

ID SYSTEMS INC  
Form 10-Q  
May 14, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended: March 31, 2018**

**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: 001-15087**

**ID. SYSTEMS, INC.**

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(Exact name of registrant as specified in its charter)

**Delaware** **22-3270799**  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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)**  
**Emerging growth company** ☐

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 9, 2018 was 17,634,904.

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

	December 31, 2017*	March 31, 2018 (Unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$5,097,000	\$4,545,000
Restricted cash	306,000	306,000
Investments - short term	1,201,000	761,000
Accounts receivable, net of allowance for doubtful accounts of \$87,000 and \$119,000 in 2017 and 2018, respectively	8,746,000	9,505,000
Financing receivables - current, net of allowance for doubtful accounts of \$-0- in 2017 and 2018	1,295,000	943,000
Inventory, net	4,586,000	4,737,000
Deferred costs - current	4,296,000	4,312,000
Prepaid expenses and other current assets	3,627,000	5,618,000
Total current assets	29,154,000	30,727,000
Investments - long term	10,278,000	8,674,000
Financing receivables - less current portion	1,557,000	1,742,000
Deferred costs - less current portion	4,302,000	3,896,000
Fixed assets, net	2,747,000	2,613,000
Goodwill	7,318,000	7,318,000
Intangible assets, net	5,417,000	5,239,000
Other assets	159,000	159,000
	\$60,932,000	\$60,368,000
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$7,440,000	\$8,596,000
Deferred revenue - current	9,711,000	8,654,000
Acquisition related contingent consideration - current	1,923,000	1,956,000

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Total current liabilities	19,074,000	19,206,000
Deferred revenue - less current portion	7,738,000	7,954,000
Acquisition related contingent consideration - less current portion	854,000	877,000
Deferred rent	295,000	274,000
	27,961,000	28,311,000
Commitments and Contingencies (Note 20)		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock; authorized 5,000,000 shares, \$0.01 par value; none issued	-	-
Common stock; authorized 50,000,000 shares, \$0.01 par value; 18,327,000 and 18,607,000 shares issued at December 31, 2017 and March 31, 2018, respectively; shares outstanding, 17,440,000 and 17,635,000 at December 31, 2017 and March 31, 2018, respectively	183,000	186,000
Additional paid-in capital	133,569,000	134,485,000
Accumulated deficit	(95,368,000 )	(96,358,000 )
Accumulated other comprehensive loss	(578,000 )	(775,000 )
Treasury stock; 887,000 and 972,000 common shares at cost at December 31, 2017 and March 31, 2018, respectively	(4,835,000 )	(5,481,000 )
Total stockholders' equity	32,971,000	32,057,000
Total liabilities and stockholders' equity	\$60,932,000	\$60,368,000

\*Derived from audited balance sheet as of December 31, 2017.

*See accompanying notes to unaudited condensed consolidated financial statements.*

**I.D. Systems, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Operations**

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2018</b>
Revenue:		
Products	\$4,334,000	\$9,898,000
Services	3,665,000	3,481,000
	7,999,000	13,379,000
Cost of revenue:		
Cost of products	2,815,000	5,842,000
Cost of services	1,034,000	1,075,000
	3,849,000	6,917,000
Gross profit	4,150,000	6,462,000
Operating expenses:		
Selling, general and administrative expenses	4,653,000	5,696,000
Research and development expenses	1,367,000	1,743,000
	6,020,000	7,439,000
Loss from operations	(1,870,000 )	(977,000 )
Interest income	56,000	77,000
Interest expense	(73,000 )	(57,000 )
Other income (loss), net	1,000	(33,000 )
Net loss	\$(1,886,000 )	\$(990,000 )
Net loss per share - basic and diluted	\$(0.14 )	\$(0.06 )
Weighted average common shares outstanding - basic and diluted	13,261,000	16,981,000

*See accompanying notes to unaudited condensed consolidated financial statements.*



**I.D. Systems, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Comprehensive Loss**

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2018</b>
Net loss	\$(1,886,000)	\$(990,000 )
Other comprehensive (loss) income:		
Unrealized gain (loss) on investments	4,000	(93,000 )
Reclassification of net realized investment losses included in net loss	-	33,000
Foreign currency translation adjustment	(20,000 )	(137,000 )
Total other comprehensive loss	(16,000 )	(197,000 )
Comprehensive loss	\$(1,902,000)	\$(1,187,000)

*See accompanying notes to unaudited condensed consolidated financial statements.*

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

(Unaudited)

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Stockholders' Equity
Balance at December 31, 2017	18,327,000	\$ 183,000	\$ 133,569,000	\$(95,368,000)	\$(578,000 )	\$(4,835,000)	\$32,971,000
Net loss	-	-	-	(990,000 )	-	-	(990,000 )
Foreign currency translation adjustment	-	-	-	-	(137,000 )	-	(137,000 )
Unrealized loss on investments, net of realized amounts	-	-	-	-	(60,000 )	-	(60,000 )
Shares issued pursuant to exercise of stock options	65,000	1,000	424,000	-	-	-	425,000
Issuance of restricted stock	235,000	2,000	(2,000 )	-	-	-	-
Shares withheld pursuant to vesting of restricted stock	-	-	-	-	-	(408,000 )	(408,000 )
Shares withheld pursuant to exercise of stock options	-	-	-	-	-	(238,000 )	(238,000 )
Forfeiture of restricted shares	(20,000 )	-	-	-	-	-	-

Stock based compensation - restricted stock	-	-	431,000	-	-	-	431,000
Stock based compensation - options and performance shares	-	-	63,000	-	-	-	63,000
Balance at March 31, 2018	18,607,000	\$ 186,000	\$ 134,485,000	\$(96,358,000)	\$(775,000)	\$(5,481,000)	\$32,057,000

*See accompanying notes to unaudited condensed consolidated financial statements.*

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

(Unaudited)

	Three Months Ended March 31,	
	2017	2018
Cash flows from operating activities:		
Net loss	\$(1,886,000 )	\$(990,000 )
Adjustments to reconcile net loss to cash used in operating activities:		
Bad debt expense	93,000	48,000
Stock-based compensation expense	713,000	494,000
Depreciation and amortization	159,000	393,000
Inventory reserve	90,000	60,000
Change in contingent consideration	-	56,000
Other non-cash items	(15,000 )	13,000
Changes in:		
Accounts receivable	47,000	(796,000 )
Financing receivables	357,000	167,000
Inventory	734,000	(211,000 )
Prepaid expenses and other assets	377,000	(1,991,000)
Deferred costs	153,000	390,000
Deferred revenue	2,905,000	(841,000 )
Accounts payable and accrued expenses	(1,386,000 )	1,155,000
Net cash provided by (used in) operating activities	2,341,000	(2,053,000)
Cash flows from investing activities:		
Capital expenditures	(72,000 )	(81,000 )
Purchase of investments	(204,000 )	(709,000 )
Proceeds from the sale and maturities of investments	217,000	2,659,000
Net cash (used in) provided by investing activities	(59,000 )	1,869,000
Cash flows from financing activities:		
Borrowings under revolving credit facility	9,855,000	-
Repayments under revolving credit facility	(11,581,000)	-
Proceeds from exercise of stock options	1,165,000	187,000
Common stock repurchased	-	(408,000 )
Net cash used in financing activities	(561,000 )	(221,000 )
Effect of foreign exchange rate changes on cash and cash equivalents	(26,000 )	(147,000 )
Net increase (decrease) in cash, cash equivalents and restricted cash	1,695,000	(552,000 )
Cash, cash equivalents and restricted cash - beginning of period	5,277,000	5,403,000
Cash, cash equivalents and restricted cash - end of period	\$6,972,000	\$4,851,000
Reconciliation of cash, cash equivalents, and restricted cash, beginning of period		
Cash and cash equivalents	\$4,972,000	\$5,097,000

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Restricted cash	305,000	306,000
Cash, cash equivalents, and restricted cash, beginning of period	\$5,277,000	\$5,403,000
Reconciliation of cash, cash equivalents, and restricted cash, end of period		
Cash and cash equivalents	\$6,667,000	\$4,545,000
Restricted cash	305,000	306,000
Cash, cash equivalents, and restricted cash, end of beginning of period	\$6,972,000	\$4,851,000
Supplemental disclosure of cash flow information:		
Cash paid for:		
Taxes	-	-
Interest	43,000	-
Noncash investing and financing activities:		
Unrealized gain (loss) on investments	\$4,000	\$(60,000 )
Value of shares withheld pursuant to stock issuance	\$216,000	\$646,000

*See accompanying notes to unaudited condensed consolidated financial statements.*

**I.D. Systems, Inc. and Subsidiaries**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**March 31, 2018**

**NOTE 1 - DESCRIPTION OF THE COMPANY AND BASIS OF PRESENTATION**

**Description of the Company**

I.D. Systems, Inc. and its subsidiaries (collectively, the “Company,” “we,” “our” or “us”) develop, market and sell wireless machine-to-machine solutions for managing and securing high-value enterprise assets. These assets include industrial vehicles such as forklifts and airport ground support equipment, rental vehicles and transportation assets, such as dry van trailers, refrigerated trailers, railcars and containers. The Company’s patented wireless asset management systems utilize radio frequency identification (RFID), Wi-Fi, satellite or cellular communications, and sensor technology and software to address the needs of organizations to control, track, monitor and analyze their assets. Our cloud-based software application called I.D. Systems Analytics (“Analytics”) is designed to provide a single, integrated view of asset activity across multiple locations, generating enterprise-wide benchmarks and peer-industry comparisons to provide an even deeper layer of insights into asset operations. Analytics determines key performance indicators relating to the performance of managed assets. The Company’s solutions enable customers to achieve tangible economic benefits by making timely, informed decisions that increase the safety, security, revenue, productivity and efficiency of their operations. The Company outsources its hardware manufacturing operations to contract manufacturers.

