
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: **March 31, 2010**

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**

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**

(Address of principal executive offices)

07601

(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, accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting company)

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 12, 2010 was 11,253,253.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

I.D. Systems, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	<u>December 31,</u> <u>2009*</u>	<u>March 31,</u> <u>2010</u> (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,481,000	\$ 5,979,000
Investments – short term	33,909,000	29,209,000
Accounts receivable, net of allowance for doubtful accounts of \$106,000 and \$123,000 in 2009 and 2010, respectively	3,252,000	5,470,000
Note and lease receivable – current	—	254,000
Inventory, net	4,487,000	9,008,000
Interest receivable	97,000	131,000
Deferred costs – current	—	364,000
Prepaid expenses and other current assets	<u>686,000</u>	<u>2,142,000</u>
Total current assets	61,912,000	52,557,000
Investments – long term	6,752,000	4,392,000
Note and lease receivable – less current portion	—	1,062,000
Deferred costs – less current portion	—	761,000
Fixed assets, net	917,000	3,872,000
Goodwill	619,000	2,590,000
Intangible assets, net	<u>375,000</u>	<u>5,816,000</u>
	<u>\$ 70,575,000</u>	<u>\$ 71,050,000</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,094,000	\$ 6,145,000
Line of credit	11,638,000	9,451,000
Deferred revenue	<u>501,000</u>	<u>1,264,000</u>
Total current liabilities	14,233,000	16,860,000
Deferred revenue	<u>461,000</u>	<u>1,884,000</u>
	<u>14,694,000</u>	<u>18,744,000</u>
Commitments and Contingencies (Note 30)		
STOCKHOLDERS' EQUITY		
Preferred stock; authorized 5,000,000 shares, \$0.01 par value; none issued	—	—
Common stock; authorized 50,000,000 shares, \$0.01 par value; 12,284,000 and 12,466,000 shares issued at December 31, 2009 and March 31, 2010, respectively; shares outstanding, 11,075,000 and 11,253,000 at December 31, 2009 and March 31, 2010, respectively	120,000	121,000
Additional paid-in capital	103,596,000	104,052,000
Accumulated deficit	(36,859,000)	(40,922,000)
Accumulated other comprehensive loss	<u>(60,000)</u>	<u>(19,000)</u>
	66,797,000	63,232,000
Treasury stock; 1,209,000 and 1,213,000 shares at cost in 2009 and 2010	<u>(10,916,000)</u>	<u>(10,926,000)</u>
Total stockholders' equity	55,881,000	52,306,000
Total liabilities and stockholders' equity	\$ 70,575,000	\$ 71,050,000

* Derived from audited balance sheet as of December 31, 2009.

See accompanying notes to condensed consolidated financial statements.

I.D. Systems, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended	
	March 31,	
	2009	2010
Revenue:		
Products	\$ 1,378,000	\$ 2,023,000
Services	1,556,000	4,101,000
	<u>2,934,000</u>	<u>6,124,000</u>
Cost of revenue:		
Cost of products	798,000	975,000
Cost of services	547,000	1,764,000
	<u>1,345,000</u>	<u>2,739,000</u>
Gross profit	1,589,000	3,385,000
Selling, general and administrative expenses	4,211,000	6,474,000
Research and development expenses	689,000	1,154,000
Loss from operations	(3,311,000)	(4,243,000)
Interest income	347,000	209,000
Interest expense	—	(30,000)
Other (expense) income, net	(108,000)	1,000
Net loss	<u>\$ (3,072,000)</u>	<u>\$ (4,063,000)</u>
Net loss per share – basic and diluted	<u>\$ (0.28)</u>	<u>\$ (0.36)</u>
Weighted average common shares outstanding – basic and diluted	<u>10,895,000</u>	<u>11,185,000</u>

See accompanying notes to condensed consolidated financial statements.

I.D. Systems, Inc. and Subsidiaries

Condensed Consolidated Statement of Changes in Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Stockholders' Equity
	Number of Shares	Amount					
Balance at December 31, 2009	12,284,000	\$120,000	\$103,596,000	\$ (36,859,000)	\$ (60,000)	\$(10,916,000)	\$ 55,881,000
Net loss				(4,063,000)			(4,063,000)
Comprehensive loss — unrealized gain on investments					66,000		66,000
Foreign currency translation adjustment					(25,000)		(25,000)
Total comprehensive loss							(4,022,000)
Shares issued pursuant to exercise of stock options	1,000	1,000	2,000				3,000
Issuance of restricted stock	181,000						
Shares withheld pursuant to stock issuances						(10,000)	(10,000)
Stock based compensation — restricted stock			84,000				84,000
Stock based compensation — options			370,000				370,000
Balance at March 31, 2010 (Unaudited)	<u>12,466,000</u>	<u>\$121,000</u>	<u>\$104,052,000</u>	<u>\$ (40,922,000)</u>	<u>\$ (19,000)</u>	<u>\$(10,926,000)</u>	<u>\$ 52,306,000</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended	
	March 31,	
	2009	2010
Cash flows from operating activities:		
Net loss	\$ (3,072,000)	\$ (4,063,000)
Adjustments to reconcile net loss to cash used in operating activities:		
Bad debt expense	—	16,000
Accrued interest income	32,000	(34,000)
Stock-based compensation expense	559,000	454,000
Depreciation and amortization	138,000	432,000
Change in fair value of investments	108,000	—
Deferred rent expense	(5,000)	—
Deferred revenue	475,000	802,000
Changes in:		
Restricted cash	177,000	—
Accounts receivable	2,762,000	1,011,000
Unbilled receivables	(32,000)	—
Note and lease receivable	—	74,000
Inventory	(1,215,000)	715,000
Prepaid expenses and other assets	(69,000)	(483,000)
Deferred costs	—	(494,000)
Accounts payable and accrued expenses	(1,414,000)	(1,360,000)
Net cash used in operating activities	<u>(1,556,000)</u>	<u>(2,930,000)</u>
Cash flows from investing activities:		
Expenditures for fixed assets including website development costs	(198,000)	(506,000)
Business acquisition	—	(15,000,000)
Purchase of investments	(16,474,000)	(2,751,000)
Maturities of investments	<u>11,778,000</u>	<u>9,877,000</u>
Net cash used in investing activities	<u>(4,894,000)</u>	<u>(8,380,000)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	3,000
Borrowing on line of credit	12,900,000	—
Principal payments on line of credit	<u>(160,000)</u>	<u>(2,187,000)</u>
Net cash provided by (used in) financing activities	<u>12,740,000</u>	<u>(2,184,000)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	—	(8,000)
Net increase (decrease) in cash and cash equivalents	6,290,000	(13,502,000)
Cash and cash equivalents — beginning of period	<u>12,558,000</u>	<u>19,481,000</u>
Cash and cash equivalents — end of period	<u>\$ 18,848,000</u>	<u>\$ 5,979,000</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Taxes	<u>—</u>	<u>—</u>
Interest	<u>\$ —</u>	<u>\$ 30,000</u>
Noncash activities:		
Unrealized (loss) gain on investments	<u>\$ (45,000)</u>	<u>\$ 66,000</u>
Accrued contingent consideration	<u>—</u>	<u>\$ 1,017,000</u>
Shares withheld pursuant to stock issuance	<u>\$ 65,000</u>	<u>\$ 10,000</u>
Acquisition:		
Fair value of assets acquired		\$ 20,712,000
Liabilities assumed		(4,695,000)
Less: contingent consideration potentially due		(1,017,000)
Net cash paid in 2010		<u>\$ 15,000,000</u>

See accompanying notes to condensed consolidated financial statements.

I.D. Systems, Inc. and Subsidiaries

**Notes to Unaudited Condensed Consolidated Financial Statements
March 31, 2010**

NOTE 1 — The Company

I.D. Systems, Inc. and its subsidiaries (the “Company,” “we,” “our” or “us”) develop, market and sell wireless solutions for managing and securing high-value enterprise assets. These assets include industrial vehicles, including forklifts, 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 system addresses the needs of organizations to control, track, monitor and analyze their assets. The Company’s solutions enable customers to achieve tangible economic benefits by making timely, informed decisions that increase the security, productivity and efficiency of their operations. The Company outsources its hardware manufacturing operations to contract manufacturers.

On January 7, 2010, the Company entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) with General Electric Capital Corporation (“GECC”) and GE Asset Intelligence, LLC (“GEAI”), pursuant to which the Company acquired GEAI’s telematics business (the “GEAI Business”) through the purchase of 100% of the membership interests of Asset Intelligence, LLC (“AI”), a newly formed, wholly owned subsidiary of GEAI into which substantially all of the assets, including intellectual property, and liabilities of the GEAI Business had been transferred immediately prior to the closing. Effective with the closing of the transaction, AI became a wholly owned subsidiary of the Company. See Note 12 to the Unaudited Condensed Consolidated Financial Statements.

Prior to the AI acquisition, the Company operated in a single reportable segment, which consisted of the historical operations of I.D. Systems (“IDS”). Subsequent thereto, the Company has determined that it has two reportable segments organized by product line: IDS and AI. The IDS operating segment includes the Company’s core wireless asset management systems operations: I.D. Systems, Inc., I.D. Systems, GmbH, and Didbox Ltd. This core business develops, markets and sells wireless solutions for managing and securing high-value enterprise assets such as industrial trucks. The AI operating segment, which consists of Asset Intelligence, LLC, provides data-driven telematics solutions for tracking and managing supply chain assets such as trailers and containers.

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

NOTE 2 — Organization and Consolidation Policy

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 (“GmbH”) and Didbox, Ltd. (“Didbox”) (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 with 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, 2010, the consolidated results of its operations for the three-month periods ended March 31, 2009 and 2010, respectively, the consolidated change in stockholders’ equity for the three months ended March 31, 2010 and consolidated cash flows for the three month-periods ended March 31, 2009 and 2010. The results of operations for the three-month period ended March 31, 2010 are not necessarily indicative of the operating results for the full year. We suggest that these financial statements be read in conjunction with the audited financial statements and related disclosures for the year ended December 31, 2009 included in the Company’s Annual Report on Form 10-K for the year then ended.

NOTE 3 — 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 FDIC limits.

NOTE 4 — 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, the fair value of auction-rate securities and auction-rate securities rights (see Note 6 – Fair Value Measurements), acquisition accounting, realization of deferred tax assets, the impairment of tangible and intangible assets, inventory reserves, bad debt reserves and warranty and deferred revenue and costs. Actual results could differ from those estimates.

NOTE 5 — Investments

The Company's investments include debt securities, U.S. Treasury Notes, government and state agency bonds, corporate bonds and auction-rate securities, which are classified as either available for sale, held to maturity or trading, depending on management's investment intentions relating to these securities. Available for sale securities are marked-to-market based on quoted market values of the securities, with the unrealized gain and (losses) reported as comprehensive income or (loss). For the three months ended March 31, 2009 and 2010, the Company reported unrealized (loss) gain of (\$45,000) and \$66,000, respectively, on available for sale securities in comprehensive loss. Investments categorized as held to maturity are carried at amortized cost because the Company has both the intent and the ability to hold these investments until they mature. The Company has classified as short-term those securities that mature within one year, and all other securities are classified as long-term.

The Company's investments include auction rate securities ("ARS") and an auction rate securities right ("ARSR"), each as described below.

The Company has classified its ARS investments and ARSR as trading securities. Trading securities are carried at fair value, with unrealized holding gains and losses included in other income (expense) on the Company's consolidated statements of operations.

At December 31, 2009 and March 31, 2010, the Company held approximately \$19.4 million and \$17.3 million fair value in ARS and ARSR, respectively. These ARS represent interests in collateralized pools of student loan receivables issued by agencies established by counties, cities, states and other municipal entities within the United States. Liquidity for these ARS is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals. Starting in February 2008 and continuing through 2010, these securities failed to sell at auction. These failed auctions represent liquidity risk exposure and are not defaults or credit events. As a holder of the securities, the Company continues to receive interest on the ARS.

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The Company purchased all of the ARS it holds from UBS AG (“UBS”). In October 2008, the Company received a non-transferable offer (the “Offer”) from UBS for a put right (the “ARSR”) permitting the Company to sell to UBS at par value all ARS previously purchased from UBS at a future date (any time during a two-year period beginning June 30, 2010). The Offer also included a commitment to loan the Company 75% of the UBS-determined value of the ARS at any time until the put is exercised at a variable interest rate that will equal the lesser of: (i) the applicable reference rate plus a spread set forth in the applicable credit agreement and (ii) the then-applicable weighted-average interest or dividend rate paid to the Company by the issuer of the ARS that is pledged to UBS as collateral. In November 2008, the Company accepted the Offer. In exchange for the Offer, the Company provided UBS with a general release of claims (other than certain consequential damages claims) concerning our ARS and granted UBS the right to purchase the Company’s ARS at any time for full par value. The Company intends to exercise its right under the ARSR to put back the ARS to UBS at the time it becomes available.

The Company’s right under the ARSR is in substance a put option with the strike price equal to the par value of the ARS which is recorded as an asset, measured at fair value with the resultant gain (loss) recognized in earnings. The Company has classified the ARS as trading securities. The Company recognized the following gain or (loss) in the consolidated statement of operations for the three months ended March 31, 2010 from the change in the fair value of these instruments:

Three months ended March 31, 2010	Fair Value at January 1, 2010	Net Purchases (Sales)	Unrealized Gain (Loss)	Fair Value at March 31, 2010
Auction Rate Securities	\$ 17,876,000	\$ (2,150,000)	\$ 104,000	\$ 15,830,000
Auction Rate Securities – Rights	1,499,000	—	(104,000)	1,395,000
Net unrealized gain recorded for the three months ended March 31, 2010	<u>\$ 19,375,000</u>	<u>\$ (2,150,000)</u>	<u>\$ —</u>	<u>\$ 17,225,000</u>

The fair value of the ARSR was based on an approach in which the present value of all expected future cash flows was subtracted from the current fair market value of the security and the resultant value was calculated as a future value at an interest rate reflective of counterparty risk.

Given the substantial dislocation in the financial markets and among financial services companies, there can be no assurance that UBS ultimately will have the ability to repurchase the Company’s ARS at par, or at any other price, as these rights will be an unsecured contractual obligation of UBS, or that if UBS determines to purchase the Company’s ARS at any time, the Company will be able to reinvest the cash proceeds of any such sale at the same interest rate or dividend yield currently being paid to the Company. Also, as a condition of accepting the ARSR, the Company was required to sign a release of claims against UBS, which will prevent the Company from making claims against UBS related to the Company’s investment in ARS, other than claims for consequential damages.

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The cost, gross unrealized gains (losses) and fair value of available for sale, held to maturity and trading securities by major security type at March 31, 2010 are as follows:

	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investments — short term				
Trading securities				
Auction rate	\$ 17,225,000	—	\$ (1,395,000)	\$ 15,830,000
Auction rate securities right	—	\$ 1,395,000	—	1,395,000
Total trading securities	<u>17,225,000</u>	<u>1,395,000</u>	<u>(1,395,000)</u>	<u>17,225,000</u>
Available for sale				
Corporate bonds	503,000	4,000	—	507,000
Government agency	5,666,000	4,000	(3,000)	5,667,000
Total available for sale	<u>6,169,000</u>	<u>8,000</u>	<u>(3,000)</u>	<u>6,174,000</u>
Held to maturity securities				
US Treasury Notes	1,525,000	—	—	1,525,000
Government agency bonds	3,253,000	—	—	3,253,000
Corporate bonds and commercial paper	1,032,000	—	—	1,032,000
Total held to maturity	<u>5,810,000</u>	<u>—</u>	<u>—</u>	<u>5,810,000</u>
Total investments — short term	<u>29,204,000</u>	<u>1,403,000</u>	<u>(1,398,000)</u>	<u>29,209,000</u>
Marketable securities — long term				
Held to maturity securities				
Government agency bonds	769,000	—	—	769,000
Corporate bonds and commercial paper	3,623,000	—	—	3,623,000
Total held to maturity securities	<u>4,392,000</u>	<u>—</u>	<u>—</u>	<u>4,392,000</u>
Total investments — long term	<u>4,392,000</u>	<u>—</u>	<u>—</u>	<u>4,392,000</u>
Total investments	<u>\$ 33,596,000</u>	<u>\$ 1,403,000</u>	<u>\$ (1,398,000)</u>	<u>\$ 33,601,000</u>

The table above presents held to maturity investments at cost and amortized cost. At March 31, 2010, the gross unrealized holding gains for held to maturity securities were \$44,000, short-term, and \$99,000, long-term.

NOTE 6 — Fair Value Measurements

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 own assumptions.

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The following table summarizes the fair values of the Company's investments in the condensed consolidated balance sheet:

	Balance at March 31, 2010	Basis of Fair Value Measurements		
		Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 739,000	\$ 739,000		
Marketable securities – short term	29,209,000	11,984,000	\$ —	\$ 17,225,000
Marketable securities – long term	4,392,000	4,392,000	—	—
	<u>\$ 34,340,000</u>	<u>\$ 17,115,000</u>	<u>\$ —</u>	<u>\$ 17,225,000</u>

The table below includes a roll forward of the Company's investments in ARS and the ARSR classified under Level 3 from January 1, 2010 to March 31, 2010:

Fair value, January 1, 2010	\$ 19,375,000
Net maturities	(2,150,000)
Unrealized gain included in condensed consolidated statement of operations	—
Fair value, March 31, 2010	<u>\$ 17,225,000</u>

NOTE 7 — Revenue Recognition

The Company’s product revenue is derived from: (i) sales of our wireless asset management system, which includes training and technical support; (ii) monitoring equipment and spare parts sold to customers (for which title transfers on date of customer receipt) and from the related customer service under contracts that generally provide for service over periods from one to five years; (iii) post-contract maintenance and support agreements; and (iv) periodically, from leasing arrangements.

Our wireless asset management system consists of on-asset hardware, communication infrastructure and software. Revenue derived from the sale of our wireless asset management system is allocated to each element based upon vendor specific objective evidence (VSOE) of the fair value of the element. VSOE of the fair value is based upon the price charged when the element is sold separately. 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, persuasive evidence of an arrangement exists, sales price is fixed and determinable, collectability is reasonably assured and contractual obligations have been satisfied. In some instances, we are also responsible for providing installation services. The additional installation services, which could be performed by third parties, are considered another element in a multi-element deliverable and revenue for installation services is recognized at the time the installation is provided. Training and technical support revenue are recognized at time of performance.

The Company recognizes revenues from the sale of monitoring equipment when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectability is reasonably assured. These criteria include requirements that the delivery of future products or services under the arrangement is not required for the delivered items to serve their intended purpose. The Company has determined that the revenue derived from the sale of monitoring equipment does not have stand alone value to the customer from the communication services provided and the arrangements constitute a single unit of accounting. Under these provisions, 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, 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. At December 31, 2009 and March 31, 2010, deferred product revenue was \$-0- and \$1,944,000, respectively. During the three months ended March 31, 2010, the Company amortized deferred revenue of \$80,000.

The service revenue for our 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.

Other revenue, which consists primarily of installation and freight charges, is recognized upon equipment installation and customer acceptance for installation and upon shipment of equipment for freight. Spare parts sales are reflected in product revenues and recognized on the date of customer receipt of the part.

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. At December 31, 2009 and March 31, 2010, deferred maintenance revenue was \$962,000 and \$1,204,000, respectively.

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.

NOTE 8 — Note Receivable and Net Investment in Sales-Type Lease

Notes receivable of \$303,000 at March 31, 2010 relates to product financing arrangement that exceeds one year and bears interest at 8%. Interest is recognized over the life of the note. The Company does not require collateral for the notes. The Company has not and does not intend to sell these receivables. Amounts collected on the note receivable is included in net cash provided by operating activities in the condensed consolidated statements of cash flows. Unearned interest income is amortized to interest income over the life of the note using the effective-interest method.

Present value of net investment in sales-type lease of \$1,013,000 is for a five-year lease of the Company’s product and is reflected net of unearned income of \$189,000 discounted at 8%. Scheduled maturities of minimum lease payments outstanding as of March 31, 2010 are as follows:

Year ending December 31:	
April – December 2010	\$ 151,000
2011	216,000
2012	234,000
2013	253,000
2014	159,000
Thereafter	—
Total	<u>\$ 1,013,000</u>

NOTE 9 — Inventory

Inventory, which primarily consists of finished goods and components used in the Company’s products, is stated at the lower of cost or market using the first-in first-out (FIFO) method.

Inventories as of December 31, 2009 and March 31, 2010 consist of the following:

	December 31, 2009	March 31, 2010
Components	\$ 898,000	\$ 4,252,000
Finished goods	4,519,000	5,669,000
	5,417,000	9,921,000
Less: Inventory reserves	(930,000)	(913,000)
	<u>\$ 4,487,000</u>	<u>\$ 9,008,000</u>

Inventories as March 31, 2010 include approximately \$4.9 million of inventory from the AI acquisition (see Note 12). The fair value of the acquired inventory is provisional pending the completion of the valuation of the assets acquired and liabilities assumed.

NOTE 10 — Fixed Assets

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

	December 31, 2009	March 31, 2010
Equipment	\$ 1,011,000	\$ 1,031,000
Computer software and website development	414,000	2,565,000
Computer hardware	774,000	1,150,000
Furniture and fixtures	184,000	208,000
Automobiles	80,000	53,000
Leasehold improvements	514,000	645,000
Construction in process	—	566,000
	2,977,000	6,218,000
Accumulated depreciation and amortization	<u>(2,060,000)</u>	<u>(2,346,000)</u>
	<u>\$ 917,000</u>	<u>\$ 3,872,000</u>

Depreciation and amortization expense was \$138,000 and \$288,000 for the three months ended March 31, 2009 and 2010, respectively.

NOTE 11 — Capitalized Software Development and Website Development Costs

The Company capitalizes in fixed assets the costs of software development and website development. Specifically, the assets comprise an implementation of Oracle Enterprise Resource Planning (ERP) software, enhancements to the GE Veriwise® 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, 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 \$-0- and \$393,000 for website enhancements for the three months ended March 31, 2009 and 2010, respectively. Amortization of costs associated with computer software and website development was \$30,000 and \$132,000 for the three months ended March 31, 2009 and 2010, respectively.

NOTE 12 — Acquisitions, Goodwill and Other Intangible Assets

On October 19, 2009, the Company acquired Didbox Ltd. (“Didbox”), a privately held manufacturer and marketer of vehicle operator identification systems based in the United Kingdom (“UK”). The transaction was valued at approximately \$660,000 and was structured with \$534,000 paid up front in cash and contingent consideration of \$110,000 due in 12 months based upon achievement of certain revenue and operating profit targets. The Company expects Didbox to meet the revenue and operating profit targets. The contingent consideration will be evaluated at each reporting date and any change in estimate will be recorded through earnings. The estimated potential undiscounted amount of all future payments that could be required to be paid under the contingent consideration arrangement is between \$99,000 and \$110,000. The Company incurred acquisition-related expenses of approximately \$43,000, which were included in selling, general and administrative expenses in the consolidated statement of operations during the year ended December 31, 2009. The Didbox business complements the Company’s existing businesses by allowing access to the original equipment manufacturer (OEM) dealer network in the UK, and offers the ability to add the I.D. Systems solution set to its product line. In addition, the acquisition is expected to provide the Company with access to a broader base of customers in Europe.

