

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: June 30, 2006

or

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

For the transition period from _____ to _____

Commission File Number: 1-15087

I.D. SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

22-3270799

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

One University Plaza, Hackensack, New Jersey

(Address of principal executive offices)

07601

(Zip Code)

(201) 996-9000

(Issuer's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period) that the registrant was required to file such reports, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, see definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes No

The number of shares outstanding of the registrant's Common Stock, \$0.01 par value, as of the close of business on July 31, 2006 was 11,169,000.

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

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

	December 31, 2005	June 30, 2006 (Unaudited)
ASSETS		
Cash and cash equivalents	\$ 2,138,000	\$ 10,683,000
Investments available for sale	5,463,000	59,315,000
Accounts receivable, net	6,068,000	4,514,000
Unbilled receivables	1,293,000	3,072,000
Inventory	2,952,000	5,580,000
Investment in sales type leases	34,000	14,000
Officer loan	11,000	12,000
Prepaid expenses and other current assets	140,000	163,000
Total current assets	<u>18,099,000</u>	<u>83,353,000</u>
Fixed assets, net	1,159,000	1,354,000
Investment in sales type leases	433,000	--
Officer loan	8,000	2,000
Deferred contract costs	53,000	--
Other assets	88,000	87,000
	<u>\$ 19,840,000</u>	<u>\$ 84,796,000</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,881,000	\$ 3,137,000
Long term debt - current portion	209,000	215,000
Deferred revenue	155,000	145,000
Total current liabilities	<u>4,245,000</u>	<u>3,497,000</u>
Long term debt	240,000	132,000
Deferred revenue	90,000	191,000
Deferred rent	99,000	88,000
Total liabilities	<u>4,674,000</u>	<u>3,908,000</u>
STOCKHOLDERS' EQUITY		
Preferred stock; authorized 5,000,000 shares, \$.01 par value; none issued	--	--
Common stock; authorized 50,000,000 shares, \$.01 par value; issued and outstanding 7,851,000 shares and 11,167,000 shares	79,000	111,000
Additional paid-in capital	25,735,000	91,119,000
Accumulated deficit	(10,535,000)	(10,229,000)
	<u>15,279,000</u>	<u>81,001,000</u>
Treasury stock; 40,000 shares at cost	(113,000)	(113,000)
Total stockholders' equity	<u>15,166,000</u>	<u>80,888,000</u>
Total liabilities and stockholders' equity	<u>\$ 19,840,000</u>	<u>\$ 84,796,000</u>

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

	Three months ended June 30,		Six months ended June 30,	
	2005	2006	2005	2006
Revenues	\$ 4,198,000	\$ 6,363,000	\$ 7,231,000	\$ 12,753,000
Cost of Revenues	2,081,000	3,473,000	3,587,000	6,676,000
Gross Profit	2,117,000	2,890,000	3,644,000	6,077,000
Selling, general and administrative expenses	1,451,000	2,910,000	3,304,000	5,658,000
Research and development expenses	342,000	560,000	737,000	1,053,000
Income (loss) from operations	324,000	(580,000)	(397,000)	(634,000)
Interest income	66,000	731,000	128,000	881,000
Interest expense	(16,000)	(8,000)	(29,000)	(17,000)
Other income	38,000	38,000	75,000	76,000
Net income (loss)	\$ 412,000	\$ 181,000	\$ (223,000)	\$ 306,000
Net income (loss) per share - basic	\$ 0.05	\$ 0.02	\$ (0.03)	\$ 0.03
Net income (loss) per share - diluted	\$ 0.05	\$ 0.01	\$ (0.03)	\$ 0.03
Weighted average common shares outstanding - basic	7,732,000	11,099,000	7,718,000	9,748,000
Weighted average common shares outstanding - diluted	9,143,000	12,826,000	7,718,000	11,542,000