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

**Public Offering**

On July 17, 2017, the Company closed an underwritten public offering consisting of 2,608,695 shares of common stock at a price per share of \$5.75. In addition, the underwriters of the public offering exercised in full their option to purchase an additional 391,304 shares of common stock. Including this option exercise, the aggregate gross proceeds from the offering of a total of 2,999,999 shares of common stock, before deducting discounts and commissions and offering expenses, were approximately \$17.3 million. Net proceeds from the public offering were approximately \$16.1 million. The Company used a portion of the net proceeds from the offering to fund the Keytroller Acquisition

(as defined below) and intends to use the remaining portion of the net proceeds for general corporate purposes.

### **Keytroller Acquisition**

On July 31, 2017, we, together with our wholly-owned subsidiary Keytroller, LLC, a Delaware limited liability company (“Keytroller”), acquired substantially all of the assets of Keytroller, LLC, a Florida limited liability company (the “Keytroller Acquisition”). The business we acquired in the Keytroller Acquisition develops and markets electronic products for managing forklifts and construction vehicles. The Keytroller Acquisition gives us a full suite of industrial fleet management product offerings capable of covering any sized fleet and budget and provides our industrial truck business more scale, both from a product and revenue standpoint and markets its line of forklift management devices mainly through a network of lift truck dealers, offering solutions for different fleet sizes at a wide range of price points.

### **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 (“IDS GmbH”), I.D. Systems (UK) Ltd (formerly Didbox Ltd.) (“IDS Ltd”) and Keytroller (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, 2018, the consolidated results of its operations for the three-month periods ended March 31, 2017 and 2018, the consolidated change in stockholders’ equity for the three-month period ended March 31, 2018 and the consolidated cash flows for the three-month periods ended March 31, 2017 and 2018. The results of operations for the three-month period ended March 31, 2018 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, 2017 included in the Company’s Annual Report on Form 10-K for the year then ended.

Certain amounts included in selling, general and administrative expenses in the prior period’s consolidated financial statements have been reclassified to research and development to conform to the presentation used in the quarter ended March 31, 2018.

### **Liquidity**

As of March 31, 2018, we had cash (including restricted cash), cash equivalents and marketable securities of \$14.3 million and working capital of \$11.5 million. The Company's primary sources of cash are cash flows from operating activities and the Company's holdings of cash, cash equivalents and investments from the sale of common stock. To date, the Company has not generated sufficient cash flows solely from operating activities to fund its operations.

We believe our available working capital, anticipated level of future revenues and expected cash flows from operations will provide sufficient funds to cover capital requirements through at least May 15, 2019.



## **NOTE 2 - 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 Federal Deposit Insurance Corporation (FDIC) limits.

## **NOTE 3 - 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 of assets acquired and liabilities assumed and acquisition-related contingent consideration, 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 4 - INVESTMENTS**

The Company's investments include debt securities, U.S. Treasury Notes, government and state agency bonds and corporate bonds, which are classified as either available for sale, held to maturity or trading, depending on management's investment intentions relating to these securities. As of December 31, 2017 and March 31, 2018, all of the Company's investments are classified as available for sale. Available for sale securities are measured at fair value based on quoted market values of the securities, with the unrealized gains and (losses) reported as comprehensive income or (loss). For the three-month periods ended March 31, 2017 and 2018, the Company reported unrealized gains (losses), net of realized amounts of \$4,000 and \$(93,000), respectively, on available for sale securities in total comprehensive loss. 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. All other securities are classified as long-term.

The following table summarizes the estimated fair value of investment in debt securities designated as available for sale classified by the contractual maturity date of the security as of March 31, 2018:

Fair Value

Due within one year	\$761,000
Due one year through two years	1,613,000
Due after three years	7,061,000
	\$9,435,000

The cost, gross unrealized gains (losses) and fair value of available for sale securities by major security types as of December 31, 2017 and March 31, 2018 are as follows:

March 31, 2018 (Unaudited)	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investments - short term				
Available for sale				
U.S. Treasury Notes	\$349,000	\$ -	\$(2,000)	\$347,000
Government agency bonds	249,000	-	(1,000)	248,000
Corporate bonds and commercial paper	167,000	-	(1,000)	166,000
Total investments - short term	765,000	-	(4,000)	761,000
Investments - long term				
Available for sale				
U.S. Treasury Notes	3,275,000	-	(52,000)	3,223,000
Government agency bonds	3,329,000	-	(59,000)	3,270,000
Corporate bonds and commercial paper	2,239,000	-	(58,000)	2,181,000
Total investments - long term	8,843,000	-	(169,000)	8,674,000
Total investments	\$9,608,000	\$-	\$(173,000)	\$9,435,000

December 31, 2017	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investments - short term				
Available for sale				
U.S. Treasury Notes	\$1,066,000	-	(1,000)	\$1,065,000
Corporate bonds and commercial paper	136,000	-	-	136,000
Total investments - short term	1,202,000	-	(1,000)	1,201,000
Investments - long term				
Available for sale				
U.S. Treasury Notes	3,367,000	-	(37,000)	3,330,000
Government agency bonds	4,279,000	-	(40,000)	4,239,000
Corporate bonds and commercial paper	2,744,000	-	(35,000)	2,709,000
Total investments - long term	10,390,000	-	(112,000)	10,278,000
Total investments	\$11,592,000	\$-	\$(113,000)	\$11,479,000

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.

As of December 31, 2017 and March 31, 2018, all of the Company's investments are classified as Level 1 fair value measurements.

## **NOTE 5 - REVENUE RECOGNITION**

The Company's revenue is derived from: (i) sales of our wireless asset management systems and spare parts; (ii) remotely hosted SaaS agreements and post-contract maintenance and support agreements; (iii) services, which includes training and technical support; and (iv) periodically, leasing arrangements. Amounts invoiced to customers which are not recognized as revenue are classified as deferred revenue and classified as short-term or long-term based upon the terms of future services to be delivered.

Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally this occurs with the transfer of control of our wireless asset management systems, spare parts, or services. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The expected costs associated with our base warranties continue to be recognized as expense when the products are sold (see Note 16). We recognize revenue for remotely hosted SaaS agreements and post-contract maintenance and support agreements beyond our standard warranties over the life of the contract.

The following table presents our revenues disaggregated by revenue source for the three months ended March 31, 2018 and 2017.

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Three Months Ended March 31, 2018

	Product	Service	Total
Industrial truck asset management	\$6,176,000	\$1,444,000	\$7,620,000
Connected vehicles	2,256,000	33,000	2,289,000
Transportation asset management	1,466,000	2,004,000	3,470,000
Total Revenue	\$9,898,000	\$3,481,000	\$13,379,000

Three Months Ended March 31, 2017

	Product	Service	Total
Industrial truck asset management	\$2,718,000	\$1,370,000	\$4,088,000
Connected vehicles		178,000	178,000
Transportation asset management	1,616,000	2,117,000	3,733,000
Total Revenue	\$4,334,000	\$3,665,000	\$7,999,000

**Industrial truck asset management and connected vehicles**

Our industrial truck and connected vehicle wireless asset management systems consist of on-asset hardware, communication infrastructure, SaaS, and hosting infrastructure. The Company's system is typically implemented by the customer or a third party and, as a result, revenue related to the on-asset hardware is recognized when control of the hardware is transferred to the customer, which usually is upon delivery of the system and contractual obligations have been satisfied. Revenue related to the SaaS and hosting infrastructure performance obligation is recognized over time as access to the SaaS and hosting infrastructure is provided to the customer. In some instances, we are also responsible for providing installation services, training and technical support services which are short-term in nature and revenue for these services are recognized at the time of performance or right to invoice.

## **Transportation asset management**

Our transportation asset management systems consist of on-asset hardware and SaaS services. The transportation asset management systems does not have stand-alone value to the customer separate from the SaaS services provided and, therefore, we consider both hardware and SaaS services a bundled performance obligation. 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, ranging from one to five years, 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.

In addition, the service revenue for our transportation 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.

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

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.

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.

The balances of contract assets, and contract liabilities from contracts with customers are as follows as of March 31, 2018 and 2017:

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	March 31, 2017	2018
Current assets:		
Sales commissions to employees (1)	\$-	\$53,000
Current liabilities:		
Deferred revenue -other (2)	3,384,000	473,000
Deferred maintenance and SaaS revenue (2)	2,914,000	4,652,000
Deferred transportation asset management product revenue (2)	13,870,000	11,483,000
	20,168,000	16,608,000
Less: Current portion	11,095,000	8,654,000
Deferred revenue - less current portion	\$9,073,000	\$7,954,000

(1) The Company recognized an asset for the incremental costs of obtaining the contract arising from the sales commissions to employees because the Company expects to recover those costs through future fees from the customers. The Company amortizes the asset over three to five years because the asset relates to the services transferred to the customer during the contract term of three to five years.

(2) We record deferred revenues when cash payments are received or due in advance of our performance. For the three months ended March 31, 2017 and 2018, the Company recognized revenue of \$2,465,000 and \$4,248,000, respectively, that was included in the deferred revenue balance at the beginning of each reporting period. The Company expects to recognize as revenue before year 2023, when it transfers those goods and services and, therefore, satisfies its performance obligation to the customers. We do not separately account for activation fees since no good or service is transferred to the customer. Therefore, the activation fee is included in the transaction price and allocated to the performance obligations in the contract and deferred/amortized over the life of the contract.

### **Development project with Avis Budget Car Rental, LLC**

On March 18, 2017 (the “SOW#4 Effective Date”), the Company entered into a statement of work (the “SOW#4”) with Avis Budget Car Rental, LLC (“ABCR”), a subsidiary of Avis Budget Group, Inc. (“Avis”), for 50,000 units of the Company’s cellular-enabled rental fleet car management system (the “System”) and maintenance and support of the System (“Maintenance Services”) for sixty months from installation of the equipment for the consideration of approximately \$21,270,000. ABCR has an option to purchase additional units and has the option to renew the Maintenance Services period for an additional twelve months upon its expiry, and then after such 12-month period, ABCR can purchase additional Maintenance Services on a month-to-month basis (during which ABCR can terminate the Maintenance Services) for up to forty-eight additional months.