The Company has accounted for the Didbox transaction under the acquisition method of accounting and recorded the assets and liabilities of the acquired business at their estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. The goodwill is not expected to be deductible for tax purposes. Allocation of the Didbox purchase price consists of the following:

Current assets	\$ 93,000
Other assets	36,000
Current liabilities	(104,000)
Goodwill	419,000
Trademarks and tradenames	61,000
Customer list	56,000
Other intangibles	83,000
Fair value of assets acquired	<u>\$ 644,000</u>

The results of operations of Didbox have been included in the consolidated statement of operations as of the effective date of the acquisition. Pro forma results of operations have not been presented because the effects of the acquisition were not material.

On January 7, 2010, the Company entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) with General Electric Capital Corporation (“GECC”) and GE Asset Intelligence, LLC (“GEAI ”), pursuant to which the Company acquired GEAI’s telematics business (the “GEAI Business”) through the purchase of 100% of the membership interests of Asset Intelligence, LLC (the “AI”), a newly formed, wholly owned subsidiary of GEAI into which substantially all of the assets, including intellectual property, and liabilities of the GEAI Business had been transferred immediately prior to the closing. Effective with the closing of the transaction, AI became a wholly owned subsidiary of the Company. In connection with the transaction, AI offered employment to all of the former employees of the GEAI Business. The focus of AI’s business is in trucking, rail, marine and intermodal applications. The acquisition is expected to provide the Company with access to a broader base of customers.

Under the terms of the Purchase Agreement, the Company paid consideration of \$15 million in cash at closing. In addition, the Company may be required to pay additional cash consideration of up to \$2 million in or about February 2011, contingent upon the number of new units of telematics equipment sold or subject to a binding order to be sold by AI during the year ending December 31, 2010. The purchase price is subject to a working capital adjustment to be performed during 2010, pursuant to which a portion of the cash consideration paid at closing may be returned to the Company to the extent that the actual working capital of AI delivered at closing, determined in accordance with a formula set forth in the Purchase Agreement, is less than \$5.5 million.

The Company incurred acquisition-related expenses of approximately \$1,355,000, of which \$1,241,000 were included in selling, general and administrative expenses in 2009 and \$114,000 during the three months ended March 31, 2010.

The transaction was accounted for using the acquisition method of accounting and the purchase price was assigned to the net assets acquired based on the fair value of such assets and liabilities at the date of acquisition. The Company is in the process of finalizing the fair value of the assets acquired and liabilities assumed, thus, the preliminary allocation of the purchase price may be subject to change. The Company recorded \$1,017,000 of contingent consideration based on the estimated number of new units of telematics equipment expected to be sold in 2010. The contingent consideration was estimated using a probability weighted calculation of the number of new units of telematics equipment expected to be sold in 2010 discounted at 20.5%, which represents the Company’s weighted-average discount rate. The preliminary allocation of the AI purchase price consists of the following:

Current assets, excluding inventory	\$ 4,709,000
Inventory	5,236,000
Other assets, net	3,211,000
Current liabilities	(4,695,000)
Intangibles	5,585,000
Goodwill	1,971,000
Less: Contingent consideration	(1,017,000)
Fair value of assets acquired	<u>\$ 15,000,000</u>

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The fair value of the assets acquired, liabilities assumed, acquired goodwill and intangible assets is provisional pending the completion of the valuation of these assets. The goodwill arising from the acquisition consists largely of the synergies and cost reductions through economies of scale expected from combining the operations of the Company and AI. The goodwill is expected to be fully deductible for tax purposes, except the contingent consideration which is deductible only when paid.

The fair value of the current assets acquired includes trade accounts receivables with a fair value of \$3,272,000. The gross amount due is \$3,966,000, of which \$694,000 is expected to be uncollectible.

The results of operations of AI have been included in the condensed consolidated statement of operations as of the effective date of acquisition.

The following revenue and operating loss of AI were included in the Company's condensed consolidated results of operations for the three months ended March 31, 2010:

Revenues	\$ 3,925,000
Operating loss	(774,000)

The following table represents the combined pro forma revenue and earnings for the three months ended March 31, 2010:

	Historical	(Unaudited) Pro Forma Combined
Revenue	\$ 6,124,000	\$ 6,366,000
Net loss	(4,063,000)	(3,994,000)
Net loss per share – basic and diluted	(0.36)	(0.36)

The following table represents the combined pro forma revenue and earnings for the three months ended March 31, 2009:

	Historical	(Unaudited) Pro Forma Combined
Revenue	\$ 2,934,000	\$ 9,809,000
Net loss	(3,072,000)	(6,303,000)
Net loss per share – basic and diluted	(0.28)	(0.58)

The combined pro forma revenue and earnings for the three-month periods ended March 31, 2009 and 2010 were prepared as though the acquisition had occurred as of January 1, 2009 and 2010, respectively. This summary is not necessarily indicative of what the results of operations would have been had this business acquisition occurred during such period, nor does it purport to represent results of operations for any future periods.

The changes in the carrying amount of goodwill from January 1, 2010 to March 31, 2010 is as follows:

	IDS	AI	Total
Balance of as January 1, 2010	\$ 619,000	—	\$ 619,000
Asset Intelligence acquisition		\$ 1,971,000	1,971,000
Balance as of March 31, 2010	\$ 619,000	\$ 1,971,000	\$ 2,590,000

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Identifiable intangible assets are comprised of the following:

March 31, 2010	Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:				
Patents	11	\$ 4,506,000	\$ (75,000)	\$ 4,431,000
Tradenname	5	361,000	(18,000)	343,000
Non-competition agreement	3	175,000	(15,000)	160,000
Technology	5	50,000	(4,000)	46,000
Workforce	5	33,000	(3,000)	30,000
Customer list	5	599,000	(32,000)	567,000
		<u>5,724,000</u>	<u>(147,000)</u>	<u>5,577,000</u>
Unamortized:				
Customer list		104,000	—	104,000
Trademark and Tradenname		135,000	—	135,000
		<u>239,000</u>	<u>\$ —</u>	<u>239,000</u>
Total		<u>\$ 5,963,000</u>	<u>(147,000)</u>	<u>\$ 5,816,000</u>

December 31, 2009	Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:				
Technology	5	\$ 50,000	\$ (2,000)	\$ 48,000
Workforce	5	33,000	(1,000)	32,000
Customer list	5	56,000	—	56,000
		<u>139,000</u>	<u>(3,000)</u>	<u>136,000</u>
Unamortized:				
Customer list		104,000	—	104,000
Trademark and Tradenname		135,000	—	135,000
		<u>239,000</u>	<u>\$ —</u>	<u>239,000</u>
Total		<u>\$ 378,000</u>	<u>(3,000)</u>	<u>\$ 375,000</u>

Amortization expense for the three months ended March 31, 2009 and 2010 was \$-0- and \$144,000, respectively. Future amortization expense for these intangible assets is as follows:

Year ending December 31:

April – December 2010	\$ 425,000
2011	567,000
2012	567,000
2013	508,000
2014	504,000

NOTE 13 — Net Loss Per Share of Common Stock

Net loss per share for the three months ended March 31, 2009 and 2010 are as follows:

	Three Months Ended	
	March 31,	
	2009	2010
Basic and diluted loss per share		
Net loss	\$ (3,072,000)	\$ (4,063,000)
Weighted average shares outstanding – basic	10,895,000	11,185,000
Basic net loss per share	\$ (0.28)	\$ (0.36)

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. For the three months ended March 31, 2009 and 2010, the basic and diluted weighted-average shares outstanding are the same, since the effect from the potential exercise of outstanding stock options of 2,596,000 and 2,707,000, respectively, would have been anti-dilutive.

NOTE 14 — Stock-based Compensation Plans

The Company adopted the 1995 Non-Qualified 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 also 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 Company also adopted the 1999 Director Option Plan, pursuant to which the Company had the right to grant options to purchase up to an aggregate of 600,000 shares of common stock. The 1995 Non-Qualified Stock Option Plan expired during 2005 and the 1999 Stock and Director Option Plans expired during 2009 and the Company cannot issue additional options under these plans.

The Company adopted the 2007 Equity Compensation Plan, pursuant to which the Company may grant options to purchase up to an aggregate of 2,000,000 shares of common stock. The Company also adopted the 2009 Non-Employee Director Equity Compensation Plan, pursuant to which the Company may grant options to purchase up to an aggregate of 300,000 shares of common stock. 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 (but not more than 10 years), the exercise price of an option and the vesting provisions.

The Company recognizes all share-based payments in the statement of operations as an operating expense, based on their fair values on the applicable grant date. As a result, the Company recorded \$514,000 and \$370,000 in stock-based compensation expense for the three-month periods ended March 31, 2009 and 2010, respectively.

The following table summarizes the activity of the Company's stock options for the three months ended March 31, 2010:

	<u>Options</u>	<u>Weighted - Average Exercise Price</u>	<u>Weighted - Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of year	2,659,000	\$ 8.88		
Granted	368,000	2.84		
Exercised	(1,000)	2.31		
Expired	(227,000)	7.56		
Forfeited	(92,000)	14.77		
Outstanding at end of period	<u>2,707,000</u>	\$ 7.98	6 years	<u>\$ 76,000</u>
Exercisable at end of period	<u>1,541,000</u>	\$ 9.86	5 years	<u>\$ 21,000</u>

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As of March 31, 2010, there was approximately \$2,942,000 of unrecognized compensation cost related to non-vested options granted under the Company's option plans. That cost is expected to be recognized over a weighted-average period of 2.16 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:

	March 31,	
	2009	2010
Expected volatility	56% - 60%	54% - 76%
Expected life of options	5 years	5 years
Risk free interest rate	2%	2%
Dividend yield	0%	0%

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 weighted-average fair value of options granted during the three months ended March 31, 2009 and 2010 was \$1.87 and \$1.18, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2009 and 2010 was \$-0- and \$1,000, respectively.

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.

NOTE 15 — Restricted Stock

In 2006, Company began granting restricted stock to employees, whereby the employees are contractually restricted from transferring the shares until they are vested. The stock is unvested stock and, upon vesting, there are no legal 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 shares for the three months ended March 31, 2010 is as follows:

	Non-vested Shares	Weighted - Average Grant Date Fair Value
Non-vested, beginning of year	172,000	\$ 3.78
Granted	181,000	2.84
Vested	(11,000)	7.41
Forfeited	—	
Non-vested, end of period	<u>342,000</u>	\$ 3.17

The Company recorded \$45,000 and \$76,000 in stock-based compensation expense for the three month periods ended March 31, 2009 and 2010, respectively, in connection with restricted stock grants. As of March 31, 2010, there was \$918,000 of total unrecognized compensation cost related to non-vested shares. That cost is expected to be recognized over a weighted-average period of 2.6 years.

NOTE 16 — Performance Shares

In June 2009, the Compensation Committee granted 233,000 performance shares to key employees pursuant to the 2007 Equity Compensation Plan. The issuance of the shares of the Company's common stock underlying the performance shares is subject to the achievement of stock price targets of the Company's common stock at the end of a three-year measurement period ending in January 2012, with the ability to achieve prorated performance shares during interim annual measurement periods from January 31, 2009 to January 31, 2012. If the performance triggers are not met, the performance shares will not vest and will automatically be returned to the 2007 Equity Compensation Plan. If the performance triggers are met, then the shares will be issued to the employees. For the three months ended March 31, 2010, the Company recorded \$8,000 of stock-based compensation expense in connection with the performance shares.

NOTE 17 — Line of Credit

In October 2008, the Company received an offer (the "Offer") from UBS for a put right (the "ARSR") permitting the Company to sell to UBS at par value all ARS held by the Company, all of which were purchased by the Company from UBS, at a future date (any time during a two-year period beginning June 30, 2010). Included as part of the Offer, the Company received a commitment to obtain a loan for 75% of the UBS-determined value of the ARS at any time until the put option is exercised at a variable interest rate (1.31% at March 31, 2010) that will equal the lesser of: (i) the applicable reference rate plus a spread set forth in the applicable credit agreement and (ii) the then-applicable weighted-average interest or dividend rate paid to the Company by the issuer of the ARS that is pledged to UBS as collateral. The Company accepted the Offer in November 2008. In March 2009, the Company borrowed \$12,900,000 (which amount was equal to 75% of the UBS-determined value of the ARS) against this credit facility. Principal payments, funded by receipt of ARS principal, reduced the Company's obligation to \$9,451,000 at March 31, 2010. This line of credit facility is payable on demand.

NOTE 18 — Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consists of the following:

	December 31, 2009	March 31, 2010
Accounts payable	\$ 1,824,000	\$ 2,716,000
Accrued warranty	—	1,737,000
Accrued contingent consideration	110,000	1,127,000
Other current liabilities	<u>160,000</u>	<u>565,000</u>
	<u>\$ 2,094,000</u>	<u>\$ 6,145,000</u>

NOTE 19 — Warranty

The Company's AI segment warrants its products 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.

The following table summarizes warranty activity during the three months ended March 31, 2010:

	March 31, 2010
Accrued warranty reserve, January 7, 2010 (date of acquisition)	\$ 2,053,000
Accrual for product warranties issued	38,000
Product replacements and other warranty expenditures	(296,000)
Expiration of warranties	<u>(58,000)</u>
Accrued warranty reserve, end of period	<u>\$ 1,737,000</u>

NOTE 20 — 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, 2010, the Company had provided a valuation allowance to fully reserve its net operating loss carry forwards, primarily as a result of anticipated net losses for income tax purposes.

NOTE 21 — Fair Value of Financial Instruments

The carrying amounts of cash equivalents, accounts receivable, and investments in securities, including ARS and the ARSR, are carried at fair value and accounts payable, line of credit, and other liabilities approximate their fair values due to the short period to maturity of these instruments. The fair value of the ARS was determined utilizing a discounted cash flow approach and market evidence with respect to the ARS' collateral, ratings and insurance to assess default risk, credit spread risk and downgrade risk.

NOTE 22 — Concentration of Customers

One customer accounted for 30% of the Company's revenue and 13% of the Company's accounts receivable during the three-month period ended March 31, 2010.

Three customers accounted for 37%, 22%, and 12% of the Company's revenue during the three-month period ended March 31, 2009. Two of these customers accounted for over 51% and 16% of the Company's accounts receivable and unbilled receivables as of March 31, 2009.

NOTE 23 — Stock Repurchase Program

On May 3, 2007, the Company announced that its Board of Directors had authorized the repurchase of issued and outstanding shares of its common stock having an aggregate value of up to \$10,000,000 pursuant to a stock repurchase program established pursuant to Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The amount and timing of such repurchases are 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. The repurchases are funded from the Company's working capital. The Company's stock repurchase program does not have an expiration date, and the Company may discontinue or suspend the share repurchase program at any time. All shares of common stock repurchased under the Company's stock repurchase program are held as treasury stock. The Company did not purchase any shares of its common stock under the stock repurchase program during the three-month period ended March 31, 2010. As of March 31, 2010, the Company has purchased approximately 1,075,000 shares of its common stock in open market transactions under the stock repurchase program for an aggregate purchase price of approximately \$9,970,000, or an average cost of \$9.27 per share.

NOTE 24 — Comprehensive Loss

Comprehensive loss includes net loss and unrealized 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 sheet. The components of our comprehensive income are as follows:

	Three Months Ended	
	March 31,	
	2009	2010
Net Loss	\$ (3,072,000)	\$ (4,063,000)
Unrealized gain (loss) on available-for-sale marketable securities	(45,000)	66,000
Foreign currency translation loss		(25,000)
Comprehensive loss	<u>\$ (3,117,000)</u>	<u>\$ (4,022,000)</u>

NOTE 25 — Wholly Owned Foreign Subsidiaries

In May 2009, the Company formed an entity in Germany called I.D. Systems, GmbH (the “GmbH”). This foreign entity is wholly owned by I.D. Systems, Inc. The GmbH financial statements are consolidated with the financial statements of I.D. Systems, Inc.

For the three months ended March 31, 2010, the GmbH’s operations resulted in net revenues of \$357,000 and a net loss of \$7,000. Total assets were \$766,000 as of March 31, 2010. The GmbH operates in a local currency environment using the Euro as its functional currency.

Existing European sales orders/contracts prior to the formation of the GmbH and related accounting activity will remain in I.D. Systems, Inc. until settled or completed. Existing European employees and contractors and their related agreements were transferred to the GmbH in August 2009.

In October 2009, the Company acquired Didbox Ltd. (“Didbox”). This foreign entity is wholly owned by I.D. Systems, Inc. and is headquartered in the United Kingdom. The Didbox financial statements are consolidated with the financial statements of I.D. Systems, Inc. as of the effective date of acquisition.

For the three months ended March 31, 2010, Didbox’s operations resulted in net revenues of \$99,000 and net loss of \$25,000. Total assets were \$729,000 as of March 31, 2010. Didbox operates in a local currency environment using the British Pound as its functional currency.

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, with the related translation gains or losses reported as components of accumulated other comprehensive income/loss in consolidated stockholders’ equity. The translation of the GmbH’s and Didbox’s financial statements at March 31, 2010 resulted in a translation loss of \$25,000 which is included in comprehensive loss in the condensed consolidated statement of changes in stockholders’ equity.

Gains and losses resulting from foreign currency transactions are included in determining net income or loss. For the three month periods ended March 31, 2009 and 2010, foreign currency transaction losses of \$2,000 and \$18,000, respectively, are included as an offset to selling, general and administrative expenses in the condensed consolidated statement of operations.

NOTE 26 — Rights Agreement

In July 2009, the Company amended its Amended and Restated Certificate of Incorporation in order to create a new series of preferred stock, to be designated the “Series A Junior Participating Preferred Stock” (hereafter referred to as “Preferred Stock”). Shareholders of the Preferred Stock will be entitled to certain minimum quarterly dividend rights, voting rights, and liquidation preferences. Because of the nature of the Series A Preferred Stock’s dividend, liquidation and voting rights, the value of a share of Preferred Stock is expected to approximate the value of one share of the Company’s common stock.

In July 2009, the Company also adopted a shareholder rights plan (the “Rights Plan”), which entitles the holders of the rights to purchase from the Company 1/1,000th (subject to prospective anti-dilution adjustments) of a share of Preferred Stock of the Company at a purchase price of \$19.47 (a “Right”). The Rights Plan has a three-year term with the possibility of two separate three-year renewals. Until a Right is exercised or exchanged in accordance with the provisions of the rights agreement governing the Rights Plan, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote for the election of directors or upon any matter submitted to stockholders of the Company or to receive dividends or subscription rights. The Rights were registered with the Securities and Exchange Commission in July 2009.

On June 29, 2009, the Board of Directors of the Company declared a dividend of one Right for each outstanding share of common stock. The dividend was paid on July 13, 2009 to the stockholders of record on that date.

NOTE 27 — Severance Agreements

In September 2009, the Company entered into severance agreements with four 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, 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 or 18 months, depending on the executive, (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) an award of “Performance Shares” under the Restricted Stock Unit Award Agreement previously entered into between the Company and the executive.

NOTE 28 — Operating Segments

Prior to the Asset Intelligence (“AI”) acquisition in January 2010, the Company operated in a single reportable segment, consisting of the historical operations of I.D. Systems, Inc. (“IDS”). Subsequent thereto, the Company has determined that it has two reportable segments organized by product line: IDS and AI. The IDS operating segment includes the Company’s core wireless asset management systems operations: I.D. Systems, Inc., I.D. Systems, GmbH, and Didbox Ltd. This core business develops, markets and sells wireless solutions for managing and securing high-value enterprise assets such as industrial trucks. The AI operating segment, which consists of Asset Intelligence, LLC, provides data-driven telematics solutions for tracking and managing supply chain assets such as trailers and containers.

The Company does not allocate indirect expenses, such as compensation to executives and corporate personnel, professional fees, finance, and certain other operating costs to the individual segments. These costs are included in the IDS operating segment. The total assets of each segment are comprised of the assets of the subsidiaries operating in that segment.

A summary of segment information for the three-month periods ended March 31, 2009 and 2010 is presented below:

<i>(In thousands)</i>	Three Months Ended March 31, 2009			Three Months Ended March 31, 2010		
	IDS	AI	Total	IDS	AI	Total
Revenues	\$ 2,934,000	\$ —	\$ 2,934,000	\$ 2,199,000	\$ 3,925,000	\$ 6,124,000
Depreciation and amortization	138,000	—	138,000	143,000	289,000	432,000
Operating loss	(3,072,000)	—	(3,072,000)	(3,289,000)	(774,000)	(4,063,000)
Capital expenditures	(198,000)	—	(198,000)	(40,000)	(466,000)	(506,000)
Segment assets	79,186,000	—	79,186,000	48,500,000	22,550,000	71,050,000

Note 29 — Reduction in Work Force

As a result of the integration of AI, the Company will eliminate 39 positions, representing approximately 32% of our total personnel, to be completed by July 31, 2010. In order to earn a severance payment, affected employees must complete their transition duties and execute a general release agreement. The total severance cost is expected to be approximately \$456,000. Charges for severance payments are expected to be incurred through the third quarter of 2010.

NOTE 30 — Commitments and Contingencies

Except for normal operating leases, the Company is not currently subject to any material commitments or legal proceedings, nor, to management’s knowledge, is any material legal proceeding threatened against the Company.

NOTE 31 — Subsequent Events:

On May 10, 2010, the Company entered into an office lease agreement for approximately 21,400 leasable square feet, which includes office space, storage space and data/server space in Woodcliff Lake, New Jersey, to be used as the Company’s corporate headquarters. Occupancy is expected to occur during the third quarter of 2010. The base rent for the leased premises varies over the term of the lease and generally ranges from approximately \$457,200 to \$534,700 per year. The Company also will be responsible for its pro rata share of any operating expenses, taxes and insurance expenses incurred in connection with the office building in which the leased premises are located. The initial term of the lease agreement is for a period of ten years and seven months, and is scheduled to commence on July 15, 2010 and to expire on February 28, 2021. Under the lease agreement, the Company has the option to extend the term for up to two subsequent five-year periods, provided that the base rent during any extension term will be at a “market” rate.

NOTE 32 — Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 166 (Accounting Standards Codification (“ASC”) Topic 860 (“ASC 860”), “*Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*” (“SFAS 166”). ASC 860 improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor’s continuing involvement, if any, in transferred financial assets. ASC 860 is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The adoption of this guidance did not have a material impact on the Company’s consolidated financial position or results of operations.