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

	Six months ended June 30,	
	2005	2006
Cash flows from operating activities:		
Net income (loss)	\$ (223,000)	\$ 306,000
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Accrued interest income	(7,000)	46,000
Stock-based compensation expense	--	998,000
Depreciation and amortization	178,000	228,000
Deferred rent expense	(2,000)	(11,000)
Deferred revenue	(47,000)	91,000
Deferred contract costs	184,000	53,000
Changes in:		
Accounts receivable	(2,976,000)	1,554,000
Unbilled receivables	402,000	(1,779,000)
Inventory	(308,000)	(2,628,000)
Prepaid expenses and other assets	196,000	(22,000)
Investment in sales type leases	19,000	453,000
Accounts payable and accrued expenses	(774,000)	(744,000)
Net cash used in operating activities	(3,358,000)	(1,455,000)
Cash flows from investing activities:		
Purchase of fixed assets	(360,000)	(423,000)
Purchase of investments	(500,000)	(54,238,000)
Maturities of investments	1,170,000	340,000
Collection of officer loan	5,000	5,000
Net cash provided by (used in) investing activities	315,000	(54,316,000)
Cash flows from financing activities:		
Repayment of term loan	(99,000)	(102,000)
Proceeds from line of credit	500,000	--
Proceeds from exercise of stock options	350,000	457,000
Net proceeds from stock offering	--	63,961,000
Net cash provided by financing activities	751,000	64,316,000
Net (decrease) increase in cash and cash equivalents	(2,292,000)	8,545,000
Cash and cash equivalents - beginning of period	8,440,000	2,138,000
Cash and cash equivalents - end of period	\$ 6,148,000	\$ 10,683,000
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ 29,000	\$ 17,000

I.D. Systems, Inc.

Notes to Condensed Financial Statements
June 30, 2006

NOTE A - Basis of Reporting

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

NOTE B - Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

NOTE C - Inventory

Inventory, which consists of components for the Company's products and finished goods to be shipped to customers under existing orders, is stated at the lower of cost using the first-in first-out method or market. As of June 30, 2006, the Company's inventory consisted of components of approximately \$635,000 and finished goods of approximately \$4,945,000.

NOTE D -Unbilled Receivables

Under certain customer contracts, the Company invoices progress billings once certain milestones are met. As the systems are delivered, and services are performed and all of the criteria for revenue recognition are satisfied, the Company recognizes revenue. The difference between revenue recognized for financial reporting purposes and amounts invoiced is recorded as unbilled receivables or deferred revenue. At December 31, 2005 and June 30, 2006, unbilled receivables were \$1,293,000 and \$3,072,000, respectively, primarily relating to one customer.

NOTE E - Earnings Per Share of Common Stock

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2006	2005	2006
Basic earnings (loss) per share				
Net income (loss)	\$ 412,000	\$ 181,000	\$ (223,000)	\$ 306,000
Weighted average shares outstanding	7,732,000	11,099,000	7,718,000	9,748,000

Basic earnings (loss) per share	\$ 0.05	\$ 0.02	\$ (0.03)	\$ 0.03
Diluted earnings (loss) per share				
Net income (loss)	\$ 412,000	\$ 181,000	\$ (223,000)	\$ 306,000
Weighted average shares outstanding	7,732,000	11,099,000	7,718,000	9,748,000
Dilutive effect of stock options	1,411,000	1,727,000	0	1,794,000
Weighted average shares outstanding, diluted	9,143,000	12,826,000	7,718,000	11,542,000
Diluted earnings (loss) per share	\$ 0.05	\$ 0.01	\$ (0.03)	\$ 0.03

Basic income (loss) per share is based on the weighted average number of common shares outstanding during each period. Diluted income (loss) per share reflects the potential dilution assuming common shares were issued upon the exercise of outstanding options and the proceeds thereof were used to purchase outstanding common shares. For the six month period ended June 30, 2005, the basic and diluted weighted average shares outstanding are the same since the effect from the potential exercise of outstanding stock options of 2,717,000 would have been anti-dilutive. Options to purchase 236,000 and 227,000 shares of common stock were outstanding for the three month and six month periods ended June 30, 2006, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares during the period and, therefore, the effect would be anti-dilutive.

NOTE F - Revenue Recognition

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

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

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

NOTE G - Stock-based compensation plans

The Company has adopted the 1995 Stock Option Plan, pursuant to which the Company had the right to grant options to purchase up to an aggregate of 1,250,000 shares of common stock; provided that no future grants may be made under such plan. The Company has also adopted the 1999 Stock Option Plan and the 1999 Director Option Plan, pursuant to which the Company may grant options to purchase up to 2,813,000 and 600,000 shares of common stock, respectively. The Plans are administered by the Board of Directors, which has the authority to determine the term during which an option may be exercised (not more than 10 years), the exercise price of an option and the vesting provisions.

