ID SYSTEMS INC
Form 10QSB
August 14, 2003

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, 2003

or

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

For the transition period from ____________________ to ____________________

Commission File Number: 1-15087

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

DELAWARE	22-3270799
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identi

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

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

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

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

Check whether the issuer filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.
Yes ____ No ____

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the Issuer's Common Stock, $0.01 par value, as of the close of business on August 11, 2003 was 6,871,253.

Transitional Small Business Disclosure Format (check one):
Yes _____ No X

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I.D. SYSTEMS, INC.

PART I - FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

I.D. SYSTEMS, INC.
CONDENSED BALANCE SHEETS

	December 31, 2002
ASSETS	
Cash and cash equivalents	$ 3,758,000
Investments	3,031,000

Accounts receivable, net	1,114,000
Unbilled receivables	--
Inventory	1,471,000
Investment in sales type leases	159,000
Interest receivable	73,000
Officer loan	10,000
Prepaid expenses and other current assets	147,000
Total current assets	9,763,000
Investments	968,000
Fixed assets, net	679,000
Investment in sales type leases	522,000
Installment receivable - non-current portion	867,000
Officer loan	41,000
Deferred contract costs	--
Other assets	107,000
	$ 12,947,000
LIABILITIES	
Accounts payable and accrued expenses	$ 1,205,000
Long term debt - current portion	--
Line of credit	137,000
Deferred revenue	26,000
Other current liabilities	100,000
Total current liabilities	1,468,000
Long term debt	--
Deferred revenue	--
Deferred rent	66,000
	1,534,000
STOCKHOLDERS' EQUITY	
Preferred stock; authorized 5,000,000 shares, $.01 par value; none issued	
Common stock; authorized 15,000,000 shares, $.01 par value; issued and outstanding 6,799,000 shares and 6,863,000 shares	68,000
Additional paid-in capital	22,042,000
Treasury stock; 40,000 shares at cost	(113,000
Accumulated deficit	(10,584,000
	11,413,000
	$ 12,947,000

See accompanying notes

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

	THREE MONTHS ENDED JUNE 30, 2002	THREE MONTHS ENDED JUNE 30, 2003	
Revenues	$ 1,178,000	$ 2,125,000	$
Cost of Revenues	593,000	1,076,000	
Gross Profit	585,000	1,049,000	
Selling, general and administrative expenses	814,000	1,105,000	
Research and development expenses	271,000	219,000	
Loss from operations	(500,000)	(275,000)	(
Interest income	95,000	79,000	
Interest expense	--	(15,000)	
NET LOSS	$ (405,000)	$ (211,000)	$ (
NET LOSS PER SHARE - BASIC AND DILUTED	$ (0.06)	$ (0.03)	$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED LOSS PER SHARE	6,797,000	6,833,000	

See accompanying notes

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

	SIX MONT JUNE 2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (1,062,000)
Adjustments to reconcile net loss to cash used in operating activities:	
Depreciation and amortization	91,000
Deferred rent expense	12,000
Deferred revenue	--
Bad debt expense	--
Deferred contract costs	--

Changes in:	
Accounts receivable	(388,000)
Unbilled receivables	--
Inventory	(192,000)
Prepaid expenses and other assets	(154,000)
Investment in sales type leases	(290,000)
Installment receivable - non-current portion	--
Other liabilities	(50,000)
Accounts payable and accrued expenses	198,000
Net cash used in operating activities	(1,835,000)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of fixed assets	(127,000)
Purchase of investments	(4,702,000)
Increase in interest receivable	(87,000)
Maturities of investments	3,039,000
Amortization of (discount) premium on investments	(34,000)
Collection of officer loan	--
Net cash used in investing activities	(1,911,000)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payment of lease obligations	(6,000)
Proceeds from term loan, net of repayment	--
Proceeds from exercise of stock options	169,000
Net proceeds from private placement	6,143,000
Net cash provided by financing activities	6,306,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,560,000
Cash and cash equivalents - beginning of period	2,426,000
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 4,986,000

See accompanying notes

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I.D. SYSTEMS, INC.

