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ID SYSTEMS INC
Form 10QSB
November 14, 2001

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended: September 30, 2001

or

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

For the transition period from _____ to _____

Commission File Number: 1-15087

I.D. SYSTEMS, INC.

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

DELAWARE

22-3270799

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

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Yes No
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APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the Registrant's Common Stock, \$0.01 par value, as of the close of business on November 1, 2001 was 5,853,625.

A

INDEX

I.D. SYSTEMS, INC.

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS.	Page ----
Condensed Balance Sheets as of December 31, 2000 and September 30, 2001 (unaudited)	1
Condensed Statements of Operations (unaudited) for the three months and nine months ended September 30, 2000 and 2001	2
Condensed Statements of Cash Flows (unaudited) for the nine months ended September 30, 2000 and 2001	3
Notes to Condensed Financial Statements	4
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	5
PART II - OTHER INFORMATION	
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	8
Signatures	9

B

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

I.D. SYSTEMS, INC.
CONDENSED BALANCE SHEETS

	DECEMBER 31, 2000	SEPTEMBER 30, 2000 (UNAUDITED)
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 3,085,000	\$

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Investments	5,588,000	
Accounts receivable (net of allowance of \$48,000)	297,000	
Unbilled receivables	349,000	
Inventory	748,000	
Income taxes receivable	111,000	
Prepaid expenses and other assets	125,000	
	-----	-----
Total current assets	10,303,000	
Fixed assets, net	632,000	
Other assets	146,000	
	-----	-----
	\$ 11,081,000	\$
	=====	=====
LIABILITIES		
Accounts payable	\$ 699,000	\$
Capital lease obligations	14,000	
Income taxes payable	8,000	
	-----	-----
Total current liabilities	721,000	
Capital lease obligations	18,000	
Deferred rent	19,000	
	-----	-----
	758,000	
	-----	-----
CONTINGENCY		
STOCKHOLDERS' EQUITY		
Preferred Stock; authorized 5,000,000 shares, \$0.01 par value; none issued		
Common Stock, authorized 15,000,000 shares, \$0.01 par value; issued and outstanding 5,720,000 shares and 5,845,000 shares, respectively	57,000	
Additional paid in capital	15,558,000	
Accumulated deficit	(5,292,000)	
Treasury stock; 40,178 shares at cost		
	-----	-----
	10,323,000	
	-----	-----
	\$ 11,081,000	\$
	=====	=====

SEE ACCOMPANYING NOTES.

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	THREE MONTHS ENDED SEPTEMBER 30,		
	2000	2001	2002
Revenues	\$ 231,000	\$ 188,000	\$
Cost of Revenues	107,000	100,000	
Gross Profit	124,000	88,000	
Selling, general and administrative expenses	1,118,000	860,000	
Research and development expenses	489,000	185,000	
Loss from operations	(1,483,000)	(957,000)	(
Interest income	185,000	69,000	
Interest expense	(1,000)	(1,000)	
NET LOSS	\$ (1,299,000)	\$ (889,000)	\$ (
NET LOSS PER SHARE - BASIC AND DILUTED	\$ (0.23)	\$ (0.15)	\$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED LOSS PER SHARE	5,720,000	5,845,000	

SEE ACCOMPANYING NOTES

2

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,799,000)	\$ (2,638,000)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	83,000	12,000
Deferred taxes	18,000	
Deferred rent expense	(29,000)	1,000

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Changes in:		
Accounts receivable	579,000	
Unbilled receivables	199,000	34
Inventory	(826,000)	(17)
Prepaid expenses and other assets	166,000	3
Income taxes receivable		11
Income taxes payable	(51,000)	(
Accounts payable	99,000	(36)
	-----	-----
Net cash used in operating activities	(2,561,000)	(2,55
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(404,000)	(
Purchase of investments	(6,195,000)	(8,74
Maturities and sales of investments	7,097,000	8,72
Amortization of debt discount	(78,000)	(5
	-----	-----
Net cash provided by (used in) investing activities	420,000	(8
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of lease obligations	(10,000)	(1
Proceeds from exercise of stock options	4,000	3
	-----	-----
Net cash (used in) provided by financing activities	(6,000)	2
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,147,000)	(2,61
Cash and cash equivalents - beginning of period	7,021,000	3,08
	-----	-----
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$4,874,000	\$47
	=====	=====
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES		
Treasury shares received as payment for exercise of stock options		\$ 113
See accompanying notes		

I.D. SYSTEMS, INC.