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

Prior to adopting SFAS 123R, the Company accounted for stock-based employee compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. No stock-based compensation cost was recognized in the statement of operations for the three month and six month periods ended June 30, 2005, as all options granted under the Plans had an exercise price equal to the market value of the underlying common stock on date of grant. The Company has applied the modified prospective method in adopting SFAS 123R. Accordingly, periods prior to adoption have not been restated. As a result of adoption, stock based compensation expense amounted to \$615,000 and \$998,000 for the three month and six month period ended June 30, 2006, respectively, resulting in a corresponding decrease to income from operations and net income and a reduction of \$0.06 and \$0.05 per basic and diluted share for the three months ended and June 30, 2006 and \$0.10 and \$0.09 per share basic and diluted share for the six months ended June 30, 2006.

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

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Reported net income (loss)	\$ 412,000	\$ (223,000)
Stock-based employee compensation determined under the fair value based method, net of related tax effects	(392,000)	(772,000)
Pro forma net income (loss)	<u>\$ 20,000</u>	<u>\$ (995,000)</u>
Income (loss) per share - basic:		
As reported	<u>\$ 0.05</u>	<u>\$ (0.03)</u>
Pro forma	<u>\$ 0.00</u>	<u>\$ (0.13)</u>
Income (loss) per share - diluted:		
As reported	<u>\$ 0.05</u>	<u>\$ (0.03)</u>
Pro forma	<u>\$ 0.00</u>	<u>\$ (0.13)</u>

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

	<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	2,730,000	\$ 6.94		
Granted	280,000	21.76		
Exercised	(68,000)	6.87		
Forfeited	(109,000)	10.49		
Outstanding at end of period	<u>2,833,000</u>	\$ 8.27	<u>6 years</u>	\$ <u>26,800,000</u>
Exercisable at end of period	<u>1,567,000</u>	\$ 4.90	<u>5 years</u>	\$ <u>20,105,000</u>

As of June 30, 2006, there was \$7,284,000 of total unrecognized compensation cost related to non-vested options granted under the Plans. That cost is expected to be recognized over a weighted average period of 5.73 years.

The fair value of each option grant on the date of grant is estimated using the Black-Scholes option-pricing model reflecting the following weighted average assumptions:

	<u>2005</u>	<u>2006</u>
Volatility	63%	51%
Expected life of options	5 years	5 years
Risk free interest rate	3%	5%
Dividend yield	0%	0%

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

The weighted average fair value of options granted during the six months ended June 30, 2005 and 2006 was \$6.45 and \$10.77, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2005 and 2006 was \$1,035,000 and \$1,068,000, respectively.

Under SFAS 123(R) forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate. Under SFAS 123 and APB 25, the Company elected to account for forfeitures when awards were actually forfeited, at which time all previous pro forma expense was reversed to reduce pro forma expense for that period.

NOTE H - Long Term Debt

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

Maturities of long term debt are as follows:

Period ending June 30,

2007 \$215,000

2008

132,000

\$347,000

NOTE I - Line of Credit

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

NOTE J - Sale of Common Stock

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

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

NOTE K - Restricted Stock

On June 9, 2006, the Company granted 85,700 shares of restricted stock to key employees pursuant to the 1999 Stock Option Plan, as amended and restated effective April 20, 2005. The Plan is administered by the Board of Directors, which has the authority to determine the terms of those shares. For the period ended June 30, 2006, the Company recorded a \$68,000 stock based compensation expense in connection with the restricted stock grant. As of June 30, 2006, there was \$1,551,000 of total unrecognized compensation cost related to non-vested shares. That cost is expected to be recognized over the next two years.

NOTE L - Concentration of customers and vendor

One customer accounted for 80% of the Company's revenue during the six month period ended June 30, 2006. The same customer accounted for 79% of the Company's accounts receivable and unbilled receivables as of June 30, 2006.

One vendor accounted for 55% of the Company's purchases during the six month period ended June 30, 2006. The same vendor accounted for 54% of the Company's accounts payable as of June 30, 2006.

NOTE M- Recent accounting pronouncement

The Financial Accounting Standards Board ("FASB") has issued interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" ("FIN 48"), regarding accounting for, and disclosure of, uncertain tax positions. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact FIN 48 will have on its combined results of operations and financial position.