In October 2009, the FASB issued ASU No. 2009-13, “*Multiple-Deliverable Revenue Arrangements*.” This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor’s multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early application is permitted. The Company is currently evaluating the impact that the adoption of this ASU will have on its consolidated financial statements but only if adopted in tandem with ASU 2009-14 (see below).

In October 2009, the FASB issued ASU No. 2009-14, “*Certain Revenue Arrangements That Include Software Elements*.” This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are “essential to the functionality” and scopes these products out of current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered “essential to the functionality.” The amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple deliverables. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. The Company is currently evaluating the impact that the adoption of this ASU will have on its consolidated financial statements.

In January 2010, the FASB issued additional guidance for improving disclosures about fair value measurement. Under this guidance, two new disclosures are required: (i) transfers in and out of Level 1 and 2 measurements and the reasons for the transfers and (ii) a gross presentation of activity within the Level 3 rollforward. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. The adoption of this guidance did not have and is not expected to have a material impact on the Company’s consolidated results of operations or financial position.

In May 2009, and as amended in February 2010, new authoritative accounting literature established general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. This accounting principle was effective for us as of June 30, 2009, and did not have a material impact on our consolidated financial statements.

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 “anticipate,” “believe,” “estimate,” “expect,” “predict,” “project,” and similar expressions or 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 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, 2009 and other filings with the Securities and Exchange Commission (the “SEC”). Any forward-looking statements regarding industry trends, product development and liquidity and future business activities 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 Report 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. The information contained in this website is not incorporated by reference in this report.

Overview

We develop, market and sell wireless 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. Our patented wireless asset management system addresses the needs of organizations to control, track, monitor and analyze their assets. Our solutions enable our customers to achieve tangible economic benefits by making timely, informed decisions that increase the security, productivity and efficiency of their operations.

We have focused our core business activities on two primary applications: industrial fleet management and rental fleet management. Our solution for industrial fleet management allows our customers to reduce operating 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 rental fleet management allows rental car companies to generate higher revenue by more accurately tracking vehicle data, such as fuel consumption and odometer readings, and improve customer service by expediting the rental and return processes. In addition to focusing on these core applications, we have adapted, and intend to continue to adapt, our solutions to meet our customers’ broader asset management needs.

We sell our system to both executive and division-level management. 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.

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, aerospace and defense, homeland security and vehicle rental.

On January 7, 2010, we acquired the Asset Intelligence (“AI”) business unit of General Electric Company, which provides trailer and container tracking solutions for manufacturers, retailers, shippers and freight transportation providers. The focus of AI on trucking, rail, marine and intermodal applications expands the scope of assets addressed by I.D. Systems’ solutions, and the web and mobile communications technologies of AI are complementary to I.D. Systems’ portfolio of wireless asset management patents.

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AI has long-term communication contracts that provide us with a recurring revenue stream, which is expected to help reduce quarterly revenue volatility. We expect that AI will contribute \$12 to \$15 million to our U.S. GAAP revenue for 2010, including approximately \$11 million from recurring services. We expect the combined gross margins to remain consistent with our historical gross margins. We have already achieved synergies integrating the AI unit into our core business and we expect to reduce annual combined operating expenses by approximately \$8 million. We expect the annual operating expenses of the combined businesses to be approximately \$22 million.

AI combines web-based software technologies with satellite and cellular communications to deliver data-driven telematics solutions for supply chain asset management. These solutions help secure and optimize the performance of trailers, railcars, containers, and the freight they carry, enabling shippers and carriers to maximize security and efficiency throughout their supply chains.

AI's VeriWise™ product platform provides comprehensive “real-time” data for faster, more informed decision-making in multiple supply chain applications:

- Asset Optimization—combining web-based asset visibility and advanced telemetry data to monitor the condition of fleet assets, streamline asset deployment, optimize utilization, and maximize return on investment.
- Cold Chain Management—maintaining the condition and quality of temperature-sensitive cargo from point A to point B, and all the points in between.
- Fleet Maintenance—utilizing sensor technologies, real-time data and a wealth of transportation maintenance knowledge to help control maintenance costs, improve preventative maintenance practices, increase asset up-time, extend asset life, and reduce overall cost of ownership.
- Fuel Management—monitoring key factors in fuel consumption, such as tire pressure and engine idle time, to help optimize fuel performance and reduce transportation costs.
- Security & Safety—protecting valuable assets and cargo throughout the supply chain.

As a result of the integration of AI, we announced in March 2010 that we will eliminate 39 positions within our company, representing approximately 32% of our total personnel, to be completed by July 31, 2010. In order to earn a severance payment, affected employees must complete their transition duties and execute a general release agreement. The total severance cost is expected to be approximately \$456,000. Charges for severance payments are expected to be incurred through the third quarter of 2010.

Risks

During the three months ended March 31, 2010, we generated revenues of \$6.1 million, and the Wal-Mart Stores, Inc. accounted for 30% of our revenues. During the three months ended March 31, 2009, we generated revenues of \$2.9 million, which does not include the acquisition of AI, and the U.S. Postal Service, Wal-Mart Stores, Inc. and NACCO Materials Handling Group accounted for 37%, 22% and 12% 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.

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We expect that 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.

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 revenues and results of operations to vary significantly and unexpectedly from quarter to quarter.

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.

Additional risks and uncertainties to which we are subject are described in our Annual Report on Form 10-K for the year ended December 31, 2009.

Critical Accounting Policies

For the three months ended March 31, 2010, there were no significant changes to the Company's critical accounting policies as identified in its Annual Report on Form 10-K for the year ended December 31, 2009.

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

	Three months ended	
	March 31,	
	2009	2010
Revenue:		
Products	47.0%	33.0%
Services	53.0	67.0
	100.0	100.0
Cost of revenue:		
Cost of products	27.2	15.9
Cost of services	18.6	28.8
	45.8	44.7
Gross profit	54.2	55.3
Selling, general and administrative expenses	143.5	105.7
Research and development expenses	23.5	18.8
Loss from operations	(112.9)	(69.2)
Interest income, net	11.8	3.4
Interest expense		(0.5)
Other income	(3.7)	—
Net loss	(104.7)%	(66.3)%

Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009

REVENUES. Revenues increased by \$3.2 million, or 108.7%, to \$6.1 million in the three months ended March 31, 2010 from \$2.9 million in the same period in 2009. The increase in revenue is principally attributable to revenue of \$3.9 million from AI which was acquired on January 7, 2010.

Revenues from products increased by \$0.6 million, or 46.8%, to \$2.0 million in the three months ended March 31, 2010 from \$1.4 million in the same period in 2009. The increase in service revenue is primarily attributable to the AI product revenue of \$0.5 million, which consists principally of \$0.2 million of revenue from Wal-Mart Stores, Inc.

Revenues from services increased by \$2.5 million, or 163.6%, to \$4.1 million in the three months ended March 31, 2010 from \$1.6 million in the same period in 2009. The increase in service revenue is primarily attributable to a decrease in IDS service revenue of \$0.9 million resulting from the amount of services rendered to the United States Postal Service and Wal-Mart Stores, Inc., more than offset by AI service revenue of \$3.4 million which consists principally of Wal-Mart Stores, Inc. and GE Trailer Fleet Services revenue of \$1.5 million and \$0.4 million, respectively.

COST OF REVENUES. Cost of revenues increased by \$1.4 million, or 103.6%, to \$2.7 million in the three months ended March 31, 2010 from \$1.3 million for the same period in 2009. The increase is attributable to the increase in revenue in 2010. Gross profit was \$3.4 million in 2010 compared to \$1.6 million in 2009. As a percentage of revenues, gross profit increased to 55.3% in 2010 from 54.2% in 2009.

Cost of products increased by \$0.2 million, or 22.2%, to \$1.0 million in the three months ended March 31, 2010 from \$0.8 million in the same period in 2009. Gross profit for products was \$1.0 million in 2010 compared to \$0.6 million in 2009. The increase in gross profit was attributable to an increase of \$0.1 million in the IDS gross profit and \$0.3 million from AI. As a percentage of product revenues, gross profit increased to 51.8% in 2010 from 42.0% in 2009. The increase in gross profit as a percent of product revenue was due to an increase in the IDS gross profit percentage to 45.6% in 2010 from 42.0% in 2009 and AI product revenue contributing a higher gross profit percentage of 69.2% in 2010.

Cost of services increased by \$1.3 million, or 222.5%, to \$1.8 million, in the three months ended March 31, 2010 from \$0.5 million in the same period in 2010. Gross profit for services was \$2.3 million in 2010 compared to \$1.0 million in 2009. The increase in gross profit was attributable to a decrease of \$0.6 million in the IDS gross profit and an increase of \$1.9 million from AI. As a percentage of service revenues, gross profit decreased to 57.0% in 2010 from 64.8% in 2009. The decrease in gross profit as a percent of service revenue was due to a decrease in the IDS gross profit percentage to 51.1% in 2010 from 64.8% in 2009 and AI service revenue contributing a higher gross profit percentage of 58.2% in 2010. The gross margin decrease in the IDS gross profit margin was primarily due to a reduction in service revenue with fixed costs remaining constant driving the margin down.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased by \$2.3 million, or 53.7%, to \$6.5 million in the three months ended March 31, 2010 compared to \$4.2 million in the same period in 2009. This increase was primarily attributable to decreases in payroll related and stock-based compensation expense of \$0.4 million, more than offset by AI selling, general and administrative expenses of \$2.5 million which consists principally of payroll-related and consulting expenses of \$1.0 million and \$0.8 million, respectively. As a percentage of revenues, selling, general and administrative expenses decreased to 105.7% in the three months ended March 31, 2010 from 143.5% in the same period in 2009, primarily due to the increase in revenue from the AI acquisition.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased by \$0.5 million, or 67.5%, to \$1.2 million in the three months ended March 31, 2010 from \$0.7 million in the same period in 2009 due primarily to a decrease in payroll-related and stock compensation expense of \$80,000 and consulting expenses of \$66,000, more than offset by AI research and development expenses of \$0.6 million which consists principally of payroll-related and consulting expenses of \$0.4 million and \$0.1 million, respectively. As a percentage of revenues, research and development expenses decreased to 18.8% in the three months ended March 31, 2010 from 23.5% in the same period in 2009, primarily due to the increase in revenue from the AI acquisition.

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INTEREST INCOME. Interest income decreased by \$138,000 to \$209,000 in the three months ended March 31, 2010 from \$347,000 in the same period in 2009. This decrease was attributable primarily to the decrease in cash and investments and in the rate of interest earned on the Company's cash and investments.

INTEREST EXPENSE. Interest expense increased by \$30,000 in the three months ended March 31, 2010 from \$-0- in the same period in 2009. This increase was due to interest expense incurred on the Company's line of credit borrowing facility, which was not in place until March 2009.

OTHER INCOME/EXPENSE. Other income of \$1,000 in the three months ended March 31, 2010 increased \$109,000 from other expense of \$108,000 in the same period in 2009. The increase consists principally of the change in the fair value of the Company's investment in auction rate securities and the auction rate securities right.

NET LOSS. Net loss was \$4.1 million, or \$(0.36) per basic and diluted share, for the three months ended March 31, 2010 as compared to net loss of \$3.1 million, or \$(0.28) per basic and diluted share, for the same period in 2009. The increase in the net loss was due primarily to the reasons described above.

Liquidity and Capital Resources

Historically, except for our line of credit borrowing of \$12.9 million in the first quarter of 2009, the Company's capital requirements have been funded primarily from the net proceeds from the sale of its securities, including the sale of its common stock upon the exercise of options and warrants. As of March 31, 2010, the Company had cash and marketable securities, which include auction rate securities and auction rate security rights of \$39.6 million and working capital of \$36.0 million compared to \$60.1 million and \$47.7 million, respectively, as of December 31, 2009.

Operating Activities

Net cash used in operating activities was \$2.9 million for the three months ended March 31, 2010, compared to net cash used in operating activities of \$1.6 million for the same period in 2009. The net cash used in operating activities for the three months ended March 31, 2010 reflects a net loss of \$4.1 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, net of \$5.3 million of working capital acquired in the AI transaction, included:

- a decrease in accounts receivable of \$1.0 million resulting from increased cash collections and the overall decrease in revenue;
- an increase in deferred costs, prepaid expenses and other assets of \$1.0 million;
- a decrease in inventory of \$0.8 million; and
- a decrease in accounts payable and accrued expenses of \$1.4 million primarily due to the timing of the payments to our vendors.

Investing Activities

Net cash used in investing activities was \$8.4 million for the three months ended March 31, 2010, compared to net cash used in investing activities of \$4.9 million for the same period in 2009. The change was due primarily to \$15.0 million used for the purchase of AI and \$0.5 million in fixed asset additions partially offset by a net increase in maturities of investments of \$7.0 million.

Financing Activities

Net cash used in financing activities was \$2.2 million for the three months ended March 31, 2010, compared to net cash provided by financing activities of \$12.7 million for the same period in 2009. The decrease was due to principal payments on the UBS line of credit of \$2.2 million in 2010 and the borrowing of \$12.9 million from the UBS line of credit facility in 2009.

Capital Requirements

We believe that with the proceeds received from our public offering that was completed by us in March 2006, 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 for the completion of 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.

At December 31, 2009 and March 31, 2010, we held approximately \$19.4 million and \$17.2 million fair value, respectively, in investments in ARS and ARSR. The Company purchased all the ARS it holds from UBS. These ARS represent interests in collateralized pools of student loan receivables issued by agencies established by counties, cities, states and other municipal entities within the United States. Liquidity for these ARS is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals. Starting in February 2008 and continuing into 2010, these securities failed to sell at auction. Holders of the securities continue to receive interest on the investments, and the securities continue to be auctioned at the pre-determined intervals (typically every 28 days) until the auction succeeds, the issuer calls the securities, or they mature. These failed auctions represent liquidity risk exposure and are not defaults or credit events. A decline in the value of these securities that is not temporary could materially adversely affect our liquidity and income.

In October 2008, we received a non-transferable offer (the "Offer") from UBS for a put right (the "ARSR") permitting the Company to sell all of its ARS to UBS at a future date (any time during a two-year period beginning June 30, 2010). The Offer also included a commitment to loan the Company 75% of the UBS-determined value of the ARS at any time until the put is exercised at a variable interest rate that will equal the lesser of: (i) the applicable reference rate plus a spread set forth in the applicable credit agreement and (ii) the then-applicable weighted average interest or dividend rate paid to the Company by the issuer of the ARS that is pledged to UBS as collateral. In November 2008, the Company accepted the Offer. In exchange for the Offer, the Company provided UBS with a general release of claims (other than certain consequential damages claims) concerning the Company's ARS and granted UBS the right to purchase the Company's ARS at any time for full par value. We intend to exercise our right under the ARSR to put back the ARS to UBS at the time it becomes available.

In March 2009, the Company borrowed \$12,900,000 (which amount was equal to 75% of the UBS-determined value of the ARS) against the UBS line of credit facility. Principal payments from the ARS maturities reduced this obligation to \$9,451,000 at March 31, 2010. This line of credit facility is payable on demand. The Company is paying interest on this obligation based upon the methodology described above, which is partially offset by interest earned on the underlying ARS.

Given the dislocation in the financial markets and among financial services companies, there can be no assurance that UBS ultimately will have the ability to repurchase the Company's ARS at par, or at any other price, as these rights will be an unsecured contractual obligation of UBS, or that if UBS determines to purchase the Company's ARS at any time, the Company will be able to reinvest the cash proceeds of any such sale at the same interest rate or dividend yield currently being paid to the Company under the ARS. Also, as a condition of accepting the ARSR, the Company was required to sign a release of claims against UBS, which will prevent the Company from making claims against UBS related to the Company's investment in ARS, other than claims for consequential damages.

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, 2010, there have been no material charges in contractual obligations as disclosed under the caption “Contractual Obligations” in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, except as noted below.

On May 10, 2010, the Company entered into an office lease agreement for approximately 21,400 leasable square feet, which includes office space, storage space and data/server space in Woodcliff Lake, New Jersey, to be used as the Company’s corporate headquarters. Occupancy is expected to occur during the third quarter of 2010. The base rent for the leased premises varies over the term of the lease and generally ranges from approximately \$457,200 to \$534,700 per year. The Company also will be responsible for its pro rata share of any operating expenses, taxes and insurance expenses incurred in connection with the office building in which the leased premises are located. The initial term of the lease agreement is for a period of ten years and seven months, and is scheduled to commence on July 15, 2010 and to expire on February 28, 2021. Under the lease agreement, the Company has the option to extend the term for up to two subsequent five-year periods, provided that the base rent during any extension term will be at a “market” rate.

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. Note 32, “Recent Accounting Standards,” of Notes to Condensed Consolidated Financial Statements, which is contained in Item 1 of Part I of this Quarterly Report on Form 10-Q, describes these new accounting standards and is incorporated herein by reference.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We 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. As of March 31, 2010, we had cash, cash equivalents and marketable securities of \$39.6 million.

Our 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, 2010, the carrying value of our cash and cash equivalents approximated fair value. In a declining interest rate environment, as short-term investments mature, reinvestment occurs at less favorable market rates, negatively impacting future investment income. 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 ("FDIC") 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 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.

At March 31, 2010, we held approximately \$17.2 million fair value, respectively, in investments in ARS and ARSR. The Company purchased all the ARS it holds from UBS. These ARS represent interests in collateralized pools of student loan receivables issued by agencies established by counties, cities, states and other municipal entities within the United States. Liquidity for these ARS is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals. Starting in February 2008 and continuing into 2010, these securities failed to sell at auction. Holders of the securities continue to receive interest on the investments, and the securities continue to be auctioned at the pre-determined intervals (typically every 28 days) until the auction succeeds, the issuer calls the securities, or they mature. These failed auctions represent liquidity risk exposure and are not defaults or credit events. A decline in the value of these securities that is not temporary could materially adversely affect our liquidity and income.

In October 2008, we received a non-transferable offer (the "Offer") from UBS for a put right (the "ARSR") permitting the Company to sell all of its ARS to UBS at a future date (any time during a two-year period beginning June 30, 2010). The Offer also included a commitment to loan the Company 75% of the UBS-determined value of the ARS at any time until the put is exercised at a variable interest rate that will equal the lesser of: (i) the applicable reference rate plus a spread set forth in the applicable credit agreement and (ii) the then-applicable weighted average interest or dividend rate paid to the Company by the issuer of the ARS that is pledged to UBS as collateral. In November 2008, we accepted the Offer. In exchange for the Offer, the Company provided UBS with a general release of claims (other than certain consequential damages claims) concerning the Company's ARS and granted UBS the right to purchase the Company's ARS at any time for full par value. We intend to exercise our right under the ARSR to put back the ARS to UBS at the time it becomes available.

There can be no assurance that UBS ultimately will have the ability to repurchase the Company's ARS at par, or at any other price, as these rights will be an unsecured contractual obligation of UBS, or that if UBS determines to purchase the Company's ARS at any time, the Company will be able to reinvest the cash proceeds of any such sale at the same interest rate or dividend yield currently being paid to the Company. Also, as a condition of accepting the ARSR, the Company was required to sign a release of claims against UBS, which will prevent the Company from making claims against UBS related to the Company's investment in ARS, other than claims for consequential damages.

Item 4. Controls And Procedures

a. Disclosure controls and procedures.

During the quarter ended March 31, 2010, 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, as amended (the "Exchange Act")) related to the recording, processing, summarization and reporting of information in our reports that we file with the Securities and Exchange Commission ("SEC"). 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 SEC'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 March 31, 2010, 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 Exchange Act) are effective as of March 31, 2010 to reasonably ensure that the 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 SEC rules and forms and that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

b. Changes in internal controls over financial reporting.

Except as set forth below, there have been no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

On January 7, 2010, we completed our acquisition of Asset Intelligence, LLC. We are currently integrating policies, processes, people, technology and operations for the combined company. Management will continue to evaluate our internal control over financial reporting as we execute integration activities.

PART II — OTHER INFORMATION

Item 1A. Risk Factors

In addition to the other information set forth in 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, 2009, as such factors could materially affect the Company’s business, financial condition, or future results. In the three months ended March 31, 2010, there were no material changes to the risk factors disclosed in the Company’s 2009 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On May 3, 2008, 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 \$10,000,000 pursuant to a share repurchase program established under Rule 10b-18 of the Exchange Act. The amount and timing of such repurchases are dependent upon the price and availability of shares, general market conditions and the availability of cash, as determined in the discretion of our management. The repurchases are funded from our working capital. Our share repurchase program does not have an expiration date, and we may discontinue or suspend the share repurchase program at any time. All shares of common stock repurchased under our share repurchase program are held as treasury stock.

The Company did not purchase any shares of its common stock under the repurchase program during the three months ended March 31, 2010.

Item 6. Exhibits

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

Exhibits:

- 2.1 Membership Interest Purchase Agreement, dated as of January 7, 2010, by and among I.D. Systems, Inc., General Electric Capital Corporation and GE Asset Intelligence, LLC (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of I.D. Systems, Inc. (File No. 001-15087) filed with the SEC on January 13, 2010).
- 10.1 Office Lease Agreement, dated as of May 10, 2010, by and between IPC New York Properties, LLC, as Landlord, and I.D. Systems, Inc., as Tenant.
- 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.

Signatures

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: May 17, 2010

By: /s/ Jeffrey M. Jagid
Jeffrey M. Jagid
Chief Executive Officer
(Principal Executive Officer)

Dated: May 17, 2010

By: /s/ Ned Mavrommatis
Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)

INDEX TO EXHIBITS

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TICE BUILDING

OFFICE LEASE AGREEMENT

BY AND BETWEEN

IPC NEW YORK PROPERTIES, LLC,
A DELAWARE LIMITED LIABILITY COMPANY
(AS "LANDLORD")

AND

I.D. SYSTEMS, INC.,
A DELAWARE CORPORATION
(AS "TENANT")

DATED: MAY 10, 2010

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OFFICE LEASE AGREEMENT

between

IPC New York Properties, LLC, as Landlord

and

I.D. SYSTEMS, INC., as Tenant

THIS OFFICE LEASE AGREEMENT ("Lease") is entered into and made this 10th day of MAY 2010, by and between **IPC NEW YORK PROPERTIES, LLC**, a Delaware limited liability company ("Landlord"), and **I.D. SYSTEMS, INC.**, a Delaware corporation ("Tenant").