Notes to Condensed Financial Statements
September 30, 2001

NOTE A - BASIS OF REPORTING

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

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

Basic income (loss) per share is based on the weighted average number of common 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 nine-month periods ended September 30, 2001 the basic and diluted weighted average shares outstanding are the same since the effect from the potential exercise of outstanding stock options would have been anti-dilutive.

NOTE C - CONTINGENCY

In October 2001, the Company received notification of a claim brought against it in the amount of \$569,000. The Company, while evaluating the claim from a business viewpoint and with consultation from counsel regarding the legal merits, believes that the outcome will not have a material adverse effect on its financial position and results of operations. No provision has been made regarding the ultimate outcome of this matter.

4

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the 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 regarding industry trends, product development and liquidity and future business activities should be considered in light of these factors.

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The Company was incorporated in August 1993 and began to derive revenues from its initial line of products in March 1995. Revenues are generated from design and engineering fees, as well as sales of its system.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	2001	2000	2001
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of Revenues	46.3	53.2	49.5	53.2
Gross Profit	53.7	46.8	50.5	46.8
Selling, general and administrative expenses	483.9	457.4	316.5	299.1
Research and development expenses	211.7	98.4	128.3	128.3
Loss from operations	(641.9)	(509.0)	(394.3)	(477.3)
Net interest income	79.6	36.2	65.1	49.9
NET LOSS	(562.3)%	(472.8)%	(329.2)%	(427.4)%

5

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

REVENUES. Revenues were \$188,000 in the three months ended September 30, 2001 as compared to \$231,000 in the three months ended September 30, 2000. Revenues in the quarter ended September 30, 2001 were derived from the delivery and implementation of the Company's fleet tracking and management system pursuant to on-going pilot programs.

COST OF REVENUES. Cost of revenues were \$100,000 in the three months ended September 30, 2001 as compared to \$107,000 in the three months ended September 30, 2000. As a percentage of revenues, cost of revenues were 53.2% in the three months ended September 30, 2001 as compared to 46.3% in the three months ended September 30, 2000. Gross profit was \$88,000 in the three months ended September 30, 2001 compared to \$124,000 in the three months ended September 30, 2000. As a percentage of revenues, gross profit decreased to 46.8% in the three months ended September 30, 2001 from 53.7% in the three months ended September 30, 2000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were \$860,000 in the three months ended September 30, 2001 as compared to \$1,118,000 in the three months ended September 30, 2000.

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This decrease was attributable to a decrease in payroll expenses resulting from cost cutting efforts instituted during the first quarter of 2001. As a percentage of revenues, selling, general and administrative expenses decreased to 457.4% in the three months ended September 30, 2001 from 483.9% in the three months ended September 30, 2000.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were \$185,000 in the three months ended September 30, 2001 as compared to \$489,000 in the three months ended September 30, 2000. This decrease was attributable to the completion of commercializing the new "universal system" of hardware and software for tracking and managing fleet of industrial vehicles during the first quarter of 2001. As a percentage of revenues, research and development expenses decreased to 98.4% in the three months ended September 30, 2001 from 211.7% in the three months ended September 30, 2000.

NET INTEREST INCOME AND EXPENSE. Interest income was \$69,000 in the three months ended September 30, 2001 as compared to \$185,000 in the three months ended September 30, 2000. This decrease was attributable to lower average cash, cash equivalents and short-term investment balances in the three months ended September 30, 2001 as compared to the three months ended September 30, 2000.

Interest expense was \$1,000 in the three months ended September 30, 2001 and 2000.

NET LOSS. Net loss was \$889,000 in the three months ended September 30, 2001 as compared to net loss of \$1,299,000 in the three-month period ended September 30, 2000. This was due primarily to the reasons described above.

NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2000

REVENUES. Revenues were \$612,000 in the nine months ended September 30, 2001 as compared to \$850,000 in the nine months ended September 30, 2000. Revenues in the nine-month period ended September 30, 2001 were derived from the delivery and implementation of the Company's fleet tracking and management system pursuant to on-going pilot programs.