The SOW#4 may be terminated by ABCR for cause (which is generally the Company’s material breach of its obligations under the SOW#4), for convenience (subject to a termination fee), upon a material adverse change to the Company, or for intellectual property infringement. The Company does not have the right to unilaterally terminate the SOW#4. In the event that ABCR terminates the SOW#4, then ABCR would be liable to the Company for the net present value of all future remaining charges under the SOW#4 at a negotiated discount rate per annum, with the payment due on the effective date of termination.

The SOW#4 provides for a period of exclusivity commencing on the SOW#4 Effective Date and ending fourteen months after the SOW#4 Effective Date, which may be extended in six-month increments by Avis under certain conditions. Avis has the right to cancel or accept the System and pay a lower price if the System cannot retrieve the necessary vehicle data from twenty-five makes and models six months after the SOW#4 Effective Date.

The Company received an upfront payment of \$3,290,000, consisting of a \$2,000,000 initial payment for the units to be delivered, \$902,000 for development of additional system enhancements and \$388,000 for production readiness development. The upfront payment is included in current deferred revenue at December 31, 2017. In September 2017, the Company and ABCR amended SOW#4 for out-of-scope system enhancements performed by the Company. The Company recognizes revenue on the development project, which was completed and approved in December 2017, on a proportional method performance basis, as determined by the relationship of actual labor and material costs incurred to date compared to the estimated total project costs. Estimates of total project costs are reviewed and revised during the term of the project. Revisions to project costs estimates, where applicable, are recorded in the period in which the facts that give rise to such changes become known. The Company recognized SOW#4 development project revenue of \$-0- during the three-month periods ended March 31, 2017 and 2018. The Company recognized SOW#4 product revenue of \$2,256,000 during the three-month period ended March 31, 2018.

The following is the amount of the transaction price that has not yet been recognized as revenue as of March 31, 2018, which is expected to be recognized by year 2023:



	2023	2022	2021	2020	2019	2018	Total
Revenue expected to be recognized December 31,	\$1,031,000	\$2,040,000	\$2,040,000	\$2,040,000	\$2,040,000	\$7,262,000	\$16,453,000

Part of the performance credit earnbacks and incentive payments (“performance bonus”) have been excluded from the disclosure table above because it was not included in the transaction price. That part of the performance bonus was excluded from the transaction price in accordance with the accounting guidance in Topic 606 on constraining estimates of variable consideration, including the following factors:

The susceptibility of the consideration amount to factors outside the Company’s influence, including weather conditions and the risk of obsolescence of the promised goods and services.

Whether the uncertainty about the consideration amount is not expected to be resolved for a long period of time.

The Company’s experience with similar types of contracts.

Whether the Company expects to offer price concessions or change the payment terms.

The range of possible consideration amounts.

### **Arrangements with multiple performance obligations**

Our contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on observable prices charged to customers or adjusted market assessment or using expected cost-plus margin when one is available. Adjusted market assessment price is determined based on overall pricing objectives taking into consideration market conditions and entity specific factors.

### **Practical expedients and exemptions**

We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses.

We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to

invoice for services performed.

**NOTE 6 - FINANCING RECEIVABLES**

Financing receivables consists of sales-type lease receivables from the sale of the Company's products and services. The present value of net investment in sales-type lease receivable is principally for three- to five-year leases of the Company's products and is reflected net of unearned interest income of \$164,000 and \$147,000 at December 31, 2017 and March 31, 2018, respectively, at a weighted-average discount rate of 4%.

Scheduled maturities of sales-type lease minimum lease payments outstanding as of March 31, 2018 are as follows:

Year ending December 31:

April - December 2018	\$943,000
2019	858,000
2020	597,000
2021	218,000
2022	63,000
Thereafter	6,000
	2,685,000
Less: Current portion	943,000
Sales-type lease receivable - less current portion	\$1,742,000

The allowance for doubtful accounts represents the Company's best estimate of the amount of credit losses in the Company's existing sales-type lease receivables. The allowance for doubtful accounts is determined on an individual lease basis if it is probable that the Company will not collect all principal and interest contractually due. The Company considers its customers' financial condition and historical payment patterns in determining the customers' probability of default. The impairment is measured based on the present value of expected future cash flows discounted at the lease's effective interest rate. There were no impairment losses recognized for the three-month periods ended March 31, 2017 and 2018. The Company does not accrue interest when a lease is considered impaired. When the ultimate collectability of the principal balance of the impaired lease is in doubt, all cash receipts on impaired leases are applied to reduce the principal amount of such leases until the principal has been recovered and are recognized as interest income thereafter. Impairment losses are charged against the allowance and increases in the allowance are charged to bad debt expense. Leases are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote. The Company resumes accrual of interest income when it is probable that the Company will collect the remaining principal and interest of an impaired lease. Leases become past due based on how recently payments have been received.

**NOTE 7 - INVENTORY**

Inventory, which primarily consists of finished goods and components used in the Company's products, is stated at the lower of cost or net realizable value using the first-in first-out (FIFO) method. Inventory is shown net of a valuation reserve of \$266,000 at December 31, 2017, and \$326,000 at March 31, 2018.

Inventories consist of the following:

	December 31, 2017	March 31, 2018 (Unaudited)
Components	\$1,083,000	\$1,034,000
Finished goods	3,503,000	3,703,000
	\$4,586,000	\$4,737,000

**NOTE 8 - FIXED ASSETS**

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

	December 31, 2017	March 31, 2018 (Unaudited)
Equipment	\$1,054,000	\$1,079,000
Computer software and website development	5,610,000	5,625,000
Computer hardware	2,560,000	2,601,000
Furniture and fixtures	416,000	416,000
Automobiles	60,000	60,000
Leasehold improvements	181,000	181,000
	9,881,000	9,962,000
Accumulated depreciation and amortization	(7,134,000)	(7,349,000 )
	\$2,747,000	\$2,613,000

As of December 31, 2017 and March 31, 2018, the Company had expenditures of approximately \$13,000 and \$18,000, respectively, for computer software and website development which had not been placed in service. Depreciation expense is not recorded for such assets until they are placed in service.

Depreciation and amortization expense for the three-month periods ended March 31, 2017 and 2018 was \$126,000 and \$215,000, respectively. This includes amortization of costs associated with computer software and website development for the three-month periods ended March 31, 2017 and 2018 of \$36,000 and \$131,000, respectively.

The Company capitalizes in fixed assets the costs of software development and website development. Specifically, the assets comprise an implementation of Enterprise Resource Planning (ERP) software, enhancements to the VeriWise<sup>TM</sup> 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 \$65,000 and \$5,000 for such projects for the three-month periods ended March 31, 2017 and 2018, respectively.



**NOTE 9 - ACQUISITION**

On July 31, 2017, the Company completed the Keytroller Acquisition pursuant to an asset purchase agreement (the “Purchase Agreement”) by and among the Company, Keytroller, Keytroller, LLC, a Florida limited liability company (“Keytroller FL”) and the principals of Keytroller FL party thereto. Consideration for the Keytroller Acquisition included (i) \$7,098,000 in cash paid at closing, (ii) 295,902 shares of our common stock issued at closing with a fair value of \$2,000,000 and (iii) up to \$3,000,000 of shares of our common stock as potential earn-out payments, computed in accordance with the terms of the Purchase Agreement. The potential earn-out payments were estimated at a fair value of \$2,683,000. During the fourth quarter of 2017, the Company paid a post-closing working capital adjustment of \$275,000.

The purchase method of accounting in accordance with ASC805, *Business Combinations*, was applied for the Keytroller Acquisition. This requires the total cost of an acquisition to be allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their respective fair values at the date of acquisition with the excess cost accounted for as goodwill. Goodwill arising from the acquisition is attributable to expected product and sales synergies from combining the operations of the acquired business with those of the Company. The Company recorded \$2,683,000 of contingent consideration based on the estimated financial performance for the two years following closing. The contingent consideration was discounted at an interest rate of 14.6%, which represents the Company’s weighted-average discount rate. During the year ended December 31, 2017, the Company measured the intangibles acquired in the Keytroller Acquisition at fair value on a non-recurring basis. Contingent consideration related to acquisitions are recorded at fair value (level 3) with changes in fair value recorded in other (expense) income, net.

The changes in contingent consideration through March 31, 2018 is as follows:

Balance as of December 31, 2017	\$2,777,000
Change in contingent consideration	56,000
Balance as of March 31, 2018	\$2,833,000

The following table summarizes the purchase price allocation based on estimated fair values of the net assets acquired at the acquisition date:

Accounts receivable	\$835,000
Inventory	1,066,000
Other assets, net	42,000
Intangibles	5,086,000

Goodwill (a)	5,481,000
Less: Current liabilities assumed	(454,000 )
Net assets acquired	\$ 12,056,000

(a) The goodwill is fully deductible for tax purposes, except the contingent consideration which is deductible only when paid.

The results of operations of Keytroller have been included in the condensed consolidated statement of operations as of the effective date of acquisition. The following revenue and operating income of Keytroller are included in the Company's condensed consolidated results of operations:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2018
Revenues	\$ -	\$ 2,007,000
Operating income	\$-	\$ 286,000



The following table represents the combined pro forma revenue and earnings for the three-month period ended March 31, 2017:

	Three Months Ended March 31, 2017	
	Historical	Pro Forma Combined
Revenues	\$7,999,000	\$9,598,000
Operating loss	(1,870,000)	(1,589,000)
Net loss per share - basic and diluted	\$(0.14 )	\$(0.10 )

The combined pro forma revenue and earnings for the three-month period ended March 31, 2017, were prepared as though the Keytroller Acquisition had occurred as of January 1, 2017. The pro forma results do not include any anticipated cost synergies or other effects of the planned integration of Keytroller. This summary is not necessarily indicative of what the results of operations would have been had the Keytroller Acquisition occurred during such period, nor does it purport to represent results of operations for any future periods.