WITNESSETH

WHEREAS, Landlord is desirous of leasing the Premises, more fully described hereinafter, to Tenant; and

WHEREAS, Tenant is desirous of leasing the Premises, more fully described hereinafter, from Landlord; and

WHEREAS, both parties to this Lease have fully reviewed, understand and accept, unless waived in writing hereunder, all provisions of this Lease; and

WHEREAS, for good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

BASIC LEASE PROVISIONS AND LEASE OF PREMISES

1.01 Basic Lease Provisions. The basic terms and definitions of this Lease are set forth below:

A.	Building: Street address: City: State and Zip Code:	Tice Building 123 Tice Boulevard Woodcliff Lake New Jersey 07677																		
	Premises:																			
	"Office Premises":	Suite 101 on first (1st) floor of Building and depicted on Exhibit "B-1"																		
	"Storage Premises":	The caged storage area on the lower level of the Building and depicted on Exhibit "B-2"																		
	"Data Premises":	The data/server room on the lower level of the Building and depicted on Exhibit "B-2"																		
B.	Total Leasable Area in the Building: Leasable Area of the Premises:	119,772 Leasable Square Feet ("LSF") Office Premises: 18,700 Leasable Square Feet Storage Premises: 1,114 LSF Data Premises: 1,586 LSF Total LSF of Premises: 21,400 LSF																		
	Tenant's "Pro Rata Share":	17.87%																		
C.	Term (Paragraph 2.01): Scheduled Commencement Date: Scheduled Expiration Date:	10 Years and 7 months (total of 127 months) July 15, 2010 February 28, 2021																		
D.	Base Rent for Office Premises (Paragraph 3.01):	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Months of Term</th> <th style="text-align: center;">Monthly Base Rent</th> <th style="text-align: center;">Annualized Base Rent</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1-24</td> <td style="text-align: right;">\$ 35,062.50</td> <td style="text-align: right;">\$ 420,750.00</td> </tr> <tr> <td style="text-align: center;">25-48</td> <td style="text-align: right;">\$ 36,620.83</td> <td style="text-align: right;">\$ 439,449.96</td> </tr> <tr> <td style="text-align: center;">49-60</td> <td style="text-align: right;">\$ 38,179.17</td> <td style="text-align: right;">\$ 458,150.04</td> </tr> <tr> <td style="text-align: center;">61-84</td> <td style="text-align: right;">\$ 39,737.50</td> <td style="text-align: right;">\$ 476,850.00</td> </tr> <tr> <td style="text-align: center;">85-127</td> <td style="text-align: right;">\$ 41,295.83</td> <td style="text-align: right;">\$ 495,549.96</td> </tr> </tbody> </table>	Months of Term	Monthly Base Rent	Annualized Base Rent	1-24	\$ 35,062.50	\$ 420,750.00	25-48	\$ 36,620.83	\$ 439,449.96	49-60	\$ 38,179.17	\$ 458,150.04	61-84	\$ 39,737.50	\$ 476,850.00	85-127	\$ 41,295.83	\$ 495,549.96
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	Base Rent for Storage and Data Premises (Paragraph 3.01):	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Months of Term</th> <th style="text-align: center;">Monthly Base Rent</th> <th style="text-align: center;">Annualized Base Rent</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1-60</td> <td style="text-align: right;">\$ 3,037.50</td> <td style="text-align: right;">\$ 36,450.00</td> </tr> <tr> <td style="text-align: center;">61-127</td> <td style="text-align: right;">\$ 3,262.50</td> <td style="text-align: right;">\$ 39,150.00</td> </tr> </tbody> </table>	Months of Term	Monthly Base Rent	Annualized Base Rent	1-60	\$ 3,037.50	\$ 36,450.00	61-127	\$ 3,262.50	\$ 39,150.00									
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1-60	\$ 3,037.50	\$ 36,450.00																		
61-127	\$ 3,262.50	\$ 39,150.00																		
	Prepaid Rent	\$38,100.00 is due and payable by Tenant upon execution of this Lease by Tenant. This amount will be applied toward Tenant's first month's rent.																		



- E. Security Deposit (Paragraph 4.01): \$266,700.00, due and payable by Tenant upon execution of this Lease by Tenant (subject to reduction pursuant to Paragraph 4.01).
- F. Guarantor(s) (Paragraph 19.18): N/A
- G. Addresses for Notices and Payments:

Notices to Tenant:

Prior to the Commencement Date:

I.D. Systems, Inc.
One University Plaza
6th Floor
Hackensack, New Jersey 07601
Attention: Ned Mavrommatis

After the Commencement Date:

I.D. Systems, Inc.
123 Tice Boulevard, Suite 101
Woodcliff Lake, New Jersey 07677
Ned Mavrommatis

In each case with a copy to:

With copy to: David M. Watkins, Esquire
285 Closter Dock Road
P.O. Box 304
Closter, New Jersey 07624

Notices to Landlord:

IPC New York Properties, LLC
15601 Dallas Parkway, Suite 600
Addison, Texas 75001
Attn: Lease Administration

With a copy to:

IPC New York Properties, LLC
c/o Property Manager
123 Tice Boulevard
Woodcliff Lakes, New Jersey 07677

And with a copy of notices of default to:

Behringer Harvard REIT I, Inc.
15601 Dallas Parkway, Suite 600
Addison, Texas 75001
Attn: Chief Legal Officer

Billing to Tenant:

I.D. Systems, Inc.
123 Tice Boulevard, Suite 101
Woodcliff Lake, New Jersey 07677
Ned Mavrommatis

Payments to Landlord:

IPC New York Properties, LLC
PO Box 634885
Cincinnati, Ohio 45263-4885
Tax ID: 51-0381268

- H. Real Estate Broker (Paragraph 19.04): CBRE for Landlord (“Landlord’s Broker”) and Cushman & Wakefield for Tenant (“Tenant’s Broker”)

1.02 Lease of Premises. Landlord, in consideration of the rents and covenants hereinafter set forth, does hereby demise, let and lease to Tenant, and Tenant does hereby hire, take and lease from Landlord, on the terms and conditions hereinafter set forth, the Premises, to have and to hold the same, with all appurtenances, unto Tenant for the term hereinafter specified.

1.03 Description of Building, Premises and Common Areas.

A. The Building. The number of leasable square feet in the Building is specified in Paragraph 1.01B. Any reference in this Lease to the term “Building” shall include any office building, the Common Areas (as hereinafter defined) and the land as described in the Legal Description attached as EXHIBIT A unless the context requires otherwise.

B. The Premises/Re-Measurement. The premises consist of Office Premises and the Storage Premises described in Paragraph 1.01A and depicted on Exhibits “B-1” and “B-2” hereto. If prior to the Commencement Date the Premises are re-measured using the above ANSI/BOMA standard and the Premises are determined to contain more or less LSF than set forth above, and neither party in good faith objects to such determination, then the parties will execute an amendment to this Lease amending the LSF of the Premises and adjusting all terms hereof affected thereby (e.g., Base Rent, Tenant’s Pro Rata Share).

C. The Common Areas. The term “Common Areas” refers to the areas of the Building which are designated by Landlord for use in common by all Tenants of the Building and their respective employees, agents, customers, invitees and others, and includes, by way of illustration and not limitation, entrances and exits, hallways and stairwells, elevators, rest rooms, side-walks, driveways, parking areas, landscaped areas, plaza and any other areas as may be designated at any time by Landlord as part of the Common Areas of the Building.

**ARTICLE II
TERM AND POSSESSION**

2.01 Commencement and Expiration. The “Term” of this Lease shall be the period of time specified in Paragraph 1.01C, commencing on the earlier to occur of (i) the date that the Landlord’s Work (as defined in Exhibit “D”) is (or is deemed to be) Substantially Complete (as defined in Exhibit “D”). or (ii) such earlier date as Tenant takes possession or commences use of the Premises for business purposes (such earlier date being the “Commencement Date”). The Lease shall expire without notice to Tenant on the Expiration Date, which will be the last day of the 127th complete calendar month of the Term (the Term including any partial month in which the Commencement Date occurs). The Commencement Date and the Expiration Date shall be confirmed by Landlord and Tenant by execution of an “Acceptance of Premises Amendment” in the form attached hereto as Exhibit “B”.

2.02 Construction of Tenant Finish Improvements and Possession. Landlord will perform or cause to be performed the Landlord's Work, as defined in and pursuant to the Work Letter attached hereto as EXHIBIT D. Subject to Tenant Delays and Force Majeure, Landlord shall endeavor to Substantially Complete the Landlord's Work by the Scheduled Commencement Date; provided that Landlord shall have no liability to Tenant for failing to Substantially Complete the Landlord's Work by the Scheduled Commencement Date, Tenant's sole and exclusive remedy for such failure being the postponement of the occurrence of the Commencement Date and the corresponding delay in the accrual of Rent, and such shall constitute full settlement of all claims that Tenant might otherwise have against Landlord by reason of the Premises not being ready for occupancy by Tenant on the Scheduled Commencement Date. Notwithstanding, if the date of this Lease is on or prior to April 2, 2010 and Substantial Completion has not been achieved by the date that is one hundred (100) days after the Scheduled Commencement Date for any reason other than Force Majeure or Tenant Delays, then, Tenant shall have the right, exercisable only by written notice to Landlord at any time prior to the occurrence of the Commencement Date, and as its sole and exclusive remedy, to terminate this Lease, following which, and subject to Landlord's return to Tenant of the Security Deposit, neither party will have any further obligations to the other hereunder. Upon the occurrence of Substantial Completion and delivery of possession of the Premises to Tenant, Landlord and Tenant shall execute the Acceptance of Premises Amendment in the form of that attached hereto as EXHIBIT C, which, besides fixing the Commencement Date and Expiration Date, will contain acknowledgments that Tenant has accepted the Premises in their then present condition, and that the Premises and the Building are satisfactory in all respects except for the Punch List Items (as defined in the Work Letter). If Tenant takes possession of the Premises other than for purposes of performing Tenant's Work (defined in Section 2.03 below). Tenant shall be deemed to have accepted the Premises even though the Acceptance of Premises Amendment may not have yet been executed.

2.03 Tenant's Work. Other than Landlord's Work, Tenant shall make all other necessary improvements to the Premises to operate Tenant's business including installation of voice data and telecommunications equipment and cabling, all at Tenant's sole cost ("Tenant's Work"). Tenant's Work shall comply with all applicable statutes, ordinances, regulations and codes and shall strictly comply with the requirements of Paragraph 7.03 hereof. Subject to scheduling and the progress of Landlord's construction of the Landlord's Work, Landlord will, in its reasonable discretion, allow Tenant access to the Premises fifteen (15) days prior to the estimated date for Substantial Completion solely for purposes of performing the Tenant's Work provided, however, that Tenant shall not interfere with the completion of the Landlord's Work and shall cause its contractors to work in harmony with Landlord and its contractors. Tenant's use or occupancy of the Premises prior to the Commencement Date shall be subject to all of the terms and conditions of the Lease, including, without limitation, the insurance requirements and indemnity obligations of the Lease, but excluding those provisions regarding the payment of any scheduled Rent. **TENANT WILL HOLD LANDLORD HARMLESS AND INDEMNIFY LANDLORD FOR ANY LOSS OR DAMAGE TO TENANT'S OR LANDLORD'S PROPERTY, EQUIPMENT, FIXTURES OR MERCHANDISE, AND FOR ANY INJURY TO A PERSON RESULTING THEREFROM, EXCEPT TO THE EXTENT CAUSED BY THE NEGLIGENCE OF LANDLORD OR ITS AGENTS.**

2.04 Surrender of the Premises. Upon the expiration or earlier termination of this Lease or upon default or breach of this Lease by Tenant, Tenant shall immediately surrender the Premises and all keys to the Premises to Landlord, together with all alterations, improvements and other property as provided elsewhere herein, in broom-clean condition and in good order, condition and repair, except for ordinary wear and tear and such damage as Tenant is not obligated to repair; failing this, Landlord may restore the Premises to such condition at Tenant's expense, and Tenant shall immediately reimburse Landlord upon demand. Upon such expiration or termination, Tenant shall have the right to remove its property (as described in Paragraph 7.04). Tenant shall promptly repair any damage caused by any such removal, and shall restore the Premises to the condition existing prior to the installation of the items so removed.

2.05 Holding Over. If Tenant shall hold over after the expiration of the Term, it shall be deemed to be occupying the Premises as a Tenant from month to month, which tenancy may be terminated as provided by law. Tenant agrees that holding over beyond the Term shall cause irreparable damage to Landlord and that it will be impossible to estimate or determine the damage that will be suffered by Landlord in such an event. Therefore during such tenancy, Tenant agrees to pay to Landlord 125% of the monthly Base Rent and Additional Rent payable for the last full month of the Term of the first (1st) month of such holdover, 150% for the second month of such holdover, and 200% thereafter, Tenant to otherwise be bound by all of the terms, covenants and conditions contained in this Lease. If Tenant fails to surrender the Premises upon the termination of this Lease, in addition to any other liabilities to Landlord arising therefrom Tenant shall indemnify and hold Landlord harmless from loss or liability resulting from such failure from whatever source.

2.06 AS IS CONDITION. Except as provided elsewhere in this Lease, by taking possession of the Premises Tenant accepts the Premises in its "as is" condition and with all faults, and the Premises is deemed in good order, condition, and repair provided, however, that Landlord shall correct latent defects in the Landlord's Work for a period of six (6) months after the Commencement Date conditioned upon Tenant notifying Landlord of the discovery thereof within fifteen (15) days after such defect was discovered. As used herein, a "latent defect" is a defect in the construction of the Landlord's Work that is not visible or otherwise discoverable by a reasonably diligent visual inspection at the time the Landlord's Work was otherwise Substantially Completed. Further, nothing in this Section 2.06 relieves Landlord from the obligation to complete Punch-list Items determined pursuant to the terms of the Work Letter attached hereto as Exhibit D. Landlord does not make and Tenant does not rely upon any representation or warranty of any kind, express or implied, with respect to the condition of the Premises (including habitability or fitness for any particular purpose of the Premises). **TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, LANDLORD HEREBY DISCLAIMS, AND TENANT WAIVES THE BENEFIT OF, ANY AND ALL IMPLIED WARRANTIES, INCLUDING IMPLIED WARRANTIES OF HABITABILITY AND FITNESS OR SUITABILITY FOR A PARTICULAR PURPOSE.**

2.07 Access to Data Premises. Landlord will grant Tenant access to the Data Premises as soon as Landlord and the current tenant of such space have terminated the existing lease for such space on terms satisfactory to Landlord and Landlord has obtained actual possession of such space conditioned, however, upon (i) Landlord's mortgagee having approved of this Lease, (ii) Landlord having received from Tenant the Security Deposit and the Prepaid Rent, and (iii) Tenant having provided evidence of insurance required to be maintained by Tenant hereunder. Tenant's use and occupancy of the Data Premises prior to the Commencement Date shall be subject to all of the terms and conditions of this Lease except for Tenant's obligation to pay Base Rent and Additional Rent with respect thereto (however, Tenant will be required to pay for electricity service to the Data Premises during such early occupancy pursuant to Paragraph 6.01 hereof).

ARTICLE III
RENT

3.01 Base Rent. Tenant shall pay to Landlord as Base Rent for the Premises the amounts specified in Paragraph 1.01D for each of the Office Premises and the Storage and Data Premises, payable in equal consecutive monthly installments as specified in said Paragraph 1.01.D, in advance, on or before the first day of each and every calendar month during the Term without demand, notice or offset provided, however, that if the Commencement Date shall be a day other than the first day of a calendar month, then the schedule of Base Rent set forth in Paragraph 1.01.D will be measured from the first (1st) calendar month of the Term and Tenant shall pay Base Rent for the fractional month in which the Commencement Date occurred at the rate otherwise due for the first (1st) complete calendar month but prorated on the basis of the number of days during the month this Lease was in effect in relation to the total number of days in such month. Notwithstanding the forgoing, all Base Rent (but no other Rent) shall be conditionally abated in its entirety for months one (1) through seven (7) of the Term (the "Abatement Period"). To illustrate, if the Commencement Date is July 10, 2010, then the Abatement Period would commence on the Commencement Date and end on February 9, 2011. However, if a default by Tenant under the Lease occurs, then (i) if the Abatement Period has not expired or terminated, the Abatement Period shall immediately terminate and Tenant shall immediately commence payment of full Base Rent, and (ii) if Landlord terminates the Lease or Tenant's possession of the Premises due to such default Tenant shall pay to Landlord upon demand, for loss of the bargain and not as a penalty, all previously abated Base Rent and Additional Rent Termination of the Abatement Period and the obligation to repay abated Base Rent will be without limitation of Landlord's other remedies for a default by Tenant.

3.02 Additional Rent. All other payments due under this Lease from Tenant shall be considered additional rent ("Additional Rent") and shall include the following:

A. Adjustments to Operating Expenses and Taxes:

1. Definitions:

(a) "**Operating Expenses**" shall mean the amount of any and all of Landlord's direct costs, expenses and disbursements of any kind and nature, incurred in connection with the management, operation, maintenance and repair of the Building (including the Common Areas and the land described in EXHIBIT A) or any improvements situated on the land for a particular calendar year or portion thereof, as determined by Landlord, together with all additional direct costs, expenses and disbursements with respect to the management, operation and maintenance of the Building. If less than ninety-five percent (95%) of the rentable square feet in the Building is occupied, Operating Expenses shall be adjusted to the amount which Landlord determines that it would have paid during such year (including the Base Year) if the Building had been ninety-five percent (95%) occupied. Operating Expenses include by way of illustration but not limitation: water, sewer, electrical and other utility charges for the Building and Common Areas, other than any utility charges for other premises which are separately metered and paid directly by the tenant thereof; service and other charges paid in connection with the operation and maintenance of the elevators and the heating, ventilation and air-conditioning system; cleaning and other janitorial services; tools and supplies; repair costs; landscape maintenance costs; snow removal; security services; license, permit and inspection fees; management fees; auditing fees; wages and related employee benefits payable for the maintenance and operation of the Building; and, in general, all other costs and expenses which would generally be regarded as operating and maintenance costs and expenses, including those which would normally be amortized over a period not to exceed five (5) years. There shall also be included in the Operating Expenses the cost or portion thereof reasonably allocable to any capital improvement made to the Building by Landlord after the date of this Lease which (i) improves the operating efficiency of any system within the Building and thereby reduces Operating Expenses, or (ii) is required under any governmental law or regulation that was not applicable to the Building at the time it was constructed, or (iii) is installed pursuant to Paragraph 3.02B, with such cost being amortized over such period of time and in such manner as Landlord shall reasonably determine, together with interest on such cost or the unamortized balance thereof. Operating Expenses shall not include (i) expenses for painting, redecorating or other work which Landlord performs for any Tenant in the Building; (ii) expenses for repairs or other work reimbursed by insurance proceeds; (iii) expenses incurred in leasing or procuring new tenants; (iv) legal expenses incurred in enforcing the terms of any lease; (v) interest or amortization payments on any mortgage or mortgages; (vi) Taxes; and (vii) Insurance.

(b) "**Taxes**" shall mean and include (i) any form of real estate tax or assessment, general, special, ordinary or extraordinary, improvement bond or bonds imposed on the Building or a portion thereof by any authority having a direct or indirect power to tax, including any city, county, state or federal government or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof against any legal or equitable interest of Landlord in the Building or any portion thereof, (ii) taxes, assessments or fees in lieu of the taxes described in (i); and (iii) the reasonable costs incurred to reduce the taxes described in (i — ii). Taxes excludes federal income taxes and taxes paid under Paragraph 3.05 below.

(c) "**Insurance Expenses**" shall mean insurance premiums on insurance coverage which is required to be carried by Landlord or which Landlord may elect to carry at Landlord's discretion.

(d) **Tenant's "Pro Rata Share"** shall mean the percentage specified in Paragraph 1.01B.

(e) "**Base Year**" shall mean the calendar year in which the Lease commences.

(f) "**Adjustment Year**" shall mean any calendar year or portion thereof during the Term of the Lease commencing with the year after the Base Year. In the event the last Adjustment Year is not a full calendar year, the Additional Rent payable under Paragraph 3.02A.2 with respect to such partial year shall be prorated.

(g) "**Tenant's Share of Expenses**" means, for each Adjustment Year, the sum of money equal to Tenant's Pro Rata Share of an amount equal to the sum of (i) the Operating Expenses for such Adjustment Year, less the Operating Expenses for the Base Year; (ii) Taxes for such Adjustment Year, less the Taxes for the Base Year; and (iii) Landlord's Insurance Expense for such Adjustment Year, less Landlord's Insurance Expense for the Base Year in no event shall Tenant's Share of Expenses or any individual item (i), (ii), or (iii) above be less than zero (0).

2. Payment Obligations. Tenant shall pay as "Additional Rent" Tenant's Share of Expenses for each Adjustment Year. Prior to the beginning of each Adjustment Year, Landlord shall advise Tenant of Landlord's good faith estimate of the amount, if any, of Tenant's Share of Expenses for the upcoming Adjustment Year and Tenant shall pay to Landlord the estimated Tenant Share of Expenses in equal monthly installments on the first day of each month during that Adjustment Year together with the Base Rent.

3. Succeeding Year Expenses. Prior to the beginning of each Adjustment Year, Landlord shall advise Tenant of the estimated amount, if any, of the increase in Operating Expenses, Taxes and Insurance Expenses over the Base Year, for the upcoming calendar year, and Tenant shall pay to Landlord Tenant's Pro Rata Share of such estimated increase in equal monthly installments on the first day of each month during that Adjustment Year together with the Base Rent. At the end of each Adjustment Year, Landlord shall ascertain and advise Tenant of Tenant's Pro Rata Share of the actual amount of any increase in Operating Expenses, Taxes and Insurance for the preceding year and any additional sum owed by Tenant to Landlord shall be paid to Landlord within thirty (30) days following the receipt of Landlord's notice thereof. Should any excess have been paid by Tenant to Landlord for the preceding year, Landlord shall apply the excess toward sums due for the next following calendar year.

B. Improved Operating Efficiency. If Landlord shall, at any time after the Commencement Date, install a labor-saving device or other equipment, which improves the operating efficiency of any system within the Building (such as an energy management computer system) and thereby limits Operating Expenses or the cost of electricity to operate the Building, or limits future increases in Operating Expenses or electrical costs, then Landlord may add to Operating Expenses an annual amortization allowance based upon the costs of such equipment, plus interest on the unamortized balance thereof, amortized in equal installments over such period as determined by generally accepted accounting principals; provided, however, that the amount of such annual amortization allowance and interest shall not exceed the annual cost or expense limitation attributed by Landlord to such installed device or equipment, and in no event shall such amortization allowance increase the sum of Operating Expenses over what it would have been if such labor-saving device or other equipment had not been installed.

