

U.S. 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: September 30, 2006

or

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

For the transition period from _____ to _____

Commission File Number: 1-15087

I.D. SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

22-3270799

(I.R.S. Employer Identification No.)

One University Plaza, Hackensack, New Jersey 07601

(Address of principal executive offices) (Zip Code)

(201) 996-9000

(Issuer'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) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer, see definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 outstanding of the registrant's Common Stock, \$0.01 par value, as of the close of business on November 6, 2006 was 11,269,000.

INDEX
I.D. Systems, Inc.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.	<u>Page</u>
Condensed Balance Sheets as of December 31, 2005 and September 30, 2006 (unaudited)	1
Condensed Statement of Operations (unaudited) - for the three months and nine months ended September 30, 2005 and 2006	2
Condensed Statement of Cash Flows (unaudited) - for the nine months ended September 30, 2005 and 2006	3
Notes to Condensed Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Item 3. Quantitative and Qualitative Disclosures About Market Risk	16
Item 4. Controls and Procedures	16
PART II - OTHER INFORMATION	
Item 1a. Risk Factors	17
Item 6. Exhibits	17
Signatures	18

PART I - FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

**I.D. Systems, Inc.
Condensed Balance Sheets**

	December 31, 2005	September 30, 2006 (Unaudited)
	<hr/>	<hr/>
ASSETS		
Cash and cash equivalents	\$ 2,138,000	\$ 9,173,000
Investments available for sale	5,463,000	60,219,000
Accounts receivable, net	6,068,000	7,529,000
Unbilled receivables	1,293,000	2,191,000
Inventory	2,952,000	5,124,000
Investment in sales type leases	34,000	--
Interest receivable	--	24,000
Officer loan	11,000	11,000
Prepaid expenses and other current assets	140,000	384,000
	<hr/>	<hr/>
Total current assets	18,099,000	84,655,000
Fixed assets, net	1,159,000	1,368,000
Investment in sales type leases	433,000	--
Officer loan	8,000	--
Deferred contract costs	53,000	--
Other assets	88,000	87,000
	<hr/>	<hr/>
	\$ 19,840,000	\$ 86,110,000
	<hr/>	<hr/>
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,881,000	\$ 2,840,000
Long term debt – current portion	209,000	218,000
Deferred revenue	155,000	169,000
	<hr/>	<hr/>
Total current liabilities	4,245,000	3,227,000
Long term debt	240,000	75,000
Deferred revenue	90,000	159,000
Deferred rent	99,000	83,000
	<hr/>	<hr/>
Total liabilities	4,674,000	3,544,000
	<hr/>	<hr/>
STOCKHOLDERS' EQUITY		
Preferred stock; authorized 5,000,000 shares, \$.01 par value; none issued	--	--
Common stock; authorized 50,000,000 shares, \$.01 par value; issued and outstanding 7,851,000 shares and 11,262,000 shares	79,000	112,000
Additional paid-in capital	25,735,000	92,164,000
Accumulated deficit	(10,535,000)	(9,597,000)
	<hr/>	<hr/>
Treasury stock; 40,000 shares at cost	(113,000)	(113,000)
	<hr/>	<hr/>
Total stockholders' equity	15,166,000	82,566,000
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 19,840,000	\$ 86,110,000
	<hr/>	<hr/>