Notes to Condensed Financial Statements
June 30, 2003

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, 2003, the results of its operations for the three-month and six-month periods ended June 30, 2002 and 2003 and cash flows for the six-month periods ended June 30, 2002 and 2003. The results of operations for the three-month and six-month periods ended June 30, 2003 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, 2002 included in the Company's Annual Report to Stockholders.

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 of outstanding during each period. Diluted income (loss) per share reflects the potential dilution assuming common shares were issued upon the exercise of outstanding options and warrants and the proceeds thereof were used to purchase outstanding common shares. For the three-month and six-month periods ended June 30, 2002 and 2003 the basic and diluted weighted average shares outstanding are the same since the effect from the potential exercise of outstanding stock options would have been anti-dilutive.

NOTE C - REVENUE RECOGNITION

The Company's revenues are derived from contracts with multiple element arrangements, which include the Company's system, training and technical support. Revenues are recognized as each element is earned based on the relative fair value of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements. The Company's system is typically implemented by the customer or a third party and, as a result, revenue is recognized when title passes to the customer, which usually is upon delivery of the system, provided all other revenue recognition criteria are met. Training and technical support revenues are generally recognized at time of performance.

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

The Company also derives revenues under leasing arrangements. Such arrangements provide for monthly payments covering the system sale, maintenance and interest. These arrangements meet the criteria to be accounted for as sales-type leases pursuant to Statement of Financial Accounting Standards No. 13, "Accounting for Leases". Accordingly, the system sale is recognized upon delivery of the system, provided all other revenue recognition criteria are met. Upon the recognition of revenue, an asset is established for the "investment in sales-type leases". Maintenance revenue and interest income are recognized monthly over the lease term. The Company recognized $552,000 of

system sales during the six months ended June 30, 2003 pursuant to such arrangements. These arrangements provide for sixty equal monthly payments and interest has been imputed at approximately 6%.

The Company recognized $1,536,000 of system sales in 2002 in connection with an installment sale. The arrangement provided for a $470,000 upfront payment and equal monthly payments of approximately $26,000 through November 2007, which include principal, imputed interest at approximately 7% and approximately $5,000 of maintenance, which is recognized as revenue monthly. $175,000 of the system sales is classified as accounts receivable and $785,000 is classified as "installment receivable - noncurrent portion" at June 30, 2003 in the accompanying financial statements.

NOTE D - ASSIGNMENT OF SALES TYPE LEASES

In June 2003 the Company received approximately $1,231,000 in connection with the assignment of certain sales type leases to a third party leasing company. Of the proceeds, $176,000 relates to maintenance revenue which will be earned over the remaining terms of the related maintenance arrangements and is included in deferred revenue as of June 30, 2003.

NOTE E - STOCK-BASED COMPENSATION

The Company accounts for stock-based employee compensation under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which was released in December 2002 as an amendment of SFAS No. 123. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the fair value based method had been applied to all awards.

	THREE MONTHS ENDED JUNE 30,		
	2002	2003	20
Reported net loss	$ (405,000)	$ (211,000)	$ (1,0
Stock-based employee compensation determined under the fair value based method, net of related tax effects	(242,000)	(209,000)	(4
Pro forma net loss	$ (647,000)	$ (420,000)	$ (1,5
Loss per share (basic and diluted):			
As reported	$ (0.06)	$ (0.03)	$
Pro forma	$ (0.10)	$ (0.06)	$

NOTE F - LONG TERM DEBT

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

NOTE G- LINE OF CREDIT

In April 2003, the Company renewed a working capital line of credit, with maximum borrowings of $500,000. Interest at the 30 day LIBOR Market Index Rate plus 1.75% is payable monthly. At June 30, 2003, the Company owed $137,000 under this line of credit. Outstanding principal amounts are payable by May 1, 2004.