**NOTE 10 - INTANGIBLE ASSETS AND GOODWILL**

The following table summarizes identifiable intangible assets of the Company as of December 31, 2017 and March 31, 2018:

	<b>Useful</b>	<b>Gross</b>		<b>Net</b>
	<b>Lives</b>	<b>Carrying</b>	<b>Accumulated</b>	<b>Carrying</b>
	<b>(In</b>	<b>Amount</b>	<b>Amortization</b>	<b>Amount</b>
	<b>Years)</b>			
Amortized:				
Customer relationships	10	\$3,123,000	(208,000 )	2,915,000
Trademark and tradename	10 - 15	1,367,000	(84,000 )	1,283,000
Patents	11	1,489,000	(1,117,000 )	372,000
Favorable contract interest	5	388,000	(64,000 )	324,000
Covenant not to compete	4	208,000	(28,000 )	180,000
		6,575,000	(1,501,000 )	5,074,000
Unamortized:				
Customer list		104,000	-	104,000
Trademark and Tradename		61,000	-	61,000
		165,000	-	165,000
Total		\$6,740,000	\$ (1,501,000 )	\$5,239,000

	<b>Useful</b>	<b>Gross</b>		<b>Net</b>
	<b>Lives</b>	<b>Carrying</b>	<b>Accumulated</b>	<b>Carrying</b>
	<b>(In</b>	<b>Amount</b>	<b>Amortization</b>	<b>Amount</b>
	<b>Years)</b>			
Amortized:				
Customer relationships	10	\$3,123,000	(130,000 )	2,993,000
Trademark and tradename	10 - 15	1,367,000	(52,000 )	1,315,000
Patents	11	1,489,000	(1,083,000 )	406,000
Favorable contract interest	5	388,000	(40,000 )	348,000

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Covenant not to compete	4	208,000	(18,000 )	190,000
		6,575,000	(1,323,000 )	5,252,000
Unamortized:				
Customer list		104,000	-	104,000
Trademark and Tradename		61,000	-	61,000
		165,000	-	165,000
Total		\$6,740,000	\$ (1,323,000 )	\$5,417,000

Amortization expense for the three-month periods ended March 31, 2017 and 2018 was \$33,000 and \$178,000, respectively. Estimated future amortization expense for each of the five succeeding fiscal years for these intangible assets is as follows:

Year ending December 31:

April - December 2018	\$534,000
2019	712,000
2020	712,000
2021	536,000
2022	462,000
Thereafter	2,118,000
	5,074,000

There have been no changes in the carrying amount of goodwill from January 1, 2018 to March 31, 2018.

## **NOTE 11 - STOCK-BASED COMPENSATION**

### **Stock Option Plans**

The Company 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 1999 Stock Option Plan expired during 2009 and the Company cannot issue additional options under this plan.

The Company adopted the 2007 Equity Compensation Plan, pursuant to which, as amended, the Company may grant options to purchase up to an aggregate of 2,500,000 shares of common stock. The 2007 Equity Compensation Plan expired during 2017 and the Company cannot issue additional options under this plan. The Company also adopted the 2009 Non-Employee Director Equity Compensation Plan, pursuant to which, as amended, the Company may grant options to purchase up to an aggregate of 600,000 shares of common stock. There were 14,000 shares available for future issuance under the 2009 Non-Employee Director Equity Compensation Plan at March 31, 2018. In June 2015, the Company adopted the 2015 Equity Compensation Plan (the “2015 Plan”) pursuant to which the Company may grant stock options, restricted stock and other equity-based awards with respect to up to an aggregate of 1,200,000 shares of common stock. There were 11,000 shares available for future issuance under the 2015 Plan at March 31, 2018. The plans are administered by the Compensation Committee of the Company’s Board of Directors, 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 employee share-based payments in the statement of operations as an operating expense, based on their fair values on the applicable grant date.

The following table summarizes the activity relating to the Company's stock options for the three-month period ended March 31, 2018:

	Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	1,290,000	\$ 5.33		
Granted	-	-		
Exercised	(65,000 )	6.48		
Forfeited or expired	(5,000 )	5.96		
Outstanding at end of period	1,220,000	\$ 5.27	6 years	\$1,167,000
Exercisable at end of period	706,000	\$ 5.08	5 years	\$806,000

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, 2017    2018	
Expected volatility	42.4%	-
Expected life of options (in years)	4	-
Risk free interest rate	1.7	-
Dividend yield	0 %	-
Weighted average fair value of options granted during the period	\$2.11	-

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 Company recorded stock-based compensation expense of \$90,000 and \$100,000, respectively, for the three-month periods ended March 31, 2017 and 2018, in connection with awards made under the stock option plans.

The fair value of options vested during the three-month periods ended March 31, 2017 and 2018 was \$32,000 and \$216,000, respectively. The total intrinsic value of options exercised during the three-month periods ended March 31, 2017 and 2018 was \$337,000 and \$62,000, respectively.

As of March 31, 2018, there was approximately \$857,000 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 2.64 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

The Company grants 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 contractual 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 restricted stock for the three-month period ended March 31, 2018 is as follows:

	Number of Non-vested Shares	Weighted- Average Grant Date Fair Value
Restricted stock, non-vested, beginning of year	430,000	\$ 5.91
Granted	235,000	7.42
Vested	(77,000 )	5.84
Forfeited	(2,000 )	5.90
Restricted stock, non-vested, end of period	586,000	\$ 6.52

The Company recorded stock-based compensation expense of \$443,000 and \$431,000, respectively, for the three-month periods ended March 31, 2017 and 2018, in connection with restricted stock grants. As of March 31, 2018, there was \$2,875,000 of total unrecognized compensation cost related to non-vested shares. That cost is expected to be recognized over a weighted-average period of 3.08 years.

## Performance Shares

In January 2016, the Company granted 295,000 performance shares to employees pursuant to the 2015 Plan. The shares are unvested at the time of grant and, upon vesting, there are no contractual restrictions on the shares. The vesting of the shares is subject to the achievement of performance goals during a two-year period from the date of issuance, with the ability to achieve prorated vesting of the shares during interim annual measurement periods. If the performance goals are not met, the performance shares will not vest and will automatically be returned to the plan. If the performance goals are met, then the shares will be issued to the employees. A summary of all non-vested performance shares for the three-month period ended March 31, 2018 is as follows:



	Number of Non-vested Shares	Weighted- Average Grant Date Fair Value
Performance shares, non-vested, beginning of year	111,000	\$ 4.07
Granted	-	-
Vested	(93,000 )	4.07
Forfeited	(18,000 )	4.07
Performance shares, non-vested, end of period	-	\$ -

The Company recorded stock-based compensation expense of \$180,000 and \$(37,000), respectively, for the three-month periods ended March 31, 2017 and 2018, in connection with the performance share grants.

## **NOTE 12 - STOCKHOLDERS' EQUITY**

### **Public Offering**

On July 17, 2017, the Company closed an underwritten public offering consisting of 2,608,695 shares of common stock at a price per share of \$5.75. In addition, the underwriters of the public offering exercised in full their option to purchase an additional 391,304 shares of common stock. Including this option exercise, the aggregate gross proceeds from the offering of a total of 2,999,999 shares of common stock, before deducting discounts and commissions and offering expenses, were approximately \$17.3 million. Net proceeds from the public offering were approximately \$16.1 million. The Company used a portion of the net proceeds from the offering to fund the Keytroller Acquisition and intends to use the remaining portion of the net proceeds for general corporate purposes.

### **Preferred stock**

The Company is authorized to issue 5,000,000 shares of preferred stock, par value \$0.01 per share. The Company's Board of Directors has the authority to issue shares of preferred stock and to determine the price and terms of those shares. No shares of preferred stock are issued and outstanding.

### **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 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. The Company did not purchase any shares of its common stock under the share repurchase program during the three-month period ended March 31, 2018. As of March 31, 2018, the Company has purchased a total of approximately 310,000 shares of its common stock in open market transactions under the share repurchase program for an aggregate purchase price of approximately \$1,340,000, or an average cost of \$4.33 per share.

### **Shares Withheld**

During the three-month periods ended March 31, 2017 and 2018, 37,000 and 85,000 shares, respectively, of the Company's common stock were withheld to satisfy minimum tax withholding obligations in connection with the vesting of restricted shares and to pay the exercise price of stock options in the aggregate amount of \$216,000 and \$646,000, respectively.

# **NOTE 13 - ACCUMULATED OTHER COMPREHENSIVE LOSS**

Comprehensive loss includes net loss and unrealized gains or losses on available-for-sale investments and foreign currency translation gains and losses. Cumulative unrealized gains and losses on available-for-sale investments are reflected as accumulated other comprehensive loss in stockholders' equity on the Company's Condensed Consolidated Balance Sheets.

The accumulated balances for each classification of other comprehensive loss for the three-month period ended March 31, 2018 are as follows:

	Foreign currency items	Unrealized gain (losses) on investments	Accumulated other comprehensive loss
Balance at January 1, 2018	\$(465,000)	\$ (113,000 )	\$ (578,000 )
Net current period change	(137,000)	(60,000 )	(197,000 )
Balance at March 31, 2018	\$(602,000)	\$ (173,000 )	\$ (775,000 )

The accumulated balances for each classification of other comprehensive loss for the three-month period ended March 31, 2017 are as follows:

	Foreign currency items	Unrealized gain (losses) on investments	Accumulated other comprehensive income
Balance at January 1, 2017	\$(92,000 )	\$ (11,000 )	\$ (103,000 )
Net current period change	(20,000 )	4,000	(16,000 )
Balance at March 31, 2017	\$(112,000)	\$ (7,000 )	\$ (119,000 )

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. Translation gains or losses are reported as components of accumulated other comprehensive income or loss in consolidated stockholders' equity. Net translation gains or losses resulting from the translation of foreign currency financial statements and the effect of exchange rate changes on intercompany transactions of a long-term investment nature with IDS GmbH resulted in translation losses of \$(20,000) and \$(137,000) for the three-month periods ended March 31, 2017 and 2018, respectively, which are included in comprehensive loss in the Consolidated Statement of Changes in Stockholders' Equity. Effective December 1, 2015, the intercompany transactions with IDS GmbH are not considered of a long-term investment nature and the effect of the exchange rate changes subsequent to December 1, 2015 on the intercompany transactions are included selling, general and administrative expenses in the Condensed Consolidated Statement of Operations.