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2006	2005	2006
Revenue:				
Product	\$ 4,363,000	\$ 5,751,000	\$ 10,595,000	\$ 14,465,000
Service	1,379,000	2,323,000	2,379,000	6,361,000
	<u>5,742,000</u>	<u>8,074,000</u>	<u>12,974,000</u>	<u>20,826,000</u>
Cost of Revenue:				
Cost of product	2,588,000	2,995,000	5,619,000	7,245,000
Cost of service	566,000	1,504,000	1,122,000	3,930,000
	<u>3,154,000</u>	<u>4,499,000</u>	<u>6,741,000</u>	<u>11,175,000</u>
Gross Profit	2,588,000	3,575,000	6,233,000	9,651,000
Selling, general and administrative expenses	1,624,000	3,162,000	4,928,000	8,820,000
Research and development expenses	398,000	673,000	1,135,000	1,726,000
Income (loss) from operations before interest and other income	566,000	(260,000)	170,000	(895,000)
Interest income	51,000	860,000	179,000	1,741,000
Interest expense	(14,000)	(6,000)	(43,000)	(23,000)
Other income	38,000	38,000	113,000	115,000
Net income	<u>\$ 641,000</u>	<u>\$ 632,000</u>	<u>\$ 419,000</u>	<u>\$ 938,000</u>
Net income per share – basic	<u>\$ 0.08</u>	<u>\$ 0.06</u>	<u>\$ 0.05</u>	<u>\$ 0.09</u>
Net income per share – diluted	<u>\$ 0.07</u>	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.08</u>
Weighted average common shares outstanding – basic	<u>7,800,000</u>	<u>11,202,000</u>	<u>7,745,000</u>	<u>10,238,000</u>
Weighted average common shares outstanding – diluted	<u>9,448,000</u>	<u>12,871,000</u>	<u>9,246,000</u>	<u>11,991,000</u>

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

	Nine months ended September 30,	
	2005	2006
Cash flows from operating activities:		
Net income	\$ 419,000	\$ 938,000
Adjustments to reconcile net income to cash used in operating activities:		
Inventory reserve	75,000	--
Accrued interest income	35,000	(41,000)
Stock-based compensation	--	1,783,000
Depreciation and amortization	266,000	344,000
Deferred rent	(7,000)	(16,000)
Deferred revenue	6,000	83,000
Deferred contract costs	303,000	53,000
Changes in:		
Accounts receivable	(4,507,000)	(1,461,000)
Unbilled receivables	(2,355,000)	(898,000)
Inventory	(403,000)	(2,172,000)
Prepaid expenses and other assets	52,000	(243,000)
Investment in sales type leases	29,000	467,000
Accounts payable and accrued expenses	342,000	(1,041,000)
Net cash used in operating activities	(5,745,000)	(2,204,000)
Cash flows from investing activities:		
Purchase of fixed assets	(424,000)	(553,000)
Purchase of investments	(500,000)	(58,103,000)
Maturities of investments	2,953,000	3,364,000
Collection of officer loan	8,000	8,000
Net cash provided by (used in) investing activities	2,037,000	(55,284,000)
Cash flows from financing activities:		
Repayment of term loan	(148,000)	(156,000)
Proceeds from exercise of stock options	698,000	718,000
Net proceeds from stock offering	--	63,961,000
Net cash provided by financing activities	550,000	64,523,000
Net (decrease) increase in cash and cash equivalents	(3,158,000)	7,035,000
Cash and cash equivalents - beginning of period	8,440,000	2,138,000
Cash and cash equivalents - end of period	\$ 5,282,000	\$ 9,173,000
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ 43,000	\$ 23,000

I.D. Systems, Inc.
Notes to Condensed Financial Statements
September 30, 2006

NOTE A - Basis of Reporting

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the financial position of I.D. Systems, Inc. (the "Company") as of September 30, 2006, the results of its operations for the three month and nine month periods ended September 30, 2005 and 2006 and cash flows for the nine month periods ended September 30, 2005 and 2006. The results of operations for the three month and nine month periods ended September 30, 2006 are not necessarily indicative of the operating results for the full year. It is suggested that these financial statements be read in conjunction with the financial statements and related disclosures for the year ended December 31, 2005 included in the Company's Annual Report on Form 10-K.

NOTE B – 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.

NOTE C – Investment Available For Sale

Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available for sale along with the Company's investments in certificate of deposits and mutual funds. Securities that are classified as available for sale are carried at fair value, with the unrealized gains and losses reported as a separate component of stockholders' equity. Management determines the appropriate classification of its investments at the time of purchase and reevaluates such determination at each balance sheet date.