C. Settlement. As soon as practical after the end of each Adjustment Year, but no later than one (1) year after the end of the applicable Adjustment Year, Landlord will provide Tenant a statement of the actual Operating Expenses, Taxes and Insurance Expenses for such year and the actual Tenant's Share of Expenses (a "Reconciliation Statement"). If the actual Tenant's Share of Expenses exceeds the estimated Tenant's Share of Expenses paid by Tenant for the subject Adjustment Year, then Tenant shall pay the underpayment thereof to Landlord in a lump sum as Rent within thirty (30) days after receipt of the Reconciliation Statement. If the estimated Tenant's Share of Expenses exceeds the actual Tenant's Share of Expenses for the Adjustment Year, then Landlord shall credit the overpayment against Tenant's payment of Tenant's Share of Expenses next due until applied in full or, if no further payments are due and Tenant is not in default under this Lease, refund such overpayment to Tenant. In the event Landlord has not provided a Reconciliation Statement by the date one (1) year after the end of the applicable Adjustment Year, Landlord shall forever forfeit the right to collect any underpayment of Tenant's Share of Expenses for such Adjustment Year. Landlord's and Tenant's obligations under this Paragraph C survive the end of the Term.

D. Dispute of Additional Rent. Provided it is timely received as described above, the Reconciliation Statement is conclusive, binds Tenant, and Tenant waives all rights to contest the statement, except for items to which Tenant objects by written notice to Landlord given within sixty (60) days after Tenant's receipt of the Reconciliation Statement. If Tenant timely objects to the Reconciliation Statement in any respect, Tenant and Landlord shall have thirty (30) days after Landlord's receipt of Tenant's questions to amicably resolve them. If Tenant timely objects to Landlord's Reconciliation Statement and such objections are not amicably settled between Landlord and Tenant within such thirty (30) period, Tenant, at its expense, shall have sixty (60) days from the end of such thirty (30) day period to audit Landlord's books and records relating to the applicable category of Tenant Share of Expenses (*i.e.*, Insurance Expenses, Operating Expenses or Taxes) for all or any part of the immediately preceding Adjustment Year. Any audit by Tenant must be performed within such period by a reputable independent certified public accountant who is experienced in auditing leases for operating expenses and otherwise reasonably acceptable to Landlord and who is engaged by Tenant on a non-contingency fee basis. Tenant shall provide Landlord with a copy of such audit upon completion. Landlord shall cooperate with the Tenant in connection with such audit and shall make available its books and records relating to Operating Expenses, Taxes and Insurance Expenses for the subject Adjustment Year upon not less than ten (10) business days notice, during regular business hours, and at the location in the Memphis, Tennessee metro area where Landlord customarily keeps such books and records. Under no circumstances will Tenant be permitted to review or audit income tax records of Landlord or similar financial records of Landlord as a business entity. Tenant recognizes that Landlord's books and records are confidential records and Tenant agrees not to disclose same or the results of its audit to any third party (other than Landlord) except to its directors, officers, employees, affiliates, subsidiaries, partners, lenders, insurers, auditors, agents, accountants, attorneys, financial advisors, or to any parties required in response to summonses or subpoenas, or to any regulator, organization of regulators or self-regulatory organization, or as required by applicable law or in connection with any proceeding between Landlord and Tenant pertaining to same. Neither Tenant nor its auditor shall be permitted to take from Landlord's office any of Landlord's books and records without Landlord's consent. In the event Tenant's audit reflects that Landlord has overcharged Tenant for the preceding calendar year, and Landlord does not in good faith dispute such audit, Landlord shall credit the amount of such overcharge to future payments of the subject category of expense to the extent of such overcharge or, if no such payments will be due, promptly reimburse Tenant for such overcharge. If such audit reveals that Landlord has undercharged Tenant for Tenant's Share of Expenses, Tenant shall promptly pay Landlord the amount of such undercharge within thirty (30) days after written demand by Landlord. The expense of Tenant's audit shall be borne by Tenant unless the agreed results of such audit determine that Additional Rent charged to Tenant by Landlord for the period in question was more than five percent (5%) in excess of the actual Additional Rent chargeable to Tenant as determined by the audit, in which case the actual and reasonable expense of the audit shall be reimbursed by Landlord up to a maximum of \$2,500.00 or the lesser amount of any overcharge. Landlord will not under any circumstances be required to retain or preserve records of expenses and Tenant's Share of Expenses for more than twenty-four (24) months after the end of the Adjustment Year to which they relate. Tenant's objection to any Reconciliation Statement will not relieve Tenant from the obligation to timely pay any Tenant's Share of Expenses, including any disputed portion thereof shown as underpaid in the Reconciliation Statement, but Tenant's obligations to pay any such disputed amounts Rent will be subject to Tenant's rights under this Paragraph 3.02D. In no event shall the provisions of this Paragraph 3.02 reduce the Base Rent specified in Paragraph 1.01D.



3.03 Definition of Rent. The Base Rent, Additional Rent and any other amounts of money to be paid by Tenant to Landlord pursuant to the provisions of this Lease, including any sums due under any and all Exhibits attached hereto, whether or not such payments are denominated Base Rent or Additional Rent and whether or not they are to be periodic or recurring, shall be sometimes collectively referred to as "rent" for purposes of this Lease; and any failure to pay any of the same as provided in this Lease shall entitle Landlord to exercise all of the rights and remedies afforded hereby or by law for the collection and enforcement of Tenant's obligation to pay rent. Tenant's obligation to pay any such rent pursuant to the provisions of this Lease shall survive the expiration or other termination of this Lease and the surrender of possession of the Premises after any hold-over period and are covenants independent of any obligations or covenants of Landlord herein.

3.04 Late Charge. If any payment due Landlord under this lease has not been received by Landlord when due, Tenant shall pay a late charge of five percent (5%) of the amount of the late payment, and an additional five percent (5%) late charge may be charged on the first day of each calendar month thereafter until the delinquent payment has been paid in full; provided, that in no event shall the charges permitted under this Paragraph 3.04 or elsewhere in this Lease, to the extent they are considered to be interest under applicable law, exceed the maximum lawful rate of interest. Notwithstanding the above, the first (1st) late charge in each twelve (12) month period of the Term will be waived by Landlord provided that the delinquent installment of rent is received by Landlord prior to the expiration of any notice and cure period provided for in Section 15.01(a).

3.05 Other Taxes. Upon demand, Tenant will reimburse Landlord for taxes paid by Landlord on (i) rent, (ii) Tenant's occupancy of the Premises, or (iii) this Lease. If Tenant cannot lawfully reimburse Landlord for these taxes, then to the extent not prohibited by applicable law, the Base Rent will be increased to yield to Landlord the same amount after these taxes were imposed as Landlord would have received before these taxes were imposed.

ARTICLE IV SECURITY DEPOSIT

4.01 As security for the performance and observance by Tenant of all of its obligations under the terms, condition and covenants of this Lease, Tenant has deposited with Landlord the sum specified in Paragraph 1.01E, which sum shall be held by Landlord as a security deposit during the Term. If Tenant performs and observes all of the terms, conditions and covenants of this Lease which are required to be performed and observed by it, Landlord shall return the security deposit, or balance thereof then held by Landlord, without interest, to Tenant within thirty (30) days after the Expiration Date or after Tenant surrenders possession of the Premises, whichever is later. In the event of a default by Tenant in the payment of rent or the performance or observance of any of the other terms, conditions or covenants of this Lease, then Landlord may, at its option and without notice, apply all or any part of the security deposit in payment of such rent or to cure any other such default; and if Landlord does so, Tenant shall, upon request, deposit with Landlord the amount so applied so that Landlord will have on hand at all times during the Term the full amount of the security deposit, Landlord shall not be required to hold the security deposit as a separate account, but may commingle it with Landlord's other funds.

4.02 In the event of a sale or lease of the Building, Landlord shall have the right to transfer the security deposit to its purchaser or Tenant, and Landlord shall thereupon be released by Tenant from all responsibility for the return of such deposit; and, Tenant agrees to look solely to the new purchaser or Tenant for the return of such deposit. In the event of an assignment of this Lease by Tenant, the security deposit shall be deemed to be held by Landlord as a deposit made by the assignee, and Landlord shall have no further responsibility of such deposit to the assignor.

4.03 If at the end of the third year of the Term no monetary event of default by Tenant has occurred under the Lease, Landlord will return a portion of the Security Deposit in the amount of \$76,087.50 back to Tenant. If at the end of the fifth year of the Term no monetary event of default by Tenant has occurred under the Lease, Landlord will return an additional portion of the Security Deposit in the amount of \$76,087.50 back to Tenant. If a default occurs hereunder, there shall be no reduction or return (or as applicable, any further reduction or return) of any portion of the security deposit.

ARTICLE V OCCUPANCY AND USE

5.01 Use of Premises. The Office Premises shall be occupied and used exclusively as office space and electronic laboratory and for the purposes incidental thereto, and shall not be used for any other purpose. The Storage Premises shall be occupied and used exclusively as only for office storage in connection with the Office Premises (and not any other premises). The Data Premises shall be used exclusively for locating and operating Tenant's servers and data/telecommunications equipment and cabling serving the Office Premises and shall not be used for any other purpose Tenant will not use or occupy or permit the use or occupancy of the Premises for any purpose which is forbidden by law, ordinance or governmental or municipal regulation or order or which may be dangerous to life, limb or property; or permit the maintenance of any public or private nuisance; or do or permit any other thing which may disturb the quiet enjoyment of any other tenant of the Building; or keep any substance or carry on or permit any operation which might emit offensive odors or conditions into other portions of the Building or use any apparatus which might make undue noise or set up vibrations in the Building; or permit anything to be done which would increase the fire and extended coverage insurance rate on the Building or contents, provided that if there is any increase in such rate by reason of acts of Tenant, then Tenant agrees to pay such increase promptly upon demand therefor by Landlord Payment by Tenant of any such rate increase shall not be a waiver of Tenant's duty to comply herewith. Tenant shall not use the Premises in such a manner as to disturb any asbestos contained in the Building.

5.02 Compliance with Building Rules and Regulations. Rules and regulations governing the use and occupancy of the Premises, the Common Areas and all other leased space in the Building have been adopted by Landlord for the mutual benefit and protection of all the tenants in the Building (as existing and modified from time to time, the "Rules and Regulations"). Tenant shall comply with and conform to the Rules and Regulations currently in effect, which are set forth on EXHIBIT E attached hereto. Landlord shall have the right to amend the Rules and Regulations or to make new Rules and Regulations from time to time in any reasonable manner. Any such amendments or additions to the Rules and Regulations shall be set forth in writing and shall be given to Tenant, who shall thereafter comply with and conform to the same.

5.03 Floor Loads. Tenant shall not overload the floors of the Premises beyond their designed weight-bearing capacity as determined by Landlord. Landlord reserves the right to direct the positioning of all heavy equipment, furniture and fixtures which Tenant desires to place in the Premises so as to distribute property the weight thereof. Landlord may

require the removal of any equipment or furniture which exceeds the weight limits of the Building.

5.04 Signs. Unless otherwise expressly provided in the Lease. Tenant shall not inscribe, paint, affix or display any signs, advertisements or notices on, in or around the Building, or in the windows thereof, except for such Tenant identification information as Landlord permits to be included or shown on or adjacent to the Tenant access door(s) to the Premises or on the Building directory.

5.05 Access to and Inspection of the Premises. Landlord, its employees and agents and any mortgagee of the Building shall have the right to enter any part of the Premises at all reasonable times for the purpose of examining or inspecting the same, showing the same to prospective purchasers, mortgagees or tenants and for making such repairs, alterations or improvements to the Premises or the Building as Landlord may deem necessary or desirable. Such right of entry shall also include, but not be limited to, access to the Premises for purposes of environmental inspections and sampling during regular business hours, or during other hours either by agreement of the parties or in the event of any environmental emergency. If representatives of Tenant shall not be present to open and permit such entry into the Premises at any time when such entry if necessary or permitted hereunder, Landlord and its employees and agents may enter the Premises by means of a master key or otherwise Landlord shall incur no liability to Tenant for such entry nor shall such entry constitute an eviction of Tenant or a termination of this Lease or entitle Tenant to any abatement of rent therefor.

5.06 Quiet Enjoyment. Except as provided in Article XV hereof to the extent that it may be applicable, if and so long as Tenant pays the prescribed rent and performs and observes all of the terms, conditions, covenants and obligations of this Lease required to be performed or observed by it hereunder. Tenant shall at all times during the term hereof have the peaceful and quiet enjoyment, possession, occupancy and use of the Premises without any interference from Landlord or any person or persons claiming the Premises by, through or under Landlord, subject to any mortgages, underlying leases or other matters of record to which this Lease is or may become subject.

ARTICLE VI

UTILITIES AND OTHER BUILDING SERVICES

6.01 Services to be Provided. Landlord shall furnish Tenant without cost to Tenant except as otherwise specifically provided in this Lease, during standard hours of operation, with utilities and other building services, as provided in the Rules and Regulations, to the extent considered by Landlord to be reasonably necessary for Tenant's comfortable use and occupancy of the Office Premises for general office use or as may be required by law or directed by governmental authority. Tenant shall pay for replacement of all non-standard lamps, starters and ballasts required as a result of normal usage, at the cost established from time to time by Landlord.

6.02 Premises Electrical Costs. Tenant's total consumption of electricity in the Premises will be separately metered, including lighting and convenience outlets, pursuant to a submeter to be installed (if not already existing) by Landlord at Tenant's expense. Instead of including the cost of electricity in Operating Expenses, Tenant shall pay to Landlord as Additional Rent the "Premises Electrical Costs", which means any and all actual costs of providing electricity to the Premises. Premises Electrical Costs shall be billed monthly and shall be due not later than ten (10) days after invoice from Landlord.

6.03 Additional Services. If Tenant requests any other utilities or building services not customarily provided by Landlord for the Building, then Landlord shall use reasonable efforts to attempt to furnish Tenant with such additional utilities or building services. Landlord may impose a reasonable charge for such additional utilities or building services, which shall be paid monthly by Tenant at the same time the monthly installment of Base Rent is due.

6.04 Special Equipment. Tenant shall obtain Landlord's written consent prior to installing or connecting any lights, machines or equipment (including but not limited to computers) which would materially affect the normal operation, or exceed the designed capacity of, the Building's electrical or heating and air-conditioning systems. If Landlord determines that any such equipment is in any way incompatible with the Building's electrical or heating and air-conditioning systems, then Landlord shall have the right, as a condition to granting its consent, to install any machinery or equipment, or to make any modifications to the Building's electrical or heating and air-conditioning systems, or to require Tenant to make such modifications to the equipment to be installed or connected, as Landlord considers to be reasonably necessary. All costs expended by Landlord to install any such machinery or equipment or to make any such modifications, and any such additional costs of operation and maintenance occasioned thereby, shall be borne by Tenant, who shall, upon demand, reimburse Landlord for the same as Additional Rent.

6.05 Interruption of Services. Tenant understands, acknowledges and agrees that any one or more of the utilities or other building services identified in Article VI may be interrupted by reason of accident, emergency or other causes beyond Landlord's control, or may be discontinued or diminished temporarily by Landlord or other persons until certain repairs, alterations or improvements can be made; that Landlord does not represent or warrant the uninterrupted availability of such utilities or building services; and, that any such interruption shall not be deemed an eviction or disturbance of Tenant's right to possession, occupancy or use of the Premises or any part thereof or render Landlord liable to Tenant for damages by abatement of rent or otherwise or relieve Tenant from the obligation to perform its covenants under this Lease.

ARTICLE VII

REPAIRS, MAINTENANCE, ALTERATIONS, IMPROVEMENTS AND FIXTURES

7.01 Repair and Maintenance of Building. Subject to Tenant's obligations herein, Landlord shall keep and maintain the Building in good order, condition and repair, including the roof, exterior walls and windows, foundations, the Common Areas and the electrical, elevator, plumbing, heating, ventilation and air-conditioning systems serving the Premises and other parts of the Building. The cost of all such repairs shall be included by Landlord as part of the Operating Expenses, except for those made to any electrical, plumbing, heating, ventilation and air-conditioning components which have been installed in the Premises pursuant to Paragraph 6.03, and except for those made necessary by the negligence, misuse or default of Tenant, its employees, agents, customers, or invitees in which event they shall be borne by Tenant, who shall be separately billed and shall, upon demand, reimburse Landlord for the same as Additional Rent.

7.02 Repair and Maintenance of Premises. Tenant shall, at Tenant's expense, keep and maintain the Premises and all Leasehold Improvements in good order, condition and repair. Without limitation, Tenant shall make any structural, interior and exterior alterations, repairs and/or replacements to the Premises required by any governmental entity or insurance carrier in connection with Tenant's use and/or occupancy of the Premises. Tenant's work under this Paragraph 7.02 (a) is subject to the prior approval and supervision of Landlord, including without limitation, Landlord's approval of all contractors and subcontractors performing the work, (b) must be performed in compliance with laws and the Building Rules and Regulations, and (c) must be performed in a first-class, lien free and good and workmanlike manner. Without limiting Landlord's rights under Paragraph 15.02 below, Landlord may, at its option and without obligation, elect to make any repairs required to be made by Tenant outside of the Premises and any structural repairs otherwise Tenant's responsibility and Tenant shall reimburse Landlord for the cost thereof within fifteen (15) days after demand. As used herein, "Leasehold Improvements" means all alterations and improvements made to the Premises by Landlord pursuant to this Lease (as it may be amended) or by or otherwise on behalf of Tenant including, without limitation, any initial alterations or improvements made to the Premises in connection with Tenant's initial occupancy thereof.

7.03 Alterations or Improvements. Tenant may make, or permit to be made, alterations or improvements to the Premises, but only if Tenant obtains the prior written consent of Landlord after furnishing to Landlord and Landlord's approval of the plans and specifications for such alterations or improvements. Notwithstanding, Landlord's advance approval is not required for any non-material or cosmetic alterations or improvements Tenant elects to make to the Premises provided that, (i) any such alteration or improvement does not exceed \$25,000.00 in total cost, (ii) such are not visible from the exterior of the Premises, (iii) such will not, in the reasonable opinion of Landlord, affect or impact any Building systems (*e.g.*, elevator, mechanical, HVAC, plumbing, electricity, life-saving) or any structural component of the Building, and (iv) such do not require any governmental permits or approvals as a condition thereto. Without limitation of the forgoing, all alterations and improvements by Tenant shall be made in accordance with all applicable laws and building codes, in a good and workmanlike manner and in quality equal to or better than the original construction of the Building and shall comply with such reasonable requirements as Landlord considers necessary or desirable, including without limitation requirements as to the manner in which and the times at which such work shall be done, the contractor or subcontractors to be selected to perform such work, and contractor and subcontractor insurance requirements. Tenant may not puncture the roof or interfere with the sprinkler system without specific written permission from Landlord. Landlord shall have the right to approve all contractors and subcontractors. Upon completion of any such work, including any work that did not require Landlord's consent, Tenant shall provide Landlord with "as built" plans (if applicable) in AutoCAD format, copies of all construction contracts, and proof of payment for all labor and materials. Tenant shall promptly pay all costs attributable to such alterations and improvements and shall indemnify Landlord against any mechanics' liens or other liens or claims filed or asserted as a result thereof, as provided in Article X; and shall also indemnify Landlord against any costs or expenses which may be incurred as a result thereof, as provided in Article X; and shall also indemnify Landlord against any costs or expenses which may be incurred as a result of building code violations attributable to such work. Tenant shall promptly repair any damage to the Premises or the Building caused by any such alterations or improvements. Any alterations or improvements to the Premises, except movable furniture and equipment and trade fixtures, shall become a part of the realty and the property of Landlord and shall not be removed by Tenant except as provided in Paragraph 2.03. If Landlord's approval of any alterations or improvements is required, (i) Tenant shall pay Landlord as rent ten percent (10%) of the total construction costs of the alterations or improvements to cover review of Tenant's plans and construction coordination by Landlord's own employees, and (ii) Tenant shall reimburse Landlord for the actual cost that Landlord reasonably incurs to have engineers, architects or other professional consultants review Tenant's plans and work in progress, or inspect the completed alterations or improvements. This Paragraph 7.03 does not apply to Landlord's Work, which will be governed solely by the terms of Exhibit "D" hereto.

7.04 Trade Fixtures. Any trade fixtures installed on the Premises by Tenant at its own expense, such as movable partitions, counters, shelving, showcases, mirrors and the like, may (and at the request of Landlord shall) be removed on the Expiration Date or earlier termination of the Lease provided that Tenant is not then in default, that Tenant bears the cost of such removal and further that Tenant repairs at its own expense any and all damage to the Premises resulting from such removal. If Tenant fails to remove any and all such trade fixtures from the Premises on the Expiration Date or earlier termination of this Lease, all such trade fixtures shall become the property of Landlord unless Landlord elects to require their removal, in which case Tenant shall promptly remove same and restore the Premises to their prior condition, except for ordinary wear and tear.

ARTICLE VIII

FIRE OR OTHER CASUALTY INSURANCE

8.01 Destruction of Premises. If the Premises are damaged or destroyed, in whole or in part, at any time during the Term by fire or other casualty and the Lease is not terminated pursuant to Paragraph 8.02, Landlord with due diligence will repair and rebuild the Premises so that after such work of repairing and rebuilding has been completed, the Premises shall be substantially the same as that prior to such damage. Any provisions contained in this Lease requiring repairs, rebuilding, restoration or reconstruction or providing for the use of insurance proceeds for any purpose shall be subject to the rights of the mortgagee of Landlord. In the event more than fifty percent (50%) of the Premises are damaged or destroyed and less than one (1) year is left in the term of the Lease, Landlord, at its election, may terminate this Lease rather than repair the Premises. Notwithstanding, Landlord shall not be required to restore any Leasehold Improvements. Upon completion by Landlord of its restoration obligations, Tenant will repair and restore Leasehold Improvements reasonably promptly to the condition existing prior to such damage and at Tenant's sole cost.

8.02 Irreparable Destruction of Building. If the Building shall be damaged or destroyed to such an extent that Landlord in its sole and absolute discretion, determines the Building to be irreparably destroyed. Landlord shall give Tenant notice of such determination within sixty (60) days after the date of such damage or destruction, and, in such event, this Lease shall terminate on the date specified in such notice, and Landlord shall not be obligated to repair or rebuild.

8.03 Rental Abatement During Reconstruction. If a casualty event causes damage or destruction of the Premises or Building to the extent that the Premises shall have been rendered unfit for use for Tenant's business purposes, Landlord shall, in Landlord's sole discretion, either (1) relocate Tenant in another comparable building within a three (3) mile radius with comparable office space and Landlord shall pay all reasonable uninsured moving expenses of said relocation and rent shall remain as specified within this Lease; or (2) provide an abatement of Base Rent and payment of Operating Expenses and Taxes which shall be made corresponding to the time during which, and the extent to which, the Premises may not be used by Tenant for its business purposes. The foregoing abatement will terminate on

the day that Landlord has completed its repair of the Premises and tenders possession of the Premises to Tenant.