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, 2017 and 2018 of \$62,000 and \$181,000, respectively, are included in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations.

**NOTE 14 - NET LOSS PER SHARE OF COMMON STOCK**

Net loss per share for the three-month periods ended March 31, 2017 and 2018 are as follows:

	Three Months Ended March 31,	
	2017	2018
Basic and diluted loss per share		
Net loss	\$(1,886,000 )	\$(990,000 )
Weighted-average shares outstanding	13,261,000	16,981,000
Basic and diluted net loss per share	\$(0.14 )	\$(0.06 )

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. Dilutive potential common shares include outstanding stock options, warrants and unvested restricted stock and performance shares awards. For the three-month periods ended March 31, 2017 and 2018, the basic and diluted weighted-average shares outstanding are the same, since the effect from the potential exercise of outstanding stock options, warrants and vesting of restricted stock and performance shares of 1,955,000 and 1,806,000, respectively would have been anti-dilutive due to the net loss.

**NOTE 15 - REVOLVING CREDIT FACILITY**

On December 18, 2015, the Company and AI entered into a loan and security agreement (the “Revolver”) with Siena Lending Group LLC. The Revolver provided a revolving credit facility in an aggregate principal amount of up to \$7.5 million and a maturity date of December 18, 2017. Effective August 30, 2017, the Company terminated the Revolver. The Company did not incur an early termination penalty as a result of terminating the Revolver.

**NOTE 16 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consist of the following:

	December 31, 2017	March 31, 2018 (Unaudited)
Accounts payable	\$6,233,000	\$7,524,000
Accrued warranty	535,000	495,000
Accrued severance	100,000	12,000
Accrued compensation	507,000	498,000
Other current liabilities	65,000	67,000
	\$7,440,000	\$8,596,000

Included in accounts payable and accrued expenses at December 31, 2017 and March 31, 2018 is accrued severance of \$100,000 and \$12,000, respectively, to Kenneth Ehrman, the former Chief Executive Officer of the Company.

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, 2017 and March 31, 2018.

The following table summarizes warranty activity for the three-month periods ended March 31, 2017 and 2018:

	<b>Three Months Ended</b>	
	<b>March 31, 2017</b>	<b>2018</b>
Accrued warranty reserve, beginning of period	\$472,000	\$535,000
Accrual for product warranties issued	49,000	23,000
Product replacements and other warranty expenditures	(22,000 )	(33,000 )

Expiration of warranties	(14,000 )	(30,000 )
Accrued warranty reserve, end of period	\$485,000	\$495,000

**NOTE 17 - 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, 2018, 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.

## NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents and investments in securities are carried at fair value. Financing receivables and capital lease obligation 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 19 - CONCENTRATION OF CUSTOMERS

For the three-month period ended March 31, 2018 and as of March 31, 2018, three customers accounted for 17%, 16% and 12% of the Company's revenue and two customers accounted for 20% and 15% of the Company's accounts receivable. Two customers accounted for 17% and 10% of finance receivables as of March 31, 2018.

For the three-month period ended March 31, 2017 and as of March 31, 2017, three customers accounted for 21%, 10% and 10% of the Company's revenue and one customer accounted for 36% of the Company's accounts receivable. One customer accounted for 10% of finance receivables as of March 31, 2017.

## NOTE 20 - WHOLLY OWNED FOREIGN SUBSIDIARIES

The financial statements of the Company's wholly owned German subsidiary, IDS GmbH, and United Kingdom subsidiary, IDS Ltd, are consolidated with the financial statements of I.D. Systems, Inc.

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

	For the Three Months Ended March 31,	
	2017	2018
Net revenue	\$215,000	\$194,000
Net loss	(5,000 )	(44,000 )



Total assets of IDS GmbH were \$1,086,000 and \$1,092,000 as of December 31, 2017 and March 31, 2018, respectively. IDS GmbH operates in a local currency environment using the Euro as its functional currency.

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

	For the Three Months Ended March 31,	
	2017	2018
Net revenue	\$71,000	\$97,000
Net (loss) income	(62,000)	46,000

Total assets of IDS Ltd were \$1,187,000 and \$1,185,000 as of December 31, 2017 and March 31, 2018, respectively. IDS Ltd operates in a local currency environment using the British Pound as its functional currency.

## **NOTE 21 - COMMITMENTS AND CONTINGENCIES**

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

### **Contingencies**

On June 12, 2017, ACF FinCo I LP (“ACF”) filed a lawsuit against the Company in the District Court for Dallas County, Texas. The complaint alleges that ACF is the successor-in-interest to McDonald Technologies International Inc. (“MTI”), one of our former suppliers, and alleges one cause of action for breach of a May 2015 Master Services Agreement pursuant to which the Company purchased certain products manufactured and services rendered by MTI. The complaint seeks approximately \$2.0 million in damages for amounts allegedly due by the Company under this agreement, plus interest and attorney’s fees. On July 7, 2017, the Company filed its answer denying any liability to ACF and asserting various defenses to ACF’s claims against the Company. The lawsuit is currently in active discovery. The Company believes that the lawsuit is without merit and intend to continue to vigorously defend ourselves in this matter.

### **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 months, (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 22 - RECENT ACCOUNTING PRONOUNCEMENTS

In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220)”. The objective of the ASU is to allow a reclassification from accumulated comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting”. The FASB issued the update to provide clarity and reduce the cost and complexity when applying the guidance in Topic 718. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This ASU will be effective for public companies for fiscal years beginning after December 15, 2017, including interim periods. Early adoption is permitted. The adoption of this guidance did not have a material impact on the Company’s financial results.

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Under the amendments in ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The updated guidance requires a prospective adoption. The guidance is effective beginning fiscal year 2021. Early adoption is permitted. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” which requires the inclusion of restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this guidance did not have a material impact on the Company’s financial results.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments,” which provides clarification on how companies present and classify certain cash receipts and cash payments in the statement of cash flows. This ASU will be effective for fiscal periods beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. If an entity early

adopts the amendments in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The adoption of this guidance did not have a material impact on the Company's financial results.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments," which amends the guidance on measuring credit losses on financial assets held at amortized cost. The amendment is intended to address the issue that the previous "incurred loss" methodology was restrictive for an entity's ability to record credit losses based on not yet meeting the "probable" threshold. The new language will require these assets to be valued at amortized cost presented at the net amount expected to be collected with a valuation provision. This update standard is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842), which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The revised guidance must be applied on a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The revised guidance is effective for the Company beginning in the quarter ending March 31, 2019. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 (Topic 606) "Revenue from Contracts with Customers." Topic 606 supersedes the revenue recognition requirements in Topic 605 "Revenue Recognition" (Topic 605), and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. On January 1, 2018, we adopted Topic 606 and all related amendments ("new revenue standard") to those contracts which were not completed as of January 1, 2018 using the modified retrospective method. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. There is no adjustment to the opening balance of retained earnings due to the cumulative effect of initially applying the new revenue standard determined to be immaterial. We expect the impact of the adoption of the new revenue standard to be immaterial to our net income on an ongoing basis. See Note 5 for further details.

## **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, 2017 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](http://www.id-systems.com). The information contained in the Company's website is not incorporated by reference into this report.

### **Overview**

We develop, market and sell wireless machine-to-machine (“M2M”) solutions for managing and securing high-value enterprise assets. These assets include industrial vehicles such as forklifts and 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 and software 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, revenue, productivity and efficiency of their operations.

On July 31, 2017, we, together with our wholly-owned subsidiary Keytroller, LLC, a Delaware limited liability company (“Keytroller”), acquired substantially all of the assets of Keytroller, LLC, a Florida limited liability company (the “Keytroller Acquisition”). The business we acquired in the Keytroller Acquisition develops and markets electronic products for managing forklifts and construction vehicles. The Keytroller Acquisition gives us a full suite of industrial fleet management product offerings capable of covering any sized fleet and budget and provides our industrial truck business more scale, both from a product and revenue standpoint and markets its line of forklift management devices mainly through a network of lift truck dealers, offering solutions for different fleet sizes at a wide range of price points.

We have focused our business activities on three primary business solutions: (i) Industrial Truck Asset Management, (ii) Transportation Asset Management, and (iii) Connected Vehicle Solutions. Our solution for industrial truck asset management allows our customers to reduce operating risks including unsafe activity, facility equipment and goods damage, operational 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 solutions for connected vehicles include unique Internet-of-Things (“IoT”) projects similar to projects we have delivered to Avis Budget Group. These engineering programs help our customers transform their operations. For Avis Budget Group, our rental fleet management platform 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 “car sharing” 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 smart phone or Internet, and charge members for vehicle use by the hour.

To provide an even deeper layer of insights into asset operations, we have developed a cloud-based software application called I.D. Systems Analytics (“Analytics”), which is designed to provide a single, integrated view of asset activity across multiple locations, that provides enterprise-wide benchmarks and peer-industry comparisons for key performance indicators (“KPIs”) relating to the performance of managed assets. Analytics enables values for the KPIs to be calculated and used to identify cost benefit measurements which translate the KPI values into monetized metrics. We expect that our growing database from monitored assets will allow us to create industry benchmarks that can be used to tell our customers how they are performing compared to their peers. We look for Analytics, as well as the data contained therein, to make a growing contribution to revenue, further differentiate and add value to our solutions, and help keep us at the forefront of the wireless asset management markets we serve.