NOTE N - Authorized capital

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

NOTE O - Reclassifications:

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

Item 2. Management's Discussion And Analysis

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

This report contains various forward-looking statements made pursuant to the safe harbor provisions under the Private Securities Litigation Reform Act of 1995 (the "Reform Act") and information that is based on management's beliefs as well as assumptions made by and information currently available to management. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, the Company can give no assurance that such expectations will prove to be correct. When used in this report, the words "anticipate", "believe", "estimate", "expect", "predict", "project", and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements which speak only as of the date hereof, and should be aware that the Company's actual results could differ materially from those contained in the forward-looking statements due to a number of factors, including business conditions and growth in the wireless tracking industries, general economic conditions, lower than expected customer orders or variations in customer order patterns, competitive factors including increased competition, changes in product and service mix, and resource constraints encountered in developing new products and other statements under "Risk Factors" set forth in our Form 10-K for the fiscal year ended December 31, 2005 and other filings with the Securities and Exchange Commission (the "SEC"). The forward-looking statements regarding industry trends, product development and liquidity and future business activities should be considered in light of these factors. The Company undertakes no obligation to publicly release the results on any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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

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

Critical Accounting Policy

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

Results of Operations

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

	Three months ended June 30,		Six months ended June 30,	
	2005	2006	2005	2006
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Revenues	49.6	54.6	49.6	52.3
Gross Profit	50.4	45.4	50.4	47.7
Selling, general and administrative expenses	34.6	45.7	45.7	44.4
Research and development expenses	8.1	8.8	10.2	8.3
Income (loss) from operations	7.7	(9.1)	(5.5)	(5.0)
Net interest income	1.2	11.4	1.4	6.8
Other income	0.9	0.6	1.0	0.6
Net income (loss)	9.8%	2.9%	(3.1)%	2.4%

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

REVENUES. Revenues increased by \$2.2 million, or 51.6%, to \$6.4 million in the three months ended June 30, 2006 from \$4.2 million in the same period in 2005. The increase in revenues was attributable primarily to increased sales of our wireless system for tracking and managing industrial vehicles to the U.S. Postal Service.

COST OF REVENUES. Cost of revenues increased by \$1.4 million, or 67.0%, to \$3.5 million in the three months ended June 30, 2006 from \$2.1 million in the same period in 2005. The increase in cost of revenue was attributable to the increase in revenue. As a percentage of revenues, cost of revenues was 54.6% in the three months ended June 30, 2006 compared to 49.6% in the same period in 2005. Gross profit was \$2.9 million in 2006 compared to \$2.1 million in 2005. As a percentage of revenues, gross profit decreased to 45.4% in 2006 from 50.4% in 2005. The decrease was primarily due to (i) the adoption of SFAS No. 123(R), in which the Company expensed \$20,000 of the value of stock based employee compensation; (ii) an inventory write-off of \$37,000; and (iii) the hiring of third party subcontractors to perform installation services at the US Postal Service.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$1.5 million, or 101.0%, to \$2.9 million in the three months ended June 30, 2006 compared to \$1.5 million in the same period in 2005. This increase was attributable primarily to (i) the adoption of SFAS No. 123(R) in which the Company expensed \$473,000 of the value of stock based employee compensation and (ii) the increase in payroll and related expenses due to the hiring of additional personnel to support the Company's continued growth. As a percentage of revenues, selling, general and administrative expenses increased to 45.7% in the three months ended June 30, 2006 from 34.6% in the same period in 2005.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased \$218,000, or 63.7%, to \$560,000 in the three months ended June 30, 2006 from \$342,000 in the same period in 2005. This increase was attributable primarily to (i) the adoption of SFAS No. 123(R) in which the Company expensed \$122,000 of the value of stock based employee compensation and (ii) the increase in payroll and payroll related expenses. As a percentage of revenues, research and development expenses increased to 8.8% in the three months ended June 30, 2006 from 8.1% in the same period in 2005.

NET INTEREST INCOME. Interest income increased \$665,000, or 1007.6%, to \$731,000 in the three months ended June 30, 2006 from \$66,000 in the same period in 2005. This increase was attributable primarily to the increase in cash and cash equivalents and investments resulting from the proceeds received in connection with the public offering and the increase in interest rates.