8.04 Landlord's Damage Obligations. No damages, compensations, setoffs or claims shall be payable by Landlord for inconvenience, loss of business or annoyance arising from any repair or restoration of any portion of the Premises or of the Building required to be made by Landlord under the provisions of this Article VIII. but this Paragraph shall not be construed to limit the abatement of Tenant's rent in accordance with Paragraph 8.03 above. Landlord covenants with Tenant that it shall use its best efforts to effect all such repairs promptly and in such manner as to not unreasonably interfere with Tenant's occupancy.

8.05 Indemnification. Except as provided in Paragraph 8.09, Tenant shall assume the risk of, be responsible for, have the obligation to insure against, and indemnify Landlord and hold it harmless from any and all liability for any loss, damage, injury or death to person or property occurring in the Premises, regardless of cause, except for that caused by the sole negligence of Landlord and its employees, agents, customers and invitees; and, Tenant hereby releases Landlord from any and all liability for the same Tenant's obligation to indemnify Landlord hereunder shall include the duty to defend against any claims asserted by reason of such loss, damage or injury and to pay any judgments, settlements, costs, fees and expenses incurred in connection therewith. Notwithstanding Landlord's obligations hereunder, Tenant shall bear the sole risk of any loss of or damage to any personal property (including but not limited to, any furniture, machinery, equipment, goods or supplies) of Tenant or which Tenant may have on the Premises and any trade fixtures installed by or paid for by Tenant on the Premises and any Leasehold Improvements. Landlord shall not be liable for any injury to or death of any person or any loss of or damage to property sustained by Tenant, or by any other person(s) whatsoever, which may be caused by the building or the Premises or any appurtenances thereto or thereof being out of repair, or by the bursting or leakage of any water, gas, sewer, or steam pipes, or by theft or by any act or neglect of any tenant or occupant of the building, or of any other person, or by any other cause of whatsoever nature, unless, subject to Paragraph 8.09, caused by the negligence of Landlord or its officers, agents or employees.

8.06 Tenant's Insurance. Tenant, in order to enable it to meet its obligation to insure against the liabilities specified in this Lease, shall at all times during the Term carry, at its own expense, one or more policies of general public liability and property damage insurance, issued by one or more insurance companies acceptable to Landlord, with the following minimum coverage on an occurrence basis:

- A. Worker's Compensation — As provided by Law.
- B. Commercial General Liability Insurance, Including Blanket Contractual Liability, Broad Form Property Damage, Personal Injury, Completed Operations, Products Liability and Fire Damage, or if any such coverages are not in effect when needed, such other similar coverage as is then in effect. Such policy(ies) shall name Landlord and, the Building property manager, each secured lender, and any other party reasonably designated by Landlord as an additional insured (each an "Additional Insured"). — Not less than \$3,000,000 Combined Single Limit for both Bodily Injury and Property Damage.
- C. Causes of loss — special form commercial property insurance (including standard extended coverage endorsement perils, leakage from fire protective devices and other water damage) covering the full replacement cost of the Leasehold Improvements and Tenant's personal property, fixtures and equipment. Each of these policies shall name Landlord and each Additional Insured as loss payee to the extent of their interest in the Leasehold Improvements.
- D. Business interruption insurance including leasehold interest coverage for Tenant's loss of income or insurable gross profits and covering continuation of rents during any time the Premises is untenantable, with a limit not less than Tenant's annual rent.

All insurance carried by Tenant shall be in a form approved by Landlord and in an insurance company approved by Landlord, authorized to do business in the State and have a policy holder's rating of no less than "A" and with a financial class size of IX or better in the most current edition of *Best's Insurance Reports*. Upon the commencement of this Lease and prior to the expiration of any of its required insurance policies, and at interim dates upon Landlord's reasonable request, Tenant shall furnish Landlord with a certificate or certificates of insurance confirming the existence and continuity of coverage. All policies maintained by Tenant in conformance with the requirements of this Lease shall provide at least thirty (30) days' advance written notice to Landlord of cancellation, material change or intent not to renew and ten (10) days' notice to Landlord for non-payment. Should Tenant fail to carry such insurance and/or furnish Landlord with a copy of all such certificates after a request to do so, Landlord shall have the right to obtain such insurance and collect the cost thereof from Tenant as Additional Rent or, at Landlord's discretion, to evict Tenant and all its business operations from the Premises, without liability to Landlord.

8.07 Landlord's Insurance. Landlord shall be responsible for insuring and shall at all times during the Term carry, as an operating expense for the Building, a policy of insurance which insures the Building, including the Premises (but excluding the Leasehold Improvements), against loss or damage by fire or other casualty (namely, the perils against which insurance is afforded by the standard insurance policy and extended coverage endorsement); provided, however, that Landlord shall not be responsible for and shall not be obligated to insure against any loss or damage to any trade fixtures or personal property installed by or paid for by Tenant on the Premises or any Leasehold Improvements.

8.08 Waiver of Subrogation. LANDLORD AND TENANT HEREBY RELEASE EACH OTHER AND EACH OTHER'S EMPLOYEES, AGENTS, CUSTOMERS AND INVITEES FROM ANY AND ALL LIABILITY FOR ANY LOSS OR DAMAGE TO PROPERTY OCCURRING IN, ON OR ABOUT OR TO THE PREMISES, THE BUILDING, IMPROVEMENTS TO THE BUILDING OR PERSONAL PROPERTY WITHIN THE BUILDING BY REASON OF FIRE OR OTHER CASUALTY WHICH COULD BE INSURED AGAINST UNDER A CAUSES OF LOSS-SPECIAL FORM PROPERTY INSURANCE POLICY, REGARDLESS OF CAUSE, INCLUDING THE NEGLIGENCE (INCLUDING THE SOLE NEGLIGENCE) OF LANDLORD OR TENANT AND THEIR EMPLOYEES, AGENTS, CUSTOMERS AND INVITEES. Each party to this Lease shall obtain from its respective insurance company a consent to this mutual waiver of subrogation/release, so as to prevent the invalidation of insurance coverage by reason of this mutual waiver of

subrogation/release, and shall provide the other party a copy of any such consent.

**ARTICLE IX
EMINENT DOMAIN**

9.01 In the event the Building, or any portion thereof necessary, in the sole opinion of Landlord, to the continued efficient and/or economically feasible use of the Building shall be taken or condemned in whole or in part for public purposes, or sold to a condemning authority to prevent taking, then the Term shall, at the option of Landlord, forthwith cease and terminate. All compensation awarded for such taking or conveyance shall be the property of Landlord without any deduction therefrom for any present or future estate of Tenant, and Tenant hereby assigns to Landlord all its right, title and interest in and to any such award. All compensation awarded is subject to the rights of Landlord's mortgagee. However, Tenant shall have the right to recover from such authority, but not from Landlord, such compensation as may be awarded to Tenant on account of moving and relocation expenses and depreciation to and removal of Tenant's trade fixtures and personal property as long as such award does not diminish the award to Landlord.

**ARTICLE X
LIENS**

10.01 Tenant will keep the Premises and Building free and clear of all mechanics' and materialmen's liens and other liens on account of work done for Tenant or persons claiming under it. Should any such lien be filed against the Premises and/or the Building, Landlord may, without notice to Tenant, elect to obtain the release of each lien and any sums expended by Landlord shall be immediately repaid to Landlord by Tenant together with interest at the rate of fifteen percent (15%) per annum. Should Tenant elect to dispute the amount required to release such lien or the quality of service provided by the contractor who placed the lien. Landlord shall have the right to require Tenant to provide a bond or other security against such lien in form and content acceptable to Landlord.

**ARTICLE XI
RENTAL, PERSONAL PROPERTY AND OTHER TAXES**

11.01 Tenant shall pay before delinquency any and all taxes, assessments, fees or charges, including any sales, gross income, rental, business occupation or other taxes, levied or imposed upon Tenant's business operations in the Premises and any personal property or similar taxes levied or imposed upon Tenant's trade fixtures, Leasehold Improvements made by Tenant (excluding any made in connection with Tenant's initial occupancy of the Premises) or personal property located within the Premises. In the event any such taxes, assessments, fees or charges are charged to the account of, or levied or imposed upon the property of, Landlord, Tenant shall reimburse Landlord for the same as Additional Rent. Notwithstanding the foregoing, Tenant shall have the right to contest in good faith any such item and to defer payment, if permitted by applicable law, until after Tenant's liability therefor is finally determined.

**ARTICLE XII
ASSIGNMENT AND SUBLETTING**

12.01 Tenant may not assign or transfer this Lease or sublet the Premises or any part thereof unless it first has obtained thirty (30) days' prior written consent of Landlord, such not to be unreasonably withheld. For purposes hereof a transfer requiring consent of Landlord shall include, without limitation, any transaction resulting in a change of control of Tenant. A "change of control" shall mean the transfer of fifty-one percent (51%) or more of Tenant's assets, shares (excepting shares transferred in the normal course of public trading), membership interests, partnership interests or other ownership interests of Tenant. Landlord shall have the option, upon receipt of Tenant's written request for Landlord's consent to an assignment or subletting or other transfer, to cancel this Lease as to the portion of the Premises proposed to be sublet, in connection with any proposed subletting, or in its entirety with respect to any proposed assignment or other transfer. This option shall be exercised, if at all, within thirty (30) days following Landlord's receipt of Tenant's written request by delivery to Tenant of Landlord's notice of intention to exercise this option. In the event of any such assignment or subletting or other transfer, Tenant shall nevertheless at all times remain fully responsible and liable for the payment of rent and the performance and observance of all of Tenant's other obligations under the terms, conditions and covenants of this Lease. Without limitation, it will be reasonable for Landlord to withhold consent to any assignment or subletting to a governmental authority or agency, an organization enjoying sovereign or diplomatic immunity, a medical or dental practice or a user that will attract a volume, frequency or type of visitor or employee to the Building which is not consistent with the standards of a high quality office building or that will impose an excessive demand on or use of the facilities or services of the Building, is a current tenant or subtenant of the Building or is a prospective tenant to whom Landlord has offered to lease space in the Building.

12.02 Notwithstanding the terms of Section 12.01, and provided Tenant is not then in default or breach of this Lease, Tenant may effect an assignment of the Lease or a subletting of the Premises to a Permitted Transferee without Landlord's prior consent, but with notice to Landlord prior to the Permitted Transferee's occupancy. "Permitted Transferee" means any person or entity that: (a) either (1) controls, is controlled by, or is under common control with Tenant (for purposes hereof, "control" shall mean ownership of not less than fifty one (51%) of all of the voting stock or legal and equitable interest in the entity in question), (2) results from the merger or consolidation of Tenant, or (3) acquires all or substantially all of the stock and/or assets of Tenant as a going concern; (b) if an assignment, the assignee has a tangible net worth immediately following the assignment of not less than the greater of (1) Tenant's tangible net worth immediately before the assignment, or (2) Tenant's tangible net worth as of the execution of this Lease; and (c) will not, by occupying the Premises, cause Landlord to breach any other lease or other agreement affecting the Property.

12.03 No assignment or subletting of the Premises or any part thereof or any other transfer shall be binding upon Landlord unless such assignee or subtenant or other transferee shall deliver to Landlord an instrument (in recordable form, if requested) containing an agreement of assumption of all of Tenant's obligations under this Lease. Upon the occurrence of an event of default, if all or any part of the Premises are then assigned or sublet, Landlord, in addition to any other remedies provided by this Lease or by law, may, at its option, collect directly from the assignee or subtenant all rent becoming due to Landlord by reason of the assignment or subletting. Any collection by Landlord from the assignee or subtenant shall not be construed to constitute a novation or release of Tenant from the further performance of its obligations under this Lease. In the event Landlord consents to Tenant assigning or subletting all or a portion of the Premises or any other transfer, then fifty percent (50%) of any rent accruing to Tenant as the result of such subletting or assignment which is in excess of the rent then being paid by Tenant, and any other economic consideration received by or to be received by Tenant in connection with any subletting or assignment, net of Tenant's reasonable assignment and subletting costs, shall be paid to Landlord as Additional Rent.

12.04 In the event Landlord consents to Tenant assigning or subletting all or a portion of the Premises, or in the event of a permitted assignment or subletting under Section 12.03 above, (i) both Tenant and the assignee/ subtenant shall be held responsible under all the terms and conditions of this Lease including but not limited to the Rules and Regulations, and (ii) any right to extend or any other option under this Lease shall terminate unless, however, the assignee or subtenant is a Permitted Transferee.

12.05 Any assignment, subletting or other transfer by Tenant in violation of this Article XII shall be void and of no effect.

ARTICLE XIII SUBORDINATION

13.01 This Lease shall be subject and subordinate to any mortgage or deed of trust (an "Encumbrance") presently existing or hereafter placed upon the Building, and the recording of any such mortgage or deed of trust shall make it prior and superior to this Lease regardless of the date of execution or recording of either document. Tenant shall, at Landlord's request, execute and deliver to Landlord, without cost, any instrument which may be deemed necessary or desirable by Landlord to confirm the subordination of this Lease; and, if Tenant fails or refuses to do so. Landlord may execute such instrument in the name and as the act of Tenant. Notwithstanding the foregoing, no default by Landlord under any such mortgage or deed of trust shall affect Tenant's rights hereunder so long as Tenant is not in default under this Lease. Tenant shall, in the event any proceedings are brought forth for foreclosure of any such mortgage or deed of trust, attorn to the purchaser upon any such foreclosure and recognize such purchaser as Landlord under this Lease.

13.02 Tenant agrees that in the event of a foreclosure of any mortgage or deed of trust affecting the Premises, that in addition to Tenant's attornment as set forth above in Paragraph 13.01, Tenant shall not hold any mortgagee or beneficiary of any purchaser at a foreclosure sale responsible for any defaults of any prior Landlord (including the original Landlord), or for the return of any security deposit required hereby.

13.03 Upon written request from Tenant Landlord shall use reasonable efforts, at Tenant's sole cost and expense, to obtain from the then holder of any Encumbrance, a subordination, non-disturbance and attornment agreement ("SNDA") on such holder's standard form thereof that provides that foreclosure of the subject Encumbrance will not effect the validity of this Lease and that Tenant's right to possession of the Premises will not be disturbed for so long as no default occurs and such other provisions as such holder may reasonably require as a standard condition to entering into an SNDA. Notwithstanding, the obtaining of such SNDA shall not be a condition to this Lease or Tenant's obligations hereunder.

ARTICLE XIV OMITTED

ARTICLE XV DEFAULTS AND REMEDIES

15.01 Defaults by Tenant. The occurrence of any one or more of the following events shall be a default and breach of this Lease by Tenant:

A. Tenant shall fail to pay any payment of rent within five (5) business days after the same shall be due and payable. No notice shall be required for default in payment.

B. Tenant shall fail to perform or observe any term, condition, covenant or obligation, other than the payment of rent, required to be performed or observed by it under this Lease for a period of thirty (30) days after notice thereof from Landlord; provided, however, that if the term, condition, covenant or obligations to be performed by Tenant is of such nature that the same cannot reasonably be performed within such thirty (30) day period, such default shall be deemed to have been cured if Tenant commences such performance within said thirty (30) day period and thereafter diligently completes such performance within thirty (30) additional days.

C. A trustee or receiver shall be appointed to take possession of substantially all of Tenant's assets in, on or about the Premises or of Tenant's interest in this Lease (and Tenant does not regain possession within sixty (60) days after such appointment); Tenant makes an assignment for the benefit of creditors; substantially all of Tenant's assets in, on or about the Premises or Tenant's interest in this Lease are attached or levied upon under execution (and Tenant does not discharge the same within sixty (60) days thereafter); or, a petition in bankruptcy, insolvency, or for reorganization or arrangement is filed by or against Tenant pursuant to any federal or state statute (and, with respect to any such petition filed against it, Tenant fails to secure a stay or discharge thereof within sixty (60) days after the filing of the same).

D. Tenant abandons or vacates Premises.

15.02 Remedies of Landlord. Upon the occurrence of any event of default set forth in Paragraph 15.01, Landlord shall have the following rights and remedies, in addition to those allowed by law or equity, any one or more of which may be exercised without further notice to or demand upon Tenant:

A. Landlord may apply the security deposit and/or re-enter the Premises and cure any default of Tenant, in which event Tenant shall, upon demand, reimburse Landlord as Additional Rent for any reasonable costs and expenses which Landlord may incur to cure such default; and, Landlord shall not be liable to Tenant for any loss or damage which Tenant may sustain by reason of Landlord's action. In the event Landlord should consult with or employ the services of legal counsel or bring suit against Tenant for any default or enforcement of any terms of this Lease, Tenant shall be liable for all such attorney's fees and litigation costs incurred by Landlord and the same shall be recoverable against Tenant in addition to all other amounts that Landlord may recover.

B. Landlord may terminate this Lease as of the date of such default. Upon termination, Tenant or any party leasing the Premises through Tenant, shall immediately surrender the Premises to Landlord. Landlord may re-enter the Premises and dispossess Tenant or any other occupants of the Premises by force, summary proceedings, ejectment or otherwise, and may remove their effects, without prejudice to any other remedy which Landlord may have for possession or arrearage in rent. In addition, Landlord may declare all past, present and future rent payments under this Lease to be immediately due and payable. Landlord may re-let all or part of the Premises to another party on terms and conditions which may vary from the terms of this Lease. Tenant shall be obligated to pay to Landlord the difference between the rent provided for in any such subsequent lease and the rent provided for in this Lease. No matter which remedy Landlord chooses, in its sole discretion, Tenant shall be liable for all costs and expenses caused by Tenant's default and Landlord's re-entry and re-letting, including but not limited to, all repairs, improvements, broker's and attorneys' fees.

15.03 Default by Landlord and Remedies of Tenant . It shall be a default and breach of this Lease by Landlord if it shall fail to perform or observe any term, condition, covenant or obligation required to be performed or observed by it under this Lease for a period of thirty (30) days after notice thereof from Tenant, provided, however, that if the term, condition, covenant or obligation to be performed by Landlord is of such a nature that the same cannot reasonably be performed within such thirty (30) day period, such default shall be deemed to have been cured if Landlord commences such performance within said thirty (30) day period and thereafter diligently undertakes to complete the same. Upon the occurrence of any such default, Tenant's sole remedies shall be actual money damages (except as set forth in Paragraph 19.19) and specific performance, but Tenant shall not be entitled to terminate this Lease or withhold or abate any rent due hereunder. Unless prohibited by law, any claim, demand, right or defense by Tenant that arises out of this Lease or the negotiations that preceded this Lease shall be barred unless Tenant commences an action thereon, or interposes a defense by reason thereof, within six (6) months after the date of the inaction, omission, event or action that gave rise to such claim, demand, right or defense; Tenant acknowledges and understands, after having consulted with its legal counsel, that the purpose of this sentence is to shorten the period within which Tenant would otherwise have to raise such claims, demand, rights or defenses under applicable laws.

If Landlord shall be in default under this Lease, and if Tenant shall, as a consequence thereof, recover a money judgment against Landlord, Tenant agrees that it shall look solely to Landlord's right, title and interest in and to the Building for the collection of such judgment; and Tenant shall not look to any other property or assets of Landlord or Landlord's partners, members, shareholders and joint venturers, and their respective directors, officers, managers, employees and agents (collectively, the "Landlord Parties") in seeking either to enforce Landlord's obligations under this Lease or to satisfy a judgment for Landlord's failure to perform such obligations; and none of the Landlord Parties shall be personally liable for the performance of Landlord's obligations under this Lease. It is understood that in no event shall Tenant have any right to (i) levy execution against any property of the Landlord Parties other than Landlord's interest in the Building as hereinbefore expressly provided or (ii) collect consequential damages from Landlord. In the event of the sale or other transfer of Landlord's right, title and interest in the Premises or the Building, Landlord shall be released from all liability and obligations hereunder.

15.04 Non-Waiver of Defaults. The failure or delay by either party hereto to enforce or exercise at any time any of the rights or remedies or other provisions of this Lease shall not be construed to be a waiver thereof, nor affect the validity of any part of this Lease or the right of either party thereafter to enforce each and every such right or remedy or other provision. No waiver of any default and breach of this Lease shall be held to be a waiver of any other default and breach. The receipt by Landlord of less than the full rent due shall not be construed to be other than a payment on account of rent then due, nor shall any statement on Tenant's check or any letter accompanying Tenant's check be deemed an accord and satisfaction, and Landlord may accept such payment without prejudice to Landlord's right to recover the balance of the rent due or to pursue any other remedies provided in this Lease. No act or omission by Landlord or its employees or agents during the Term shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept such a surrender shall be valid unless in writing and signed by Landlord.

ARTICLE XVI **LANDLORD'S RIGHT TO RELOCATE TENANT**

16.01 If the Total Leasable Area included in the Premises is less than twelve thousand (12,000) square feet, Landlord shall have the right, at its option, upon at least thirty (30) days' prior written notice to Tenant, to relocate Tenant and to substitute for the Premises described herein other space in the Building containing at least as much Leasable Area as the Premises. Such substituted space shall be improved by Landlord, at its expense, with improvements, at least equal in quantity and quality to those in the Premises. Landlord shall pay all reasonable expenses incurred by Tenant in connection with such relocation, including costs of moving, door lettering, telephone relocation and reasonable quantities of new stationery. Upon completion of the relocation, Landlord and Tenant shall amend this Lease to change the description of the Premises and any other matters pertinent thereto.

ARTICLE XVII **HAZARDOUS MATERIAL, GOVERNMENTAL, INSURANCE AND ADA REQUIREMENTS**

17.01 Hazardous Material. Tenant warrants and represents to Landlord that Tenant will comply with all federal, state and local environmental laws, rules, regulations and statutes applicable to Tenant's use and occupancy of the Premises during the Term.

Tenant shall not cause or permit any Hazardous Material (as hereinafter defined) to be brought upon, kept, or used in or about the Premises by Tenant, its agents, employees, contractors or invitees, except for such Hazardous Material as is necessary to Tenant's business provided that Tenant has notified Landlord it will be bringing upon, keeping or using such Hazardous Material on or about the Premises.

Any Hazardous Material permitted on the Premises as provided in this Article, and all containers therefor, shall be used, kept, stored, and disposed of in a manner that complies with all federal, state and local laws or regulations applicable to this Hazardous Material.

Tenant shall not discharge, leak, or emit, or permit to be discharged, leaked, or emitted, any material into the atmosphere, ground, sewer system, or any body of water, if that material (as is reasonably determined by Landlord, or any governmental authority) does or may pollute or contaminate the same, or may adversely affect (a) the health, welfare, or safety of persons, whether located on the Premises or elsewhere, or (b) the condition, use, or enjoyment of the building or any other real or personal property.