We sell our solutions to both executive, division and site-level management within the enterprise. We also utilize channel partners such as independent dealers and Original Equipment Manufacturers (OEMs) who may opt for us to white label our product. 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.

## **Our Solutions**

We design and implement wireless M2M asset management solutions that deliver both site-level and enterprise-level return on investment for our customers. Our solutions can be targeted to either campus-based assets or “over-the-road” assets.

### **Industrial Truck Asset Management Solutions**

Our asset management solutions for campus-type and wide area-based assets incorporate wireless devices that provide on-board control, location tracking and data processing for enterprise assets, to provide real-time visibility of, and two-way communications with, such assets. These systems provide technological advantages that differentiate them from systems used for inventory, warehouse management and logistics tracking. For example, while inventory tracking systems rely on constant, continuous wireless connectivity to perform core functions, our systems require only periodic wireless communications and, our on-asset devices are designed to perform their core functions autonomously. Our enterprise-class software can run in the cloud or behind our customer’s firewall.

Our campus-based asset management system consists of four principal elements:

miniature wireless programmable computers attached to assets; these wireless devices may communicate via Wi-Fi, via the company's proprietary IRF protocol, or via cellular link;

optional, IRF-based, fixed-position communication infrastructure consisting of network devices with two-way wireless communication capabilities and, optional IRF-based location-emitting beacons for enhanced indoor location calculation;

application-specific middleware servers, which are typically hosted in our data center, but may also be hosted on the customers' local area network (LAN) or enterprise wide area network (WAN); and

proprietary end-user software, which is a user-friendly web application that provides visibility and control of the system database, and which is hosted at the same data center as the middleware. As stated above, our enterprise software is flexible enough to run thousands of customers, sites or assets in either a customer hosted or in the cloud configuration.

Each of these system elements can process and store information independently to create a unique, patented system of "distributed intelligence," which mitigates the risk that a single point of failure could compromise system integrity or data and asset security. Our on-asset hardware stores and processes information locally so that it can autonomously and automatically control the asset and monitor asset activity regardless of the status or availability of other system components. Our on-asset hardware performs its functions even when outside the wireless range of any other system component or if the middleware is unavailable.

Our optional IRF infrastructure devices also independently process data and execute programmable application logic, in addition to linking monitored mobile asset data automatically to our system's middleware. The link to the system's middleware may leverage secure cellular communication, thereby permitting remotely-hosted server software without access to local IT infrastructure.

Our cellular "Hotspot" option allows our products to be outfitted on assets that go beyond campus boundaries such as aviation and construction equipment.

Our middleware applications populate the system's database and is designed to mitigate the effects of any computer outages that could affect real-time availability of the database.

Finally, our client software interfaces only with the database, not directly with our communication infrastructure or on-asset hardware, which restricts access to, and limits corruption of, system information and minimizes network bandwidth usage.





Our solutions for industrial truck asset management allows fleet operators to reduce operating costs and capital expenditures, comply with certain safety regulations and enhance security.

To help improve fleet safety and security, our solutions provide vehicle operator access control to ensure that only trained and authorized personnel are able to use equipment, and impact sensing to assign responsibility for abusive driving.

Our solutions also provide: contactless operator identification; automatic wireless data communications; motion/idle detection, electronic vehicle inspection checklists for paperless compliance with governmental safety regulations; automatic reporting of emerging vehicle safety issues; automatic on-vehicle intervention, such as disabling equipment, in response to user-definable safety and security parameters; and remote vehicle deactivation capabilities, allowing a vehicle to be shut down manually or automatically under user-defined conditions.

In addition, our solutions are compatible with a wide range of electronic driver identification technologies and also provide indoor and outdoor vehicle/operator visibility through a combination of global positioning system (GPS) and RFID technologies, and geo-fencing to restrict vehicles from operating in prohibited areas or issue alerts upon unauthorized entry to such areas. Our solutions also support optional sensing elements to provide additional vehicle utilization data, including load detection data, battery data and activity meter data.

To analyze and benchmark vehicle utilization and operator productivity, our solutions automatically record a wide range of activity and enable detailed performance comparisons to help management make informed decisions about vehicle and manpower allocations. This can lead to operating cost savings through fleet and personnel reductions as well as increases in productivity. Our solutions also provide real-time and historical visibility of vehicle movements and other advanced asset management options.

To help reduce fleet maintenance costs, our solutions can automate and enforce preventative maintenance scheduling by:

wirelessly uploading usage data from each vehicle;

defining various intervals and criteria for performing preventative maintenance;

automatically prioritizing maintenance events based on weighted, user-defined variables;

reporting in advance on vehicles with impending preventative maintenance events coming due;

automatically sending reminders to individual vehicles or operators via the system's text messaging module; and enabling remote lock-out of vehicles overdue for maintenance.

Our solutions also enable maintenance personnel to locate and retrieve vehicles due for service via the system's optional graphical viewer software and can provide automatic data feeds to our customers' existing enterprise maintenance software systems.

A specialized application of our solution in the industrial fleet management and security market is vehicle security, particularly at airports, seaports and other areas of critical infrastructure. The airport market-specific version of our system is called AvRamp®, referencing the aviation industry and the ramp area at airports in which aircraft servicing equipment operates. To date, the most significant commercial deployment of the AvRamp system has been on fleets of aircraft ground support equipment at Newark Liberty International Airport for United Airlines and Chicago O'Hare International Airport and Dallas-Fort Worth International Airport for AMR Corporation (American Airlines and American Eagle Airlines).

## **Transportation Asset Management Solutions**

Our mobile systems for managing remote, “over-the-road” assets are provided by our Asset Intelligence subsidiary. These systems provide mobile-asset tracking and condition-monitoring solutions to meet the transportation market’s desire for greater visibility, safety, security, and productivity throughout global supply chains. By leveraging a combination of cellular and satellite communications and web-based data management technologies, the Asset Intelligence VeriWise product family provides shippers and carriers with tools to better manage their trailer and container fleets, freight transport operations, and maintenance controls. VeriWise systems enable quick access to actionable intelligence that results in better utilization, control, and security of our customers’ freight-carrying assets.

Our transportation asset management systems consist of five principal elements:

- cellular or satellite communicators attached to assets;

- GPS receivers that provide latitude/longitude location fixes that are transmitted based on logic resident in the communicator;

- proprietary browser-based graphical user interface that provides visibility and two-way control of the system database (the data can also be transmitted to the customer via XML or web services data feed);

- patented power management intelligence to ensure reliable system performance in a power-starved environment; and

- several sensor types, including cargo, motion, light, and tire inflation, that provide additional status information for the remote asset.

To increase asset utilization, our VeriWise system can reduce the number of assets needed and/or increase the revenue generated per asset by:

- monitoring asset pool size based on user-defined requirements;

- generating dormancy reports to flag under-utilized assets;

- alerting the driver to the location of the closest empty asset, resulting in a more rapid pick-up; and

- providing trailer detention alerts when an asset has exceeded the time allotted for unloading.

To better control remote assets, our VeriWise system provides:

change in cargo status of an asset via our patented full-length cargo sensor;

geo-fencing that alerts the customer when an asset is approaching or leaving its destination; and

on-board intelligence utilizing a motion sensor and proprietary logic that identifies the beginning of a drive and the end of a drive.

To help improve asset and cargo security, our VeriWise system offers the following capabilities:

asset lockdown, which automatically sends an e-mail or text message to the customer when movement is detected outside of user-defined time periods;

emergency track functionality that can be enabled to track an asset at more frequent intervals if a theft condition is expected; and

geo-fencing, which can alert our customer when an asset enters a prohibited geography or location.

### ***Connected Vehicle Solutions***

In our connected vehicle solutions, we engage customers on unique IoT, M2M challenges that enable them to have considerable competitive advantage or to improve revenue or decrease their costs of operations.

Our second major telematics development for Avis Budget Car Rental, LLC (“ABCR”), a subsidiary of Avis Budget Group, includes the development of a Unified Telematics Platform (“UTP”) and deployment of 50,000 units. This solution supports several modes of operation: traditional, manned lot operations, such as at airports; remote, unmanned lots, such as designated street-level rental ‘pods’ and parking spaces; and the emerging ‘rent anywhere’ model. The initial shipments and installation of 50,000 units is planned for early 2018.

Our first program with ABCR resulted in the deployment of 30,000 units for automated check-in/check-out and capturing customer billing using accurate fuel and odometer readings over the five-year term of the agreement. These 30,000 devices were cost-effectively installed and reinstalled annually by the ABCR personnel throughout the contract term.

For traditional rental fleet management, our system is designed both to enhance the consumer’s rental experience and benefit the rental company by providing information that can be used to increase revenues, reduce costs and improve customer service. Our rental fleet management system automatically uploads vehicle identification number, mileage and fuel data as a vehicle enters and exits the rental lot, which can significantly expedite the rental and return processes for travelers and provide the rental company with more timely inventory status, more accurate billing data that can generate higher fuel-related revenue, and an opportunity to utilize customer service personnel for more productive activities, such as inspecting vehicles for damage and helping customers with luggage.

Our solution for “car sharing” permits a rental car company to remotely control, track and monitor their rental vehicles wherever they are parked. Whether for traditional ‘pod-based’ rental or for the emerging rent-anywhere model, the system also (i) manages member reservations by smart phone or Internet, and (ii) charges members for vehicle use by the hour. The entire process - from remotely controlling the car door locks to tracking car mileage and fuel consumption to billing for the transaction - is automatically conducted by an integration of wireless vehicle management technology and the rental company’s fleet management software.

### **Analytics**

PowerFleet IQ (for fleets of forklifts and other industrial trucks) and VeriWise IQ (for fleets of containers, trailers and other transportation assets) provide our customers with a holistic view of their asset activity across an enterprise supply chain.