INTEREST EXPENSE. Interest expense decreased \$8,000, or 50.0%, to \$8,000 in the three months ended June 30, 2006 from \$16,000 in the same period in 2005. The decrease was attributable to a reduction in the principal amount of our outstanding debt in the three months ended June 30, 2006.

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

NET INCOME. Net income decreased \$231,000, or 56.1%, to \$181,000 in the three months ended June 30, 2006 from net income of \$412,000 in the same period in 2005. Net income per basic and diluted share decreased to \$0.02 and \$0.01, respectively, in the three months ended June 30, 2006, compared to net income per basic and diluted share of \$0.05 in the same period in 2005. The decrease in net income was due primarily to the reasons described above.

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

REVENUES. Revenues increased by \$5.5 million, or 76.4%, to \$12.8 million in the six months ended June 30, 2006 from \$7.2 million in the same period in 2005. The increase in revenues was attributable primarily to increased sales of our wireless system for tracking and managing industrial vehicles to the U.S. Postal Service.

COST OF REVENUES. Cost of revenues increased by \$3.1 million, or 86.1%, to \$6.7 million in the six months ended June 30, 2006 from \$3.6 million in the same period in 2005. The increase in cost of revenue was attributable to the increase in revenue. As a percentage of revenues, cost of revenues was 52.3% in the six months ended June 30, 2006 compared to 49.6% in the same period in 2005. Gross profit was \$6.1 million in 2006 compared to \$3.6 million in 2005. As a percentage of revenues, gross profit decreased to 47.7% in 2006 from 50.4% in 2005. The decrease was primarily due to (i) the adoption of SFAS No. 123(R), in which the Company expensed \$20,000 of the value of stock based employee compensation; (ii) an inventory write-off of \$37,000; and (iii) the hiring of third party subcontractors to perform installation services at the US Postal Service.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$2.4 million, or 71.2%, to \$5.7 million in the six months ended June 30, 2006 compared to \$3.3 million in the same period in 2005. This increase was attributable primarily to (i) the adoption of SFAS No. 123(R) in which the Company expensed \$856,000 of the value of stock based employee compensation and (ii) the increase in payroll and related expenses due to the hiring of additional personnel to support our continued growth. As a percentage of revenues, however, selling, general and administrative expenses decreased to 44.4% in the six months ended June 30, 2006 from 45.7% in the same period in 2005 as a result of an increase in revenues.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased \$316,000, or 42.9%, to \$1.1 million in the six months ended June 30, 2006 from \$737,000 in the same period in 2005. This increase was attributable primarily to (i) the adoption of SFAS No. 123(R) in which the Company expensed \$122,000 of the value of stock based employee compensation and (ii) the increase in payroll and payroll related expenses. As a percentage of revenues, research and development expenses decreased to 8.3% in the six months ended June 30, 2006 from 10.2% in the same period in 2005.

NET INTEREST INCOME. Interest income increased \$753,000, or 588.3%, to \$881,000 in the six months ended June 30, 2006 from \$128,000 in the same period in 2005. This increase was attributable primarily to the increase in cash and cash equivalents and investments resulting from the proceeds received in connection with the public offering and the increase in interest rates.

INTEREST EXPENSE. Interest expense decreased \$12,000, or 41.4%, to \$17,000 in the six months ended June 30, 2006 from \$29,000 in the same period in 2005. The decrease was attributable to a reduction in the principal amount of our outstanding debt in the six months ended June 30, 2006.

OTHER INCOME. Other income, which increased slightly to \$76,000 in the six months ended June 30, 2006 from \$75,000 in the same period in 2005, reflects rental income earned from a sublease arrangement.

NET INCOME (LOSS). Net income increased \$529,000, or 237.2%, to \$306,000 in the six months ended June 30, 2006 from a net loss of \$223,000 in the same period in 2005. Net income per basic and diluted share increased to \$0.03 in the six months ended June 30, 2006, compared to net loss per basic and diluted share of \$(0.03) in the same period in 2005. The increase in net income was due primarily to the reasons described above.

Liquidity and Capital Resources

Historically, our capital requirements have been funded from cash flows generated from operations and net proceeds from the sale of our securities, including the sale of our common stock upon the exercise of options and warrants. As of June 30, 2006, we had cash, cash equivalents and short-term investments of \$70.0 million and working capital of \$79.9 million compared to \$7.6 million and \$13.9 million, respectively, as of December 31, 2005.