NOTE D – Inventory

Inventory, which consists of components for the Company's products and finished goods to be shipped to customers under existing orders, is stated at the lower of cost using the first-in first-out method or market. As of September 30, 2006, the Company's inventory consisted of components of approximately \$530,000 and finished goods of approximately \$4,594,000.

NOTE E –Unbilled Receivables

Under certain customer contracts, the Company invoices progress billings once certain milestones are met. As the systems are delivered, and services are performed and all of the criteria for revenue recognition are satisfied, the Company recognizes revenue. The difference between revenue recognized for financial reporting purposes and amounts invoiced is recorded as unbilled receivables or deferred revenue. At December 31, 2005 and September 30, 2006, unbilled receivables were \$1,293,000 and \$2,191,000 respectively, primarily relating to one customer.

NOTE F - Earnings Per Share of Common Stock

Earnings per share for the three months and nine months ended September 30, 2005 and 2006 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2006	2005	2006
Basic earnings per share				
Net income	\$ 641,000	\$ 632,000	\$ 419,000	\$ 938,000
Weighted average shares outstanding	7,800,000	11,202,000	7,745,000	10,238,000
Basic earnings per share	\$ 0.08	\$ 0.06	\$ 0.05	\$ 0.09
Diluted earnings per share				
Net income	\$ 641,000	\$ 632,000	\$ 419,000	\$ 938,000
Weighted average shares outstanding	7,800,000	11,202,000	7,745,000	10,238,000
Dilutive effect of stock options	1,648,000	1,669,000	1,501,000	1,753,000
Weighted average shares outstanding, diluted	9,448,000	12,871,000	9,246,000	11,991,000
Diluted earnings per share	\$ 0.07	\$ 0.05	\$ 0.05	\$ 0.08

Basic income per share is based on the weighted average number of common shares outstanding during each period. Diluted income 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. Options to purchase 266,000 and 241,000 shares of common stock were outstanding for the three month and nine month periods ended September 30, 2006, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares during the period and, therefore, the effect would be anti-dilutive.

NOTE G – Revenue Recognition

The Company's revenues are derived from contracts with multiple element arrangements, which include the Company's system, training and technical support. Revenue is recognized as each element is earned based on the selling price of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements. The Company's system is typically implemented by the customer or a third party and, as a result, revenue is recognized when title and risk of loss passes to the customer, which usually is upon delivery of the system, pervasive evidence of an arrangement exists, sales price is fixed and determinable, collectibility is reasonably assured and contractual obligations have been satisfied. Training and technical support revenue are generally recognized at time of performance.

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

The Company also derives revenues under leasing arrangements. Such arrangements provide for monthly payments covering the system sale, maintenance and interest. These arrangements meet the criteria to be accounted for as sales-type leases. Accordingly, the system sale is recognized upon delivery of the system, provided all other revenue recognition criteria are met as described above. Upon the recognition of revenue, an

asset is established for the "investment in sales-type leases". Maintenance revenue and interest income are recognized monthly over the lease term.

NOTE H – Stock-based compensation plans

The Company has adopted the 1995 Stock Option Plan, pursuant to which the Company had the right to grant options to purchase up to an aggregate of 1,250,000 shares of common stock. The Company has also adopted the 1999 Stock Option Plan, pursuant to which the Company may grant stock awards and options to purchase up to 2,813,000 shares of common stock. The Company has also adopted the 1999 Director Option Plan, pursuant to which the Company may grant up to 600,000 shares of common stock. The Plans are administered by the Board of Directors, which has the authority to determine the term during which an option may be exercised (not more than 10 years), the exercise price of an option and the vesting provisions.

Commencing January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123R, "Share Based Payment" ("SFAS 123R"), which requires all share-based payments, including grants of stock options, to be recognized in the income statement as an operating expense, based on their fair values.

Prior to adopting SFAS 123R, the Company accounted for stock-based employee compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. No stock-based compensation cost was recognized in the statement of operations for the three month and nine month periods ended September 30, 2005, as all options granted under the Plans had an exercise price equal to the market value of the underlying common stock on date of grant. The Company has applied the modified prospective method in adopting SFAS 123R. Accordingly, periods prior to adoption have not been restated. As a result of adoption, stock based compensation expense amounted to \$785,000 and \$1,783,000 for the three month and nine month periods ended September 30, 2006, respectively.