As used herein, the term "Hazardous Material" means (a) a "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976, as amended from time to time, and regulation promulgated thereunder; (b) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended from time to time, and regulations promulgated thereunder; (c) any oil, petroleum products, and their by-products, and (d) any substance that is or becomes regulated by any federal, state, or local governmental authority.

Tenant hereby agrees that it shall be fully liable for all costs and expenses related to the use, storage, and disposal of Hazardous Material kept on the Premises by Tenant, and Tenant shall give immediate notice to Landlord of any violation or potential violation of the provisions of this Paragraph 17.01. Tenant shall defend, indemnify and hold harmless Landlord and its agents, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs, or expenses (including, without limitation, attorneys' and consultants' fees, court costs, and litigation expenses) of whatever kind or nature, known or unknown, contingent or otherwise, arising out of or in any way related to (a) the presence, disposal, release, or threatened release of any such Hazardous Material that is on, from, or affecting the soil, water, vegetation, building, personal property, persons, animals, or otherwise; (b) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to that Hazardous Material; (c) any lawsuit brought or threatened, settlement reached, or government order relating to that Hazardous Material; or (d) any violation of any laws applicable thereto. The provisions of this Article shall be in addition to any other obligations and liabilities Tenant may have to Landlord at law or equity and shall survive the transactions contemplated herein and shall survive termination of this Lease.

Landlord is given the right, but not the obligation, to inspect and monitor the Premises and Tenant's use of the Premises in order to confirm Tenant's compliance with the terms of this Paragraph 17.01. Landlord may require that Tenant deliver to Landlord concurrent with Tenant's vacating the Premises upon the expiration of this Lease, or any earlier vacation of the Premises by Tenant, at Tenant's expense, a certified statement by licensed engineers satisfactory to Landlord, in form and substance satisfactory to Landlord, stating that Tenant, Tenant's Work and any alterations thereto and Tenant's use of the Premises complied and conformed to all environmental laws.

Landlord will, upon written request from Tenant, provide to Tenant any third party Hazardous Material assessments or studies regarding the Building or the Land which were performed within the three (3) year prior to the date of this Lease and which are in Landlord's possession, all without representation or warranty by Landlord.

17.02 Governmental and Insurance Requirements. Tenant shall, at its sole cost and expense, comply with all of the requirements of any insurance carrier for the Building and of all county, municipal, state, federal and other applicable governmental authorities, now in force or which may hereafter be in force.

17.03 Americans with Disabilities Act. Any costs for alterations, additions or improvements required to modify the Common Areas of the Building in conjunction with the Americans with Disabilities Act ("ADA"), shall be paid by Landlord. Such alterations, additions or improvements shall be made in the sole discretion of Landlord. Any alterations, additions or improvements required to modify the Premises in conjunction with the ADA shall be approved by Landlord and paid by Tenant. Within ten (10) days after receipt. Tenant shall advise Landlord in writing of any notices alleging violation of ADA relating to any portion of the Building or the Premises.

ARTICLE XVIII **NOTICE AND PLACE OF PAYMENT**

18.01 Notices. Any notice by Tenant to Landlord must be in writing and served by overnight delivery service (with confirmation of delivery), certified mail, postage prepaid, addressed to Landlord at the place designated in Paragraph 1.01L, or at such other address as Landlord may designate from time to time by written notice. Any notice by Landlord (which may be given by Landlord or Landlord's attorney or management company) to Tenant must be in writing and served by overnight delivery service (with confirmation of delivery), certified mail, postage prepaid, addressed to Tenant at the place designated in Paragraph 1.01L, or at such other address as Tenant may designate from time to time by written notice to Landlord. All notices shall be effective upon delivery or attempted delivery in accordance with this Paragraph 18.01.

18.02 Place of Payment. All rent and other payments required to be made by Tenant to Landlord shall be delivered or mailed to Landlord's management agent at the address specified in Paragraph 1.01G or any other address Landlord may specify from time to time by written notice given to Tenant.

ARTICLE XIX **MISCELLANEOUS GENERAL PROVISIONS**

19.01 Roof Rights. Except as otherwise provided in this Lease, Landlord shall have the exclusive right to use all or any portion of the roof of the Building for any purpose. This Lease does not grant any rights to light, view and/or air over the Premises or Building.

19.02 Estoppel Certificate. Tenant agrees, at any time, and from time to time, upon not less than ten (10) days' prior notice by Landlord (and which ten (10) day period is not subject to any notice and cure periods otherwise provided under this Lease), to execute, acknowledge and deliver to Landlord, a statement in writing addressed to Landlord or other party designated by Landlord certifying that this Lease is in full force and effect (or, if there have been modifications, that the same is in full force and effect as modified and stating the modifications), stating the actual commencement and expiration dates of the Lease, stating the dates to which rent and other charges, if any, have been paid, that the Premises have been completed on or before the date of such certificate and that all conditions precedent to the Lease taking effect have been carried out that, Tenant has accepted possession, that the lease term has commenced, Tenant is occupying the Premises and is open for business, stating whether or not there exists any default by either party in the performance of any covenant, agreement, term, provision or condition contained in this Lease, and if so, specifying each such default of which the signer may have knowledge and the claims or offsets, if any, claimed by Tenant, and such other matters reasonably required by Landlord or any prospective purchaser, mortgagee or beneficiary of the Building; it being intended that any such statement delivered pursuant hereto may be relied upon by Landlord or a purchaser of Landlord's interest and by any mortgagee or beneficiary or prospective mortgagee or beneficiary of any mortgage or deed of trust affecting the Premises or the Building. If Tenant does not deliver such statement to Landlord within such ten (10) day period. Landlord, and any prospective purchaser or encumbrancer, may conclusively presume and rely upon the following facts: (i) that the terms and provisions of this Lease have not been changed except as otherwise represented by Landlord, (ii) that this

Lease has not been canceled or terminated except as otherwise represented by Landlord; (iii) that not more than one month's Base Rent or other charges have been paid in advance; and (iv) that Landlord is not in default under the Lease. In such event, Tenant shall be estopped from denying the truth of such facts. Tenant shall also, on ten (10) days' written notice, provide an agreement in favor of and in the form customarily used by such encumbrance holder, by the terms of which Tenant will agree to give prompt written notice to any such encumbrance holder in the event of any casualty damage to the Premises or in the event of any default on the part of Landlord under this Lease, and will agree to allow such encumbrance holder a reasonable length of time after notice to cure or cause the curing of such default before exercising Tenant's right of self-help under this Lease, if any, or terminating or declaring a default under this Lease. In the event Tenant fails to timely deliver any document under this Paragraph 19.02, Landlord may charge Tenant a penalty of Fifty Dollars (\$50) for each day such delivery is delinquent.

19.03 Recording of Memorandum of Lease. This Lease or a certificate or memorandum thereof prepared by Landlord may at the option of Landlord be recorded. Tenant shall execute any such certificate, short form lease or memorandum upon demand by Landlord. Tenant shall not be permitted to record any certificate or memorandum of lease. Tenant will keep the terms of this Lease confidential and, unless required by law, may not disclose the terms of this Lease to anyone other than Tenant's accountants, consultants, employees, officers, directors, partners, shareholders, members, attorneys and lenders and then to the extent necessary to Tenant's business.

19.04 Real Estate Broker. Landlord and Tenant hereby represent and warrant that, other than the Real Estate Brokers identified in Paragraph 1.01H (each of whom will be compensated by Landlord pursuant to separate agreements with Landlord), no other party is entitled, as a result of the actions or dealings of the respective party, to a commission or other fee resulting from the negotiation or execution of this Lease. Accordingly, each party hereto covenants and agrees to pay, hold harmless and indemnify the other party from and against any and all costs (including reasonable attorneys' fees), expense or liability for the breach of this representation and warranty on its part and for any compensation, commissions and charges claimed by any broker or other agent (other than the aforesaid brokers to be compensated by Landlord) with respect to this Lease as a result of the representation or the negotiation thereof on behalf of such party.

19.05 Force Majeure. In any case where either party hereto is required to do any act, delays caused by or resulting from acts of God, war, civil commotion, fire, flood or other casualty, labor difficulties, shortages of labor, materials or equipment, government regulations, unusually severe weather or other causes beyond such party's reasonable control shall not be counted in determining the time during which work shall be completed, whether such time be designated by a fixed date, a fixed time or a "reasonable time," and such time shall be deemed to be extended by the period of such delay. The provisions of this Paragraph 19.05 shall not operate to excuse Tenant from the prompt payment of Base Rent, Additional Rent or any other payments required by the terms of this Lease.

19.06 Applicable Law; Venue. This Lease and the rights and obligations of the parties arising hereunder shall be construed in accordance with the laws of the State defined in Paragraph 1.01A. Any legal action under this Lease shall be brought in the county where the Premises are located.

19.07 Entire Agreement; Preliminary Negotiations. The Lease, the exhibits and addendum, if any, set forth all the covenants, promises, agreements, conditions and understandings between Landlord and Tenant concerning the Premises and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between them other than as herein set forth. All prior communications, negotiations, arrangements, representations, agreements and understandings, whether oral, written or both, between the parties hereto and their representatives, are merged herein and extinguished, this Lease superseding and canceling the same. Except as herein otherwise provided, no subsequent alteration, amendment, change or addition to this Lease shall be binding upon Landlord or Tenant unless reduced to writing and executed by the party against which such subsequent alteration, amendment, change or modification is to be enforced. Tenant hereby acknowledges that (a) this Lease contains no restrictive covenants or exclusives in favor of Tenant; (b) this Lease shall not be deemed or interpreted to contain, by implication or otherwise, any warranty, representation or agreement on the part of Landlord that any particular tenant shall open for business or occupy or continue to occupy any space in or adjoining the Building during the Term of this Lease or any part thereof, and Tenant hereby expressly waives all claims with respect thereto and acknowledges that Tenant is not relying on any such warranty, representation or agreement by Landlord either as a matter of inducement in entering into this Lease or as a condition of this Lease or as a covenant by Landlord; (c) Landlord and/or its real estate agent, has not made, and does not now make, any representations as to the past, present or future condition, income, expenses, operation or any other matter or thing affecting or relating to the Premises except as may be herein expressly set forth, and no such terms, agreements, covenants and conditions were made by and between the parties hereto; (d) Tenant has satisfied itself that the property described herein is property zoned and usable for the purpose for which Tenant is leasing same; and (e) Tenant has obtained or satisfied itself that it can obtain a Certificate of Occupancy and/or any other required permit(s) from any authority having jurisdiction over the Premises confirming that Tenant may occupy the Premises for the purposes set forth in Paragraph 5.01.

19.08 Successors and Assigns. This Lease and the respective rights and obligations of the parties hereto shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto as well as the parties themselves; provided, however, that Landlord, its successors and assigns shall be liable for and obligated to perform Landlord's covenants under this Lease only during and in respect of their successive periods of ownership during the Term.

19.09 Severability of Invalid Provisions. If any provision of this Lease shall be held to be invalid, void or unenforceable, the remaining provisions hereof shall not be affected or impaired, and such remaining provisions shall remain in full force and effect.

19.10 Definition of the Relationship between the Parties. Landlord shall not, by virtue of the execution of this Lease or the leasing of the Premises to Tenant, become or be deemed a partner of or joint venturer with Tenant in the conduct of Tenant's business on the Premises or otherwise.

19.11 Certain Words, Gender and Headings. As used in this Lease, the word "person" shall mean and include, where appropriate an individual, corporation, partnership or other entity; the plural shall be substituted for the singular and the singular for the plural, where appropriate; and words of any gender shall include any other gender. The topical headings of the several paragraphs of this Lease are inserted only as a matter of convenience and reference and do not affect, define, limit or describe the scope or intent of this Lease.

19.12 Name of Building. Landlord shall have the right to change the name of the Building during the Term or any extension thereof and shall have no obligation for any loss or damage to Tenant by reason thereof.

19.13 Common Areas. Tenant shall have the nonexclusive right, in common with others, to the use of common entrances, lobbies, elevators, ramps, drives, stairs and similar access and service ways and other Common Areas in the Building, subject to the Rules and Regulations.

19.14 Parking. Subject to limitations and conditions established from time to time by Landlord, Tenant shall be allocated the non-exclusive right to a maximum of 4.00 unreserved parking spaces per 1,000 LSF of the Office Premises (initially seventy-eight (78) spaces) for its employees and visitors, without charge, and in any parking area made available and designated for unreserved parking generally for tenants and their employees and visitors at the Building. Upon Landlord's request, Tenant shall indicate which cars are designated to park in any one of the parking areas, and Landlord shall have the right to require that a parking sticker or decal be affixed to those cars so designated. Landlord may assign specific spaces and may reserve space for visitors, small cars, handicapped individuals, and Tenant and its employees and visitors shall not park in any such assigned and/or reserved spaces provided that Landlord ensures availability to Tenant of its allocated parking spaces. Landlord reserves the right to temporarily close all or a portion of the parking areas in order to make repairs or perform maintenance.

19.15 Entity Authority. If Tenant executes this Lease as a corporation, partnership or limited liability company, each of the persons executing this Lease on behalf of Tenant does hereby personally covenant and warrant that Tenant is a duly authorized and existing legal entity, that Tenant has and is qualified to do business in the State, that the entity has full right and authority to enter into this Lease and that each person signing on behalf of the entity was authorized to do so.

19.16 Examination of Lease. The submission of this lease form by Landlord for examination does not constitute an offer to lease or a reservation of an option to lease. In addition, Landlord and Tenant acknowledge that neither of them shall be bound by the representations, promises or preliminary negotiations with respect to the Premises made by their respective employees or agents. It is their intention that neither party be legally bound in any way until this Lease has been fully executed by both Tenant and Landlord.

19.17 Financial Statements. From time to time during the Term of this Lease, but not more often than one (1) time per calendar year except in connection with a contemplated refinancing or sale of the Building by Landlord, Tenant shall, upon ten (10) days prior written notice from Landlord, provide Landlord with a current financial statement and financial statements for the two (2) years prior to the current financial statement year. Such statements shall be prepared in accordance with generally accepted accounting principles and, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant. Tenant consents to the delivery of such financial statements by Landlord to lenders or prospective lenders or purchasers of the Building.

19.18 Omitted.

19.19 Consents and Approvals. Whenever Landlord's consent or approval is required herein or when Tenant requests any processing or documentation of any assignment, subletting, license, concession, creating of a security interest, granting of a collateral assignment, change of ownership or other transfer, such consent or approval shall not be deemed given until Landlord has provided such consent or approval in writing. Tenant shall pay to Landlord the amount of five hundred dollars (\$500.00) as an administrative fee in addition to Landlord's reasonable attorneys' fees incurred in connection with Tenant's request for Landlord's consent, approval or other action. Such administrative fee shall be paid to Landlord within five (5) business days of Landlord's consent, approval or other action else such consent, approval or other action shall be null and void. Where the consent or approval of Landlord shall be required, such consent or approval shall be granted in Landlord's sole discretion, unless otherwise expressly provided. With respect to any provision of this Lease which either expressly provides or is held to provide that Landlord shall not unreasonably withhold or unreasonably delay any consent or approval. Tenant shall not be entitled to make claim for, and Tenant expressly waives claim for, damages incurred by Tenant by reason of Landlord's failure to comply, it being understood and agreed that Tenant's sole remedy shall be an action for specific performance.

19.20 Jury Trial; Claims; Survival. To the extent permitted by applicable law, and acknowledging that the consequences of said waiver are fully understood, Tenant hereby expressly waives the right to trial by jury in any action taken with respect to this Lease and waives the right to interpose any set-off or counterclaim of any nature or description in any action or proceeding instituted against Tenant pursuant to this Lease. Notwithstanding anything in this Lease to the contrary, the representations and undertakings of Tenant under this Lease shall survive the expiration or termination of this Lease regardless of the means of such expiration or termination.

19.21 No Prepayment. Tenant shall not pay Base Rent, Additional Rent, or any other charges more than thirty (30) days prior to the due date thereof. No prepayment of Base Rent, Additional Rent or other charges, no assignment of this Lease and no agreement to modify so as to reduce the rent, change the Term, or otherwise materially change the rights of the Landlord under this Lease, or to relieve Tenant of any obligations or liability under this Lease, shall be valid unless consented to in writing by Landlord's mortgagees of record, if any.

19.22 OFAC Certification.

A. Tenant certifies that:

1. It is not acting, directly or indirectly, for or on behalf of any person, group, entity, or nation named by any Executive Order or the United States Treasury Department as a terrorist, "Specially Designated National and Blocked Person," or other banned or blocked person, entity, nation, or transaction pursuant to any law, order, rule, or regulation that is enforced or administered by the Office of Foreign Assets Control; and

2. It is not engaged in this transaction, directly or indirectly on behalf of, or instigating or facilitating this transaction, directly or indirectly on behalf of, any such person, group, entity, or nation.

B. Indemnification. Tenant hereby agrees to defend, indemnify, and hold harmless Landlord from and against any and all claims, damages, losses, risks, liabilities, and expenses (including attorney's fees and costs) arising from or related to any breach of the foregoing certification.

19.23 Independent Covenants TENANT'S OBLIGATION TO PAY RENT HEREUNDER IS NOT DEPENDENT UPON THE PERFORMANCE BY LANDLORD OF ITS OBLIGATIONS HEREUNDER, AND EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, TENANT SHALL CONTINUE TO PAY THE RENT, WITHOUT ABATEMENT, DEMAND, SETOFF OR DEDUCTION, NOTWITHSTANDING ANY BREACH BY LANDLORD OF ITS DUTIES OR OBLIGATIONS HEREUNDER, WHETHER EXPRESS OR IMPLIED.

19.24 Enforcement Costs. If Landlord or Tenant brings any action against the other to enforce or interpret any provision of this Lease (including any claim in a bankruptcy or an assignment for the benefit of creditors), the prevailing party shall recover from the other reasonable costs and attorneys' fees incurred in such action.

19.25 Mortgagee Consent. If a mortgagee of the Building has the right to consent to this Lease and fails to give such consent on terms and conditions acceptable to Landlord in its sole and absolute discretion, Landlord shall have the right, in its sole and absolute discretion, to terminate and cancel this Lease within thirty (30) days following the date of this Lease. Such option shall be exercisable by Landlord by written notice to Tenant of such termination, whereupon this Lease shall be deemed cancelled and terminated, and both Landlord and Tenant shall be relieved of any and all liabilities and obligations hereunder.

19.26 Monument Signage. Landlord grants Tenant the right to install its tradename/corporate logo on the Building's multi-tenant monument sign located on Tice Blvd. subject to the following terms and conditions:

(a) Tenant's position on the monument sign shall be determined from the LSF occupied by Tenant as compared to the LSF of other tenants having monument sign rights, with the tenant occupying the most LSF in the Building from time to time having the right to the uppermost position.

(b) The graphics, materials, color, design, lettering, lighting, size, specifications and manner of affixing/installing Tenant's monument signage shall be subject to Landlord's prior approval, and further subject to compliance with all laws, ordinances, restrictions of record and easements affecting same (collectively, "Sign Laws"). Landlord's approval of any monument signage shall not constitute a representation by Landlord that any such signage complies with any applicable Sign Laws;

(c) Tenant shall maintain all monument signage in good condition and repair. Tenant will be responsible for all costs and expenses related to the installation, maintenance and removal or replacement of all monument signage including, without limitation, design costs; provided that initial design and installation costs may be included in Construction Costs. Landlord may, at its option and upon notice to Tenant, undertake the maintenance of the monument signage to the extent Landlord maintains all exterior tenant signage generally, in which case the costs thereof will be billed back to Tenant and payable within thirty (30) days after billing by Landlord as Rent under the Lease;

(d) At Landlord's option, Tenant's rights under this subsection (c) shall terminate upon (1) the occurrence of a default, or (2) Tenant's failure at any time to be leasing and, from and after the Commencement Date, in actual occupancy of all of the Office Premises (the "Occupancy Requirement") for reasons other than casualty or permitted remodeling or repairs, or (3) in any event, upon termination of this Lease or Tenant's right to possession of the Premises. Upon the occurrence of any such events and demand by Landlord, Tenant shall remove all of its monument signage and repair any damage caused thereby at its sole cost and expense;

(e) Tenant must install its monument signage within six (6) months after the Commencement Date, failing which Tenant's rights to install such signage shall be subordinate to any other monument sign rights granted by Landlord. Tenant's monument signage rights are further subject and subordinate to any competing or conflicting rights granted during any period during which Tenant fails to meet the Occupancy Requirement or a default exists; and

(f) Tenant's rights under this Section are personal to Tenant and may not be assigned or transferred, and any attempted assignment or transfer in violation of this restriction shall be null and void; provided, however, that (a) Tenant's rights under this Section shall inure to the benefit of a successor in interest to Tenant by merger or consolidation provided that such did not require Landlord's consent under the Lease, and (b) Tenant may assign its rights under this Section to any assignee of Tenant's interest in the Lease pursuant to an assignment that did not require Landlord's consent under the Lease. Any other attempted assignment or transfer by Tenant of its rights under this Section shall be null and void and of no force and effect.

19.27 Termination of Existing Tenant Lease. This Lease is expressly conditioned upon Landlord having entered into an agreement with the existing tenant(s) of the Premises to terminate such lease(s) and such tenant(s) vacating the Premises by not later than May 15, 2010, on terms and conditions acceptable to Landlord in its sole discretion and, failing which, Landlord may terminate this Lease by written notice Tenant and thereafter, and subject to Landlord returning the Security Deposit to Tenant, neither Landlord nor Tenant shall have any rights or obligations one to the other.

19.28 Exhibits. All exhibits attached hereto are incorporated and made a part hereof by reference.

[SIGNATURES FOLLOW ON NEXT PAGE.]

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the day and year first written above.