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
	2002	2003	2002
Revenues	100.0%	100.0%	100.
Cost of Revenues	50.3	50.6	48.
Gross Profit	49.7	49.4	51.
Selling, general and administrative expenses	69.1	52.0	84.
Research and development expenses	23.0	10.3	27.
Loss from operations	(42.4)	(12.9)	(60.
Net interest income	8.0	3.0	7.
NET LOSS	(34.4)%	(9.9)%	(52.

THREE MONTHS ENDED JUNE 30, 2003 COMPARED TO THREE MONTHS ENDED JUNE 30, 2002

REVENUES. Revenues were $2,125,000 in the three months ended June 30, 2003 compared to $1,178,000 in the three months ended June 30, 2002. The increase in revenues in the three-month period is attributable to increased sales of the Company's Wireless Asset Net system for tracking and managing fleets of industrial equipment. The Company's customers include Archer Daniels Midland, DaimlerChrysler, Deere & Co., Ford Motor Company, Hallmark Cards, Price Chopper Stores, Target

Corporation, Toyota Motor Company, Walgreens, the U.S. Department of Homeland Security, the U.S. Navy, and the U.S. Postal Service, among others.

COST OF REVENUES. Cost of revenues were $1,076,000 in the three months ended June 30, 2003 compared to $593,000 in the three months ended June 30, 2002. As a percentage of revenues, cost of revenues were 50.6% in the three months ended June 30, 2003 compared to 50.3% in the three months ended June 30, 2002. Gross profit was $1,049,000 in the three months ended June 30, 2003 compared to $585,000 in the three months ended June 30, 2002. As a percentage of revenues, gross profit decreased to 49.4% in the three months ended June 30, 2003 from 49.7% in the three months ended June 30, 2002.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were $1,105,000 in the three months ended June 30, 2003 compared to $814,000 in the three months ended June 30, 2002. This increase was primarily attributable to increased payroll expenses associated with sales and marketing and an increase in insurance premiums for the Company's director and officer liability policy. As a percentage of revenues, selling, general and administrative expenses decreased to 52.0% in the three months ended June 30, 2003 from 69.1% in the three months ended June 30, 2002.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were $219,000 in the three months ended June 30, 2003 compared to $271,000 in the three months ended June 30, 2002. This decrease was attributable to the completion of the Company's "universal system" of software and hardware for tracking and managing fleets of industrial vehicles. As a percentage of revenues, research and development expenses decreased to 10.3% in the three months ended June 30, 2003 from 23.0% in the three months ended June 30, 2002.

NET INTEREST INCOME AND EXPENSE.
Interest income was $79,000 in the three months ended June 30, 2003 compared to $95,000 in the three months ended June 30, 2002. This decrease was attributable to the reduction in interest rates. The Company invests in commercial paper and corporate bonds, which are classified as held to maturity.

Interest expense was $15,000 in the three months ended June 30, 2003 compared to $0 in the three months ended June 30, 2002. This increase is attributable to the Company's working capital line of credit and its five year term loan.

NET LOSS. Net loss was $211,000 in the three months ended June 30, 2003 compared to net loss of $405,000 in the three-months ended June 30, 2002. This was due primarily to the reasons described above.

SIX MONTHS ENDED JUNE 30, 2003 COMPARED TO SIX MONTHS ENDED JUNE 30, 2002

REVENUES. Revenues were $3,734,000 in the six months ended June 30, 2003 compared to $2,009,000 in the six months ended June 30, 2002. The increase in revenues in the six-month period is attributable to increased sales of the Company's Wireless Asset Net system for tracking and managing fleets of industrial equipment.

