activities	15,000	6,306,00
Net (decrease) increase in cash and cash equivalents	(120,000)	2,560,00
Cash and cash equivalents - beginning of period	3,085,000	2,426,00
Cash and cash equivalents - end of period	$ 2,965,000	$ 4,986,00

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See Accompanying Notes

I.D. Systems, Inc.

Notes to Unaudited Condensed Financial Statements
June 30, 2002

NOTE A - Basis of Reporting

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the financial position of I.D. Systems, Inc. (the "Company") as of June 30, 2002, the results of its operations for the three-month and six-month periods ended June 30, 2001 and 2002 and cash flows for the six-month periods ended June 30, 2001 and 2002. The results of operations for the three-month and six-month periods ended June 30, 2002 are not necessarily indicative of the operating results for the full year. It is suggested that these financial statements be read in conjunction with the financial statements and related disclosures for the year ended December 31, 2001 included in the Company's Annual Report.

NOTE B - Net Income (Loss) Per Share of Common Stock

Basic income (loss) per share is based on the weighted average number of common shares outstanding during each period. Diluted income (loss) per share reflects the potential dilution assuming common shares were issued upon the exercise of outstanding options and warrants and the proceeds thereof were used to purchase outstanding common shares. For the three-month and six-month periods ended June 30, 2001 and 2002, the basic and diluted weighted average shares outstanding are the same since the effect from the potential exercise of outstanding stock options would have been anti-dilutive.

NOTE C - Private Placement

In January 2002, the Company sold 821,250 shares of common stock and received net proceeds of approximately $6,143,000.

Warrants to purchase 107,125 shares of common stock were issued to the placement agent and a finder. The warrants are exercisable for a period of five years, commencing in January 2002, at a price of $9.58 per share.

NOTE D - Sales Type Leases

During the quarter ended June 30, 2002 the Company began deriving revenues under leasing arrangements. Such arrangements provide for monthly payments covering the product cost, maintenance and interest. These arrangements meet the criteria to be accounted for as sales-type leases. Accordingly, revenue for the product cost is recognized when products are shipped, and if required by contract,

implemented. Upon the recognition of revenue, an asset is established which is classified as an "investment in sales-type leases". Maintenance revenue and interest income are recognized monthly over the lease term. The Company recognized $290,000 of product revenues during the quarter ended June 30, 2002 pursuant to such arrangements.

ITEM 2. Management's Discussion And Analysis

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

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

Results of Operations

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

	Three months ended June 30,		Six months ended June 30,	
	2001	2002	2001	2002
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Revenues	72.3	50.3	57.8	48.2
Gross Profit	27.7	49.7	42.2	51.8
Selling, general and administrative expenses	558.4	69.1	362.3	84.5
Research and development expenses	197.8	23.0	138.4	27.4

Loss from operations	(728.5)	(42.4)	(458.5)	(60.1)
Net interest income	57.7	8.0	46.0	7.2
Net loss	(670.8)%	(34.4)%	(412.5)%	(52.9)%

Three Months Ended June 30, 2002 Compared to Three Months Ended June 30, 2001

REVENUES. Revenues were $1,178,000 in the three months ended June 30, 2002 as compared to $137,000 in the three months ended June 30, 2001. The increase in revenues in the three-month period is due to customers beginning to transition from successful pilot programs of the Company's fleet tracking and management system to larger production-scale orders. On July 31, 2002 the Company had order backlog of approximately $3,200,000.

COST OF REVENUES. Cost of revenues were $593,000 in the three months ended June 30, 2002 as compared to $99,000 in the three months ended June 30, 2001. As a percentage of revenues, cost of revenues were 50.3% in the three months ended June 30, 2002 as compared to 72.3% in the three months ended June 30, 2001. This percentage decrease was primarily attributable to the increase in revenues and certain fixed production costs incurred in 2001. The Company began fully outsourcing its production in 2002. Gross profit was $585,000 in the three months ended June 30, 2002 compared to $38,000 in the three months ended June 30, 2001. As a percentage of revenues, gross profit increased to 49.7% in the three months ended June 30, 2002 from 27.7% in the three months ended June 30, 2001.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were $814,000 in the three months ended June 30, 2002 as compared to $765,000 in the three months ended June 30, 2001. This increase was attributable to increased payroll expenses associated with sales and marketing. As a percentage of revenues, selling, general and administrative expenses decreased to 69.1% in the three months ended June 30, 2002 from 558.4% in the three months ended June 30, 2001.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were $271,000 in the three months ended June 30, 2002 and $271,000 in the three months ended June 30, 2001. As a percentage of revenues, research and development expenses decreased to 23.0% in the three months ended June 30, 2002 from 197.8% in the three months ended June 30, 2001.

INTEREST INCOME AND EXPENSE. Interest income was $95,000 in the three months ended June 30, 2002 as compared to $80,000 in the three months ended June 30, 2001. This increase was attributable to larger average cash, cash equivalents and short-term investment balances in the three months ended June 30, 2002 as compared to the three months ended June 30, 2001. In addition, the Company earned interest income in connection with sales type lease arrangements in the three months ended June 30, 2002.

Interest expense was $1,000 in the three months ended June 30, 2001.