The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to the prior periods.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Reported net income	\$ 641,000	\$ 419,000
Stock-based employee compensation determined under the fair value based method, net of related tax effects	(392,000)	(1,164,000)
Pro forma net income (loss)	\$ 249,000	\$ (745,000)
Income (loss) per share – basic:		
As reported	\$ 0.08	\$ 0.05
Pro forma	\$ 0.03	\$ (0.10)
Income (loss) per share - diluted:		
As reported	\$ 0.07	\$ 0.05
Pro forma	\$ 0.03	\$ (0.10)

The following summarizes the activity of the Company's stock options for the nine months ended September 30, 2006:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	2,730,000	\$ 6.94		
Granted	340,000	21.27		
Exercised	(164,000)	4.37		
Forfeited	(130,000)	10.56		
Outstanding at end of period	2,776,000	\$ 8.68	6 years	\$ 41,530,000
Exercisable at end of period	1,502,000	\$ 5.27	5 years	\$ 27,578,000

As of September 30, 2006, there was \$7,235,000 of total unrecognized compensation cost related to non-vested options granted under the Plans. That cost is expected to be recognized over a weighted average period of 5.68 years.

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:

	<u>2005</u>	<u>2006</u>
Volatility	61%	52%
Expected life of options	5 years	5 years
Risk free interest rate	3%	5%
Dividend yield	0%	0%

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

The weighted average fair value of options granted during the nine months ended September 30, 2005 and 2006 was \$6.91 and \$10.74, respectively. The total intrinsic value of options exercised during the nine months ended September 30, 2005 and 2006 was \$1,783,000 and \$2,872,000, respectively.

Under SFAS 123(R) forfeitures are estimated at the time of valuation and reduce 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. Under SFAS 123 and APB 25, the Company elected to account for forfeitures when awards were actually forfeited, at which time all previous pro forma expense was reversed to reduce pro forma expense for that period.

NOTE I – Long Term Debt

In January 2003, the Company closed on a five-year term loan for \$1,000,000 with a financial institution. Interest at the 30-day LIBOR plus 1.75% and principal are payable monthly. To hedge the loan's floating interest expense the Company entered into an interest rate swap contemporaneously with the closing of the loan and fixed the rate of interest at 5.28% for the five-year term. The loan is collateralized by all the assets of the Company and the Company is in compliance with the covenants under the term loan. The fair value of the interest rate swap is not material to the financial statements or results of operations.

Maturities of long term debt are as follows:

Period ending September 30,

2007 -	\$ 218,000
2008 -	<u>75,000</u>
	<u>\$ 293,000</u>

NOTE J – Line of Credit

The Company's working capital line of credit has maximum borrowings of \$500,000, with interest at the 30 day LIBOR Market Index Rate plus 1.75%, payable monthly. At September 30, 2006, the Company did not owe anything and was in compliance with the terms under this line of credit.

NOTE K – Sale of Common Stock

On March 15, 2006, the Company completed the sale of 2,750,000 shares of its common stock in a public offering. In connection therewith, the Company received net proceeds of approximately \$55,527,000.

On March 28, 2006, the Company completed the sale of 412,500 shares of its common stock pursuant to the full exercise by the underwriters of their over-allotment option granted in connection with the Company's public offering of its common stock. In connection therewith, the Company received net proceeds of approximately \$8,434,000.

NOTE L – Restricted Stock

As of September 30, 2006, there were 85,000 shares outstanding of restricted stock that were granted to key employees pursuant to the 1999 Stock Option Plan, as amended and restated effective April 20, 2005. The Plan is administered by the Board of Directors, which has the authority to determine the terms of those shares. For the period ended September 30, 2006, the Company recorded a \$201,000 stock based compensation expense in connection with the restricted stock grant. As of September 30, 2006, there was \$1,338,000 of total unrecognized compensation cost related to non-vested shares. That cost is expected to be recognized within the next two years.