These cloud-based software applications provide a single, integrated view of industrial asset activity across multiple locations, generating enterprise-wide benchmarks, peer-industry comparisons, and deeper insights into asset operations. Analytics PowerFleet IQ and VeriWise IQ can enable management to make more informed, effective decisions, raise asset performance standards, increase productivity, reduce costs, and enhance safety.

Specifically, I.D. Systems Analytics PowerFleet IQ and VeriWise IQ allow users to:

- Quantify best-practice enterprise benchmarks for industrial asset utilization and safety;

- Reveal variations and inefficiencies in asset activity across both sites and geographic regions;

- Identify opportunities to eliminate or reallocate assets, with full enterprise awareness, to reduce capital and operating costs;

- Help balance asset mix and inform acquisition decisions;

- Uncover activity trends over time to forecast asset requirements; and

- Enable performance comparisons to broad, industry-specific benchmarks.

We look for Analytics and the data contained therein to make a growing contribution to revenue, further differentiate and add value to our solutions, and help keep us at the forefront of the wireless asset management markets we serve, although there can be no assurance if and to what extent Analytics will do so.

## Risks to Our Business

During the three-month period ended March 31, 2018, we generated revenues of \$13.4 million, and Avis Budget Group, Inc., Toyota Industries Corporation and Wal-Mart Stores, Inc. accounted for 17%, 16% and 12% of our revenues, respectively. During the three-month period ended March 31, 2017, we generated revenues of \$8.0 million, and Wal-Mart Stores, Inc., Ford Motor Company and the Raymond Corporation accounted for 21%, 10% and 10% 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.

As of March 31, 2018, we had cash (including restricted cash), cash equivalents and marketable securities of \$14.3 million and working capital of \$11.5 million. The Company's primary sources of cash are cash flows from operating activities and the Company's holdings of cash, cash equivalents and investments from the sale of common stock. To date, the Company has not generated sufficient cash flow solely from operating activities, although we had positive cash flows in 2017, to fund its operations.

We believe our available working capital, anticipated level of future revenues, expected cash flows from operations and net proceeds we raised from an underwritten public offering that closed on July 17, 2017 will provide sufficient funds to cover capital requirements for at least the next twelve months.

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, 2017.

### **Critical Accounting Policies**

For the three-month period ended March 31, 2018, there were no significant changes to the Company's critical accounting policies as identified in our Annual Report on Form 10-K for the year ended December 31, 2017, except as noted in Note 5 of the Notes to our Unaudited Condensed Consolidated Financial Statements, the Company adopted the new accounting standard on revenue recognition, ASU No. 2014-09 (Topic 606) "Revenue from Contracts with Customers", which became effective on January 1, 2018.

## Results of Operations

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	2017	2018
Revenue:		
Products	54.2 %	74.0 %
Services	45.8	26.0
	100.0	100.0
Cost of revenue:		
Cost of products	35.2	43.7
Cost of services	12.9	8.0
	48.1	51.7
Gross profit	51.9	48.3
Operating expenses:		
Selling, general and administrative expenses	58.2	42.6
Research and development expenses	17.1	13.0
	75.3	55.6
Loss from operations	(23.4 )	(7.3 )
Interest income	0.7	0.6
Interest expense	(0.9 )	(0.4 )
Other income	-	(0.2 )
Net loss	(23.6 )%	(7.3 )%

**Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017**

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2018</b>
Product revenue:		
Industrial truck asset management	\$2,718,000	\$6,176,000
Transportation asset management	1,616,000	1,466,000
Connected vehicles	-	2,256,000
	4,334,000	9,898,000
Services revenue:		
Industrial truck asset management	1,370,000	1,444,000
Transportation asset management	2,117,000	2,004,000
Connected vehicles	178,000	33,000
	3,665,000	3,481,000
	\$7,999,000	\$13,379,000

**REVENUES.** Revenues increased by approximately \$5.4 million, or 67.3%, to \$13.4 million in the three months ended March 31, 2018 from \$8.0 million in the same period in 2017. The increase in revenue is attributable to increases in total industrial truck asset management revenue of approximately \$3.5 million to \$7.6 million in 2018 from \$4.1 million in 2017 and total connected vehicles revenue of approximately \$2.1 million to \$2.3 million in 2018 from \$0.2 million in 2017, partially offset by a decrease in total transportation asset management revenue of approximately \$0.3 million to \$3.5 million in 2017 from \$3.7 million in 2017.

Revenues from products increased by approximately \$5.6 million, or 128.4%, to \$9.9 million in the three months ended March 31, 2018 from \$4.3 million in the same period in 2017. Industrial truck asset management product revenue increased by approximately \$3.5 million to \$6.2 million in 2018 from \$2.7 million in 2017. The increase in industrial truck asset management product revenue resulted principally from approximately \$2.0 million in product sales from Keytroller and increased product sales of \$1.8 million to Toyota Industries Corporation. Connected vehicles product revenue increased to approximately \$2.3 million in 2018 for units shipped during the first quarter of 2018 under SOW#4 with ABCR. Transportation asset management product revenue decreased by approximately \$0.1 million to \$1.5 million in 2018 from \$1.6 million in 2017. The decrease in transportation asset management product revenue resulted principally from decreased product revenue of approximately \$0.2 million to the Swift Transportation Co.

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Revenues from services decreased by approximately \$0.2 million, or 5.0%, to \$3.5 million in the three months ended March 31, 2018 from \$3.7 million in the same period in 2017. Industrial truck asset management service revenue of approximately \$1.4 million in 2018 remained generally consistent with 2017. Connected vehicles service revenue decreased by approximately \$0.1 million to \$0.1 million in 2018 from \$0.2 million in 2017 as the service billing has not commenced for the majority of the units shipped during the first quarter of 2018 under SOW#4 with ABCR. Transportation asset management service revenue decreased by approximately \$0.1 million to \$2.0 million in 2018 from \$2.1 million in 2017 principally due to a decrease in revenue per active units.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	2017	2018
Cost of products:		
Industrial truck asset management	\$ 1,516,000	\$ 2,825,000
Transportation asset management	1,299,000	1,247,000
Connected vehicles	-	1,770,000
	2,815,000	5,842,000
Cost of services:		
Industrial truck asset management	406,000	493,000
Transportation asset management	594,000	537,000
Connected vehicles	34,000	45,000
	1,034,000	1,075,000
	\$3,849,000	\$6,917,000

**COST OF REVENUES.** Cost of revenues increased by approximately \$3.1 million, or 79.7%, to \$6.9 million in the three months ended March 31, 2018 from \$3.8 million for the same period in 2017. Gross profit was \$6.5 million in three months ended March 31, 2018 compared to \$4.2 million for the same period in 2017. As a percentage of revenues, gross profit decreased to 48.3% in 2018 from 51.9% in 2017.

Cost of products increased by approximately \$3.0 million, or 107.5%, to \$5.8 million in the three months ended March 31, 2018 from \$2.8 million in the same period in 2017. Gross profit for products was \$4.1 million in 2018 compared to \$1.5 million in 2017. The increase in the product revenue gross profit was attributable to an increase of approximately \$2.1 million in the industrial truck asset management gross profit to \$3.4 million in 2018 from \$1.2 million in 2017 and a decrease in the transportation asset management gross profit of approximately \$0.1 million to \$0.2 million in 2018 from \$0.3 million in 2017. The connected vehicles product revenue gross profit was \$0.5 million in 2018 from units shipped during the first quarter of 2018 under SOW#4 with ABCR. As a percentage of product revenues, gross profit increased to 41.0% in 2018 from 35.0% in 2017. The increase in gross profit as a percentage of product revenue was due to an increase in the industrial truck asset management gross profit percentage to 54.3% in 2018 from 44.2% in 2017, which was principally due to a reduction in production expenses. Connected vehicles product revenue gross profit percentage was 21.5% in 2018. The transportation asset management product revenue gross profit percentage decreased to 14.9% in 2017 from 19.6% in 2017 principally from lower hardware unit prices.

Cost of services increased by approximately \$0.1 million, or 4.0%, to \$1.1 million in the three months ended March 31, 2018 from \$1.0 million in the same period in 2017. Gross profit for services was \$2.4 million in 2018 compared to \$2.6 million in 2017. The decrease in the service revenue gross profit was attributable to a decrease of approximately \$0.2 million in the connected vehicles gross profit to \$-0- in 2018 from \$0.1 million in 2017 as the service billing has not commenced for the majority of the units shipped during the first quarter of 2018 under SOW#4 with ABCR. The industrial truck asset management service revenue gross profit of \$1.0 million in 2018 remained generally consistent with the 2017 gross profit. The transportation asset management gross profit of approximately \$1.5 million in 2018 remained generally consistent with the 2017 gross profit. As a percentage of service revenues, gross profit decreased to 69.1% in 2018 from 71.8% in 2017. The industrial truck asset management service revenue gross profit percentage decreased to 65.9% in 2018 from 70.4% in 2017 principally due to an increase in communications and installation expenses. The connected vehicles service revenue gross profit percentage decreased to (36.4)% in 2018 from 80.9% in 2017 as the service billing has not commenced for the majority of the units shipped during the first quarter of 2018 under SOW#4 with ABCR. The transportation asset management service revenue gross profit percentage increased to 73.2% in 2018 from 71.9% in 2017 principally due to lower communication expenses.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased by approximately \$1.0 million, or 22.4%, to approximately \$5.7 million in the three months ended March 31, 2018 compared to \$4.7 million in the same period in 2017 principally due to approximately \$0.6 million in selling, general and administrative expenses from Keytroller, \$0.2 million increase in marketing expenses and \$0.2 million increase in acquisition related professional fees. As a percentage of revenues, selling, general and administrative expenses decreased to 42.6% in the three months ended March 31, 2018 from 58.2% in the same period in 2017, primarily due to the increase in revenue from 2017 to 2018.