Operating Activities:

Net cash used in operating activities was \$1.5 million for the six months ended June 30, 2006 compared to net cash used in operating activities of \$3.4 million for the same period in 2005. The decrease was due primarily to: (i) an increase in net income attributable to increased revenue growth; (ii) a decrease in accounts receivable resulting from improved collections; and (iii) the adoption of SFAS No. 123(R) in which we recorded an expense for the value of stock based employee compensation, partially offset by an increase in unbilled receivables resulting from increased business with the U.S. Postal Service and an increase in finished goods inventory manufactured to meet anticipated customer orders.

Investing Activities:

Net cash used in investing activities was \$54.3 million for the six months ended June 30, 2006 compared to net cash provided by investing activities of \$315,000 for the same period in 2005. The increase was due primarily to a significant increase in the purchase of investments with the net proceeds received in connection with the public offering that was completed by us in March 2006.

Financing Activities:

Net cash provided by financing activities was \$64.3 million for the six months ended June 30, 2006 compared to \$751,000 for the same period in 2005. The increase was due primarily to the proceeds received in connection with the public offering that was completed by us in March 2006 as well as the increase in the proceeds received in connection with the exercise of stock options during the six months ended June 30, 2006 compared to the same period in 2005, partially offset by the proceeds received in 2005 from our line of credit.

Capital Requirements

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

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

Recently Issued Financial Standards

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls And Procedures

a. Disclosure controls and procedures.

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

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

b. Changes in internal controls over financial reporting.

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

PART II - OTHER INFORMATION

Item 1a. Risk Factors

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

Item 4. Submission of Matters to a Vote of Security Holders

An Annual Meeting of Stockholders was held on June 9, 2006. The directors elected at the annual meeting were: Jeffrey Jagid, Kenneth S. Ehrman, Beatrice Yormark, Lawrence Burstein and Michael Monaco. Each director will hold that position for a term of one year or until the next annual meeting or until another is chosen in his stead.

The matters voted upon at the Annual Meeting and the results of the voting are set forth below:

(i) With respect to the election of Directors by the holders of Common Stock, the persons named below received the following number of votes:

<u>Name</u>	<u>Votes For</u>	<u>Votes Withheld</u>
Jeffrey Jagid	7,506,159	81,468
Kenneth S. Ehrman	8,199,807	387,820
Beatrice Yormark	8,202,595	385,032
Lawrence Burstein	8,206,285	381,342
Michael Monaco	8,512,307	75,320

(ii) With respect to a proposal to adopt an amendment to our Amended and Restated Certificate of Incorporation to increase the aggregate number of authorized shares of common stock from 15,000,000 shares to 50,000,000 shares. The votes cast by the holders of common stock were; 7,692,903 voted in favor, 888,166 voted against, and 6,558 votes abstained on the proposal.

(iii) With respect to ratification of the appointment of Eisner LLP to serve as our independent auditors for the fiscal year ended December 31, 2005. The votes cast by the holders of common stock were 8,547,125 voted in favor, 7,830 voted against, and 32,672 votes abstained on the proposals.

Item 6. Exhibits

Exhibits:

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

Signature

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

Dated: August 9, 2006

I.D. Systems, Inc.

By: /s/ Jeffrey M. Jagid

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

Dated: August 9, 2006

By: /s/ Ned Mavrommatis

Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

I, Jeffrey M. Jagid, certify that:

1. I have reviewed this quarterly report on Form 10-Q of I.D. Systems, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers 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 accounting principles generally accepted in the United States of America;

(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 officers 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: August 9, 2006

/s/ Jeffrey Jagid

Jeffrey M. Jagid

Chairman and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

I, Ned Mavrommatis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of I.D. Systems, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers 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 accounting principles generally accepted in the United States of America;

(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 officers 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: August 9, 2006

/s/ Ned Mavrommatis

Ned Mavrommatis
Chief Financial Officer
(Principal Financial Officer)

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

I, Jeffrey M. Jagid, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2003, that the Quarterly Report on Form 10-Q of I.D. Systems, Inc. for the quarter ended June 30, 2006, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of I.D. Systems, Inc.

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

By: /s/ Jeffrey Jagid

Jeffrey M. Jagid

Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: August 9, 2006

By: /s/ Ned Mavrommatis

Ned Mavrommatis

Chief Financial Officer
(Principal Financial Officer)

Date: August 9, 2006

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

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