COST OF REVENUES. Cost of revenues were $1,831,000 in the six months ended June 30, 2003 compared to $968,000 in the six months ended June 30, 2002. As a percentage of revenues, cost of revenues were 49.0% in the six months ended June 30, 2003 as compared to 48.2% in the six months ended June 30, 2002. Gross profit was $1,903,000 in the six months ended June 30, 2003 compared to $1,041,000 in the six months ended June 30, 2002. As a percentage of revenues, gross profit

decreased to 51.0% in the six months ended June 30, 2003 from 51.8% in the six months ended June 30, 2002.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were $2,188,000 in the six months ended June 30, 2003 compared to $1,697,000 in the six months ended June 30, 2002. This increase was primarily attributable to increased payroll expenses associated with sales and marketing and an increase in insurance premiums for the Company's director and officer liability policy. As a percentage of revenues, selling, general and administrative expenses decreased to 58.6% in the six months ended June 30, 2003 from 84.5% in the six months ended June 30, 2002.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were $451,000 in the six months ended June 30, 2003 compared to $551,000 in the six months ended June 30, 2002. This decrease was attributable to the completion of the Company's "universal system" of software and hardware for tracking and managing fleets of industrial vehicles. As a percentage of revenues, research and development expenses decreased to 12.1% in the six months ended June 30, 2003 from 27.4% in the six months ended June 30, 2002.

NET INTEREST INCOME AND EXPENSE.
Interest income was $165,000 in the six months ended June 30, 2003 compared to $146,000 in the six months ended June 30, 2002. This increase was attributable to interest income earned in connection with sales type lease arrangements, partially offset by lower interest rates. The Company invests in commercial paper and corporate bonds, which are classified as held to maturity.

Interest expense was $25,000 in the six months ended June 30, 2003 compared to $1,000 in the six months ended June 30, 2002. This increase is attributable to the Company's working capital line of credit and its five year term loan.

NET LOSS. Net loss was $596,000 in the six months ended June 30, 2003 compared to net loss of $1,062,000 in the six-months ended June 30, 2002. This was due primarily to the reasons described above.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2003, the Company had $8,327,000 of cash, cash equivalents and investments and $8,105,000 of working capital as compared to $7,757,000 and $8,295,000, respectively, at December 31, 2002.

Net cash used in operating activities was $479,000 for the six months ended June 30, 2003 compared to net cash used in operating activities of $1,835,000 for the six months ended June 30, 2002. Net cash used in operating activities in the six months ended June 30, 2003 was primarily due to the net loss of $596,000, an increase in accounts receivable of $721,000, an increase in unbilled receivables of $449,000 and an increase in deferred contract costs of $121,000, partially offset by a decrease in inventory of $560,000, a decrease in investment in sales type leases of $570,000 resulting from the proceeds from the assignment of certain sales type leases to a third party and an increase in deferred revenue of $176,000. 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 investing activities for the six months ended June 30, 2003 was $1,126,000 compared to net cash used in investing activities of $1,911,000 for the six months ended June 30,

2002. Net cash used in investing activities in the six months ended June 30, 2003 was primarily for the purchase of investments of $2,582,000, offset by maturities of investments of $1,424,000. Net 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.

Net cash provided by financing activities for the six months ended June 30, 2003 was $1,111,000 compared to net cash provided by financing activities of $6,306,000 in the six months ended June 30, 2002. Net cash provided by financing activities for the six months ended June 30, 2003 was from the proceeds, net of repayment of $926,000, received in connection with obtaining a five year term loan and $185,000 from proceeds received in connection with exercise of employee stock options. 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 in connection with exercise of employee stock options, offset by $6,000 paid for capital lease obligations.

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

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

RECENTLY ISSUED FINANCIAL STANDARDS

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

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures:

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Within the 90 days prior to the filing of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

(b) Changes in Internal Controls:

There were no significant changes in the Company's internal controls or in other factors that could have significantly affected those controls subsequent to the date of the Company's most

recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

31 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed during the quarter ended June 30, 2003.

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 14, 2003

By: /s/ Jeffrey M. Jagid

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

Dated: August 14, 2003 By: /s/ Ned Mavrommatis

Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)