*RESEARCH AND DEVELOPMENT EXPENSES.* Research and development expenses increased by approximately \$0.4 million, or 27.5%, to approximately \$1.7 million in the three months ended March 31, 2018 compared to \$1.4 million in the same period in 2017 principally due to an increase in new product development expenses. As a percentage of revenues, research and development expenses decreased to 13.0% in the three months ended March 31, 2018 from 17.1% in the same period in 2017, primarily due to the increase in revenue from 2017 to 2018.

*NET LOSS.* Net loss was \$1.0 million, or \$(0.06) per basic and diluted share, for the three months ended March 31, 2018 as compared to net loss of \$1.9 million, or \$(0.14) per basic and diluted share, for the same period in 2017. The decrease in the net loss was due primarily to the reasons described above.

## **Liquidity and Capital Resources**

Historically, 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. As of March 31, 2018, we had cash (including restricted cash), cash equivalents and marketable securities of \$14.3 million and working capital of \$11.5 million, compared to cash (including restricted cash), cash equivalents and marketable securities of \$16.9 million and working capital of \$10.1 million as of December 31, 2017.

On May 12, 2017, we filed a shelf registration statement on Form S-3 that was declared effective by the Securities and Exchange Commission (the “SEC”) on May 18, 2017. Pursuant to the shelf registration statement, we may offer to the public from time to time, in one or more offerings, up to \$60.0 million of our common stock, preferred stock, warrants, debt securities, and units, or any combination of the foregoing, at prices and on terms to be determined at the time of any such offering. The specific terms of any future offering will be determined at the time of the offering and described in a prospectus supplement that will be filed with the SEC in connection with such offering.

On July 17, 2017, we closed an underwritten public offering consisting of 2,608,695 shares of common stock at a price per share of \$5.75. In addition, the underwriters of the public offering exercised in full their option to purchase an additional 391,304 shares of common stock. Including this option exercise, the aggregate gross proceeds from the offering of a total of 2,999,999 shares of common stock, before deducting discounts and commissions and offering expenses, were approximately \$17.3 million. Net proceeds from the public offering were approximately \$16.1 million. We used approximately \$7.1 million of the net proceeds from the offering to fund the Keytroller Acquisition and intend to use the remaining portion of the net proceeds for general corporate purposes.

### ***Capital Requirements***

As of March 31, 2018, we had cash (including restricted cash), cash equivalents and marketable securities of \$14.3 million and working capital of \$11.5 million. Our primary sources of cash are cash flows from operating activities and our holdings of cash, cash equivalents and investments from the sale of common stock. To date, we have not generated sufficient cash flow solely from operating activities to fund our operations.

We believe our available working capital, anticipated level of future revenues and expected cash flows from operations will provide sufficient funds to cover capital requirements for at least May 15, 2019.

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.



### ***Operating Activities***

Net cash used in operating activities was \$2.1 million for the three-month period ended March 31, 2018, compared to net cash provided by operating activities of \$2.3 million for the for the same period in 2017. The net cash provided by operating activities for the three-month period ended March 31, 2018 reflects a net loss of \$1.0 million and includes non-cash charges of \$0.5 million for stock-based compensation and \$0.4 million for depreciation and amortization expense. Changes in working capital items included:

an increase in accounts receivables of \$0.8 million;

an increase in prepaid expenses and other assets of \$2.0 million, primarily due to a \$2.0 million deposit to a contract manufacturer;

a decrease in deferred costs of \$0.4 million;

a decrease in deferred revenue of \$0.8 million; and

an increase in accounts payable and accrued expenses of \$1.2 million, primarily due to the timing of payments to our vendors.

### ***Investing Activities***

Net cash provided by investing activities was \$1.9 million for the three-month period ended March 31, 2018, compared to net cash used in investing activities of \$0.6 million for the same period in 2017. The change from the same period in 2017 was primarily due to net proceeds from the sale of investment of approximately \$2.0 million in 2018.

### ***Financing Activities***

Net cash used in financing activities was \$0.2 million for the three-month period ended March 31, 2018, compared to net cash used in financing activities of \$0.6 million for the same period in 2017. The change from the same period in 2017 was primarily due to net repayments of \$1.7 million of the revolving credit facility in 2017, and a net decrease in proceeds from the exercise of stock options of \$1.0 million from 2017.

### **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, 2018, 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, 2017, except as noted below.

### **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 22 (entitled “RECENT ACCOUNTING PRONOUNCEMENTS”) of the Notes to our Unaudited 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 risks in the form of changes in corporate income tax rates, which risks are currently immaterial to us.

The Company has international operations, giving rise to exposure to market risks from changes in foreign exchange rates. The Company faces both translation and transaction risks related to foreign currency exchange. Our results of operations and cash flows are subject to fluctuations in the Euro and British Pound Sterling against the United States Dollar ("USD"). Our statement of operations and balance sheet accounts are also impacted by the re-measurement of non-functional currency transactions such as USD denominated intercompany loans, cash accounts held by our overseas subsidiaries, accounts receivable denominated in foreign currencies, and accounts payable denominated in foreign currencies. These exposures may change over time as business practices evolve and economic conditions change. Changes in foreign currency exchange rates could have an adverse impact on our financial results and cash flows. An assumed one percent adverse change in foreign currency exchange rates would result in losses of approximately \$49,000 for the three-month period ended March 30, 2018.

For the three-month periods ended March 31, 2017 and 2018 revenues denominated in foreign currencies were approximately 3.6% and 2.2%, respectively. Cumulative foreign currency translation losses of \$(20,000) and \$(137,000) related to the Company's German and United Kingdom subsidiaries are included in accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet at March 31, 2017 and 2018, respectively. The aggregate foreign currency transaction exchange rate gains included in loss before income taxes were \$62,000 and \$181,000 for the three-month periods ended March 31, 2017 and 2018, respectively.

We also 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. We also are subject to market risks from changes in equity prices of equity securities we hold in our investment portfolio, which risks currently are immaterial to us. As of March 31, 2018, we had cash (including restricted cash), cash equivalents and investments of \$14.3 million.

Our cash (including restricted 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, 2018, the carrying value of our cash and cash equivalents approximated fair value. 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 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.**

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”)) are controls and other procedures that are designed to ensure that 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 the rules and forms of the Securities and Exchange Commission (the “SEC”). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. 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 a 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. Controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

As of March 31, 2018, we carried out an evaluation, with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, in ensuring that 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 the SEC’s rules and forms and is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

On July 31, 2017, we completed the Keytroller Acquisition. We are currently in the process of integrating policies, processes, people, technology and operations for the combined companies. In accordance with SEC staff guidance permitting a company to exclude an acquired business from management’s assessment of the effectiveness of internal control over financial reporting for the year in which the acquisition is completed, we have excluded the business that we acquired in the Keytroller Acquisition from our assessment of the effectiveness of internal control over financial reporting as of March 31, 2018. As of and for the three-month period ended March 31, 2018, Keytroller had totals asset of \$13,709,000, revenues of \$2,007,000 and net income of \$286,000.

**b. Changes in internal control over financial reporting.**

There was no change, other than the integration of Keytroller, in our system of internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the quarter ended March 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We implemented internal controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new accounting standard related to revenue recognition on our financial statements to facilitate its adoption on January 1, 2018. There were no significant changes to our internal control over financial reporting due to the adoption of the new standard.

## **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. On June 12, 2017, ACF FinCo I LP (“ACF”) filed a lawsuit against us in the District Court for Dallas County, Texas. The complaint alleges that ACF is the successor-in-interest to McDonald Technologies International Inc. (“MTI”), one of our former suppliers, and alleges one cause of action for breach of a May 2015 Master Services Agreement pursuant to which we purchased certain products manufactured and services rendered by MTI. The complaint seeks approximately \$2.0 million in damages for amounts allegedly due by us under this agreement, plus interest and attorney’s fees. On July 7, 2017, we filed our answer denying any liability to ACF and asserting various defenses to ACF’s claims against us. The lawsuit is currently in active discovery. We believe that the lawsuit is without merit and intend to continue to vigorously defend ourselves in this matter.

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, 2017.

### **Item 1A. Risk Factors**

In addition to the other information set forth under the heading “Risks to Our Business” in Part 1, Item 2 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, 2017, as such factors could materially affect the Company’s business, financial condition, and future results. In the three months ended March 31, 2018, 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 provides information regarding our common stock repurchases under our publicly announced share repurchase program, shares withheld for taxes due upon vesting of restricted stock and to pay the exercise price of stock options exercised for each month of the quarterly period ended March 31, 2018. As the table indicates, the Company did not make any share repurchases under the share repurchase program during the quarterly period ended March 31, 2018.

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, 2018 - January 31, 2018	31,000	(1) \$ 7.16	-	\$ 1,660,000
February 1, 2018 - February 28, 2018	51,000	(2) \$ 7.87	-	1,660,000
March 1, 2018 - March 31, 2018	3,000	(3) 6.84	-	1,660,000
Total	85,000	\$ 7.60	-	\$ 1,660,000

(1) Represents shares of common stock withheld to satisfy minimum tax withholding obligations in connection with the vesting of restricted stock during January 2018.

(2) Represents shares of common stock withheld to satisfy minimum tax withholding obligations in connection with the vesting of restricted stock and to pay the exercise price of stock options exercised during February 2018.

(3) Represents shares of common stock withheld to satisfy minimum tax withholding obligations in connection with the vesting of restricted stock during March 2018.



## Item 6. Exhibits

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

### Exhibits:

Exhibit Number	Description
31.1	<u>Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32	<u>Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. §1305 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*</u>
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.

## 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.

Date: May 14, 2018 By: */s/ Chris A. Wolfe*  
Chris A. Wolfe  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 14, 2018 By: */s/ Ned Mavrommatis*  
Ned Mavrommatis  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

## INDEX TO EXHIBITS

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\* Furnished herewith.