TENANT: I.D. SYSTEMS, INC. a Delaware corporation

By: /s/ Ned Mavrommatis
Name: Ned Mavrommatis
Title: CFO

LANDLORD: IPC NEW YORK PROPERTIES, LLC.
a Delaware limited liability company

By: IPC Commercial Properties, LLC.
a Delaware limited liability company,
Its sole member

By: /s/ Robert H. Thomas, Jr.
Name: Robert H. Thomas, Jr.
Title: Vice President

Signature Page

EXHIBIT D

WORK LETTER

1. Landlord's Work. Subject to and upon the conditions hereinafter set forth, Landlord agrees to construct or cause to be constructed within the Premises the Landlord's Work, which shall for purposes hereof be deemed to mean only the improvements which are described in the Final CDs described below. **Tenant acknowledges and agrees that this Work Letter constitutes the entire agreement of Landlord and Tenant with respect to the construction of the Landlord's Work and the preparation of the Premises for occupancy and that, except for Landlord's obligation to complete the Landlord's Work, Landlord has no obligations to make any modifications, alterations or improvements to the Premises pursuant to the Lease.**

2. Construction Drawings. Reference is made hereby to the finish schedule and space plans attached hereto as Annex D-1 (collectively, the "Finish Schedule and Space Plans") prepared by Studio 1200 ("Architect"). Landlord and Tenant hereby acknowledge their approval of the Finish Schedule and Space Plans. Any modification to the Finish Schedule and Space Plans shall be subject to Landlord's approval. As soon as practical after the date of the Lease, Tenant shall, at its sole cost and expense, and at Tenant's sole cost and expense, cause Architect to prepare from the Finish Schedule and Space Plans and deliver to Landlord for Landlord's approval, preliminary architectural, mechanical and electrical working drawings, plans and specifications (collectively, the "Preliminary Construction Drawings" or the "Preliminary CDs") necessary to complete the design and construction of improvements identified on or from the Finish Schedule and Space Plans. Upon receipt of the Preliminary CDs, Landlord shall review the same and notify Tenant in writing of any objections Landlord may have with respect thereto, such objections to be made with specificity and in good faith. If Landlord does not object to any of the Preliminary CDs (or subsequent revisions thereto) within seven (7) days after receipt, Landlord shall be deemed to have approved of same. Promptly upon receipt of Landlord's objections to the Preliminary CDs, if any, Tenant shall cause the Preliminary CDs to be revised in accordance with Landlord's objections and shall resubmit same to Landlord for approval. This procedure shall be repeated until Landlord approves the Preliminary CDs (though Landlord shall have only three (3) days to review and object to resubmitted Preliminary CDs). The Preliminary CDs finally approved by Landlord are hereinafter referred to as the "Final CDs" and all improvements to be made to the Premises or Building pursuant thereto is the "Landlord's Work".

3. Cost of the Landlord's Work.

(a) As used herein the "Cost of the Landlord's Work" means the actual cost to Landlord of constructing the Landlord's Work including, without limitation, (i) the cost of all work, labor, materials and supplies; (ii) the cost of all contractor fees and general conditions and permitting costs/fees; and (iii) utilities used in the performance of the Landlord's Work, additional janitorial services, and related taxes and insurance costs. The Cost of the Landlord's Work does not include architectural, engineering and design fees including but not limited to those incurred in connection with the preparation or review/revision of any preliminary or final Finish Schedule and Space Plans, any mechanical, electrical and plumbing drawings, or the Preliminary or Final CDs (collectively, "Design Costs") or any other Tenant's Expenses (hereinafter defined). Landlord shall pay for the Cost of the Landlord's Work.

(b) As used herein, "Tenant's Expense" means (i) any portion or incremental increase in the Cost of the Landlord's Work caused or due to changes to the Finish Schedule and Space Plans requested by Tenant, or (ii) any portion or incremental increase in the Cost of the Landlord's Work caused or due to changes to the Preliminary CDs requested by Tenant that are inconsistent with the Finish Schedule and Space Plans, (iii) Change Order Costs, (iv) if Tenant requires any non-Building standard improvements or materials (and Landlord agrees thereto) not set forth in the Final CDs, the Cost of the Landlord's Work above what it would have cost if only Building standard improvements had been constructed or Building standard materials had been used, (v) any cost incurred due to Tenant Delays, (vi) the cost of all "Alternates" (*i.e.*, Compressed Air for Labs -\$10,851.86, Pre-Action Systems -\$16,277.81; Card Access System -\$21,703.74; totaling \$48,833.42 (the "Alternates Cost"), and (vii) all Design Costs. Tenant shall contract with and directly engage the Architect and any other person preparing any the Finish Schedule and Space Plans and the Preliminary and Final CDs and shall be directly responsible for all Design Costs.

(c) If Landlord determines that the Cost of the Landlord's Work will include any Tenant's Expense, Landlord will deliver to Tenant an itemization thereof (the "Tenant's Expense Itemization") and Landlord shall not be required to commence construction of any of the Landlord's Work (or continue same, as applicable) until Tenant has approved of the Tenant's Expense Itemization and paid to Landlord the Tenant's Expense identified therein. If Tenant does not disapprove of the Tenant's Expense Itemization in writing within three (3) days after delivery thereof to Tenant by Landlord, Tenant shall be deemed to have approved of the Tenant's Expense Itemization in all respects. If Tenant expressly disapproves of the Tenant's Expense Itemization within such three (3) day period, then each day elapsing between the expiration of such three (3) day period and the date on which Tenant provides written approval of the Tenant's Expense Itemization or the Final CDs are revised by Change Order to remove any disapproved Tenant's Expense shall be considered a day of "Tenant Delay". The statements of costs submitted to Landlord by Landlord's contractors, architects, engineers and consultants shall be conclusive for purposes of determining the actual Cost of the Landlord's Work and any Tenant's Expense. Notwithstanding the above, Tenant acknowledges and agrees that, if Tenant chooses any Alternates, the related Alternates Costs are a proper Tenant's Expense and will be paid for by Tenant.

4. Change Orders. Changes in the Landlord's Work may be accomplished only by a Change Order (defined below). Prior to implementing any requested change to the Landlord's Work, Tenant shall have Architect prepare and deliver to Landlord (at Tenant sole cost and expense) for Tenant's and Landlord's approval and execution a Change Order (herein so called) setting forth (i) the requested change in the Landlord's Work. Any such Change Order shall be subject to Landlord's approval, such approval not to be unreasonably withheld, conditioned or delayed unless the requested change would adversely affect (in the reasonable discretion of Landlord) (a) the Building structure or the Building systems, (b) the exterior appearance of the Building, or (c) the appearance of the Building's Common Areas or elevator lobby areas, in which case Landlord may withhold its consent in its sole and absolute discretion. Further, Landlord shall not be required to approve any Change Order until it has been revised to include; (i) the extent of the adjustment in the total Cost of the Landlord's Work, if any, including, without limitation, all of Landlord's extra costs associated with such changes, including, but not limited to, a construction management fee in the amount of three percent (3.00%) of such increased costs (collectively, "Change Order Costs"), and (ii) the estimated number of days of Tenant Delay in achieving Substantial Completion of the Landlord's Work due to the Change Order, if any, and Tenant has agreed to such in writing. If Tenant fails to approve, execute and deliver to Landlord a Change Order otherwise

approved by Landlord and pay all Change Order Costs within three (3) days following receipt thereof. All Change Order Costs will be included in Tenant's Expense.

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EXHIBIT F

EXTENSION OPTIONS

1. Grant of Options to Extend. Subject to the terms and conditions of this EXHIBIT F, Tenant shall have two (2) options (each an "Extension Option") to extend the Term as to all, but not less than all of the Premises, for a term (each an "Extension Term") of five (5) years each commencing on the day after the expiration of the initial Term, with respect to the first (1st) Extension Term, or the day after the expiration of the first (1st) Extension Term, with respect to the second (2nd) Extension Term, if applicable. Tenant shall exercise an Extension Option, if at all, only by written notice (an "Extension Notice") delivered to Landlord not less than twelve (12) or more than fifteen (15) months, prior to the then current Expiration Date of the initial Term, with respect to the exercise of the first (1st) Extension Option, or the Expiration Date of the first (1st) Extension Term, with respect to the exercise of the second (2nd) Extension Option. Tenant's exercise of an Extension Option shall be irrevocable by Tenant. The terms and conditions of Tenant's lease of the Premises during each Extension Term shall be the same terms and conditions of the Lease as in effect immediately prior to the commencement of such Extension Term, except as follows:

- (a) The Base Rent for the Extension Term shall be 100% of the Market Rate. The "Market Rate" shall be Landlord's good faith and reasonable estimate of the prevailing per annum base rent rate per square foot of rentable area being charged as of the commencement date of the subject Extension Term for each year of the subject Extension Term for renewing net tenancies covering commercial office space of comparable size and quality to the Premises in comparable buildings ("Comparable Buildings") in the northern New Jersey office market/trade area (the "Market Area") taking into account all pertinent factors including, without limitation, the creditworthiness of Tenant, the use, local and/or floor level(s) within the building, the definition of rentable area, the term of the extension, when the comparable rate was contracted for, any new base year or expense stop, the number and cost of parking spaces, the quality, amenities, age and location of the Comparable Buildings, the involvement or non-involvement of a broker, any improvement allowances and tenant concessions, rent incentives, annual market escalations, and other market conditions;
- (b) Tenant shall be entitled to receive the concessions or allowances included by Landlord in determining the Market Rate.
- (c) No abatements or allowances applicable to any period prior to the subject Extension Term; or other concessions applicable during any period prior to the subject Extension Term, if any, shall apply during either Extension Term unless expressly agreed by Landlord;
- (d) Subject to subparagraph (b) above, the Premises shall be accepted by Tenant for the Extension Term in its "as is" condition and "with all faults" unless expressly agreed otherwise by Landlord; and
- (f) After Tenant's exercise of the first (1st) Extension Option, if at all, there shall be only one (1) remaining Extension Option, and after the exercise of the second (2nd) Extension Option, if at all, there shall be no remaining rights or options to renew or extend the Term.

2. Market Rate Notice and Arbitration. Within twenty one (21) days after Landlord receives Tenant's Extension Notice, Landlord shall deliver a written notice ("Market Rate Proposal") to Tenant specifying the Market Rate and the Base Rent for the subject Extension Term. Tenant, within fifteen (15) days after Landlord delivers the Market Rate Proposal, shall either (i) give Landlord notice of Tenant's unconditional acceptance of Landlord's determination of Market Rate for the subject Extension Term set forth in the Market Rate Proposal (an "Acceptance Notice"), or (ii) give Landlord notice of Tenant's rejection of Landlord's determination of Market Rate for the subject Extension Term set forth in the Market Rate Proposal (a "Rejection Notice"). If Tenant timely delivers an Acceptance Notice, then the Market Rate (including, without limitation, the Base Rent for the subject Extension Term), will be as set forth in the Market Rate Notice. If Tenant does not timely deliver an Acceptance Notice or a Rejection Notice, Tenant will be deemed to have timely delivered an Acceptance Notice. If Tenant timely delivers a Rejection Notice and Landlord and Tenant, working in good faith, cannot agree on Market Rate for the subject Extension Term by the date which is one hundred eighty (180) days prior to the then current Expiration Date of the Lease (the "Outside Agreement Date"), then the Market Rate for the subject Extension Term will be determined as follows:

- (i) Within ten (10) days after the expiration of the Outside Agreement Date. Landlord and Tenant shall each select a professional licensed commercial real estate broker of its choice, and give the other party written notice of such broker's name, address and telephone number. If either party fails to timely deliver to the other party written notice of such party's selected broker, such party shall have no further right to select a broker and the determination of the Market Rate by the single broker selected shall be determinative for purposes hereof;
- (ii) The two selected brokers shall attempt to mutually determine the Market Rate for each year of the Extension Term and if the two (2) selected brokers agree on the Market Rate, then the Market Rate for each such year shall be as determined by the two (2) selected brokers. If the two (2) selected brokers cannot agree on the Market Rate within thirty (30) days after their appointment, then the two (2) selected brokers shall immediately select another, neutral broker and shall furnish Landlord and Tenant written notice of such broker's name, address and telephone number. Each of the three (3) selected brokers shall then individually determine Market Rate (considering the criteria described above) and the Market Rate shall be the average of the closest two (2) of the three (3) determinations of the Market Rate for the Extension Term;
- (iii) If the procedure set forth above is implemented, and if for any reason whatsoever the Market Rate has not been finally determined prior to the commencement of the Extension extended Term, then the Market Rate initially estimated by Landlord shall be the Market Rate for all purposes under the Lease until such time as the Market Rate is finally determined as set forth above, and Landlord and Tenant shall, by appropriate payments or credits to the other, correct any overpayment or underpayment which may have been made prior to such final determination;

(iv) Each of Landlord and Tenant shall instruct their appointed broker to perform in good faith and in a timely manner. Each of the selected brokers hereunder (including the third appointed broker, if applicable) shall by profession be a licensed real estate broker who has had, within the immediately preceding fifteen (15) years, at least ten (10) years of commercial office building leasing experience and who has negotiated to full execution at least ten (10) commercial office leases of at least 10,000 LSF each in the Market Area within the two (2) year period ending upon the then current Expiration Date and who does not have a conflict of interest in representing either Landlord or Tenant and who is not concurrently involved in a transaction in which a commission, fee or other compensation is anticipated to be payable to such broker by a party hereto. Neither Landlord nor Tenant shall consult with such broker as to his or her opinion as to the Market Rate prior to the appointment.

(v) Landlord and Tenant shall each bear the cost of their own broker and attorneys in connection with the determination of the Market Rate. The cost of the third broker shall be shared equally by Landlord and Tenant.

3. Termination. Tenant's rights under this Exhibit shall automatically terminate: (i) in the event that Tenant does not timely and properly exercise the Extension Option; or (ii) if the Lease or Tenant's right to possession of the Premises is terminated; or (iii) Tenant exercises any right to terminate the Lease in its entirety) or to reduce the Premises, or (iv) a Transfer occurs (other than a Transfer described in Paragraph 5(a) or (b) below. Each of such termination events shall, at Landlord's option, apply to terminate the Extension Option whether or not Tenant may have theretofore delivered an otherwise valid Extension Notice. Landlord may, at its option, waive any termination event.

4. Conditions. Tenant's exercise of the Extension Option is conditioned upon: (i) Tenant not being in monetary Default at the time of exercise of an Extension Option and on the commencement date of the subject Extension Term, (ii) Tenant being in occupancy of substantially all of the Premises and (iii) Tenant's financial condition not having materially adversely changed since the date of the Lease with respect to the first (1st) Extension Option, or since the commencement of the first (1st) Extension Term, with respect to the second (2nd) Extension Option. Additionally, if all of such conditions are not satisfied on the day preceding the commencement of the subject Extension Term, then, at Landlord's sole option, the Extension Notice shall be null and void, the Term shall not be extended and the Lease will expire upon the then scheduled Expiration Date.

5. Prohibition on Assignment. Tenant's rights under this Exhibit are personal to Tenant and may not be assigned or transferred, and any attempted assignment or transfer in violation of this restriction shall be null and void; provided, however, that (a) Tenant's rights under this Exhibit shall inure to the benefit and may be exercised by a successor in interest to Tenant by merger or consolidation provided that such did not require Landlord's consent under the Lease, and (b) Tenant may assign its rights under this Exhibit to any assignee of Tenant's interest in the Lease pursuant to an assignment that did not require Landlord's consent under the Lease. Any other attempted assignment or transfer by Tenant of its rights under this Exhibit shall be null and void and of no force and effect.

6. Lease Amendment. Upon Tenant's exercise of the Extension Option, and subject to the terms and conditions of this Exhibit, the Term shall be extended for the subject Extension Term without the necessity of the execution of any further instrument or document, although if requested by Landlord or Tenant, Landlord and Tenant shall enter into a written agreement modifying and supplementing the Lease in accordance with the provisions hereof; provided, however that Landlord's failure to prepare or Tenant's failure to execute such amendment shall not affect the validity of the exercise of the Extension Option or alter Tenant's or Landlord's obligations during the subject Extension Term as determined hereby.

7. Time of Essence. With respect to all dates for exercising any rights and the performance of any obligations in connection with the exercise or implementation of the Extension Option, time shall be of the essence.

8. Miscellaneous. Capitalized but undefined terms used in this Exhibit shall have the same meaning as set forth for such terms in the Lease.

EXHIBIT G

RIGHT OF FIRST REFUSAL

1. Grant of Right of First Refusal. As used herein, "ROFR Space" means all leasable space on any floor on which any of the Office Premises is located from time to time and not leased to Tenant from time to time. Subject to the terms and conditions set forth in this Exhibit G (this "Exhibit"), if during the Term, and provided that there are not less than five (5) years remaining in the Term, Landlord receives a bona fide third party offer from any party for any ROFR Space that is contiguous with the Premises that Landlord desires to accept (a "Space Offer"), Landlord grants Tenant the right of first refusal (the "ROFR"), to lease all, but not less than all, of the ROFR Space that is the subject of the Space Offer (the "Subject ROFR Space") and, at Landlord's sole option, any other space that is to be leased by such third party together with the Subject ROFR Space pursuant to such Space Offer (if any, the "Included Non-ROFR Space") on the terms and conditions set forth in this Exhibit. As used herein the Subject ROFR Space and, if applicable, any Included Non-ROFR Space, is collectively the "ROFR Expansion Space". A bona fide offer need not take the form of a lease, but must at least set forth the important terms of the proposed transaction, including all salient economic terms, and a description and the LSF of the ROFR Expansion Space.

2. ROFR Notice/Procedure for Exercise. Upon Landlord's receipt of a Space Offer that Landlord desires to accept, Landlord shall deliver Tenant written notice thereof (a "ROFR Notice"), such notice to include a summary of the terms of the Space Offer including, without limitation, a description of the ROFR Expansion Space, the term, required base and additional rental, lease concessions or rental abatements and improvement allowances and any other salient economic terms. Tenant will have five (5) business days after receipt a ROFR Notice (the "ROFR Exercise Period") within which to give Landlord its unconditional notice ("ROFR Exercise Notice") of its exercise of the ROFR to lease all, but not less than all, of the ROFR Expansion Space on the same terms and conditions set forth in ROFR Notice.

3. Failure to Exercise. If Tenant does not deliver a ROFR Exercise Notice within the ROFR Exercise Period, Tenant will be conclusively presumed to have waived the ROFR with respect to the ROFR Expansion Space, and Landlord will be free to lease the Subject ROFR Space (alone or together with any other space that is not ROFR Space) to anyone whom it desires and Tenant will have no further rights to the Subject ROFR Space. However, if within such one hundred eighty (180) day period Landlord desires to lease the Subject ROFR Space on materially more beneficial terms than provided in ROFR Notice, Landlord shall re-offer the Subject Expansion Space on such changed terms to Tenant on the terms of this Exhibit for the ROFR Exercise Period before leasing to a third party. For purposes hereof, "materially more beneficial terms" means an effective rental rate (taking into account amortization of allowances and rent credits on a straight line basis over the applicable term) which is 95% or less than the base rent rate set forth in ROFR Notice.

4. Expansion of Premises/Lease Amendment. Provided that Tenant timely delivers a ROFR Exercise Notice complying with the terms of Paragraph 2 above, and subject to the other terms and conditions of this Exhibit, the ROFR Expansion Space will be deemed added to the Premises effective as of the date specified in ROFR Notice and Tenant will accept the ROFR Expansion Space in its "**AS IS**" condition without any obligation of Landlord to improve, alter or remodel the ROFR Expansion Space, except as may be provided in ROFR Notice. Tenant's lease of the ROFR Expansion Space will be on the terms and conditions as are set forth in the ROFR Notice and herein and, to the extent not addressed in the ROFR Notice or this Exhibit, on the same terms and conditions of Tenant's lease of the Premises at the time of the commencement of such expansion excluding any abatements, options to extend, expand, or contract or rights of first refusal or first offer or similar rights as may be included in the Lease or obligations to make any alterations or improvements or provide or contribute allowances for same. Within thirty (30) days after Tenant delivers Tenant's ROFR Exercise Notice, Landlord and Tenant will execute an amendment to the Lease evidencing the addition of the ROFR Expansion Space and the terms thereof provided, however, that the failure of Landlord to prepare, or Tenant to execute, such an amendment shall not alter Landlord's or Tenant's rights or obligations with respect to the ROFR Expansion Space.

5. Termination of ROFR. Without limitation of the terms of Paragraph 3 above, the ROFR shall automatically terminate if (i) the Lease or Tenant's right to possession of the Premises is terminated, (ii) Tenant vacates the Premises (or a substantial part thereof) for in excess of 120-days days for reasons other than casualty or approved remodeling or repairs, or (iii) Tenant effects any assignment of the Lease or subletting of the Premises except as described in Paragraph 7(a) or (b) below. Each of such termination events shall, at Landlord's option, apply to terminate the ROFR whether or not Tenant may have theretofore delivered an otherwise valid ROFR Exercise Notice. Landlord may, at its option, waive any termination event.

6. Conditions. Landlord shall not be required to deliver a ROFR Notice and Tenant may not exercise the ROFR (i) at any time that Tenant is in default; (ii) if Tenant is not itself occupying all the Premises; (iii) if at the time Landlord receives the Space Offer there are less than five (5) years remaining in the Term, or (iv) if Tenant's financial condition has materially adversely changed since the date of the Lease.

7. Prohibition on Assignment. Tenant's rights under this Exhibit are personal to Tenant and may not be assigned or transferred, and any attempted assignment or transfer in violation of this restriction shall be null and void; provided, however, that (a) Tenant's rights under this Exhibit shall inure to the benefit and may be exercised by a successor in interest to Tenant by merger or consolidation provided that such did not require Landlord's consent under the Lease, and (b) Tenant may assign its rights under this Exhibit to any assignee of Tenant's interest in the Lease pursuant to an assignment that did not require Landlord's consent under the Lease. Any other attempted assignment or transfer by Tenant of its rights under this Exhibit shall be null and void and of no force and effect.

8. Subordination. Tenant's ROFR is subordinate to all rights of renewal, extension, expansion, relocation or first offer or refusal affecting the Subject ROFR Space or other rights to lease the Subject ROFR Space which are in place as of commencement of the Extended Term (each a "Senior Right" and the holder thereof being a "Senior Right Holder"), and whether or not exercised in strict accordance therewith, and further subject to the right of Landlord in its sole and absolute discretion to renew existing tenants or occupants of the Subject ROFR Space whether or not pursuant to options to extend previously granted or otherwise. Landlord shall not be required to deliver any ROFR Notice until all Senior Rights Holders have waived their Senior Rights. If Landlord delivers a ROFR Notice prior to such waiver and, whether or not Tenant delivers an ROFR Exercise Notice with respect thereto, a Senior Right Holder later exercises its Senior Right, then the ROFR Notice and any such ROFR Exercise Notice will be null and void. Further, Landlord shall not be required to deliver any ROFR Notice with respect to any Space Offer made to, or received from, an existing tenant of any Subject ROFR Space.

9. Time of Essence. With respect to all dates for exercising any rights and the performance of any obligations in connection with the exercise or implementation of the ROFR, time shall be of the essence.

10. Miscellaneous. Capitalized but undefined terms used in this Exhibit shall have the same meaning as set forth for such terms in the Amendment of which this Exhibit is a part, or if not defined in such Amendment, then in the Lease.

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 consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, consolidated results of operations and consolidated 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: May 17, 2010

/s/ Jeffrey M. 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 consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, consolidated results of operations and consolidated 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: May 17, 2010

/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 March 31, 2010, 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 March 31, 2010, 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 M. Jagid
Jeffrey M. Jagid
Chairman and Chief Executive Officer
(Principal Executive Officer)
Date: May 17, 2010

By: /s/ Ned Mavrommatis
Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)
Date: May 17, 2010

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 March 31, 2010 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.