NET LOSS. Net loss was $405,000 in the three months ended June 30, 2002 as compared to net loss of $919,000 in the three-months ended June 30, 2001. This was due primarily to the reasons described above.

Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001

REVENUES. Revenues were $2,009,000 in the six months ended June 30, 2002 as compared to $424,000 in the six months ended June 30, 2001. The increase in revenues in the six-month period is due to customers beginning to transition from successful pilot programs of the Company's fleet tracking and management system to larger production-scale orders. On July 31, 2002 the Company had order backlog of approximately $3,200,000.

COST OF REVENUES. Cost of revenues were $968,000 in the six months ended June 30, 2002 as compared to $245,000 in the six months ended June 30, 2001. As a percentage of revenues, cost of revenues were 48.2% in the six months ended June 30, 2002 as compared to 57.8% in the six months ended June 30, 2001. This percentage decrease was primarily attributable to the increase in revenues and certain fixed production costs incurred in 2001. The Company began fully outsourcing its production in 2002. Gross profit was $1,041,000 in the six months ended June 30, 2002 compared to $179,000 in the six months ended June 30, 2001. As a percentage of revenues, gross profit increased to 51.8% in the six months ended June 30, 2002 from 42.2% in the six months ended June 30, 2001.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were $1,697,000 in the six months ended June 30, 2002 as compared to $1,536,000 in the six months ended June 30, 2001. This increase was attributable to increased payroll expenses associated with sales and marketing. As a percentage of revenues, selling, general and administrative expenses decreased to 84.5% in the six months ended June 30, 2002 from 362.3% in the six months ended June 30, 2001.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were $551,000 in the six months ended June 30, 2002 as compared to $587,000 in the six months ended June 30, 2001. As a percentage of revenues, research and development expenses decreased to 27.4% in the six months ended June 30, 2002 from 138.4% in the six months ended June 30, 2001.

INTEREST INCOME AND EXPENSE. Interest income was $146,000 in the six months ended June 30, 2002 as compared to $197,000 in the six months ended June 30, 2001. This decrease was attributable to the reduction of interest rates. The Company invests in commercial paper and corporate bonds, which are classified as held to maturity. In addition, the Company earned interest income in connection with sales type lease arrangements in the six months ended June 30, 2002.

Interest expense was $1,000 in the six months ended June 30, 2002 as compared to $2,000 in the six months ended June 30, 2001.

NET LOSS. Net loss was $1,062,000 in the six months ended June 30, 2002 as compared to net loss of $1,749,000 in the six-months ended June 30, 2001. This was due primarily to the reasons described above.

Liquidity and Capital Resources

As of June 30, 2002, the Company had $9,809,000 of cash, cash equivalents and investments and $8,298,000 of working capital as compared to $5,465,000 and $5,970,000, respectively, at December 31, 2001.

Net cash used in operating activities was $1,835,000 for the six months ended June 30, 2002 as compared to net cash used in operating activities of $2,016,000 for the six months ended June 30, 2001. Net cash used in operating activities in the six months ended June 30, 2002 was primarily due to the net loss of $1,062,000, an increase in accounts receivable of $388,000, an increase in investments in sales type leases of $290,000, an increase in inventory of $192,000 and an increase in prepaid expenses and other assets of $154,000, partially offset by an increase in accounts payable of $198,000. Net cash used in operating activities in the six months ended June 30, 2001 was primarily due to the net loss of $1,749,000, an increase in inventory of $123,000 and a decrease in accounts payable of $554,000, partially offset by a decrease in accounts and unbilled receivables of $281,000. In 2002 the Company began deriving revenue under sales type lease arrangements and expects to derive additional revenue under similar arrangements in the future.

Net cash used in investing activities for the six months ended June 30, 2002 was $1,911,000 as compared to cash provided by investing activities of $1,881,000 for the six months ended June 30, 2001. The cash used in investing activities in the six months ended June 30, 2002 was for the purchase of investments of $4,702,000 and the purchase of fixed assets of $127,000, offset by maturities of investments of $3,039,000. The cash provided by investing activities in the six months ended June 30, 2001 was primarily from maturities of short-term investments of $8,158,000, partially offset by the purchase of investments of $6,245,000.

Net cash provided by financing activities for the six months ended June 30, 2002 was $6,306,000 as compared to cash provided by financing activities of $15,000 for the six months ended June 30, 2001. The net cash provided by financing activities in the six months ended June 30, 2002 was from the proceeds of $6,143,000 received in connection with the sale of 821,250 shares of common stock and $169,000 received form proceeds from exercise of employee stock options, offset by $6,000 paid for capital lease obligations. The net cash provided by financing activities for the six months ended June 30, 2001, reflects $22,000 of proceeds received from exercise of employee stock options.

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

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

Recently Issued Financial Standards

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

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PART II - OTHER INFORMATION

ITEM 3. Exhibits and Reports on Form 8-K

Exhibits:

99 - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed during the quarter ended June 30, 2002.

Signatures

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

I.D. Systems, Inc.

Dated: August 1, 2002

By: /s/ Jeffrey M. Jagid

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

Dated: August 1, 2002

By: /s/ Ned Mavrommatis

Ned Mavrommatis
Chief Financial Officer
(Principal Accounting Officer)