NOTE M - 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 September 30, 2006, the Company has provided a valuation allowance to fully reserve our net operating loss carry forwards, primarily as a result of anticipated net losses for income tax purposes..

NOTE N - Concentration of customers and vendor

Two customers accounted for 67% and 16% of the Company's revenue during the nine month period ended September 30, 2006. The same customers accounted for 56% and 34%, respectively, of the Company's accounts receivable and unbilled receivables as of September 30, 2006.

One vendor accounted for 48% of the Company's purchases during the nine month period ended September 30, 2006. The same vendor accounted for 14% of the Company's accounts payable as of September 30, 2006.

NOTE O – Authorized capital

At the Company's Annual Meeting of Stockholders, held on June 9, 2006, the stockholders of the Company approved an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the aggregate number of authorized shares of the Company's common stock from 15,000,000 shares to 50,000,000 shares.

NOTE P - Reclassifications:

Certain prior year amounts have been reclassified to conform with the current year presentation.

Item 2. Management's Discussion And Analysis

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

This report contains various forward-looking statements made pursuant to the safe harbor provisions under the Private Securities Litigation Reform Act of 1995 (the "Reform Act") 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 "anticipate", "believe", "estimate", "expect", "predict", "project", and similar expressions 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 contained in the forward-looking statements due to a number of factors, including 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 statements under "Risk Factors" set forth in our Form 10-K for the fiscal year ended December 31, 2005 and other filings with the Securities and Exchange Commission (the "SEC"). The forward-looking statements regarding industry trends, product development and liquidity and future business activities should be considered in light of these factors. The Company undertakes no obligation to publicly release the results on 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.

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

In the following discussions, most percentages and dollar amounts have been rounded to aid presentation, accordingly, all amounts are approximations.

Critical Accounting Policy

For the nine months ended September 30, 2006, there were no other changes to our critical accounting policies as identified in our annual report of Form 10-K for the year ended December 31, 2005.

Results of Operations

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2006	2005	2006
Revenue:				
Product	76.0%	71.2%	81.7%	69.5%
Services	24.0	28.8	18.3	30.5
	100.0	100.0	100.0	100.0
Cost of Revenues:				
Product cost of revenue	59.3	52.1	53.0	50.1
Service cost of revenue	41.0	64.7	47.2	61.8
Total Gross Profit	45.1	44.3	48.0	46.3
Selling, general and administrative expenses	28.3	39.2	38.0	42.4
Research and development expenses	6.9	8.3	8.7	8.3
Income (loss) from operations	9.9	(3.2)	1.3	(4.4)
Net interest income	0.6	10.6	1.0	8.2
Other income	0.7	0.4	0.9	0.7
Net income	11.2%	7.8%	3.2%	4.5%

Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005

REVENUES. Revenues increased by \$2.3 million, or 40.6%, to \$8.1 million in the three months ended September 30, 2006.

Revenues from product increased by \$1.4 million, or 31.8%, to \$5.8 million in the three months ended September 30, 2006 from \$4.4 million in the same period in 2005. The increase in product revenues was attributable primarily to increased sales of our wireless system for tracking and managing industrial vehicles to Wal-Mart Stores, Inc.

Revenues from service increased \$944,000, or 68.5%, to \$2.3 million in the three months ended September 30, 2006 from \$1.4 million in the same period in 2005. The increase in service revenues was attributable primarily to the increase in implementation services to the US Postal Service.

COST OF REVENUES. Cost of revenues increased by \$1.3 million, or 42.6%, to \$4.5 million in the three months ended September 30, 2006. Gross profit was \$3.6 million in 2006 compared to \$2.6 million in 2005. As a percentage of revenues, gross profit decreased to 44.3% in 2006 from 45.1% in 2005.