COST OF REVENUES. Cost of revenues were \$345,000 in the nine months ended September 30, 2001 as compared to \$421,000 in the nine months ended September 30, 2000. As a percentage of revenues, cost of

6

revenues were 56.4% in the nine months ended September 30, 2001 as compared to 49.5% in the nine months ended September 30, 2000. Gross profit was \$267,000 in the nine months ended September 30, 2001 compared to \$429,000 in the nine months ended September 30, 2000. As a percentage of revenues, gross profit decreased to 43.6% in the nine months ended September 30, 2001 from 50.5% in the nine months ended September 30, 2000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were \$2,396,000 in the nine months ended September 30, 2001 as compared to \$2,690,000 in the nine months ended September 30, 2000. This decrease was attributable to a decrease in payroll expenses resulting from cost cutting efforts instituted during the first quarter of 2001. As a percentage of revenues, selling, general and administrative expenses increased to 391.5% in the nine months ended September 30, 2001 from 316.5% in the nine months ended September 30, 2000.

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RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were \$772,000 in the nine months ended September 30, 2001 as compared to \$1,091,000 in the nine months ended September 30, 2000. This decrease was attributable to the completion of commercializing the new "universal system" of hardware and software for tracking and managing a fleet of industrial vehicles during the first quarter of 2001. As a percentage of revenues, research and development expenses decreased to 126.1% in the nine months ended September 30, 2001 from 128.3% in the nine months ended September 30, 2000.

NET INTEREST INCOME AND EXPENSES). Interest income was \$266,000 in the nine months ended September 30, 2001 as compared to \$557,000 in the nine months ended September 30, 2000. This decrease was attributable to lower average cash, cash equivalents and short-term investment balances in the nine months ended September 30, 2001 as compared to the nine months ended September 30, 2000.

Interest expense was \$3,000 in the nine months ended September 30, 2001 as compared to \$4,000 in the nine months ended September 30, 2000.

NET LOSS. Net loss was \$2,638,000 in the nine months ended September 30, 2001 as compared to net loss of \$2,799,000 in the nine-month period ended September 30, 2000. This was due primarily to the reasons described above.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2001, the Company had \$6,135,000 of cash, cash equivalents and short-term investments and \$7,126,000 of working capital as compared to \$8,673,000 and \$9,582,000, respectively, at December 31, 2000.

Net cash used in operating activities was \$2,551,000 for the nine months ended September 30, 2001 as compared to net cash used in operating activities of \$2,561,000 for the nine months ended September 30, 2000. Net cash used in operating activities in the nine months ended September 30, 2001 was primarily due to the net loss of \$2,638,000 a decrease in accounts payable of \$366,000 and an increase in inventory of \$177,000, partially offset by a decrease in unbilled receivables of \$349,000 and the collection of income taxes receivable of \$111,000. Net cash used in operating activities for the nine months ended September 30, 2000 was primarily due to the net loss of \$2,799,000 and an increase in inventory of \$826,000, partially offset by a decrease in accounts receivable of \$579,000, a decrease in unbilled receivables of \$199,000 and a decrease of prepaid expenses and other assets of \$166,000.

Net cash used in investing activities for the nine months ended September 30, 2001 was \$84,000 as compared to cash provided by investing activities of \$420,000 for the nine months ended September 30,

7

2000. The cash used in investing activities in the nine months ended September 30, 2001 was primarily from the purchase of investments of \$8,747,000 substantially offset by maturities of short-term investments of \$8,729,000. The cash provided by investing activities in the nine months ended September 30, 2000 was primarily from maturities of short-term investments of \$7,097,000, substantially offset by the purchase of investments of \$6,195,000 and the purchase of fixed assets of \$404,000.

Net cash provided by financing activities for the nine months ended September 30, 2001 was \$20,000 as compared to cash used in financing activities of \$6,000 for the nine months ended September 30, 2000. The net cash provided by financing

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activities of \$20,000 for the nine months ended September 30, 2001, resulted from \$31,000 of proceeds received from exercise of employee stock options, offset by \$11,000 paid for capital lease obligations. The cash used in financing activities for the nine months ended September 30, 2000 was from payment of lease obligations of \$10,000 offset by proceeds from exercise of employee stock options of \$4,000.

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

RECENTLY ISSUED FINANCIAL STANDARDS

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

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

None

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed during the quarter ended September 30, 2001.

8

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: November 14, 2001

By: /s/ Jeffrey M. Jagid

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

Dated: November 14, 2001

By: /s/ Ned Mavrommatis

Ned Mavrommatis
Chief Financial Officer
(Principal Accounting Officer)