Cost of product increased by \$407,000, or 15.7%, to \$3.0 million in the three months ended September 30, 2006 from \$2.6 million in the same period in 2005. Gross profit was \$2.8 million in 2006 compared to \$1.8 million in 2005. As a percentage of product revenues, gross profit increased to 47.9% in 2006 from 40.7% in 2005. The increase was primarily due to (i) increase to the inventory reserve of \$75,000 during the three month period ended September 30, 2005; (ii) \$120,000 of amortized capitalized costs included in costs of revenues in the three months ended September 30, 2005 associated with the cost recovery method relating to a contract entered in to in 2003 in which the Company deferred all costs until the implementation of the system was completed; and (iii) cost reductions to the finished goods of our system in 2006.

Cost of service increased by \$938,000, or 165.7%, to \$1.5 million in the three months ended September 30, 2006 from \$566,000 in the same period in 2005. Gross profit was \$819,000 in 2006 compared to \$813,000 in 2005. As a percentage of product revenues, gross profit decreased to 35.3% in 2006 from 59.0% in 2005. The decrease was primarily due to; (i) the hiring of third party subcontractors to perform implementation services at the US Postal Service and (ii) the adoption of SFAS No. 123(R), in which the Company expensed \$18,000 of the value of stock based employee compensation.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$1.5 million, or 94.7%, to \$3.2 million in the three months ended September 30, 2006 compared to \$1.6 million in the same period in 2005. This increase was attributable primarily to (i) the adoption of SFAS No. 123(R) in which the Company expensed \$618,000 of the value of stock based employee compensation and (ii) the increase in payroll and related expenses due to the hiring of additional personnel to support the Company's continued growth. As a percentage of revenues, selling, general and administrative expenses increased to 39.2% in the three months ended September 30, 2006 from 28.3% in the same period in 2005.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased \$275,000, or 69.1%, to \$673,000 in the three months ended September 30, 2006 from \$398,000 in the same period in 2005. This increase was attributable primarily to (i) the adoption of SFAS No. 123(R) in which the Company expensed \$149,000 of the value of stock based employee compensation and (ii) the increase in payroll and payroll related expenses. As a percentage of revenues, research and development expenses increased to 8.3% in the three months ended September 30, 2006 from 6.9% in the same period in 2005.

INTEREST INCOME. Interest income increased \$809,000 to \$860,000 in the three months ended September 30, 2006 from \$51,000 in the same period in 2005. This increase was attributable primarily to the increase in cash and cash equivalents and investments resulting from the proceeds received in connection with the public offering completed in March 2006 and the increase in interest rates.

INTEREST EXPENSE. Interest expense decreased \$8,000, or 57.1%, to \$6,000 in the three months ended September 30, 2006 from \$14,000 in the same period in 2005. The decrease was attributable to a reduction in the principal amount of our outstanding debt in the three months ended September 30, 2006.

OTHER INCOME. Other income of \$38,000 in the three months ended September 30, 2006 was unchanged from the same period in 2005 and reflects rental income earned from a sublease arrangement.

NET INCOME. Net income decreased \$9,000, or 1.4%, to \$632,000 in the three months ended September 30, 2006 from net income of \$641,000 in the same period in 2005. Net income per basic and diluted share decreased to \$0.06 and \$0.05, respectively, in the three months ended September 30, 2006, compared to net income per basic and diluted share of \$0.08 and \$0.07, respectively, in the same period in 2005. The decrease in net income was due primarily to the reasons described above.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

REVENUES. Revenues increased by \$7.9 million, or 60.5%, to \$20.8 million in the nine months ended September 30, 2006.

Revenues from product increased by \$3.9 million, or 36.5%, to \$14.5 million in the nine months ended September 30, 2006 from \$10.6 million in the same period in 2005. The increase in product revenues was attributable primarily to increased sales of our wireless system for tracking and managing industrial vehicles to US Postal Service and Wal-Mart Stores, Inc.

Revenues from service increased \$4.0 million, or 167.4%, to \$6.4 million in the nine months ended September 30, 2006 from \$2.4 million in the same period in 2005. The increase in service revenues was attributable primarily to the increase in implementation services to the US Postal Service.

COST OF REVENUES. Cost of revenues increased by \$4.4 million, or 65.8%, to \$11.2 million in the nine months ended September 30, 2006. Gross profit was \$9.7 million in 2006 compared to \$6.2 million in 2005. As a percentage of revenues, gross profit decreased to 46.3% in 2006 from 48.0% in 2005.

Cost of product increased by \$1.6 million, or 28.9%, to \$7.2 million in the nine months ended September 30, 2006 from \$5.6 million in the same period in 2005. Gross profit was \$7.2 million in 2006 compared to \$5.0 million in 2005. As a percentage of product revenues, gross profit increased to 49.9% in 2006 from 47.0% in 2005. The increase was primarily due to (i) increase to the inventory reserve of \$75,000 during the nine month period ended September 30, 2005; and (ii) \$360,000 of amortized capitalized costs included in costs of revenues in the nine months ended September 30, 2005 associated with the cost recovery method relating to a contract entered into in 2003 in which the Company deferred all costs until the implementation of the system was completed.

Cost of service increased by \$2.8 million, or 250.3%, to \$3.9 million in the nine months ended September 30, 2006 from \$1.1 million in the same period in 2005. Gross profit was \$2.4 million in 2006 compared to \$1.3 million in 2005. As a percentage of product revenues, gross profit decreased to 38.2% in 2006 from 52.8% in 2005. The decrease was primarily due to (i) the hiring of third party subcontractors to perform implementation services at the US Postal Service; (ii) the adoption of SFAS No. 123(R), in which the Company expensed \$38,000 of the value of stock based employee compensation; and (iii) an inventory write-off of \$37,000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$3.9 million, or 79.0%, to \$8.8 million in the nine months ended September 30, 2006 compared to \$4.9 million in the same period in 2005. This increase was attributable primarily to (i) the adoption of SFAS No. 123(R) in which the Company expensed \$1.5 million of the value of stock based employee compensation and (ii) the increase in payroll and related expenses due to the hiring of additional personnel to support our continued growth. As a percentage of revenues, selling, general and administrative expenses increased to 42.4% in the nine months ended September 30, 2006 from 38.0% in the same period in 2005.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased \$591,000, or 52.1%, to \$1.7 million in the nine months ended September 30, 2006 from \$1.1 million in the same period in 2005. This increase was attributable primarily to (i) the adoption of SFAS No. 123(R) in which the Company expensed \$271,000 of the value of stock based employee compensation and (ii) the increase in payroll and payroll related expenses. As a percentage of revenues, research and development expenses decreased to 8.3% in the nine months ended September 30, 2006 from 8.7% in the same period in 2005.

INTEREST INCOME. Interest income increased \$1.6 million to \$1.7 million in the nine months ended September 30, 2006 from \$179,000 in the same period in 2005. This increase was attributable primarily to the increase in cash and cash equivalents and investments resulting from the proceeds received in connection with the public offering completed in March 2006 and the increase in interest rates.

INTEREST EXPENSE. Interest expense decreased \$20,000, or 46.5%, to \$23,000 in the nine months ended September 30, 2006 from \$43,000 in the same period in 2005. The decrease was attributable to a reduction in the principal amount of our outstanding debt in the nine months ended September 30, 2006.

OTHER INCOME. Other income, which increased slightly to \$115,000 in the nine months ended September 30, 2006 from \$113,000 in the same period in 2005, reflects rental income earned from a sublease arrangement.

NET INCOME. Net income increased \$519,000, or 123.9%, to \$938,000 in the nine months ended September 30, 2006 from a net income of \$419,000 in the same period in 2005. Net income per basic and diluted share increased to \$0.09 and \$0.08, respectively, in the nine months ended September 30, 2006, compared to net income per basic and diluted share of \$0.05 in the same period in 2005. The increase in net income was due primarily to the reasons described above.

Liquidity and Capital Resources

Historically, our capital requirements have been funded from cash flows generated from operations and net proceeds from the sale of our securities, including the sale of our common stock upon the exercise of options and warrants. As of September 30, 2006, we had cash, cash equivalents and investments of \$69.4 million and working capital of \$81.4 million compared to \$7.6 million and \$13.9 million, respectively, as of December 31, 2005.

Operating Activities:

Net cash used in operating activities was \$2.2 million for the nine months ended September 30, 2006 compared to net cash used in operating activities of \$5.7 million for the same period in 2005. The decrease was due primarily to: (i) an increase in net income attributable to increased revenue growth; (ii) a decrease in accounts receivable resulting from improved collections; and (iii) a decrease in unbilled receivables, partially offset by an increase in finished goods inventory manufactured to meet anticipated customer orders and an increase to accounts payable and accrued expenses attributable to an increase to operating expenses.

Investing Activities:

Net cash used in investing activities was \$55.3 million for the nine months ended September 30, 2006 compared to net cash provided by investing activities of \$2.0 million for the same period in 2005. The increase was due primarily to a significant increase in the purchase of investments with the net proceeds received in connection with the public offering that was completed by us in March 2006.

Financing Activities:

Net cash provided by financing activities was \$64.5 million for the nine months ended September 30, 2006 compared to \$550,000 for the same period in 2005. The increase was due primarily to the proceeds received in connection with the public offering that was completed by us in March 2006.

Capital Requirements

We believe that with the net proceeds received from the public offering, the cash we have on hand and operating cash flows we expect to generate, we will have sufficient funds available to cover our capital requirements for at least the next 12 months.

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

Impact of Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) has issued interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109” (“FIN 48”), regarding accounting for, and disclosure of, uncertain tax positions. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes.” FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has not yet completed its evaluation of the impact that adoption of FIN 48 will have on the Company’s statement of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“FAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurement. Where applicable, SFAS 157 simplifies and codifies fair value related guidance previously issued within generally accepted accounting principles (GAAP). SFAS 157, is effective for the Company beginning January 1, 2008. The Company has not yet completed its evaluation of the impact that adoption of SFAS 157 will have on the Company’s statement of operations and financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the form of interest rate changes and changes in corporate tax rates. Both risks are currently immaterial to us.

Item 4. Controls And Procedures

a. Disclosure controls and procedures.

During the first nine months of 2006, our management, including the principal executive officer and principal financial officer, evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) related to the recording, processing, summarization and reporting of information in our reports that we file with the Securities and Exchange Commission. These disclosure controls and procedures have been designed to ensure that material information relating to us, including our subsidiaries, is made known to our management, including these officers, by other of our employees, and that this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Based on their evaluation as of September 30, 2006, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to reasonably ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

b. Changes in internal controls over financial reporting.

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter to which this Quarterly Report on Form 10-Q relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1a. Risk Factors

There were no material changes in any risk factors previously disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 22, 2006.

Item 6. Exhibits

Exhibits:

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signature

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

I.D. Systems, Inc.

Dated: November 9, 2006

By: /s/ Jeffrey M. Jagid

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

Dated: November 9, 2006

By: /s/ Ned Mavrommatis

Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

I, Jeffrey M. Jagid, certify that:

1. I have reviewed this quarterly report on Form 10-Q of I.D. Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 9, 2006

/s/ Jeffrey Jagid
Jeffrey M. Jagid
Chairman and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Ned Mavrommatis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of I.D. Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 9, 2006

/s/ Ned Mavrommatis

Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION
OF
CHIEF EXECUTIVE OFFICER
AND
CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey M. Jagid, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the quarter ended September 30, 2006, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of I.D. Systems, Inc.

I, Ned Mavrommatis, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the quarter ended September 30, 2006, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of I.D. Systems, Inc.

By: /s/ Jeffrey Jagid
Jeffrey M. Jagid
Chairman and Chief Executive Officer
(Principal Executive Officer)
Date: November 9, 2006

By: /s/ Ned Mavrommatis
Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)
Date: November 9, 2006

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the quarter ended September 30, 2006 or as a separate disclosure document.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to I.D. Systems, Inc. and will be retained by I.D. Systems, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.